ALASKA PERMANENT FUND CORPORATION

QUARTERLY MEETING OF THE BOARD OF TRUSTEES

December 3-4, 2019
9:00 a.m.

Location of Meeting:
Pike's Waterfront Lodge
1859 Hoselton Road
Fairbanks, Alaska 99709

SUMMARY MINUTES

Trustees Present:	Craig Richards, Chair William G. Moran Marty Rutherford Corri A. Feige (via telephone) Mike Barnhill
Investment Advisor:	Timothy Walsh
Staff Present:	Angela Rodell, CEO Marcus Frampton, CIO Chris Poag, General Counsel Maggie Meiners Paulyn Swanson Steve Center Timothy Andreyka Sebastian Vadakumcherry Rose Duran Chad Brown Chris LaValle
Invited Participants and Others Present:	Gregory Allen, Callan Associates Steven Center, Callan Associates Taylor Mammen, RCLCO Ben Maslan, RCLCO Mike Tobin, Public Comment

PROCEEDINGS

December 3, 2019 – 9:00 a.m.

CHAIR RICHARDS called to order the Alaska Permanent Fund Corporation Quarterly Meeting in Fairbanks, Alaska. He began with the roll call, and there was a quorum.

APPROVAL OF AGENDA

The MOTION WAS APPROVED with UNANIMOUS CONSENT.

APPROVAL OF MINUTES (September 25-26, 2019)

CHAIR RICHARDS stated that there were two things on the minutes. He continued that the format was shortened and asked if there is a form of the full meetings that is preserved.

CEO RODELL replied that a full transcript is preserved. She explained that it is maintained in the corporate records and is available to the public upon request.

The MOTION WAS APPROVED with UNANIMOUS CONSENT.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

CHAIR RICHARDS began with Public Comment and recognized Mike Tobin, who was on-line.

MR. TOBIN stated that he lives in Juneau, is a member of 350 Juneau Climate Action for Alaska, and is a retired physician. He explained the meaning of 350 as being attributed to the 350 parts per million danger level of carbon dioxide in the atmosphere. Currently, that is at 415 parts per million, about 55 points above that danger level. He continued that this meant that the vast majority of fossil fuels need to stay in the ground as a rapid transition to renewable energy and low carbon is made. He added that climate-related risk in the sector in the future includes loss of revenue from regulatory and policy changes to reduce greenhouse gas emissions from the numerous lawsuits against fossil fuel companies and from declining income from oil and gas assets as demand declines and clean energy technology is deployed. Ongoing climate-risk assessment has been repeatedly advocated for to include all asset classes of the Fund. The 350 also asks that the trustees understand the additional complexity of their fiduciary duty in this extraordinary time and to begin divesting from fossil fuel companies.

CHAIR RICHARDS thanked Mr. Tobin for his comment and asked for anyone else that would like to make a comment. There being none, he closed public comment and moved to the Chief Executive Officer's Report.

CHIEF EXECUTIVE OFFICER'S REPORT

CEO RODELL highlighted her trip to Shanghai and participation in the PPI meetings there. She explained that PPI is an organization the Fund has been a member of for about five years, and that it was helpful to be in Shanghai to understand the dynamics on the ground of some of the

things that are happening. She had an opportunity to meet with one of the founders of Alibaba, along with the head of business strategy for Huawei. She stated that it is important, as China becomes more integral to some of the indices the Fund is investing in, to have due diligence in our understanding of what is happening. She reminded the trustees of the Callan Institute training from January 27th to the 29th. Registration is opened, and if any trustees are interested in going to San Francisco to attend the national conference, to let Maggie know. She continued that PPI is having a winter roundtable in Rancho Palos Verdes. The asset owners from, basically, the Pacific Rim do a great job of delving into issues. It is all under Chatham House Rules; no reporters allowed. It is a closed-door, networking, information-sharing event. She stated that the last memo, Changes to Investment Guidelines, will be talked about in greater detail during the CIO report; but a new in-house, internally managed strategy for value index has been adopted. She continued that there were two departures out of Finance, and there will be some reorganization to the Finance team shortly. She added that there had been no feedback from the Administration on Fiscal Year '21 budget requests.

TRUSTEE BARNHILL stated that the statutory deadline for the Governor to release the budget is December 15th. There have been indications that the current goal is sometime before Friday, the 13th.

CHIEF INVESTMENT OFFICER'S REPORT

MR. FRAMPTON began with a report on investment actions for the quarter ending September 30, 2019, and moved on to a discussion on some activity on private income with two funds in the quarter committed; LBC, a middle-market, direct-lending fund; Crestline Opportunity Fund, an opportunistic credit fund. He then talked about the four co-investments done in private income in the quarter.

CHAIR RICHARDS asked about the request for action and if it was publicly noticed in a way to meet all of the notice requirements.

CEO RODELL stated that the agenda did not show the action, and the agenda was not amended to include it at the beginning of the meeting. She continued that the question is to waive the 10 percent concentration limit to any one manager for six months until July 1st.

MR. POAG believed that the packet included Mr. Frampton's presentation where it is cued up to the Board as a specific topic, and the Board would be voting on that. He stated that it required a four-person vote and a quorum, but because it is in the Board packet, it is covered, and the policy does allow for one docket. He asked if it appeared in the request.

MR. FRAMPTON replied no, and that it would be followed up on. He moved to the discussion of cash overlay positioning and began with the asset allocation portfolio. The primary role of this portfolio is liquidity for the Total Fund and the cash. It is, overall, a 5 percent target allocation of the Fund at a little over $3 billion, and an overall benchmark of 60 percent Total

Fund/40 percent Treasury bills. He went through the four rationales: total fund risk vs. benchmark; cautious tactical positioning; higher cash funding needs; inefficient means to achieve market exposure.

CEO RODELL stated that a new five-year plan with the investment policy and asset allocation will be adopted in May. She continued that Mr. Frampton would be making a number of recommendations for each asset allocation and recommended that the overlay program can be revoked, or we can take the action of revoking it at that time. She added that it can continue six months when the global action on asset allocation will be taken, and she thinks that should solve the issue at that time.

MR. FRAMPTON moved to the Alaska Emerging Manager Program Update and then continued to the Alaska Investment Policy. He stated that he had not included the in-state emerging manager program because the capital has not been drawn yet. Those are commitments; not invested capital. He continued that he would benefit from some dialogue with the Board, maybe staff in conjunction with the Board, to go through some of these potential strategies.

CHAIR RICHARDS asked if the Board would think about one or two trustees working with Mr. Frampton and the rest of the staff to analyze whether the goals are realistic, and if not, what should the goals be.

TRUSTEE BARNHILL, MR. WALSH and CHAIR RICHARDS volunteered.

ADVISOR COMMENTS

MS. MEINERS stated that Jerry Mitchell was on the line.

CHAIR RICHARDS recognized Mr. Mitchell, and asked for any comments.

MR. MITCHELL greeted everyone and stated that he was sorry for not being there in person. He continued that he had been associated with the Permanent Fund as an advisor for almost 20 years and had witnessed a lot of change and continuity. The most obvious and recognizable change has been in the assets entrusted to the Fund management, which has grown mightily. The Fund is far bigger and far more complex than when he first joined which presents its own set of challenges. The second big change has been the growth and quality of the staff. It is more professional, credentialed, more sophisticated, experienced, and more talented than ever. He stated that the greatest continuity has been in the Board. It is and always has been committed to Alaska and Alaskans. It has always been dedicated and has taught, over the years, what a good trustee means. He thanked them for the privilege of serving as an advisor to the Fund, and wishes all good fortune and success in the years ahead.

CHAIR RICHARDS thanked Mr. Mitchell for the many years of service. He asked Trustee Moran for any comments.

TRUSTEE MORAN thanked Mr. Mitchell for his valuable contribution to the Fund and hoped that, if he is still serving with the ARM board, to stop in and say hello.

CHAIR RICHARDS also thanked Mr. Mitchell and wished him good luck. He recognized Tim Walsh.

MR. WALSH stated that when he interviewed four years ago, Trustee Moran had asked if internally managed equities in Juneau could be done, and it looks like it is working. He continued that it is harder, especially when starting, and applauded the Board, staff and everyone for the operational part. The trustee paper was really well done and well written.

CAPITAL MARKET OVERVIEW

MR. CENTER stated that the capital markets are done on a quarterly basis, with projections on an annual basis. The Permanent Fund meetings are on a quarterly basis and generate the basis on a look-back calendar quarter. He continued that it was an interesting quarter and the U.S. market remains strong; the labor market looks good; and employment remains good. There was an uptick in wage inflation, but that has not pushed through actual inflation. Outside of the U.S., there are a lot of question marks: slow growth in China; prolonged Brexit discussions with no end in sight; employment in Europe has slowed quite a bit. Additionally, the yield curve invert, which is a sign of an upcoming recession, has lasted a good portion of this year. He welcomed Commissioner Barnhill to the Board and reminded all that Callan is the investment consultant for the Permanent Fund, and are always here as a resource and to answer questions. He pointed out the Periodic Table of Investment Returns which showed where there has been strong performance over each calendar period over the last nine years. He stated that it is a clear way to show that investing solely in a single asset class will lead to volatility. It makes sense to diversify and is a graphical way to show the importance of diversification. He then moved to a discussion of the overall market environment for the quarter, and then continued to discussing the U.S. economy. The record lows of unemployment mean that, for all intents and purposes, the U.S. market has really reached full employment. This translated to a wage inflation which is something to keep an eye out for. He moved to nonrevolving debt which includes auto loans, student loans, which is higher than ever historically, and could be a sign that the next crisis could come from consumers rather than some kind of corporation crisis. He moved to the trade war between the U.S. and China, the implementation of tariffs, and pointed out how important trade is to China and other areas of Europe versus the United States. He added that, overall, the U.S. economy has handled the tariffs fairly well, although there was an impact on agriculture. He continued his presentation talking about other areas of the market beginning with equities and then moved to volatility which drove a lot of the factor-based returns for the quarter and the trailing year. The trade war and no-deal Brexit fears turned nonU.S. markets negative, and he went over some historical data on global equity valuations. He ended his presentation with information on the upcoming Callan National Conference in January.

CHAIR RICHARDS called a break.

(Break.)

ASSET CLASS OVERVIEW

MR. CENTER stated that last quarter was the time that Callan's performance presentation was combined with an overview by staff, and he began with Total Fund performance and Total Fund performance relative to peers, along with attribution. He then moved on to asset class performance, discussed equity and fixed income, and private market performance. The total plan asset allocation is well diversified across all major asset classes. He talked about the standard deviation measures for the Total Fund over trailing periods. This is one of those charts where being lower on the chart is good. The Permanent Fund is in the bottom quartile for standard deviation in all but the 10-year period, and well below median relative to peers in all time periods shown. This means that the overall program has exhibited less risk than most other large public funds. The long-term target for the Permanent Fund is a Sharpe ratio north of 0.5. Over all time periods shown, the Permanent Fund has met that goal even over the 20 years with a Sharpe ratio of 0.53. He then explained the Fund's Performance Scorecard. The Fund over the short term has outperformed the blend of its performance in passive indices. In the medium term it outperformed the median peer; and over the long term has outperformed CPI plus 5, and has met the goal of having a Sharpe ratio above 0.5. Mr. Center moved to the APFC Public Equity Structure and explained through the large-cap and small-cap equities and then nonU.S. equities. He stated that that portfolio included dedicated emerging market equities, developed market equities, and the global program. He stated that the international equity program lagged the benchmark for the quarter by about 60 basis points. Over the three- and five-year periods, the portfolio outperformed the benchmark and did rank below median over most time periods. He continued that this is due to that emerging market equity allocation.

MR. FRAMPTON stated that a lot of ground has been covered, but what has not been covered is the continuing shift to a focus on incentive-based fees, and we are transitioning managers over from a flat basis-point fee to high-single-digits management fee and then an incentive fee based on performance versus the index.

MR. CENTER went through some of the underlying performance of the fixed-income-plus portfolio starting with the U.S. fixed income aggregate portfolio and how it was managed.

MR. FRAMPTON wrapped up and stated that the REITs portfolio is one of the underweights. There are also a couple initiatives being worked on with a big focus on getting the best yield we can out of the cash portfolio. He continued that repo has not been invested in in a long time. That is a market that has had some blips where a real nice return can be made on any given day. He moved on and talked about performance in terms of the different time periods and then moved to real estate.

MR. CENTER continued with infrastructure and the income opportunities portfolio. Overall performance was about 2 percent of a lag in its benchmark. Long-term performance has been strong relative to this benchmark it had over the last three years and the last five years. A very strong absolute performance. He stated that the absolute return portfolio has performed well over the last quarter, year, and three years.

MR. FRAMPTON stated that the objective is to earn a return commensurate with the Fund's return objective; and in fairness, we have come short of that. A 5 percent net has been earned since inception on the new program, but with a very low volatility and a zero beta. He then talked about the hedge funds.

MR. CENTER moved to private equity and the special opportunities portfolio. There is about 60 percent invested in private equity, and 40 percent invested in special opportunities. He stated that, overall, it is very diversified.

MR. FRAMPTON stated that there was a lot of change in the underlying asset allocation. In fairness, the exposures to the benchmark have not be mirrored, so the fiscal year-to-date number is driven by the cash drag.

MR. CENTER stated that, overall, the Fund ended the quarter at just over $66 billion in assets and is structured very well. It continues to be well positioned for future performance.

CHAIR RICHARDS thanked them both and called a break for lunch.

(Break.)

CHAIR RICHARDS reconvened the meeting and stated that Chris Poag, counsel for the Permanent Fund, would give a quick background on the issue about public noticing on the investment policy.

MR. POAG stated that the Open Meetings Act applies to the entire meeting and has a requirement of reasonable public notice. This means that the Permanent Fund has to announce when and where they will meet and the agenda items that will be discussed. The Board has a long history of providing details, an overview of each agenda item and whether it is for information or will require Board action. He continued that before lunch a possible amendment to the investment policy was discussed. The Chair noticed that the agenda did not include an express acknowledgement that the agenda item was going to take place. The case law in this area is very simple: "The more complex and more important the issue is, the more detailed the notice has to be." But it did not provide any clear answers. He recommended to go back to the agenda, modify it so that the asset allocation can be taken up tomorrow, as well as a temporary exception to the investment policy, and call it an action item. He added that it created another issue, but this is a newly discovered investment opportunity that just came to the investment

committee's attention on November 22nd. He stated that the failure to include it on the agenda today was an unintentional oversight. He continued that the deadline is January 1, and there is a time pressure to make the decision now or take a pass on it.

CHAIR RICHARDS asked for a motion to amend the agenda.

> **MOTION:** A motion to amend the agenda to redo asset allocation and turn it into an action item that would allow an amendment of the investment policy related to investments and hedge funds was made by TRUSTEE BARNHILL; seconded by TRUSTEE MORAN.

TRUSTEE RUTHERFORD asked where on the agenda this would occur.

CHAIR RICHARDS replied that it is currently on the agenda for 8:05 a.m. tomorrow.

> The MOTION WAS APPROVED with UNANIMOUS CONSENT.

CHAIR RICHARDS moved to Risk Overview.

RISK OVERVIEW

MR. VADAKUMCHERRY stated that there are two sections to the risk part. The first part will be about risk appetite, and the second part will be about the regular subjects that are submitted to the Board. He continued that most important is whenever performance measure is talked about, both parts, return and risk, are needed. He added that the same return can be achieved with different levels of risk, and the smarter investor tries to achieve that return with the lowest risk possible. He stated that he would focus on the quantitative aspects in this presentation. There are qualitative risks like legal risks, operational risks, reputational risks, which will not be touched on. He quantified the allowable amount quantum of risk that could be taken. There is a proposal to define risk appetite in terms of a risk tolerance portfolio, or a reference portfolio, and this is the portfolio to be in risk terms, not in return terms. There are three criteria for this: volatility; drawdown; and liquidity. He proposed defining the portfolio in terms of a standard, straightforward, conventional equity/bond portfolio on the public market side. It will have a 75 percent equity and 25 percent bond split. That will be the risk tolerance portfolio. The equity would be represented by the MSCI ACWI, and the 25 percent bond portion will be split into three parts. That will form the risk tolerance portfolio. Additionally proposed, are two liquidity levels, which is a minimum 55 percent of the Fund to be liquid fund assets clearly defined as publicly listed equities and investment-grade-rated bonds, plus all the cash equivalents. The liquidity pool will have investment-grade bonds with less than 18 months of maturity and cash equivalents. He continued explaining and supporting this model.

CEO RODELL explained that this is not about the ERA depletion risk but is the Fund, the corpus depletion risk; an endowment construct.

MR. VADAKUMCHERRY stated that the proposal is to measure the numbers over the next 12-month period; reporting against the concept. He explained that most institutions go through a 12-month period to adopt a risk appetite because it is a very fundamental decision to have to make. He continued that the Aladdin system will be used when the problems with the system are ironed out. This is to make sure that this is a robust platform that can be used as a tool. Thirdly, if this is adopted, 75/25, the limit terms are there. The current asset allocation is just under that risk-appetite level. He highlighted that this is a very challenging exercise, but we should do it. It is fundamental to what is being done, and he does believe that in the long-term, institutions that face that challenge, at least go through the process, try to articulate it, will be the most successful ones.

CEO RODELL thanked Mr. Vadakumcherry for doing all of this work on appetite and putting these questions up front, because it is important to think about.

REAL ESTATE, ASSET CLASS UPDATE

MS. DURAN began by thanking Jim Parise for his great job in stepping in for Mr. Frampton and also for filling in for every asset class. She spent a good amount of time going through the various investment approaches that are used in the industry by peers and the APFC. She highlighted that there is no singular approach to investing in real estate, and she looked at a combination of approaches given the strategies, markets and production that is being sought. She pointed out that there is a movement in the market to more direct investing, and that has been the Fund's orientation. She stated that it is important that regardless of the approach, given where the market cycle is today, it impacts pricing and basically affects all investors in the same way. She continued that Trustee Rutherford had asked about whether there was a lack of deal flow, and she stated that there is no lack of deal flow in the marketplace. It is pretty solid and robust. She went through the building blocks of investing in real estate, starting with risk profile, and then reviewed the portfolio considerations and then the current initiatives.

CHAIR RICHARDS stated that he was hoping to get out of the presentation about what went wrong and how will it be fixed.

MS. DURAN replied that the portfolio mix is completely out of whack and this is what went wrong. It is way off on industrial and multifamily, especially following the sale of the Simpson Housing portfolio. The Strategic Plan approved in 2016 by the Board looked at actually adding those type of investments realized to get at scale, and direct investment and larger-sized investments; a group or portfolio of properties. She stated RCLCO was hired in the last year and a half, and we have been working with them closely. They will present and share where they are in the screening process, and they have looked at approximately 100 different companies. She continued that within the next six months is to target a multifamily company investment along with some joint-venture partnerships aside from that. The plan is to buy a company and then fill in with joint venture investments that will fill out the map. What went wrong is that the mix is off. There are overweight underperforming sectors, retail, and underweight in the best-

performing sectors, multifamily and industrial. The only way to fix that is to execute; basically, go in the marketplace and buy. She moved to the core and core-plus strategies. She looked at the risk profile, and real estate has always been a conservatively managed portfolio. Recently started was introducing more risk and doing these noncore. Core is an asset that is dominant, has dominant locations, fully constructed, has low vacancies, has diversified rent rolls with credit tenancy, typically staggered lease rolls, and low leverage. Those are the low-returning investments. She also clarified that under Core Strategies there will probably be some commingled funds, basically the same idea mentioned in terms of using REITs but would not be for long-term execution to remain in that commingled fund investment because it is not as efficient. She noted that all investment structures have been identified as permissible, and she discussed the current tactical plan. She summarized that the real estate program is implemented using a strategic foundation and multiple investment structures that are used, and we make these tactical considerations annually. She stated that recent performance hasn't been good, but she does not believe that it means that the direct investment approach to investing should be abandoned. She continued that it does highlight the current market cycle, and the need to maintain discipline. She added that patience is key. She mentioned that RCLCO will present next.

CHAIR RICHARDS called a break.

(Break.)

CHAIR RICHARDS called the meeting back on record and welcomed RCLCO.

REAL ESTATE STRATEGIES-RCLCO

MR. MAMMEN stated that he was here with his colleague, Ben Maslan, both from RCLCO; specifically, from the Institutional Advisory Services practice. He explained that RCLCO is a broad-based real estate consultancy with offices nationally in the United States. There are three practices: real estate economic consulting to a wide range of client types; a management consulting practice, which works with a wide range of real estate entities in developing strategies and how to implement them; and an institutional advisory practice group which works with large-scale investors to help develop real estate strategies and implement those through manager selection, asset management services and so on. He stated that the Alaska Permanent Fund is a relatively new client, and they were officially hired about 18 months ago. A strategic review was started about a year ago, completed last March, and presented to staff about that time. They assisted at numerous property-level analyses to help understand supply, demand, and to help make some leasing decisions. He continued that they launched a couple of significant searches for real estate operating company partners on behalf of the Alaska Permanent Fund in multifamily and industrial. He replied to the question of what went wrong and what led to challenging performance over the past year was the missing piece of multifamily and industrial, which have been the primary drivers of performance in the benchmark. He was asked the question of what led to a situation in which it was even possible to dispose of the majority of the

multifamily portfolio in such a short period of time. He replied that is something that RCLCO can provide services that help staff identify those potential concentration challenges that are leading to maybe outsized performance but essentially some challenging situations that can move the needle in the portfolio to too great of a degree. Also, the human capital constraints make it more of a challenge to fix the situation once it occurs which is faced by pretty much every institutional investor in the United States. It is a very large portfolio and the staff is limited. He stated that there are multiple ways to address that, and we are trying to help Alaska with a hybrid approach where they can leverage other investment managers to watch the overall portfolio so staff in Juneau can really focus on the big strategic questions and issues in this portfolio and come up with solutions to address it.

CHAIR RICHARDS asked how many folks with RCLCO are working the Permanent Fund account.

MR. MAMMEN replied that firm-wide there are 80 people. Within the Institutional Advisory Services Group there are 21 people; and across the firm, probably 10 people have worked on Alaska Permanent Fund-related matters. He stated that it is essentially a full-time job for Mr. Maslan and one other team member. Also, the entire firm is leveraged to answer the specific questions that come out. He asked Mr. Maslan to continue.

MR. MASLAN provided facts on the different structures and options that the Permanent Fund can use to invest in real estate, and he went through the highlights. He stated that Ms. Duran mentioned the conviction of the staff to continue to invest directly. There are benefits that the direct investment, joint ventures approach offer, including separate accounts/investments in real estate operating companies, not buying the asset without an operating partner to manage the daily responsibilities.

MR. MAMMEN stated that a lot of time was spent trying to parse what went wrong for real estate portfolios during the last downturn. Some portfolios among institutional investors fared better than others. Those that fared poorly did so for one of three reasons or a combination of all three. Either they were over-leveraged, particularly in certain parts of the portfolio. He continued that the second, related to leverage, is structure, essentially where there is a misalignment of interests between the general partner and the limited partner. The third is concentration. All of these could be better mitigated through having more control over the portfolio through direct structures.

TRUSTEE BARNHILL asked which of those three issues are seen in the Fund's portfolio.

MR. MAMMEN replied that it would be the concentration issue. The other two are really not issues at all. He stated that at risk in this portfolio would be asset concentration and manager concentration; and staff is aware of that. He continued that there are a lot of options and now is the time to take advantage of these options through recapitalizing certain assets through finding additional partners.

MR. MASLAN stated that three assets underperformed recently and, therefore, moved the entire portfolio: the two European malls and 299 Park. An ideal goal for the Permanent Fund should be to have a portfolio that is sufficiently diversified that three assets underperforming do not move the needle in any way, and there are other assets that continue to carry the weight of the overall portfolio.

MR. MAMMEN stated that their views do not differ significantly from what Ms. Duran shared. It is recognized that no one can predict the timing or magnitude of a change in the cycle, but there are signs that have a direct impact that are paid attention to. He went through a few of the things that could be done to ensure that assets that are under threat are pruned. He continued that they are highly selective when making office investments, and they think that where there are opportunities to sell, they should be sold.

MR. MASLAN provided an update on manager search and stated that they are looking for both property types under two structures: One is to establish a programmatic joint venture with an operator; and two is to potentially invest in an operating company itself. The process is to cast as wide a net as possible in terms of who is available. That led to an initial screen of 100 or so for each of the property types. This was narrowed down to a real short list of managers that fit the bill for both structures. A recommendation will be provided to staff, and then we will proceed towards diligence and negotiation of terms with the goal of being completed by the end of this year.

MR. MAMMEN stated that they are focused on laying the strategic groundwork and foundation to get back to the portfolio allocation as quickly and as effectively as possible.

CHAIR RICHARDS asked for any questions, and thanked them for their presentation. He stated that next on the agenda is the strategic plan. He asked to move it to tomorrow after the discussion about the earnings reserve and legislative strategy, and to move the investment advisor up to now. He asked for a motion.

> **MOTION:** A motion to move the investment advisor discussion to now and swap its place with the strategic plan discussion was made by TRUSTEE RUTHERFORD; seconded by TRUSTEE BARNHILL.
>
> The MOTION WAS APPROVED with UNANIMOUS CONSENT.

CHAIR RICHARDS recognized CEO Rodell.

CEO RODELL stated that this was an information item for the Board. She continued that Jerry Mitchell's contract closes January 1, 2020, which creates an opportunity to add a third investment advisor. In the past, the Permanent Fund Board had chosen not to have all three investment advisors, and at times have had two or even one. Staff would like feedback on

whether the Board had interest in a particular background or skill set to bring to the table. Then the process will start with the hope to have candidates come to the February or May Board meetings, depending on the process.

CHAIR RICHARDS and the trustees decided to put the process on hold and see how everything is in a couple of meetings.

CEO RODELL thanked all for the feedback. She moved to incentive compensation and stated that the Board had been working on compensation for the Fund. She stated that feedback was received this year, and the Governor would consider it. The Board debated it extensively, and it was included in the budget, but chose not to take action on the actual policy. The challenge is that when people ask how the budget number was arrived at and how it would work there is no formal Board-adopted policy that can be referred to. She asked that the Board adopt a formal incentive compensation structure. Whether or not it gets funded every year will be up for debate because it is not a statutory funding requirement of any kind. She asked that this be kept on the agenda so a formal policy to speak from and defend incentive comp can be had.

> **MOTION:** A motion to adopt the incentive compensation plan, recognizing that without support of the Governor's office this is not going to be a legislative priority, was made by TRUSTEE MORAN; seconded by TRUSTEE RUTHERFORD.
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> *A roll call vote was called: TRUSTEE MORAN, yes; TRUSTEE BARNHILL, no; CHAIR RICHARDS, yes; TRUSTEE FEIGE, yes; TRUSTEE RUTHERFORD, yes. The MOTION was APPROVED.*

CUSTODY CONTRACT RENEWAL

MR. LAVALLE stated that he has been within the Permanent Fund for 18 years, is senior accountant, and leads the public markets team in Finance. He continued that it is his job to convince the Board that staying with the Bank of New York Mellon as custodian for the next 10 years is in the best interest of the Permanent Fund. He went over the timeline with the Bank of New York Mellon, which began in 1992. In 2009 they merged with Mellon Financial. The Board is being asked for a 10-year renewal and because of the nature of these services, there is no requirement for a bid process. He explained that a great amount of time and effort has gone into building this strong working relationship, and efficient processes have been built over time that are essential to the operations of the Corporation. He went through the details of the relationship about all of the positive experiences with the Bank of New York Mellon. He stated that it is his recommendation to renew the contract for custody services and the securities lending agreement with Bank of New York Mellon for a period of ten years with the best possible terms.

> **MOTION:** A motion to grant the executive director authority to renew the contract for custody services with the securities lending agreement with Bank of New York Mellon for a period of ten years with the best possible terms was made by TRUSTEE BARNHILL; seconded by TRUSTEE RUTHERFORD.

After a roll call vote, the MOTION was unanimously APPROVED. (MORAN; RUTHERFORD; FEIGE; RICHARDS; BARNHILL)

CHAIR RICHARDS recessed the meeting.

(Alaska Permanent Fund Corporation Quarterly Board Meeting was recessed at 5:37 p.m.)

December 4, 2019 – 8:30 a.m.

CHAIR RICHARDS called the Alaska Permanent Fund Corporation Quarterly Meeting back to order, and began with the strategic plan, which is an action item.

STRATEGIC PLAN

MR. FRAMPTON began with the policy exemption. He reminded all that there is a constraint on a 10 percent limit per individual hedge fund investment in the absolute return portfolio. The target allocation for hedge funds under the preexisting investment policies is going from 5 percent to 6 percent on July 1. He stated that Millennium Partners is an investment we would like to add, and it is a well-regarded firm.

MR. ALLEN stated that firm is highly regarded. It has been closed forever and then reopens periodically. There are temporary opportunities to add capital to that.

MR. FRAMPTON stated that some capacity is being made available that will not be available July 1, and we would like to be able to make that additional investment.

CHAIR RICHARDS asked for any questions. There being none, he moved to the motion.

MOTION: A motion to amend the absolute return concerned authorized investment policy to provide an exception as described in the document by the Chief Investment Officer. That exemption is to not comply with the 10 percent limitation and, in this case, take the 12 percent, was made by TRUSTEE BARNHILL.

TRUSTEE RUTHERFORD added a friendly amendment for the purposes of allowing the Fund to invest in the Millennium Partners opening, which is scheduled for January 2020, which will result in a 2 percent overrun of the policy for the purposes between January 1 and July 1.

TRUSTEE BARNHILL accepted the friendly amendment, and TRUSTEE MORAN seconded the motion.

After the ROLL CALL, the MOTION was unanimously APPROVED (MORAN; RUTHERFORD; FEIGE; RICHARDS; BARNHILL)

REVIEW OF ASSET ALLOCATION AND TEMPORARY INVESTMENT POLICY EXCEPTION

MR. FRAMPTON stated that at the last Board meeting a fairly comprehensive review of asset allocation was done, and this next presentation is a review of that. He continued that he and Callan will collaborate on a follow-up presentation for February, and it will be thoughtful and comprehensive and not just a repeat of the last presentation. He moved on and talked about the

real estate portfolio role in asset allocation and provided some of his perspectives on the portfolio in performance, continuing with the real estate theme of the meeting. He stated that the role of the real estate portfolio is broadly accepted in the investment community. It is recognized as an asset class that provides some inflation protection that over long periods of time reflect the value of the currency. In terms of the return, which is outlined in the investment policy, it is intended to provide a return between that of the fixed income allocation and the equity allocation. It has characteristics of fixed income because it has the current income, if done correctly, and has an equity element because of the residual value of property when the leases roll off. He continued that there was an outstanding performance in the financial crisis, and, in the last five years, the real estate portfolio has outperformed the global stocks.

MR. ALLEN asked what triggered the bad numbers, and if the valuation was overstated.

MR. FRAMPTON explained that four bad investment decisions were made; two of them were the two malls in the U.K., 299 Park and Simpson Housing. He stated that there is a need to look forward, address the overweight to retail, and the appraisal policy was changed. He summarized the investment activity after the divestiture of Simpson Housing, and it has been two years, and we have deployed $950 million. There has been a fair amount of activity, and we will present a pacing at the end that is comfortable and realistic in the market.

CHAIR RICHARDS stated that Mr. Frampton is presenting a proposal that is not particularly aggressive, but has been done in a way that makes some sense, and they do not want to buy a bunch of properties when valuations are high. He asked Mr. Walsh and Callan for their opinions about this pace of spending, and the approach to solve what appears to be a problem.

MR. WALSH stated that in the new investment advisor agreement, the advisors are to write a paper once a year for oversight for the Board. He suggested diving a bit deeper into real estate in that it would be helpful to the staff and the Board.

TRUSTEE BARNHILL asked if the suggestion is in sticking with a staff of this size that the focus should be more on commingled funds.

MR. WALSH replied yes.

MR. ALLEN agreed and stated that in looking at funds that are doing direct real estate investing, they are typically characterized by a large staff. He continued that the alternative is to outsource all that management to the real estate manager. He added that commingled funds is one way to go.

CHAIR RICHARDS observed that for the first time since being a trustee, he is really concerned. He was not convinced that as strong a direct strategy is had with staff and the team, this may not necessarily be the right approach. He thinks that this should come again to the next meeting and to really think about if this is the right pacing schedule. He added the need for some hard conversations about whether the team is the right people to have this strong of a direct strategy when this underallocated sector is out of balance.

TRUSTEE RUTHERFORD stated concern about the direct investment issue and the small staff compared to the work associated with direct investing, but not about the pacing.

CHAIR RICHARDS restated the need to do real estate again next quarter; look at the allocations, the returns, and how the variation from the benchmark reduces.

EARNINGS RESERVE ACCOUNT MODEL

MR. ALLEN stated that his goal is that this is an educational thing to get everyone's mind wrapped around the whole issue of the earnings reserve account, the principal, unrealized gains, realized gains, accounting concepts, and how those intersect with the POMV spending model that is currently in operation. Then what happens when it gets to the limits when the capital markets are really bad, and what happens to the whole system. He began with talking about statutory net income and then the earnings reserve in principal. After discussion, he went through what he thought was important. The earnings reserve account is obviously in conflict with a pure endowment model. The smaller the ERA balance, the more likely the Fund will not be able to support the POMV spending rule. If the objective is just to insulate the Fund and allow it to do a good job investing, a bigger ERA balance is helpful because there will be pressure to do things differently if the ERA is zero. That would not be healthy from a total return investing standpoint.

TRUSTEE MORAN stated some concern of the Board overstepping its bounds a bit. He continued that it is an appointed Board that has a lot of turnover. He thought that they are within the mandate to provide recommendations, advice and counsel when asked to, but was not sure about taking real firm positions on that. We are just supposed to manage the funds. He noted that he had always been more inclined to spend more of the Board's time helping manage the Fund and preserve it for current and future generations. The people that were elected to spend the money are the ones that should make some of these decisions; although he is in favor of providing information to help in that function.

TRUSTEE FEIGE stated that there was not enough clarity for her to say that she would specifically support a constitutional amendment, but agreed to the need to put out a recommendation stressing great caution to the Legislature and informing on possible implications and the impact it will have on the POMV.

CHAIR RICHARDS called a break.

(Break.)

EARNINGS RESERVE ACCOUNT RESOLUTION & LEGISLATIVE STRATEGY

CHAIR RICHARDS called the meeting back on the record and stated that the next agenda item is the legislative strategy continuation of the technical discussion on the earnings reserve. In the past, the Board has made a recommendation for a strategy change for all inflation-proofing. He asked if that was still in the recommendations, legislative policy.

MS. SWANSON stated that something was brought forward to the Board in the past as part of the legislative strategy. It is not part of the current recommendation, but could be brought back forward. She added that staff was still waiting on getting some clarifications.

CHAIR RICHARDS asked Mr. Poag for an update.

MR. POAG stated that the concept that was discussed at one point in time was redefining the definition of net income so that every year realized losses offset by the impacts of inflation

would result in the ERA transfer being less than the amount needed to keep the principal harmless from the impacts of inflation. That is sort of an automatic inflation-proofing so that the money would not move to the ERA and then need to be moved back via an appropriation to the principal. He continued, that is an interpretation of state law, a statutory change. There was a need to make sure that the Department of Law thought that was consistent with the Wielechowski decision in whether or not it would require an appropriation or it could be done automatically as part of the net-income calculation. He did not have a final answer and would be happy to go back and ask if the question could be revisited the analysis refreshed, and provide advice so that it would support pursuing legislation should the Board so desire.

CHAIR RICHARDS stated that he would like to know the answer and discuss it at the next Board meeting at the beginning of the session.

MS. SWANSON began her presentation with an outline meant to stimulate conversation and get input from the Board on what the legislative strategy should be going into the legislative session which will start January 21, 2020. She stated that the debate about how the earnings will be used will continue to be front and center. She continued that there will be focus on the structure of the Fund and the rules-based withdrawal process to make sure there is sustainability into the future. The Board and staff are important participants in that evolving dialogue, and she went through some objectives, strategies, messages and tactics as a starting point for the Board to provide input that can be refined. The message needs to be very strong and concise. There needs to be an emphasis and support to APFC's mission, efficiency and value. APFC is a talented investment firm that embodies the resiliency, integrity, and pioneer spirit of Alaska. APFC manages the Alaska Permanent Fund, one of Alaska's primary sources of renewable revenue. It is important for people to understand that the APFC is there to manage the money on behalf of the State of Alaska. As stewards of the Fund, the team is skilled and has the efficiency to ensure providing this benefit for future resources of Alaska. There is a need to be a revenue-generator; not a cost center. She moved to the four legislative objectives: first is to continue to educate the stakeholders on the structure of the Fund and set that foundation; second is the earnings reserve account, to make sure there are adequate resources for APFC moving forward and that the management investment of the Fund is optimized; and last, to make sure to get HB139 passed, which is the procurement streamlining bill which gives an exemption for the work for investment-related procurement services. She continued with the strategies and messages to accompany the strategies, stressing the importance of this dialogue.

CHAIR RICHARDS thanked Ms. Swanson and moved to the Trustee Paper.

TRUSTEE PAPER

CHAIR RICHARDS stated that the Board voted to fund the Trustee Paper. He explained that an RFP went out this summer, and we received a few responses. Malan Rietveld is the individual who won the RFP process. He has been working with the committee on doing a draft Trustee Paper. That draft, which still needs some editing, addresses the role of sovereign wealth funds throughout the world and the different ways they work; and some lessons can be learned that are applicable to Alaska. There will be a vote to adopt the paper in the form it is here, realizing that the committee will do some edits. He asked the Board to approve the form, and it will be circulated to all before the final version gets distributed. He added that if there are any irreconcilable concerns, it will come back for Board approval.

MOTION: A motion to publish the Trust Paper Volume IX as written was made by TRUSTEE MORAN; seconded by TRUSTEE BARNHILL.

After the ROLL CALL, The MOTION was unanimously APPROVED (MORAN; RUTHERFORD; FEIGE; RICHARDS; BARNHILL)

CHAIR RICHARDS called a lunch break.

(Lunch break.)

AUDIT RFP

CEO RODELL stated that this is not an action item required by the Board, but is one of the Board's responsibilities. She asked Chris LaValle to walk through the plan for the Audit RFP process.

MR. LaVALLE began with a thank you from staff to Trustees Rutherford, Moran, and Feige for their time and service on the Audit Committee. He stated that the current five-year contract with KPMG expires at the end of February, and it does have to go up for an RFP review. Under State procurement rules, it is required that the details of responses remain only known to the Evaluation Committee until a notice of intent has been awarded or issued. Therefore, the Board's opportunity for input and influence on this process is now, during this presentation, before the RFP is actually released. He went through the timeline that began at this meeting. Once the RFP is released, in about a week and a half, authors will have about a month to get proposals back. Then the Evaluation Committee will have almost three weeks to review those proposals. After the notice of intent is awarded, there is a 10-day protest period. Items that can be protested are the content of the RFP itself and/or the award or proposed award of the contract. At the next Board meeting at the end of February is where there will be a chance to consider the winning author and give approval. He explained the scope of the work; the professional qualifications; understanding the work to be performed; the value-add component; cost proposal; the score weightings which all add to 100 percent. He stated that no action is required, but feedback is needed.

CHAIR RICHARDS stated that everyone is on board with this proposal.

STRATEGIC PLAN

CEO RODELL stated that the governance documents require undertaking a five-year plan. The current five-year plan is set to expire in FY21. An offsite workshop was done in August and was attended by 15 employees representing every division, department within the Corporation. She continued that the Board packet has both a red-line and a clean version. The clean version adopts all of the red-line changes. The Board reviewed the strategic plan that staff generated at its September meeting.

CHAIR RICHARDS stated that in terms of substance, there were two things. The first was to edit the language but not necessarily the intent of the section, around the discussion that reflected the conversation at the last Board meeting about how to approach the Legislature. He continued that if this language is kept, it will need to be changed throughout to read "During the 31st Legislature." The only other substantive change is about putting emphasis on getting an Anchorage office opened in the next year to aid efforts on recruiting. He added that the approach in this strategic plan is taking a year to develop the plan.

TRUSTEE RUTHERFORD stated that it is critical to determine what function the office would have and the value it brings to it.

CHAIR RICHARDS asked for a motion.

> **MOTION:** A motion to adopt the Strategic Plan was made by TRUSTEE MORAN; seconded by TRUSTEE RUTHERFORD.
>
> *After the ROLL CALL, The MOTION was unanimously APPROVED (MORAN; RUTHERFORD; FEIGE; RICHARDS; BARNHILL)*

CHAIR RICHARDS asked for Mr. Walsh's comments.

ADVISOR COMMENTS

MR. WALSH stated that his comments would be brief. He plugged the Board on the compensation issues and the office discussion. It is a people business. The assets walk out the door every day. He talked about real estate and thought there may be a problem with the process, and the governance is sort of lacking. He applauded Marcus Frampton for getting this straightened out for the next fiscal year, moving REITs back to where they belong, in real estate. He stated that people in public funds sometimes do things just because they have been doing it for the last 20 or 30 years. He continued that eight or nine years ago he was a CIO in New Jersey. That fund is slightly larger than the Permanent Fund, and because of some legacy issues, union issues, bureaucracy issues, about a third of the employees were based on active public equities and were 100 percent active. He was reluctant to make the change because the numbers were that good. The next CIO did not make the change. The latest CIO finally shut down the whole operation. The idea for doing this paper is to maybe see what other options are out there; some that may complement and some that may make some changes. He thanked all.

CHAIR RICHARDS asked CEO Rodell for any other matters.

CEO RODELL stated that she had lots of notes for the next Board meeting, which has a packed agenda coming in February. She continued that the Board had requested doing a deep dive on asset class and asked that real estate come back again in February. She suggested that the next meeting covers absolute return and private credit, those income opportunities, unless the Board had any other suggestions.

CHAIR RICHARDS replied that whatever is thought to be timely based on decisions and what is going on. He moved on to trustee comments, and recognized Trustee Barnhill.

TRUSTEE COMMENTS

TRUSTEE BARNHILL stated that it has been a deep honor and thrill to serve with all and he really appreciated the good conversation. He expressed his appreciation to the Board members for their public service, to the staff and to the director, because what is happening right here is historic. We are in the process of transitioning the State of Alaska, the first U.S. state to call it a partial endowment state. That has never been done and that is exciting. Thank you.

TRUSTEE RUTHERFORD stated that it was a really good meeting. She thanked staff for structuring it so well and putting it together in this environment. She appreciated the

conversation and thanked all for the hard work.

TRUSTEE MORAN asked Trustee Barnhill, if this does prove to be temporary, if he would consider an investment adviser RFP on a short-term basis in working through some of this. He stated that it is fun having meetings in these different areas, but it is still really difficult to get attendance.

CEO RODELL asked the trustees if they had specific locations within Kenai to hold that meeting, to let Maggie know.

TRUSTEE FEIGE thanked all for accommodating her by WebEx for this meeting while she recuperates. She thanked CEO Rodell and staff for an extremely informative meeting, and Chair Richards for managing the deadline and getting it all done. She echoed everyone's comments for Trustee Barnhill's participation and his experience and the history he brought to the discussions, which has been extremely valuable.

CHAIR RICHARDS echoed what everyone else has said and that it is a lot of work for staff to get everything together. The hard work is observable and appreciated, and he thanked them. He also thanked Callan for putting together their presentation, developing the economic models and doing the analysis. He added that it was great to have Mike Barnhill, and appreciated his valuable and deep knowledge of the State system. There is a need to go into Executive Session, and he asked for a motion.

> **MOTION:** A motion to go into Executive Session for the purpose of the executive director's personnel review was made by TRUSTEE RUTHERFORD; seconded by TRUSTEE BARNHILL.
>
> *There being no objection, the MOTION was APPROVED.*

(Executive Session from 1:24 p.m. until 2:39 p.m.)

CHAIR RICHARDS called the meeting back into regular session and stated that while in Executive Session the committee discussed only matters specifically related to the call of the Executive Session, which was the personnel duty of the executive director, and took no action. He adjourned the meeting.

(Alaska Permanent Fund Corporation Quarterly Board Meeting adjourned at 2:39 p.m.)