

Board of Trustees

2024 *Strategic Plan*

**ADOPTED BY THE BOARD OF TRUSTEES
FEBRUARY 16, 2024**

In accordance with APFC Governance policies, the Trustees adopted a four-year strategic plan in 2024 to achieve best-in-class performance utilizing skill, expertise, and prudent portfolio management strategy to invest the Fund to benefit Alaskans.



Board of Trustees

2024 Strategic Plan

BUILDING AN ORGANIZATION THAT SETS THE STANDARD FOR ENDOWMENT STYLE SOVEREIGN WEALTH FUNDS

Achieve best-in-class performance utilizing skill, expertise, and prudent portfolio management strategy to grow the fund to benefit Alaskans.

- Grow the Fund to \$100 Billion
- Improve Corporate Functionality
- Advance Comprehensive Communications Plan
- Review and Assess Optimal Structure of the Alaska Permanent Fund

GROWING THE FUND TO \$100 BILLION

The Board of Trustees is seeking a future milestone of growing the Permanent Fund to \$100 billion in assets under management (AUM) to maximize risk-adjusted returns. The goal is to help ensure the Fund's long-term sustainability, mitigate any depletion of revenue from oil or other sources, and provide financial benefits for generations of Alaskans. APFC will achieve this milestone through disciplined investing and maintaining a robust foundation of resources to support APFC's talent, systems, and culture. The following methods will be used to achieve this goal.

- **CONSIDERATION OF ADDITIONAL TARGETED AND LIMITED USE OF LEVERAGE**

One potential tool to reaching \$100 billion in AUM is the use of leverage. Allowing the Permanent Fund to utilize leverage at the Fund level, that is, to borrow money when making investments, has the potential to increase returns. Leverage is also a useful tool for meeting liquidity or cash demands. While incorporating leverage can offer a better return on investment, it also increases risk, so any potential use would be within carefully defined parameters. Our objective in using leverage would be to generate returns that surpass the cost of borrowing over time.

While leverage is currently used in some of our Real Estate, Private Equity, Private Income, and Absolute Return investments, use at the Fund level requires a change in state law. APFC is initiating discussions with the Legislature and the Administration regarding the needed statutory changes and the long-term benefits of using Fund level leverage.

- **OUTPERFORMANCE THROUGH THE GENERATION OF ALPHA**

In all our investments, APFC aims to maximize returns and outperform benchmarks, or "alpha." Generating alpha means that we must continuously improve our capabilities, which necessitates procuring resources to enhance our organizational structure and streamline processes. A core component of APFC's alpha generation strategy is to grow our co-investing and direct investing team. In these specific types of investments, APFC invests directly in a company rather indirectly through a private fund. APFC has been making direct and co-investments in the private markets (Private Equity, Private Infrastructure, Real Estate) for more than 10 years, which has helped the Fund achieve premium returns.

The strategic plan for the Private Equity portfolio, updated this past summer, includes hiring additional staff to focus on direct and co-investments. While some work can be performed at our current staffing

levels, there are opportunities for APFC to enhance its co-investment and direct investment efforts with additional resources and support.

Notably, APFC does not pay fees when making these types of investments, as it does when investing via private funds. Continuing to avoid fees while selecting attractive investment opportunities may result in higher returns to the Fund over time. As such, for the FY25 operating budget, APFC is seeking one additional full-time employee, who will be focused on direct investing and co-investing.

- ***DEVELOPING ASSET CLASS-LEVEL STRATEGIC PLANS ALIGNED TO THE GOAL***

Asset class-level plans are essential for aligning objectives and investments with APFC's overarching goals. Utilizing such plans enables APFC to adapt to market changes and supports diversification strategies while promoting stakeholder confidence by providing clarity and transparency. In executing optimal investment management, APFC's portfolio managers will evaluate, update, and formalize their strategies and investments to ensure a maximum risk-adjusted return to benefit generations of Alaskans.

In the December 2023 APFC Board of Trustees quarterly meeting, APFC's Chief Investment Officer, Marcus Frampton, presented his investment philosophy for management of the Fund and each asset class head provided an overview of the strategy under which they are managing their respective asset classes. As a public fund with a range of stakeholders, it is critical that APFC staff are always transparent about the strategies they are pursuing with Fund capital. This includes making stakeholders aware that pursuing certain strategies might necessitate requests for additional resources in future budget years.

Interested stakeholders should review the asset class and total fund investment strategic plans presented in the December 2023 quarterly meeting. Board packets containing this information are available in APFC's Resource Archive. APFC staff are available to respond to questions or to discuss any feedback.

IMPROVE CORPORATE FUNCTIONALITY

We seek to foster legislative support to modernize APFC's functionality in comparison to its industry peers and competitors and to align with the Board's targeted goals. We have identified the following initiatives to improve the functionality of APFC.

- ***OPEN MEETINGS ACT – SELECTION OF EXECUTIVE DIRECTOR AND CHIEF INVESTMENT OFFICER***

Across organizations of all types, keeping personnel records confidential is a standard, fair, and appropriate practice that helps ensure staff privacy as well as the privacy of prospective hires. For two key positions at APFC, Executive Director and Chief Investment Officer, such confidentiality in hiring cannot currently be guaranteed. The Open Meetings and Public Records Acts provide for the potential public disclosure of the list of candidates for these positions and require the Board of Trustees to conduct interviews of finalists in public.

Remedying the situation requires a change in state law to declare the list of candidates and information regarding the candidates to be considered confidential and exempt from a public records disclosure and that allows the Board to interview finalists in executive sessions. While APFC is not currently hiring for the roles of Executive Director and Chief Investment Officer, we believe the adoption of these changes will help safeguard confidentiality measures for future applicant pools, helping us to access the most qualified candidates for these two high-profile and critical roles.

- ***KEY PERSON RISK/ADDITIONAL INCENTIVE COMPENSATION STRUCTURE***

It is essential to identify and plan for key person risk (e.g., the risk to APFC of a staff member deemed critical to the organization departing or being unavailable for an extended period). To that end, APFC will continue to maintain succession plans, seek to attract top-tier talent and provide staff with training and mentorship. In addition, we will continue to utilize competitive incentive compensation, a standard practice at most pension, endowment, and sovereign wealth funds. Flexibility within the budget and funding structure should be assessed regularly to maintain the program's effectiveness and continuity of resources. Support for our expert and capable professional talent is crucial to the Fund's ongoing success.

- ***EXPLORE BENEFITS OF CONTIGUOUS US AND OR INTERNATIONAL OFFICES***

APFC staff have committed to assessing the benefits of satellite office locations outside of Alaska to expand APFC's presence in the heart of financial markets to support the recruitment and retention of field

experts.

- **ENHANCE DATA MANAGEMENT CAPABILITIES**

We seek to enhance APFC's data management capabilities by strategically planning, procuring, and implementing foundational data/AI technologies. Previously considered a competitive advantage, adhering to these practices has become a requisite for effective investment management. Developing and implementing a sound data strategy requires resources, including talent and technology. An effective data platform will marry all proprietary data with external data efficiently and seamlessly, enabling easy retrieval and usage.

ADVANCE COMPREHENSIVE COMMUNICATIONS PLAN

Integrating the interests of APFC's diverse stakeholders through statewide, national, and global communication is fundamental for alignment and understanding. To that end, we are implementing a comprehensive communications program that includes in-state education and awareness alongside an enhanced nationwide focus on investment performance and strategy. The program includes stakeholder education and outreach, garnering legislative support and resources, mitigating reputational risk, and supporting transparency through publications, records, and proactive outreach to the media.

- **IN-STATE MISSION OF EDUCATION AND AWARENESS**

Our in-state mission of education and awareness aims to inform the public about the Fund and APFC's work, emphasizing its creation and benefits to the state. Effective communication is crucial for maintaining accountability and transparency with the public and empowering stakeholders in contributing to informed policy discussions about the Fund's future. Collaboration and coordination among the Board, staff, and communications contractors ensures a strong team-based approach to sharing information and engaging with the community.

- **NATIONWIDE FOCUS ON INVESTMENT PERFORMANCE AND STRATEGY**

The nationwide focus builds and expands upon the existing in-state communications program to elevate APFC's capabilities and bolster the profile of our investment expertise, portfolio management, leading strategy, and investment performance. In this effort, APFC is utilizing the services of a global financial media consultant with known expertise and experience. The goal is to convey the Fund's exemplary success and showcase its story as a model sovereign wealth fund. The expanded communications program will provide a stronger nationwide and global presence that will assist with talent recruitment and open doors to new investment opportunities and innovative partnerships that benefit the Fund's growth and long-term sustainability.

APFC is seeking added contractual resources in the FY25 Operating Budget to support raising the profile of APFC around the world and to bring added value to benefit the Fund's investment management to ultimately benefit our fellow Alaskans.

REVIEW AND ASSESS THE OPTIMAL STRUCTURE OF THE ALASKA PERMANENT FUND

Identifying potential solutions to bring the Fund in line with modern endowment principles is critical as it and its role in Alaska continue to evolve. The current two-account structure, with only the annual net realized income accessible for distribution and spending by the Legislature, raises concerns about the possibility of an annual distribution shortfall.

In the ongoing policy dialogue, thoroughly assessing and reviewing rules-based endowment practices is essential. Expert evaluation outlining potential modernization options and functionality of the Fund aligns with the role of the Alaska Permanent Fund as a model for successful, best-in-class sovereign wealth funds.

On February 23, 2024, Trustees' Paper Volume 10: A Rules-Based Permanent-Endowment Model for Alaska was published by APFC. The paper was adopted by the Board during the February Quarterly Meeting. The paper is authored and features analysis by Dr. Malan Rietveld, a renowned expert in sovereign wealth funds. The paper is in the Report Archive under the Resources Menu and is posted below.

[Trustees' Paper Volume 10](#)



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