

STRENGTH IN DIVERSITY

FROM THE CEO: 'OUR JOB IS TO PROTECT AND GROW ALASKA'S LARGEST, RENEWABLE FINANCIAL ASSET'



World markets performed exceptionally well during the first six months of Fiscal Year 2021 following their rapid plunge last spring during the beginning stages of the pandemic. The value of Alaska's Permanent Fund reached \$71.8 billion as of Dec. 31, 2020, and more than \$74 billion during the third week of January. I do caution that it is highly probable that this rate of growth is not

sustainable. As we heard during December's *Board of Trustees meeting*, the long-term market outlook is tempered – at best.

The Alaska Permanent Fund Corporation (APFC) has a dual role in protecting the Principal of the Fund and generating revenue to support draws for state services. This mission has become increasingly important as oil revenues decline. As the Department of Revenue's *Fall 2020 Revenue Sources Book* points out: "Between continued growth of the Fund and continued low oil prices, the Permanent Fund transfer is now by far the state's largest source of unrestricted general fund (UGF)

revenue and is forecasted to contribute 71% of UGF in FY 2021 and 72% in FY 2022, continuing to contribute at least 67% for each year after until FY 2030."

Managing a complex portfolio of more than \$70 billion is a rewarding challenge for our small team, which demonstrated great integrity and innovation as the world went into lockdown and markets experienced heightened volatility. Transitioning quickly to working remotely, this team was able to leverage opportunities, while maintaining and protecting Alaska's largest, renewable financial asset

We love the work we do. We are here to serve our fellow Alaskans, driven by our vision "to deliver outstanding returns for the benefit of all current and future generations of Alaskans." Thank you for giving us your trust and the resources to do our job.

Angela Rodell, CEO

A MID-YEAR GLANCE AT ALASKA'S PERMANENT FUND

AS OF DECEMBER 31, 2020

TOTAL FUND VALUE **\$71,748,100,000**

PRINCIPAL **\$57.8 B**

\$46.7 B

\$11.1 B

■ Permanent Savings: Royalty Deposits & Other Appropriations

■ Unrealized Gains

EARNINGS RESERVE ACCOUNT ("ERA") **\$14.0 B**

\$8.2 B

\$3.1 B

\$2.7 B

■ Uncommitted Realized Earnings

■ POMV Commitment FY22

■ Unrealized Gains

SOURCES OF CHANGE IN VALUE (in millions)

FY20 Total Fund	65,302.2
Investments	
Cash Flow Income	587.2
Realized Gains	2,373.2
Unrealized Gains	6,520.3
Operating Expenditures	(61.2)
Royalties	117.9
FY21 POMV to General Fund	(3,091.5)
FY21 Mid Year Total Fund	71,748.1

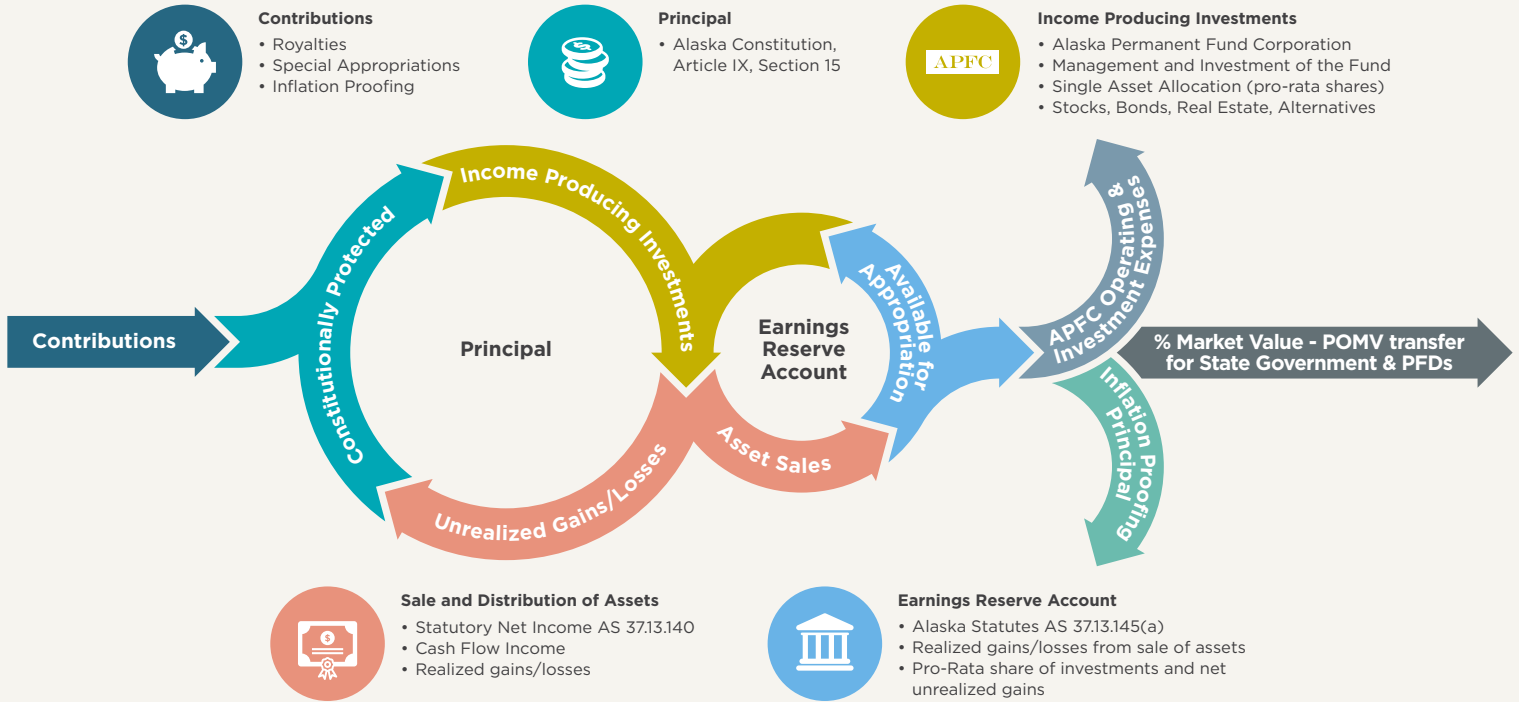
Statutory Net Income AS 37.13.140

Net Revenues	9,419.5
Unrealized Gains	(6,520.3)
AK Capital Income Fund	(18.4)
FY21 YTD to ERA	2,880.8

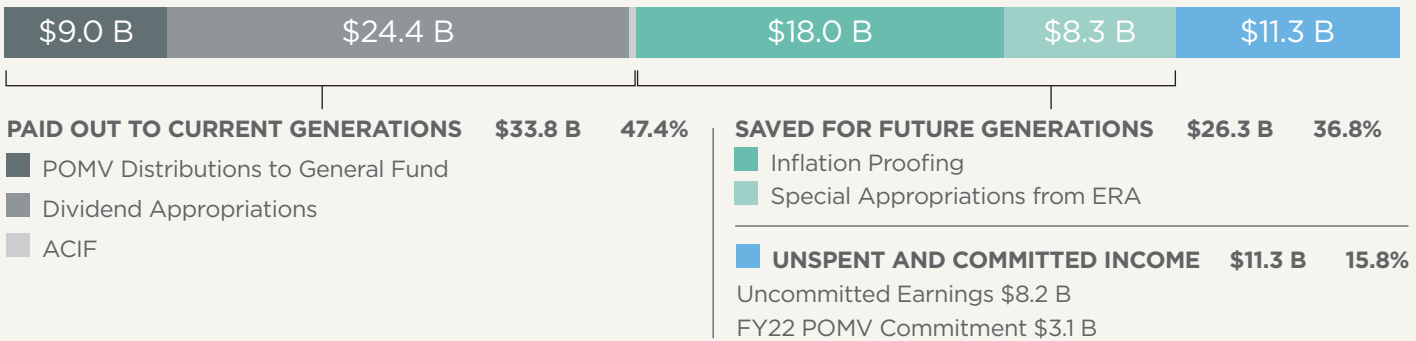
FUND STRUCTURE: HOW IT WORKS

The Alaska Permanent Fund is divided into two parts: Principal and Earnings Reserve Account (ERA). Both are invested together using the same asset allocation, but they are very different in how they can be used.

- The **Principal** is the savings account part of the Fund and can only be used for income-producing investments.
- The **ERA** is the checking account part of the Fund, funded with net profits made by investing the Fund. It can be used by the Alaska State Legislature through its power of appropriation.



USES OF NET REALIZED INCOME FROM THE ERA \$71,438,300,000 from inception - December 31, 2020, in billions

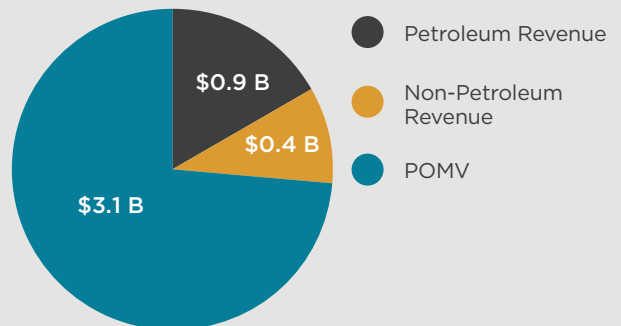


PERCENT OF MARKET VALUE (POMV)

Long supported by the Board of Trustees, the Legislature adopted a Percent of Market Value (POMV) rule to guide withdrawals from the Earnings Reserve Account. This formula is designed to give the state a predictable revenue stream while ensuring sustainability by limiting the amount of the draws.

The POMV draw is based on a percentage of the average market value of the Fund for the first five of the preceding six fiscal years. The draw is subject to appropriation and is set in statute at 5.25% for fiscal years 2019-2021 and 5% from fiscal year 2022 on. The rules-based framework debuted in FY 19. The FY 21 draw is \$3.1 billion.

SUPPORTING ESSENTIAL STATE SERVICES FY21



HOW THE FUND MAKES MONEY

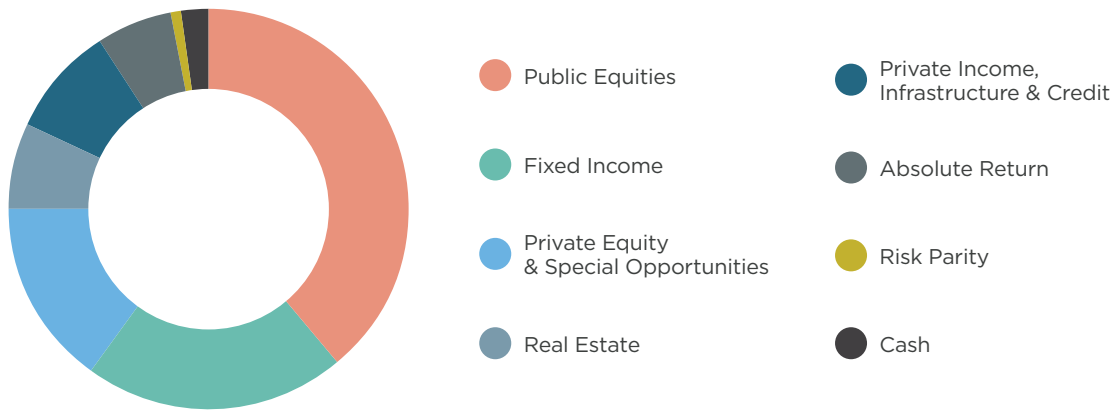
APFC’s investment management strategy relies on the dual strategies of diversified asset allocation (pie chart below) and effective asset investment. APFC employs a combination of internal management strategies alongside external management and partnerships to secure the best access to high-quality investment opportunities worldwide.

Major asset classes include public equities, fixed-income, private equity and special opportunities, real estate, infrastructure and private income, absolute return, risk parity strategies, and cash. These are managed to outperform specific long-term growth and income targets. In addition, illiquid opportunities among

APFC’s private equity, real estate, and infrastructure investments are underwritten to capture the benefits of an “illiquidity premium” that can prevail among these assets. In combination, this portfolio targets investment returns of inflation plus 5% or better on a long-term basis as well as compelling performance as measured against peers and market index benchmarks.

The Board of Trustees establishes the Fund’s investment policy. APFC integrates best-in-class investment management capabilities to maximize investment returns. Our governance and management structures bring both strength and agility to encourage enduring long-term investment success.

FY21 TARGET ALLOCATION

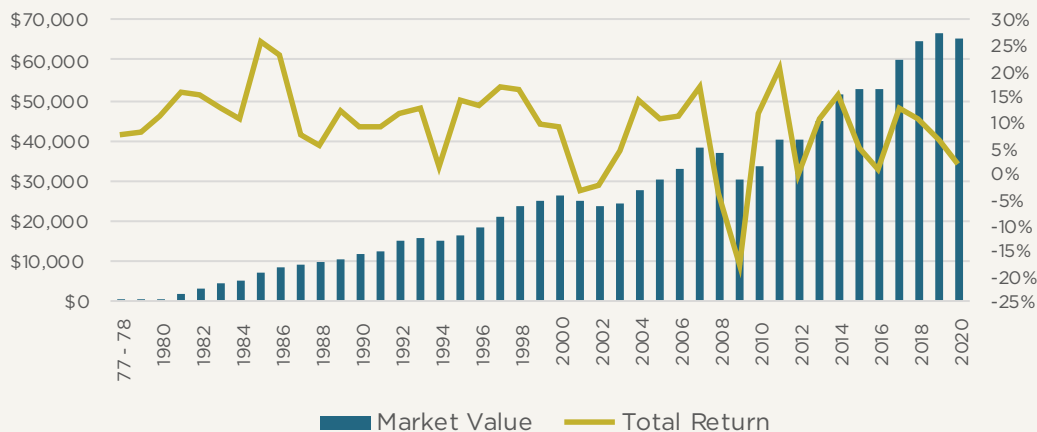


THE ROLE OF APFC

The Alaska Legislature created the Alaska Permanent Fund Corporation (APFC) in 1980 as a quasi-independent state entity tasked with the important mission of prudently investing and managing the assets of the Alaska Permanent Fund. In Alaska and world-wide, the Fund has gained recognition as a model for converting a non-renewable natural resource into a renewable financial resource.

The team that manages the Fund is lean by other fund standards but was able to pivot early in the pandemic to a remote, secure, work paradigm. Thanks to Legislative support in recent years, our Information Technology Team quickly got our home bases up and running at levels comparable to those within the office. We look to the Legislature for sufficient funding to continue this high level of operation.

FUND VALUE AND TOTAL RETURN
(in millions)



ACCOUNTABILITY AND TRANSPARENCY

Accountability and transparency have driven our operations from our very beginnings as an agency protected from political decisions but accountable to the public. APFC has a full set of financial controls and regular reporting practices in place. The finance department is purposely separate from the investment function. Many duties of the accounting department are similar to internal audit functions. Multiple approval levels are required for cash transfers and monthly reconciliations of all accounts are performed. Financial and performance reports are produced monthly to ensure point-in-time accuracy of data and compliance with policies and laws. These are all open to the public and published on our website.

Alaska State Law requires that the Permanent Fund produce an annual report that includes financial statements evaluated by independent outside auditors. The Board annually appoints an audit sub-committee, which hires an independent external auditor, approves the auditor's proposed plan and reviews the subsequent audit report and audited statements, which are public information. The audit is performed in accordance with auditing standards generally accepted in the U.S.

The Board of Trustees must follow the Open Meeting Act guidelines contained in state law, and the Corporation's non-proprietary records are available for public inspection.

A RENEWABLE FINANCIAL RESOURCE

The creation and prudent investment of the Alaska Permanent Fund represents one of Alaska's significant achievements towards long-lasting fiscal stability.



1976 - Alaskans vote 75,588 to 38,518 to amend the state constitution to establish the Alaska Permanent Fund and dedicate 25% of mineral royalties and other revenues to the Fund.



1977 - The Fund receives its first deposit - \$734,000 - of constitutionally dedicated oil revenues.



1980 - The Fund is established as an investment trust and the Legislature creates the Alaska Permanent Fund Corporation to manage the Fund. The Legislature also approves the first Permanent Fund Dividend program, which is ruled unconstitutional because individual dividend payments varied based on length of residency.



2005 - The Legislature makes a significant change in how Permanent Fund investments are determined, by removing the allowed investment list from state law. The Trustees will make investment decisions under the guidelines of the prudent investor rule.



2021 - The Fund now has over \$70 billion in assets under management spread across a sophisticated asset allocation. The Fund is the State's primary source of renewable revenue and draws from the ERA contribute more than 70% of the state's unrestricted general fund revenue for governmental services, including the dividend program.

FOR MORE INFORMATION

Visit our website at apfc.org

Watch our informational videos: apfc.org/fund-education

Review our Financial Statements and Performance Reports: apfc.org/financial-and-performance-reports/

Read our annual report:

apfc.org/report-archive/#14-12-annual-reports

Learn more in Alaskans' Guide to the Permanent Fund:

apfc.org/fund-education/#guide

APFC

ALASKA PERMANENT
FUND CORPORATION

INTEGRITY - STEWARDSHIP - PASSION