ALASKA PERMANENT FUND CORPORATION
ANNUAL FULL BOARD OF TRUSTEES MEETING
WEBEX/TELECONFERENCE

September 27 and 28, 2023
8:30 a.m.

Originating at:
Hilton Anchorage
Dillingham/Katmai Meeting Room
Second Floor, West Tower
500 West 3rd Avenue
Anchorage, Alaska 99501

Trustees Present:

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

APFC Staff Present:

Deven Mitchell, CEO	Val Mertz, CFO
Marcus Frampton, CIO	Chris Poag, General Counsel
Tim Andreyka	Alexander Smith
Masha Skuratovskaya	Edward Rime
Jennifer Loesch	Paulyn Swanson
Allen Waldrop	Catherine Hatch
Sebastian Vadakumcherry	Juliette Alldredge
James Wilkey	Luke Kirkham
Jacki Mallinger	Steven Gagliardo
Jessica Thornsburry	Joe Shinn
Jordyn Elie	Cody Graves
Larissa Murray	Michael Prebeg
Julia Mesdag	Mike Gumz
Rachel Zepp	Norix Mangual
Rachel Price	Eric Ritchie
Jim Parise	Lara Pollock
Sarah Clark	Sang Won Song
Chris LaVallee	Steve Adams
TJ Hegedus	Tara Mendoza
Tom O'Day	Scott Balovich
Shawn Calhoon	Chirag Shah
Terek Rutherford	Youlian Ninkov
Valeria Martinez	Sarah Struble
Marisa McComas	Ross Alexander

Callan:

Greg Allen	Steve Center

Investment Advisors:

John Skjervem
Britt Harris

KPMG:

Beth Stuart
Melissa Beedle

Others Present:

Kevin Dee
Albert Hicks
Iris Samuels
Jack Peterson
John Springsteen
Jusdi Warner
Ken Alper
Laurie Berg
Luther Pahl
Matt Buxton
Michael Bloom
Nick Thigpen
Payton Martin
Steve Moseley
Sydney McGinnis
Tristan Walsh
Zeinab Thiam
Molly Starr
Anne Rittgers
Jon Haghayeghi
Matthew Benson
MF
Austin Graham
Brian Velky
David MacDonald
James Brooks
Llewellyn Smyth
Melisa Gil Estiz
Rachel Gelfman
Samuel DePoy
Teresa Richards
Tristan Walsh
Tina Nunno
Shane Taylor
Kristina Schutt
Kay Ullirich
Cathy Schlingheyde
Gina Romero
John Coss
Jordan Shilling
Karol Raszkiewicz
Lauren Albanese
Leighan Gonzales
Mark Sabbatini
James Simard
Miranda Worl
Noah Conlon
Robert Gerschultz
Henry Portal Meat
Tom Gemmell
Walker Phillips
Kevin Balaod
Amory Lelake
Ben Hofmeister
Jeff Stepp
Walker Phillips
Andrew Sabatini
Bill Bailey
Charles Gohr
Debbie Carter
Laib Allensworth
Maggie O’Gorman
Michael McHargue
Ralph Exeter
Snehal Shah
Tom McGonagle
Julee Farley
Sara Race
Mary Long

PROCEEDINGS

CALL TO ORDER
CHAIR SCHUTT called the annual meeting to order and asked for a roll call.

MS. LOESCH called the roll and stated that there was a quorum.

APPROVAL OF AGENDA
CHAIR SCHUTT stated that the agenda was available and asked for approval.

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

APPROVAL OF MINUTES
CHAIR SCHUTT stated that there were two set of minutes: one from May 17-18, 2023, quarterly; and July 12, 2023, and asked for a motion.

> **MOTION:** <u>A motion to approved the minutes from May 17-18, 2023, and the minutes of July 12, 2023, was made by TRUSTEE BRUNE; seconded by TRUSTEE CRUM.</u>
>
> *There being no objection, the MOTION was APPROVED.*

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
CHAIR SCHUTT moved to Scheduled Appearances and Public Participation, and recognized Mike Tobin.

TRUSTEE BRUNE stated that the Alaska State Chamber meeting was across the hall and suggested letting them know about the public participation.

MR. TOBIN stated that he is a board member of 350Juneau Climate Action for Alaska. He continued that there were two major meetings currently that cast a light on uncertainties facing fossil-fuel investors relating to the speed of transition from fossil fuels to renewable energy. He shared some quotes from the World Petroleum Congress in Calgary, Alberta, and from other oil CEOs that say the transition from fossil to renewable energy is too fast, and climate scientists in the U.N. say too slow. Considering the rapidly escalating climate crisis, the financial uncertainty, and their fiduciary duty to the youngest Alaskans, a prudent course would be to rapidly cut back and ultimately divest from the fund's fossil-fuel holdings.

CHAIR SCHUTT thanked Mr. Tobin and asked for any questions or comment. There being none, he stated appreciation for the testimony. He apologized to Mr. Simard for the technical difficulties, and asked him to submit his comments in writing. He concluded the public participation, and continued to the Committee Reports.

TRUSTEE BRUNE stated, as a follow-up to his previous comment, that he had sent a text message to the executive director of the Chamber and would let the board know if he received any responses.

COMMITTEE REPORTS
AUDIT COMMITTEE
TRUSTEE CRUM stated that the Audit Committee came together on September 7th. We had presentations from KPMG and the Oregon Office of the State Treasurer. Byron Williams, the chief audit executive, explained about what internal audit was done in other capacities within state government. He continued that the presentation from KPMG was very illustrative and really demonstrated how certain items were identified within both corporations and other venues. He added that they looked at making sure to continue identifying the work that was really being done and talked about the importance of an internal audit. He stated that there was not a lot of action that was necessary from the Audit Committee other than to continue to work with staff going forward to make sure that ways were found to put out to the public the work that was being done.

CHAIR SCHUTT asked if the Audit Committee reviewed the final approval of the annual audited financials.

TRUSTEE CRUM replied that they were good and nothing material was found. He stated that the staff, Val and the team, did a fantastic job, which was made very clear from the external auditors.

CHAIR SCHUTT moved to the CEO's report.

CHIEF EXECUTIVE OFFICER'S REPORTS
CEO MITCHELL stated that there were a number of reports from staff. The first pending board matter was the number of items that had been on the list for quite a while, peer group definition and update compensation structure. Those had been kicked around and the target is to be determined. He continued that they had implemented a system of utilizing board volunteers, and that could be beneficial. He recommended to have some targets or strategy built into the strategic plan process for purposes of moving forward.

CHAIR SCHUTT suggested that it be put on the February agenda.

CEO MITCHELL stated that that would be an easier target. He asked for a couple of board members to be involved in the process because it needs the buy-in at the board level to be able to have any probability of success.

CHAIR SCHUTT stated that a compensation working group will be created and put on the agenda for the February meeting to refresh what is needed at that point.

TRUSTEE BRUNE stated that as far as flexibility and timeliness, nothing would be implemented until July of 2025. He suggested contemplating at least conversations with the Legislature that may give the ability to be more flexible in trying to implement this in this upcoming budget.

CIO FRAMPTON stated that he is in the flexible camp, but liked the studies because he did think they were under-compensated against some of the peers they are up against.

MR. HARRIS stated that the topic gets discussed everywhere and that people make a big difference. They are needed to get; then they need to be retained; and they have to be developed.

It is important to realize that this is not a cost center, but it is a money-making machine. This is something that probably earns, on average, $7 billion a year; $28 million a day. This is in a spectrum between pensions and endowments, and the word “permanent” refers more toward the endowment side which has additional fees: the payments that need to be made to the citizens. He added that he has all the information they are looking for except for those sovereign wealth funds, and he can have it here tomorrow.

CEO MITCHELL stated that moving forward and coming up with a very methodical, thoughtful plan and approach as to why it could make sense to make adjustments to staff that are not probably reflected in other staffs has to be part of the process.

TRUSTEE BRUNE recommended that part of the narrative be given to the Legislature that this overview would be in a discussion slated for the February meeting, and there may be subsequent amendments proposed which would be forthcoming.

CHAIR SCHUTT replied that he does not think that they would have gone through enough of the work to have a credible proposal in February.

TRUSTEE BRUNE agreed, but he wants the Legislature to be aware that something is actively being worked on.

CEO MITCHELL continued through a couple of reports related to travel and training, and he touched on the human resources report. He added that there were still some open positions from staff turnover that are being actively recruited. He added that the positions are open to either Juneau or Anchorage.

CHAIR SCHUTT commented on letting the Anchorage office run for a little bit and see how it develops under the leadership so that things are not forced.

CHIEF INVESTMENT OFFICER REPORT

CIO FRAMPTON normally reviews performance for the last fiscal year at this board meeting. He stated that the numbers were starting to come in from different organizations, and we are at the front end of releasing numbers at the Permanent Fund. Because they do lag private equity, we use March marks for June 30 performance. He continued that the university endowments are particularly slow. He stated that he reviewed the longer-term performance against the first in the McLagan peer group and also against some of the firms that had a bit higher compensation than the McLagan peer group. He noted that that was a response to a board question. He then gave some preview of how they did. The benchmark was 5.7, and we underperformed the benchmark by half a percent. The average peer reported benchmark was 7 percent. On average, it was a bad year for performance, with 80 basis points of underperformance. He compared the ARM to the Permanent Fund, and the ARM had a better absolute number. They did 7, and their benchmark was 7.5. They both underperformed their benchmarks by 50 basis points. They report their returns gross of fee; and we report ours net of fees. He shared a few more remarks on peers, and stated that the top performing plan was Nevada, which is passive 60 percent public equities. He noted the advertisement for Vanguard Group, and then reviewed longer-term data on them versus the McLagan peers, and then CalPERS, CalSTRS, and UTIMCO. He added that there were dozens of plans, but those were the plans he picked up on bigger funds that had really stepped up on the comp side. He then moved to the longer-term peer comparison. The most notable asset allocation difference is that the Fund has more hedge funds and less public equity.

He was surprised that we had really similar allocations, but less equities.

CEO MITCHELL reiterated that the issue is not income; it is statutory net income. He continued that private markets had been relatively illiquid, and they were relatively illiquid over the course of FY2023, which is one of the drivers for less statutory net income. The more it gets into illiquid private markets, the problem exacerbates if it has not been fixed.

CHAIR SCHUTT stated that they had to be really careful not to restructure the risk tolerance in order to address the two-account structure because the fiduciary duty runs to the overall performance of the fund and the defense of the principal of the fund. That is how the CIO has the portfolio structured, and it is a follow-on discussion to have an awareness of the two-account consequences and the reality of it.

CIO FRAMPTON moved to the review of the investment actions taken in the prior quarter. This excluded individual bond purchases and were actual, discrete actions other than individual securities purchases.

TRUSTEE CRUM stated that the energy transition is a much longer time frame than people had hoped because it is just not possible. There are not enough mines, enough materials, no access to raw materials, and they do not have distribution networks in order to power the electric vehicles. He added that he was not for or against, but the reality is that there is a lot more work to do.

TRUSTEE RUBENSTEIN shared that every sovereign is being pushed politically to have an in-state mandate for funding economic development. The Permanent Fund was saying that was not their focus, and were investing outside of the region. She thought people really respected that the Permanent Fund was taking such a risk. There was a huge amount of respect. She added that it was very interesting to see that their peers were struggling to fund economic development and trying to figure out how to structure that, as well as the ESG or political mandates.

CIO FRAMPTON went through all the rest of the investment actions for the end-of-June quarter and completed his presentation. He added that tactical opportunities were set up on July 1 with a 2 percent target allocation. They did get exposure, and some of it was gold. But it was in tactical opportunities, and is no longer in cash.

CHAIR SCHUTT moved to the next agenda item, the Risk Overview with Sebastian Vadakumcherry.

RISK OVERVIEW

MR. VADAKUMCHERRY began with the risk overview. The second part looked like the standard quarterly risk metrics, and it was as of the June quarter. In the first part he looked at four broad sort of risk themes, some of which had already been discussed. The first risk theme highlighted was equity risk, and he noted there was nothing new there. He did three sort of comparisons and that meant that they were slightly higher than the benchmark in terms of riskiness, but lower than the 80/20 risk appetite. He highlighted that almost 83 percent of the risk profile was driven by equity risk, and the remaining 9 percent within real estate and about 7 percent within interest rate. The bulk of the risk was derived from equity risk. He continued through his presentation and reflected on some structural instability. They, again, were lower than the risk appetite that was put within that limit that the Board had approved. The other part was about public equities, and he added that interest rates were going to pay a very key role in terms of how the valuations get impacted. He then highlighted on liquidity and noted that equity and liquidity risks were the two key risk themes highlighted. The other theme was geopolitical, and he talked about how this may play out and how the China exposure could be detrimental. BlackRock Geopolitical Risk highlighted China risk as the No. 1 risk in terms of geopolitics. The final theme he talked about was in terms of technology and generative AI. He stated that there was a bunch of news on this, with a lot of uncertainty around it. There are some risks and also a definite opportunity for the Fund. He then moved to the standard risk metrics for the quarter ending June, and we were within thresholds and limits across the board. He continued through his report and presentation and finished with currency and country exposure which did not have much change. He concluded the risk overview section. He then talked about the 37 China-based companies that had been sanctioned which were part of the Chinese index. He added that it was a federal regulation, and it has to be complied with.

TRUSTEE BRUNE asked for some input from the advisors.

MR. SKJERVEM stated that he had members of his staff just returning from Mainland China, which was their first due-diligence trip since the pandemic. He continued that the observations were pretty stark in the distressed debt strategy they have. There is lots of opportunity, and the equity GPs are not investing any money. He stated that his takeaway was biased by a belief that patriotism comes before fiduciary responsibility, and he put that on the table. He continued that the equity side is increasingly un-investable because it is at odds with the parties' policy, whereas these debt strategies are now lining up with government policy. He added that he would be very reluctant to look at it from the same contrarian lens as oil and gas.

MR. HARRIS added that China had been the worst market in the world for the last five years. He continued that what was sanctioned was defense-related enterprises; that is where the 37 companies come from. The whole country had not been sanctioned. Russia was sanctioned. China is the second biggest market in the world, and is our biggest trading partners both ways. It would be an act of war to go that far. He stated that he had been working with the military, and they are preparing, for sure. They think it will come somewhere around 2030. China in their five-year plan says that they would be prepared to defend Taiwan in 2027. They tell you what they will do, and the amazing thing is that they actually do it. He continued that this was the first time in the history of mankind that there have been two enterprises of this size that could potentially go against each other. China has a 100-year plan, and the United States is in the third phase of that 100-year plan. It is to become the dominant country in the world by 2049. They have a very specific plan. He continued sharing information on the concern of getting money out of China. There is never a problem with getting money in. He stated that we are not adding either corporations or institutions to China. A lot of people are changing their benchmarks, so it has a lower weight in China than it did otherwise. He added that as long as China is on this path to becoming the No. 1 country, there will be an increase in conflict. It would be very strange at some point to be funding someone that you are at war with. That is where we are.

CHAIR SCHUTT stated that wrapped up risk, and called for a break.

(Break.)

CHAIR SCHUTT called the meeting back on the record. He moved to the investor advisor comments.

INVESTMENT ADVISOR COMMENTS

MR. SKJERVEM stated that he had China on his list and it just amplifies the one anecdotal observation from his team was the reluctance of China-based GPs to deploy capital. Many have very large cash balances from previous fundraising that they have not deployed given the uncertainty on their own turf. He also mentioned his question to Sebastian. He had forgotten about the 80/20, but just the 83 percent exposure risk assets is relatively low. That was obviously a high number in absolute terms. He stated that the peer-group average was higher than that and it was very hard to diversify equity risk even below 90 percent. He gave kudos to the team for getting it to 83 percent.

CHAIR SCHUTT asked for any questions for Mr. Skjervem. There being none, he recognized Mr. Harris, and welcomed him to his first meeting as one of the investment advisors.

MR. HARRIS thanked Chair Schutt. He stated that he had been doing this for 40 years, and had never seen a morning with that good of a discussion. He continued that he was really impressed with the openness, and he liked the energy. He shared some of his observations, beginning with proper compensation. Here, we are operating in a paradigm where, mentally, we are operating according to government regulations, and everything in the government is an expense. You get taxes, it is an expense, and that tax money needs to be expended very judiciously. This is not that structure. He stated that the Fund is the biggest company in Alaska. Marcus did a great job of describing the value add on top of the benchmark. It is the benchmark that matters most. He continued that there are all of these risks, but there are only three that are bullet to the brain: Leverage, liquidity, and concentration. He also talked about China, and then the climate situation. He added that at some point, because of their size, the Fund will have a $20 billion loss. The Board has to prepare for whenever it comes. He does not know when, but it will come.

TRUSTEE BRUNE talked about AI. When he was a commissioner, Governor Dunleavy encouraged the use of AI. There are risks, but there are also huge benefits. Commissioner Anderson said that it is not going to be that you will be replaced by AI; you will be replaced by people that know how to use AI. He is intrigued as to a policy put in place which seems to be discouraging its use. It said to be aware of the risks. He added that he is intrigued as to how it is being used in the sector, and the opportunities that are out there.

MR. ALLEN stated that they just did a survey of some of the largest investment management firms in the industry asking about AI and what they are doing. He continued that there are a couple of areas where it is being used, and most of the people were registered investment advisors. They are concerned about SEC regulations, and are being very cautious from a compliance standpoint. About 25 percent of the firms are not allowing their employees to use AI on their systems at all because they want to explore it first. About a third of the firms, mostly public equities managers, are using it as part of the investment process. Generally, it is to augment their portfolio managers. They are not using AI to make decisions, but to help process documents; mundane work that is tedious. His takeaway and what they are doing internally at Callan is encouraging people to get ChatGPT accounts. We write a lot of stuff as a consulting firm, and we have to summarize large presentations into concise memos. It works for that.

CHAIR SCHUTT moved to the annual audited financial report, and welcomed Beth Stuart.

REPORT OF ANNUAL AUDIT
MS. STUART stated that she is the lead audit engagement partner for the Alaska Permanent Fund Corporation audit this year. She is also the managing partner of KPMG's Anchorage office. She continued that the presentation was the same presentation presented to the Audit Committee in early September. She was not planning to go through the presentation in detail, but wanted to include it for the trustees who do not serve on the Audit Committee so they can see the level of information that was provided to the Audit Committee. She stated that the FY23 audit is complete, and we issued an unmodified or unqualified, clean opinion on the financial statements at the Permanent Fund Corporation. We also issued a report stating that we had not identified any material weaknesses in internal controls. She continued that the audit took place from approximately May through August, and the opinion was issued on September 7th. They met with the Audit Committee prior to issuing the report and talked at length through the presentation. There was also an executive session with the Audit Committee. She highlighted a couple of items and began with a list of required communications. The items with X's were items that no matters relating to were identified. Items with checks were discussed further in the presentation. They did not identify any actual or suspected fraud involving management, employees, or others within the organization. The written communications directly with management were provided to the Audit Committee, and we confirmed that we are independent of the Alaska Permanent Fund Corporation at the time of the audit and are qualified to serve as independent auditors. She reviewed the annual report prior to its publication, and they did not have any disagreements with the corporation on how matters were presented. They felt that the annual report was consistent with the audited financial statements.

CHAIR SCHUTT stated, for the trustees not on the Audit Committee, that there was an executive session with just trustees and KPMG without management present to address the common questions as fiduciaries about any experience with any issues, any suspicions, any difficulty dealing with management. All of those answers came back, and I confirmed that management and the financial and accounting staff did a great job and participated and collaborated fully with the auditors. There were no lingering suspicions revealed in executive session. They went through the annual drill and he was happy to report that that aspect was clean, as expected.

TRUSTEE RICHARDS had asked about bringing on an internal auditor on an FTE basis, but had to leave before he got the answer.

TRUSTEE CRUM replied that they determined that they did not think it was needed.

CHAIR SCHUTT asked for any further questions or comments on audit, audit matters, or internal audit matters. He asked for a motion.

> **MOTION:** <u>A motion to approve and accept the annual audited financial statements and report was made by TRUSTEE BRUNE; seconded by TRUSTEE RICHARDS.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Brune, yes; Trustee Rubenstein, yes; Trustee Richards, yes; Trustee Anderson, yes; Trustee Crum, yes; Chair Schutt, yes.)*

CHAIR SCHUTT thanked all and stated appreciation for the work and the presentation. He called a lunch break.

(Lunch break.)

CHAIR SCHUTT called the meeting back on record and stated that the next agenda item was Fund Performance. He recognized Callan.

FUND PERFORMANCE

MR. ALLEN thanked all and stated that it was nice to be there. He wanted to do this intro and stated that he did a presentation on AI recently and used AI on his intro slide to come up with an organizational description of Callan in the voice of Cormac McCarthy. It is just Biblical, big and loud. He then used Speechify, an AI-generated voice to read it and put it up next to a star scene, and had the words going back like in the beginning of Star Wars. It was really awesome, but it cannot be shown on Zoom. He added that Mr. Center would do the presentation.

MR. CENTER began with the broad capital market performance and stated that the last three quarters of the U.S. equity market performance had been very strong. He continued that this focused solely on the equity markets looking at the U.S. equity market represented by the Russell 3000, the MSCI EAFE, which is the developed market non-U.S. equity market and the emerging market stocks represented by the MSCI emerging market index. It was a phenomenal snapback within large caps and all U.S. stocks and developed market stocks during the last 12 months. There was a significant lag from the emerging markets out over the last year. There were very high teens returns for developed markets, and the U.S. stock market, but emerging market was up only 1.7 percent over that last 12-month period. It really has lagged both the U.S. and developed markets over all developed time periods. He moved through the Callan periodic table of investment returns that Callan shows each quarter. There was a very strong performance from stocks on the first two quarters of 2023. He continued to inflation and stated that headline inflation includes all expenses, including energy. Core inflation excludes energy and food, and was not quite as volatile. He continued that core and headline inflation had dipped from their peaks near the end of 2022. Energy dragged headline inflation down to 3 percent because energy prices moved downward. He then talked about the contributors to overall inflation. The key driver of inflation was transportation, and he looked at this historically looking back 12 months ago. The chart looked at the year-over-year change of the various components of CIP; transportation was positive 16.4 percent. During this period, it was very difficult to buy cars and trucks. Used car prices went through the roof, and that was the key driver of overall inflation, both transportation and food and beverages. Now transportation was the lowest contributor to overall inflation; it is negative. Transportation inflation was actually deflation, negative 5.1 percent. Now, unfortunately, housing is the biggest area of inflation, along with food and beverages. He then moved to the break-even rate and explained it fully, along with the bond market. He continued to the total fund asset allocation as of the end of the fiscal year. The Permanent Fund ended the fiscal year with over 78 billion in assets, well diversified across all major asset classes. He continued to long-term performance, which remains pretty strong. Over the last three years, the Permanent Fund outperformed its target benchmark and that passive benchmark, lagging only the CPI+5. The same is true over the last five years. Getting over to ten years, the Permanent Fund remains ahead of those indices over both of those time periods. He then moved on to comparing the Permanent Fund's performance relative to peers. He also talked about attribution, the key drivers of performance. He stated that the asset allocation effect measured impacts of being over and underweight asset classes relative to the asset allocation. The long-term asset allocation targets were close to long-term targets, slightly underweight to public equities, and given how strong public equities were, created that negative asset allocation effect. The key drivers of underperformance for the quarter were lagging performance relative to the index for the public equity portfolio and for the private equity and special opportunities portfolio. The Sharpe ratio for the Permanent Fund was relative to large public funds, particularly given that lower realized standard deviation was in the top quartile and the top decile over most time periods when getting out to 20 years. It does fall to the 10th percentile, but very strong relative Sharpe ratios. Given that the implementation looked more like an endowment or foundation, the Sharpe ratio is right around that median similar to most large endowments and foundations.

MR. ALLEN shared a couple of comments about the public equity market portfolio before moving on. He thought that the structural bets that were in this portfolio sort of explain the underperformance. It has been a consistent thing in Fawad's structure of his equity portfolio. If growth stocks were killing, underperforming the benchmark in public equities should be expected.

MR. CENTER moved to fixed income and talked about the overall fixed-income market; the Bloomberg Aggregate was negative for the quarter. As rates rose, the Fed moved again in May, raising the rate to 5.25%. They paused this month, but the overall market prediction is that they may move one more time before year end. He talked about the U.S. Treasury yield curve and then moved to inversion of the yield curve. That inversion showed that, ultimately, there was anticipation that there would be some changes or movements by the Fed that could create a lowering of the short end of the curve, particularly in the near term. The bond market still believes that the Fed will likely lower interest rates sometime in the near future, which was surprising to him, but we will see what happens there.

CHAIR SCHUTT thanked Callan for their overview, and called a break.

(Break.)

CHAIR SCHUTT called the meeting back to order, and moved to the next agenda item, the current use of consultants versus internal management of private equity. As noted, there was the possibility of an executive session because staff may be asked about proprietary compensation or payments to existing outside consultants, which would bring them within the bounds of a proper executive session if they want to hear that information as this topic is discussed.

CEO MITCHELL stated that was borne out of the discussions around strategic planning and the potential evolution of the use of third-party consultants for work related to investing the various asset allocations of the fund. Staff is prepared to have a discussion about that, but it did involve detail that is not appropriate for the public forum.

> **MOTION:** In accordance with the Open Meetings Act, TRUSTEE RICHARDS made a motion that the Board of Trustees convene in Executive Session to receive an update on and discuss APFC's current use of consultants versus internal management of private equity. Per Alaska Statute 44.62.310(c)(3), this topic is appropriate for Executive Session because this discussion will involve the consideration of proprietary information that is confidential under State law. The motion was seconded by TRUSTEE CRUM.
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> *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.)

(Executive Session from 2:42 p.m. until 3:51 p.m.)

CHAIR SCHUTT stated that they were back on the record. While in Executive Session, the trustees considered only the matters mentioned in the motion and took no action in conformance with the statutory requirement of Executive Session. He asked for any further questions or comments from trustees around the current use of consultants versus internal management topic. Hearing none, he moved to the final agenda item for the day, which was the FY25 budget, which is an action item.

CEO MITCHELL stated that it was in the packet and there was a presentation. He continued that Julia Mesdag was with him in the event there were questions. She was instrumental in building the budget with Val; a great resource. He added that this presentation was identical to the presentation at the last board meeting, with some supplements. The APFC operations allocation increase '25 proposed to '24 authorized was $2.7 million, primarily personal services. There were some increments to contractual, travel, and then the investment management fee allocation going up by about $2.8 million. There was a fairly wide discrepancy in the investment management fee allocation, $54 million; the variance from the FY23 actual and FY25 proposed. That was based on having that need to hit peak demand in the event there was a lot of activity within the portfolio. It showed the summary of $2.7 million of variance. He continued through the numbers. The Anchorage office was a component of some of the increases, and he went through them.

CHAIR SCHUTT asked if there were any trustees who would advocate for the budget line to include the $700,000 extra to evaluate to move into a more permanent space. The choice was asking for more, or to drop it down to a full fiscal year in the DEC space. He continued that he was not hearing any call to have that full amount. He asked staff to revert that back to the best-guess estimate for an annual appropriation consistent with the 555 Cordova first-floor space, and it will be left at that, recognizing that it was more than just the base rent.

CEO MITCHELL suggested that Trustee Richards said $100,000, with the additional explanation. Then whether it was for equipment or commodities, however the balance of that number was characterized to support what may be needed for that facility.

CHAIR SCHUTT asked if there was sufficient information to proceed on this particular subject.

CEO MITCHELL stated yes. He also noted that there was not a budget for Board international travel which the Board may be interested in. He continued through the budget. The discussion continued on travel and then moved to commodities and equipment. He stated, after all the discussions, that a motion to approve the budget, as amended by the Board, was needed.

MOTION: <u>TRUSTEE BRUNE made a motion to approve the budget as presented with the decrease of the travel line item down to the $900,000 and the decrease of the Anchorage office down to $100,000, and everything else is the same. The motion was seconded by TRUSTEE CRUM.</u>

CHAIR SCHUTT stated appreciation to the staff for all the good work. He thought that the questions and pushback of some of those were done in the good faith of supporting the staff and doing the best thing for the organization.

TRUSTEE CRUM stated that he was amazed that the conversation on the merit increases and the incentive comp was “let’s go ahead and do it.” That was many, many years of work to get to the point of where we know this is the normal progress on this. He hoped as they looked to recruiting more staff that they let them know about this overall level of support received from the trustees, and the Administration, as well.

CHAIR SCHUTT asked for a roll-call vote.

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

CHAIR SCHUTT stated appreciation for everyone’s participation and attention. He recessed the meeting.

(Alaska Permanent Fund Corporation Annual Board of Trustees meeting recessed at 4:55 p.m.)

September 28, 2023

CALL TO ORDER
CHAIR SCHUTT called the meeting back on record. He continued that the first topic was an asset update for real estate.

ASSET CLASS UPDATE – REAL ESTATE
MR. ANDREYKA went through the role of real estate in the portfolio and then gave a historical perspective and illustrated how the program had evolved in the past few years. He stated that real estate plays a unique role in the portfolio, by providing income of the fixed type in collecting rent or interest rates. It also offers an element of equity with the appreciation on the assets. He added that it has historically been in the 6, 7 percent range. There were down years, but over the long term, that has been the goal, and it has been achieved. He added that it also provides inflation resistance. Historically, the Fund has owned mostly core assets in the early years, and someone mentioned office and retail, which performed well up until 2013-2014, but lagged the benchmark in 2018 by a significant amount for the next four years. We came up with a new strategy to deploy capital to some of the sectors that were underweight. He talked about where they were today.

CIO FRAMPTON stated that during Q4 ’17 to Q1 ’18, a dramatic, very poor decision was made. There was a very strong multi-family portfolio, and a decision was made to sell almost the entire multi-family portfolio. It was a bad decision, and it was not sold at a good price. He added that it has taken five years to get back to the sector weights.

MR. ANDREYKA continued that, in the aftermath of being out of sync in the sector, there were a number of conversations from the Board on real estate, resulting in a strategic plan to get to the sector weighting and improving performance. He went through that plan and then talked about the two additional open-ended funds, noting that, since inception, the return had been 24 percent. Realterm Logistics is a unique strategy called high-flow-through supply chain real estate. It focuses more on moving goods, moving freight; not storing freight. It is a little different than big warehouses, without the need for high ceilings. He explained that, typically, freight comes in one side in a truck and goes out the other side in a van or car, for a less-mile delivery type of arrangement. The sites are very in-fill, with very high barriers to entry. Most important is that these are mission-critical locations for these tenants, with very little turnover. When there is turnover, there is an opportunity to typically mark up the rent. A $200 million co-investment was done with Realterm Logistics this past year with a motivated seller. It included all truck terminals and outdoor storage, which are two of the areas that all investors are trying to get into. Outdoor storage is very scarce, and this portfolio has 900 acres of outdoor storage and 61 truck terminals. It is a very good investment. He continued through his presentation and talked about Mesa West that did opportunistic investing and has probably the best risk-adjusted returns right now. He described the typical construction loan, and noted that in 2020 we realized that we were having trouble replacing the multi-family assets we had. We did a lot of work studying, meeting developers on build-to-core instead of buying core assets that were very expensive, and they could be built at a discount. The benefit was the creation of really high-quality, state-of-the-art assets at a discount. The other point is that rents increased on all of these projects, and we are seeing rent increases where the original underwriting did not factor that in. He briefly went through the multi-family projects that were under development beginning with the Gables Multifamily in Washington, D.C. Then, 25 North Lex, a project built on property that the Permanent Fund has owned for probably over 20 years. It is a great location across from the White Plains Train Station, which has an express train to Manhattan. This project is part of a pilot program where there are discounted real estate taxes for 20 years, and the present value is around $25 million. We are also getting a Brownfield tax credit of about $30 million, which will be paid once the project is completed. Another project is The Row on Redhill in Orange County, California. There was a shortage of close to 6,000 units being projected in this part of Orange County. Riverwalk Residences is another project with Gables located in Fort Lauderdale. Stella at Star Metals is a new project with the Allen Morris Company, a new partner this past year, and is in the West Midtown area near Georgia Tech. 10th and Cherokee is another project with Greystar located in the fastest growing area of Denver. He continued that, going forward, we will continue to expand the build-to-core program and look at more industrial developments, and also at a life science development in South San Francisco.

CHAIR SCHUTT thanked Mr. Andreyka, and stated that next on the agenda was a real estate investment outlook presented by CBRE Investment Management.

REAL ESTATE INVESTMENT OUTLOOK PRESENTATION

MR. TAYLOR stated that he leads America's research for CBRE IM, the investment fiduciary wing within CBRE. He has been with CBRE IM for 17 years, always in research; initially in global research. He was posted to Hong Kong to cover the APAC research for 12 years, and returned at the start of last year to lead American research. He started off with their macro view, capital markets and then got into the real estate. He then looked at all of the major sectors that they cover. He stated that they were in a very heightened period of uncertainty with regard to the macro view. They ascribe only a 60 percent probability of the base-case macro playing out over the coming five-year period. He continued that there still exists a lot of downside risk in the markets, and one of the key conclusions he wanted to leave the Board with was that in such a heightened risk environment they were sticking very closely to their structural investment thematics, which involve longer-term demographic technological changes and trends. Coincidentally, they feed very well into their preferred overweight sectors, which are logistics and residential. He added that even in a downside scenario, where inflation stays higher for longer, and in an environment where there is a recession in the outlook, these still will be the major strategic recommendations that will be made on a sectoral basis. In looking at the GDP gross forecast for the U.S., they are expecting just under a 2 percent average annual real GDP growth rate for the five-year period, which is below the long-term average, which is the case for most major economies around the world. This is a period of economic slowdown to be certain, and also a period of heightened inflation. They are expecting about 2.75 percent inflation for the U.S. on average for this five-year period. It still needs to come down a bit more from where it currently is. He stated that one thing that had shocked a lot of macro economists in the last couple of years is just how resilient the U.S. labor market has been. He stated that there will be higher and longer inflation relative to history, which is defined as the period post GFC. He continued that the basic case with ascribing a 60 percent probability of this playing out, is that the U.S. is at close to peak interest rates. There will be a plateau for several more months, and we may be in a position to see the Fed start to cut interest rates around May of next year. A key takeaway from the last FOMC is that they do not know what the next course of action will be. So, confusion reigns within the Fed, and certainly in the macro-economic community, in general, about exactly how quickly inflation will continue to come down, how resilient the labor market will continue to be. From his point of view, what this means for real estate is really important: too high inflation is very damaging. But in the sectors he mentioned, they would prefer to be overweight. A study of U.S. rent growth going back to 1990 by sector and inflation showed that the best sectors to hedge inflation were multi-family residential, logistics, and self-storage. He went through their view for the 10-year government bond yields that also figured through to their cap rate forecast, which he shared.

TRUSTEE BRUNE asked how they anticipated what would lead to increased rent.

MS. LANG stated that she leads the logistics practice for CBRE Investment Management. She has spent over 25 years in the commercial real estate industry; all of it in logistics. The three main drivers of the logistics demand today are the growth in e-commerce, the shifting in inventory models, and the need for greater modernity because of the obsolescence that is about to trend really heavily in the United States logistics market. She tackled each one of those and what it meant in terms of new construction requirements. There was only a 21 percent penetration rate in terms of the number of retail sales that occur online relating to e-commerce. Other modern economies like South Korea, Mainland China, the U.K. are already hitting penetration rates in excess of 35 percent. They estimate, and have a very high level of conviction, that by 2032 the e-commerce penetration rate as a percentage of all retail sales will get to about 33 percent in the United States. She continued, that is important in terms of new construction in how they estimate they need another 330 million square feet of new modern logistics product just to cover the e-commerce need. On the inventory model shift, the occupiers realize that their No. 1 driver of revenue is customer loyalty and customer satisfaction. There is a need to have what is demanded when it is demanded. Estimated is the need for another 1.1 billion square feet of modern logistics product to meet that expansion and demand. She noted that the demand will be extraordinary.

MR. TAYLOR stated that around the time of the GFC, the vacancy rate for U.S. logistics was double-digit and in the mid-teens in many cities. In spite of the additional supply that had been delivered in the last few years, vacancy rate today is 3.7 percent. It is definitely being absorbed by the market. Those variables just discussed are very real; a very palpable absorption of space. He continued that two of the big demand drivers for logistics, supply-chain resilience and reconfiguration, as well as that e-commerce penetration ratio, do not historically exist. This is a brand-new era/age for logistics, and specifically modern logistics. He continued that there were troubled assets coming to the market, and the data does lag. He looked at the accumulation of troubled assets and real estate-owned assets. He then looked at their preferred sectors, and talked about what all that means for the future. He noted that modern logistics leads the pack.

MS. LANG continued with the case for modern and stated that the top three logistics demand drivers have been covered: e-commerce, the shifting in inventory model, and the need to both build and occupy new modern spaces. She was really interested in how all of the individual decisions scale up into an impact on direct real estate. She pointed out that if something was bought in a brick-and-mortar retail store, there is a 6 percent chance likely to return it. When something is bought online, there is a 20 percent chance of returning it. One key focus for this e-commerce growth is in that returns model. It takes three times the physical space in the logistics sector to deal with returns than it does in a brick-and-mortar retail facility. She stated that, ultimately, there would be an extraordinary amount of growth in terms of the footprint required for e-commerce. When a return label is printed out and stuck on that Amazon box, it is actually going to a different facility than where it came from. That is what she meant in terms of this ever-expanding footprint. She explained that true e-commerce only makes up 6.4 percent of the total market share in the United States. The biggest market share is going to third-party logistics providers, the Nippon Expresses. The reason they are growing in terms of market share is that they started this, and they are taking on the reverse logistics model for other companies. She talked about a technology called DUCTILCRETE, explaining what it is, and she shared a video about what it exactly looks like.

(Video played.)

She walked through the video explaining what was shown. In looking at all of the technologies being deployed within the warehouse sector, the single-greatest amenity going forward in the U.S. logistics environment will be the availability of power. She noted that there is not the availability of power in legacy logistics stock. She noted that the average age of an industrial facility in the United States is about 40 years. The average age of an asset within U.S. Logistics Partnership is just four years old. That is important because of some of those design specifications. It is also important to align with this younger, more modern stock to take advantage of those outside returns against the legacy stock. She added that it has been a fantastic partnership between CBRE Investment Management and APFC. She stated that modernity matters, and she went through a few bullet points on obsolescence within the U.S. She stated that U.S. Logistics Partners is the No 1 performing fund in Morgan Stanley's open-ended fund index. This encapsulates 37 different open-ended funds, and it is No. 1 in terms of direct real estate performance for the year ending in the second quarter. In the third quarter of 2022, U.S. Logistics Partners took the opportunity to take the extraordinary rent growth that was seen within the market and counterbalanced that by expanding terminal cap rates and discount rates within the portfolio. The reason for that overweight allocation to West Coast markets was because those markets have seen the highest rate of capital appreciation over the past decade and are poised to achieve the highest rate of rental rate growth going forward. That is a very strategic play in terms of overweight. She pointed out the importance of the Northeast corridor. They are looking to grow the portfolio a bit in the South, given some of the demographic shifts to Texas and Florida. She moved to the Speedway Commerce Center product and explained this development project. She stated that this is 428 acres of land currently occupied by NASCAR's two-mile Speedway in the City of Fontana in the Inland Empire West; the most important distribution market in the world. She explained the project fully and closed with remarks around

Park Aldea Phase II in the City of Phoenix. She stated appreciation for the opportunity to speak, and added that she is deeply passionate about this industry.

CHAIR SCHUTT thanked Ms. Lang and stated appreciation for her side of the partnership helping to achieve good returns for Alaskans. He thanked her for coming to Anchorage, and called a break.

(Break.)

CHAIR SCHUTT called the meeting back on record, and continued to the next presentation from Gartner with Tina Nunno.

GARTNER PRESENTATION

MR. BALOVICH stated that they were fortunate to have an executive VP and fellow of Gartner here to talk about Generative AI. He introduced Tina Nunno.

MS. NUNNO stated that she is with Gartner Research, and this topic is of tremendous interest to their clients globally. One of her key focuses in research is both executive dynamics and board communications. She spends a lot of time working with clients on their board presentations, and what most folks wanted to talk about, at the board level, is Generative AI. She shared her research by illustrating both the strengths and limitations of Generative AI. A publicly known example is Ikea, which had been working with a startup company that scanned all of their catalogs for all of the different images of their furniture over the past decades. Then they asked Generative AI to generate ideas for furniture, and she shared some of the bizarre examples of what Generative AI came up with. One of the strengths of Generative AI is not having to start with a blank page, but human beings do have to interact with the technology in order for it to work effectively. When an organization looks into Generative AI, it is important to understand about how it learns, thinks, and its limitations. The data and how it is used and where it goes is one of the biggest risks and challenges of Generative AI. She explained how it worked, the pros and cons, and the biggest development in the technology. She continued through with her presentation, talking about the challenges and progress and the interesting opportunities in providing healthcare. She continued that one of the priorities was Step One, to create a policy relative to the use of it in organizations. A lot of organizations went with the immediate reaction, which banned it initially, and there have been all ranges of options. It was banned or radically contained because the industries cannot afford extremely sensitive data to be at risk. It is understandable, and every organization has a different risk profile. She added that there is litigation in progress from a variety of different companies, and the law is formed both from regulation and from litigation.

CHAIR SCHUTT asked if one of the overall risks was the malignant user who takes this technology as a weapon and uses it to their advantage.

MS. NUNNO replied that was one of the things that is probably most frightening. She continued that the tools are powerful, so the risks are not insignificant. She included some data relative to concerns by industry that might be useful to have on record. Privacy concerns tend to be at the top of a wide variety. The other risks that frequently come up are if this will replace staff. This will augment staff, and make them more productive. A new skill requirement, the ability to actually use artificial intelligence, will become a new employee requirement. She added that they are closely tracking the regulations on Generative AI. She noted that computer power does consume a lot of energy. Any major vendors state that the capabilities would be embedded in their software.

CHAIR SCHUTT thanked Ms. Nunno for a very informative presentation. He called a lunch break.

(Lunch break.)

CHAIR SCHUTT called the meeting back on record, and continued to the next item on the agenda, the real estate evaluation process presentation, by SITUS.

REAL ESTATE VALUATION PROCESS PRESENTATION

MR. VELKY stated that he serves as managing director and global head of their real estate valuation services team at SitusAMC. He has been with the firm for a little over 20 years. He earned his CFA, CRE, MAI designations and is an active member in a number of industry organizations, including NCREIF and DCRC, where he held several leadership positions, including recently completing a three-year leadership role in serving as the chair of the NCREIF Valuation Committee. A reoccurring theme throughout SitusAMC is an experienced facility and commitment to professional development and training. It is reflected well within the experts joining him. He introduced Andrew Sabatini who has his MAI, is a managing director and head of the equity valuation management business. He has 20 years of experience; six of which are with SitusAMC. He moved to Charles Gohr who has his MAI and EIGRS designation. He is a director with the firm and is the lead responsible for overseeing the day-to-day execution of the Alaska Permanent Fund account. Mr. Gohr has about 20 years of experience, with 16 at SitusAMC. He provided a brief overview of the firm, the firm's depth and expertise in providing valuation services and, specifically, how it is relevant in the day-to-day execution for the Alaska Permanent Fund. SitusAMC is a leading independent provider of technology, data analytics, and advisory services serving both the commercial and residential space. There are 30 offices across the world, including the U.S., Europe, and Asia, encompassing over 5,000 professionals and serving over 1500 different companies. Specific to their real estate valuation services group, today the Board will hear about the depth and experience of the team they have executing the work, and the typical continuity of execution of the dedicated team approach taken in serving their clients. They will also talk about the access to realtime data as a result of their platform, serving in a similar role for over $500 billion in quarterly financial reporting in private commercial real estate. He provided an understanding of the team construct. It is similar to how they approach all of their large, dedicated client service offerings, and sets them apart in terms of their execution model. They are highly active in providing guidance to their teams, providing insight to what is being seen in realtime across the market, and connectivity across clients to ensure that continuity of execution. He stated appreciation for the confidence provided to them in executing their quarterly fair value reporting process on behalf of the Alaska Permanent Fund. He recognized Charles Gohr.

MR. GOHR gave an overview of the services provided and the technology used to provide those services. They are ultimately responsible for managing the entire quarterly valuation process from beginning to end. He continued that that starts well before the quarter begins. They identify the appraisers believed to be up to the job, and they send out bids. After making their recommendations as to who is the most qualified, they engage those appraisers and begin the process of giving them all of the information needed by gathering property information from your assets and property managers. Upon receipt of those appraisals, they review them in conjunction with the APFC mangers for accuracy, and to ensure they are mirroring the market at that point in time. All questions, comments, and files presented to the appraiser are stored online, and there is always an audit trail of what occurred. He added that they also own that process and have the final say as to what questions and comments could be sent to the appraiser. He stated that they are also tasked with providing fair values for all assets in the development stage. Once those valuations are complete, SitusAMC prepares a presentation that summarizes the value drivers and compares the portfolio with the broader commercial real estate population to provide an understanding of your performance.

MR. SABATINI took a few minutes to provide a market update, and the outlook as it relates to value. He shared some information on the trending of commercial real estate values through this most recent cycle. He showed reported capitalization rates, which are simply a calculation of a property's net operating income divided by the property asset value; all else equal, as the market cap rate goes up, the property values were expected to decline. There had been upward pressure on these capitalization rates with the spike in the 10-year Treasury, which is now north of 4.5. He talked about multi-family and how that is working in its favor. In the long-term the supply-constrained nature of housing, in general, and the rising mortgage rates are impacting the single-family sector. He moved to office, which is the most challenged property type, with the full extent of value decline. It is about halfway realized due to the very limited transaction volume, which grays the gap between the transaction and the appraisal cap rates he mentioned. The last property type he talked about was retail. Most of the value erosion in retail came earlier in the initial quarters of the pandemic. Price discovery has been more transparent, and there is more cap rate conversion converging whereby the best assets are in the low 5 percent range. He then shared their total return forecast, which was developed in collaboration with the SitusAMC Insights Group. He noted that office will continue to be one of the drivers of downward performance in the coming quarter.

MR. GOHR explained that the slide highlighted the year-over-year value change by property type as of September 15, 2023. The overall same-store change during this period of time was about negative 12 percent. He continued that there was nothing alarming, based on all that was heard today; but across all of their client portfolios they had seen values decline, and the Fund is no different in that respect.

CHAIR SCHUTT thanked them for the overview and presentation. He stated that the next item on the agenda was investor advisor presentation, and recognized John Skjervem to talk about climate change and activism.

INVESTMENT ADVISOR COMMENTS

MR. SKJERVEM stated last year he had talked about divestment and the folly of divestment. He summarized that and extended the comments into net zero, which is the more recent phenomenon that is being dealt with. He called it Enterprise Alaska, and is something for the trustees to think about as Alaska confronts a unique challenge on the fiscal side should the decarbonization efforts of the world prove successful. He continued that the challenge now is on the other side of the spectrum with pretty extreme reactions, proposals that are worse than a waste of time, but taking us down completely fruitless paths. That is where he has been focusing his energy, and he is trying to cull that stuff out. He has been involved with SASB, Sustainability Accounting Standards Boards, for going on his tenth year. He has seen and lived through the transition from the denying to the extremism on the other side. The recap on divestment is a complete fool's errand, and will not work. It is harmful in terms of the damage it does to pension funds, and the obligations to its beneficiaries. It precludes engagement opportunities. When executed, it transfers shares to less responsible shareholders. He added that, ultimately, if it does work, it will just be a transfer of the costs to those members of society that can least afford to bear them. He continued to net zero because as the folly of divestment is revealed, many organizations and activists are pivoting to what he called net zero initiatives. That while well-intended, and in many cases using sustainability frameworks, which is a good thing, we are losing sight of the fact that these initiatives are a waste of time relative to the objective of decarbonizing the economy. SASB has developed an accounting framework to get after externalities. He is very proud of the evolution of that important effort, and he even had the SASB founder, Dr. Jean Rogers, present to the Utah Retirement System Board Retreat last week to try to establish his bonafides in the area; but he is very concerned that all of the attention on net zero is disguising the fact that it will not help solve the problem. What frustrated him is that it does not matter what we do because 5.2 billion people are doing everything they can to climb the ladder. He added that he strongly supports sustainability frameworks, and he thinks they can evolve and develop simultaneously, but it cannot happen overnight. It continues to be frustrating. He encourages people to spend a little more time and get their heads around the enormity and complexity of this problem, and that it defies any type of simple soundbite or solution. He stated that he does not think that anyone will change or compromise their lifestyle. He does not think that any country will compromise their ascension to economic development. He continued that this is a technology problem, and the only way out of it is to innovate. He is hopeful that the United States will take a leadership role, because it will clearly not happen anywhere else.

TRUSTEE CRUM thanked Mr. Skjervem for the presentation. It is important to keep this in the public discourse. It is an honest look and an honest conversation about where the world is, what it means for the United States. It is one thing for developed countries, and it is another thing for all the other emerging markets, the population scale, and their striving to actually climb into the middle class. He is glad that our primary focus is maximizing risk-adjusted returns.

CHAIR SCHUTT called a break so the Board of Trustees could take their annual group photo.

(Break.)

CHAIR SCHUTT stated that they were back on the record and that the next item on the agenda was the Strategic Plan Discussion and Update.

STRATEGIC PLAN DISCUSSION/UPDATE

MR. DEE stated that he is their Strategic Plan facilitator. He continued that there is a longstanding working group that has been working very diligently, and endeavors to present a series of recommendations of themes and so forth. He added that the goal is to have the Board hear these themes, give feedback, and see how far they can be finalized so the next steps could be taken. He stated that CEO Mitchell will present the themes, and then we will look at some levers, especially towards increasing the growth of the Permanent Fund.

CEO MITCHELL stated that the presentation related to the past $200 billion, and some of the levers were not necessary as incorporated, because it was in the prior version. It was still an underlying theme, and it is important to talk about. He continued that his main goal is to get the Board's pulse as a group on the direction of the thought process that the volunteer group has been going through. He added that everything has been refined to this increased real growth of the Permanent Fund as the primary goal of the organization moving forward. Beneath that is a series of potential alternatives. The first was a strategy to achieve increased return above the 5 percent plus CPI current target. That involves the consideration of some organizational needs that may include offices outside the state or internationally. This process is working towards an October 30th final product target date. The B idea is to adjust the inflow/outflow, which is not currently something that is necessarily within the confines of the mandate of the Board. The next thing on the list is reducing reliance on third-party advisors.

MR. WALDROP was asked to discuss the plan that he developed for making incremental change within the asset class. He continued that the biggest backdrop was having very good performance. They thought through understanding the mechanics of the contracts and the way different advisors are used. He continued that a lot of this is figured out and started with private equity. We will also look at other asset classes. He added that his team was doing it, leveraging any external expertise that might be needed because of the industry or the structure. It will be done by our team. Those are typically done on a no-fee/no-carry basis.

CEO MITCHELL stated that the next item on the list was D: Pursue legislative change to improve corporate functionality. This is prioritized or needs prioritization from the Board because there has been discussion that there are only so many levers that may be pulled at any given time. He noted that it warranted discussion.

TRUSTEE RICHARDS suggested not pursing an exception from the Open Meetings Act, which serves a laudable purpose and is how the State Government functions.

CHAIR SCHUTT tended to agree with that. He noted that it would come with trades that would be equally burdensome.

TRUSTEE BRUNE disagreed. He thought that for final decisions public engagement and input is important. But four of the trustees could not have a discussion at any given time on something that was not part of a public meeting. He is not proposing that decisions be made behind closed doors. He is asking for the opportunity to have off-the-record discussions, not to make decisions, but to discuss things that are in the best interest of the future of the state and the funding of the state and the impact of this on their ability to have candid discussions. This is significant.

MR. DEE asked if working "to create a vehicle for more informal discussions" would be more amenable.

TRUSTEE BRUNE agreed if they were able to actually do that.

CEO MITCHELL moved to Trustee Paper No. 10 and identifying ways of communicating the need to consider change with the current structure they had. He continued that was the list, and if there are other things trustees are interested in adding to the list, to let him know and he will bring it forward with the volunteer group.

CIO FRAMPTON summarized and shared Kevin's slides. He answered questions as he went through the presentation.

MR. VADAKUMCHERRY continued and focused on the leverage aspect. He stated that it is important to resume Fund leverage, meaning close to the corporation, and the reason that is assumed is that there is a cost of leverage impact. If it is at the Fund level, it will be lower than it is if it is at the real estate level. He continued that it is super important that there is a long-term plan because it should be getting to a leverage situation when rates are at this level.

CEO MITCHELL stated, based on the comments, that they would be adding a shared folder for all of the board members to talk about what the working group is doing so it could be seen on an ongoing basis. He continued that there will be a revision of the particular theme sheet that will be taking it further all the way to October 30th to present a finalized plan for approval.

CHAIR SCHUTT asked for any questions or comments on the subject. There being none, he moved to investment advisor comments.

INVESTMENT ADVISOR COMMENTS

MR. SKJERVEM talked about the private equity model and would endorse what was referred to as the hybrid approach that had been presented because it achieved the objectives: one for the staff in that it allows Marcus and Allen to optimize sourcing due diligence, underwriting, as the capabilities of that group evolved and the hope that it evolves in a positive way. The challenge is that hybrid model, especially if someone were to ask or press for additional detail. He added that it accomplished two objectives, and that is why he is adamant in his support for it.

MR. HARRIS stated that since it was his first time here, he thanked all for the warm welcome. He continued that Alaska is the most sensitive state in the country to the things that are being discussed. There is no other fund where it is the largest enterprise in their state; no other fund that gives money directly to its citizens. And so, we are dealing with an important issue that is very complex. He praised their dedication. He stated that what he did not see on the priorities is total alignment between the Board, yourselves, and the Legislature. He continued that until they have total alignment, they will just continue struggling with this over and over again. Spending time on reaching total alignment, you will find that, in the years to come, it will just smooth out things for everybody.

CHAIR SCHUTT thanked him and stated appreciation for the insights, and some comfort that you-all see some of the things that we have going are working, and that some of the Board discussions are leading to decisions. We will carry on and lean on you for insight along the way. He also thanked them both for coming to Anchorage this time, and he looked forward to seeing them next time. He stated that the next item was election of corporate officers, which is done at this meeting every year.

ELECTION OF CORPORATE OFFICERS AND APPOINTMENT OF COMMITTEE ASSIGNMENTS

> **MOTION:** <u>TRUSTEE CRUM made a motion that Trustee Schutt be named as Chair and that Trustee Rubenstein be named as Vice Chair; seconded by TRUSTEE BRUNE.</u>

CHAIR SCHUTT asked for any other nominations for the officers.

> **MOTION:** <u>TRUSTEE BRUNE made a motion to close the nominations</u>.

CHAIR SCHUTT asked for any objections to closing the nominations. There being none, he asked for a roll-call vote.

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

CHAIR SCHUTT stated that he would confer with fellow trustees about appointments to standing committees and would announce those in the interim or at the next meeting. Trustee Rubenstein is the vice chair and also the chair of governance. That part is set. He continued that he would poll the others about interest in the remaining positions. He added that the calendar needed to be adopted. Being considered are changing the '24 calendar to accommodate a couple of conflicts, and we need to have the '25 calendar that needs to be acted upon.

A discussion ensued on the calendar and the meeting in a Village.

CHAIR SCHUTT stated that the meeting dates for 2024 were set. He asked for a motion.

MOTION: A motion to approve the '24-'25 calendars, as adjusted, was made by TRUSTEE BRUNE; seconded by TRUSTEE ANDERSON.

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

TRUSTEE COMMENTS

TRUSTEE CRUM stated appreciation for all the Board engagement and discussion. He actually enjoyed the engagement and time with the investment advisors, as well as the staff. It was a very productive meeting, and we are able to discuss big, important items throughout. A healthy discussion is always good, and the overall mood and tenor is very good. He thanked all for the participation.

TRUSTEE ANDERSON agreed and really appreciated everyone's help and patience. He also appreciated the orientation and everything from the staff over the past few weeks. It was very helpful. He stated that it is really impressive the way the corporation works, and how it is set up, and everyone on it. He was really grateful to be here, and thanked all for the work that everyone is doing.

TRUSTEE BRUNE congratulated Trustee Schutt for his subsequent chairmanship and thanked him for his previous service. He congratulated Trustee Rubenstein on becoming vice chair. He also thanked Steve Rieger for his service as previous vice chair. He was his mentor in this role, and he did a great job. Alaskans owe him a debt of gratitude. He thanked the staff for all the preparations. He thanked John and Britt, and welcomed Britt aboard. And to the advisors that spoke to us, a very informative and impressive discussion, thank you. Kudos to all the staff. He thanked Jennifer for all the work she put in.

TRUSTEE RUBENSTEIN thanked her fellow trustees and stated that it was truly an honor to work with all of them. She learned a lot from each and every one of them. She gave a shoutout to Deven and stated that he has really risen to the occasion. It is really cool to watch him in this role. It is not an easy Board to navigate, and he has done a really good job of figuring out the different personalities. She thanked the advisors and thanked the trustees for allowing her to step into the vice chair role; a position that she does not take lightly. She thanked Chair Schutt and stated that it is an honor to serve under him, and onward into another working group that would translate with ChatGPT.

CHAIR SCHUTT personally reiterated the thanks he has to his fellow trustees for their confidence in him to spend another year as chair. He takes the job seriously, and he really wants to foster and maintain a good relationship with everybody. He has the utmost respect for the intentions in the efforts for the Board. Staff did a wonderful job, and we can get to the point where they could be taken for granted. He wanted them to know that he did not. They do it with the utmost professionalism, and the results show. For his fellow Alaskans at this annual meeting, we all sit here and do our work on behalf of all Alaskans; not just Alaskans today, but Alaskans 10 years or 30 years from now. We take it as both a burden and a privilege to sit here and do that. Again, thank you all. He noted that they had come to the end of the agenda.

> **MOTION:** TRUSTEE BRUNE made a motion to adjourn the meeting; seconded by TRUSTEE CRUM.
>
> *There being no objection, the MOTION was APPROVED.*

(Alaska Permanent Fund Corporation Annual Board of Trustees meeting adjourned at 4:11 p.m.)