Five rules for investment from Alaska's Permanent Fund Corporation

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An Alaska Permanent Fund Corp. sign in the office in Juneau, March 14, 2016. (Photo by Skip Gray/360 North)

Each year, Alaska's Permanent Fund Corporation invests billions in private companies and risky startups and digs into venture capital. It's a relatively new and, so far, really successful strategy for making money for Alaska. But, how do they pick the next big winner out of a sea of potential companies?

Stephen Moseley is just your average fast-talking, New York investment banker type of guy. Except, he's not in New York anymore. He's four hours behind the market in Juneau. I visited his blindingly white office in a glass and stone block building, just outside of downtown, where the first thing I noticed was his filing system — manila folders in neat stacks along one wall. The second? A very fancy desk.

He laughed and leaned over to press a button. "It's the best thing, isn't it? not only is it a stand-up desk, it's electronic." As it hummed into an upright position, I asked about his investments. Moseley is the Director of Private Equity and something called Special Opportunities for the Alaska Permanent Fund Corporation. And, he agreed to give me a sneak peak into his portfolio.

But, first, a bit of wrangling.

"Well, before I reveal those important secrets, I should ask what sort of…because everyone will copy me, you know," he said, laughing. "What are the ground rules. Is this all on the record?" See, portfolio managers — like fishermen — don't like to give away their secrets. They want to show you the big fish they caught; they don't want to tell you where or how they caught it.

With $11.5 billion in his back pocket, and an eye for risk, you might think it would be a little easier to talk him into investing in your project.

So, I tried. I pitched the idea of delivering fast food, tacos specifically, to people in New York — via drone.

"Well, first, I'd need tacos in my hand to think that through," Moseley joked.
But then, he quickly changed his mind. "I think there are rules that would actually prevent me from enjoying the tacos," he said.

So rule one? No bribes.

"We can get tacos some other day, but it doesn't sell taco investments," he said.
And, the drones don't sell it either.

"There's a lot of cool technology out there in the world," he said. "Much of it will never be realized, or profitable. We've got to think of it first as investors."

Rule two? It can't just be a interesting gadget; it's got to have staying power.

And, it doesn't matter how cool Moseley might think drones are, he won't just funnel money into his favorite things.

"So the emotional reaction has no value," he said. "There's even sort of a cost to it, right?"

Rule three? Don't let your emotions get in the way.

"My wife's a psychologist she'd be really disappointed to hear me say that emotions don't matter. Or even that they get in the way," he said. "But I think that's the honest reality. Because, not only do we need to find great investments, but we've got to sort through all the bad investments. And that's why the process is so important."

Ok, so my idea for taco-drones is a dud. But, really it should be. It doesn't meet any of the markers fund managers look for in a good investment idea.

And while it's hard to pinpoint exactly what "good" means to Moseley, his team's portfolio has some big success stories. And, it has made more than $1 billion for the fund.

I asked Moseley's boss, Permanent Fund Chief Executive Officer Angela Rodell what exactly her team is looking for in an investment idea.

Alaska Permanent Fund Corporation CEO Angela Rodell stands in the corporation headquarters, Aug. 9, 2017. (Photo by Andrew Kitchenman/KTOO)

She says, right out of the gate, the idea has to be big enough to make a difference in a $63 billion fund.

So, rule four – Any investment needs to be $25 million or more.

"That's the low bar," she said. "I mean we have looked at investments that are lower than that but they have to have sort of other unique qualities to them and by that I mean they're rapidly scalable."

So that's pretty basic. But, the next hurdles start to sound a lot like fund managers looking for those fishing holes we were talking about earlier.

Like, is the idea in an innovative technology sector? An emerging market? What's the political situation? How about the regulatory environment?

Fund managers are eyeing global growth. Rodell says, they're looking for projects in places they're expecting to gain a lot of value in the next few years.

"They are in China, India, Africa, South America," she said. "They just have characteristics that make it more difficult. They're more difficult to invest in, from a legal standpoint but they've got an interesting aspect."

Most of these rules are unwritten. One investor told me that as soon as you come up with some hard and fast rules for investing, some good idea or project comes along that breaks all of them.

And, among those unwritten rules, there’s one that’s kind of elusive. And that’s because it really isn’t one that the Permanent Fund Corporation came up with. It’s more of a house rule.
And that house rule is something that a lot of state-owned funds deal with. I call it “at a state-owned corporation, the legislature reigns supreme.” That’s a working title.

What it means is that when this state struggles to pay its bills, lawmakers start eyeing the Permanent Fund. Right now, Alaska has a $2.5 billion hole in its budget and it isn’t likely to be filled anytime soon. The legislature has already used most of its savings to cover that gap for the last few years, so there has been a lot of talk of tapping into the Permanent Fund’s investment earnings. Right now, the Permanent Fund’s investment strategy is to invest in things with long-term returns: five years, 10 years, 20 years. It’s spread out across stocks and bonds and real estate and public and private investments. That kind of diversity is designed to limit loss.

But it isn’t designed to be a short-term piggy bank. So what would the corporation do if the legislature came looking for quick cash?

“Easy thing to do is to sell stocks,” Rodell said. “It’s very liquid. Or sell bonds. And, if we were all in a private equity portfolio, we wouldn’t be able to do that. It would be very challenging. We could get some portion of it, because it’s not completely illiquid, but it is not designed to react to a short term event.”

Rodell said the possibility that the corporation could need to come up with billions in cash — it fundamentally changes how and what fund managers invest it. It’s something that Rodell has to keep in the back of her mind when the corporation is considering new investments and new strategies.

There is one last rule.

And, it’s one that Rodell says can be the hardest for fund managers to follow.

Rule number five is the rule of The Gambler.

“Knowing when to hold ’em and knowing when to fold ’em, right?” she said. “I hate to go back to ‘The Gambler’ but it really does take a remoteness, you know, and objectivity to also sell because investors obviously can get really attached to some of their investments. At times it’s just the nature of it because you’ve done so much work and due diligence to get into an investment.”

Rodell said there are two types of selling.

The first is when an investment has made all of the money it can for the Fund.

“Let somebody else try to make money off of it,” she said.

And the second? Well, that’s one that Rodell says can be the hardest for fund managers to deal with. And it’s part of her her job to let them know:

“This thing is a dog! And it needs to go,” she said.

When an investment tanks, an investor has to know when to cut their losses and walk away.