

News Release

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Alaska Permanent Fund Returns 8.45% for the first half of FY18

Juneau – The Alaska Permanent Fund’s (Fund) investments gained 8.45% in the first half of fiscal year 2018 (FY18) and the Fund ended December 31, 2017 with assets under management totaling \$64.0 billion, comprised of \$48.7 billion in the Principal of the Fund and \$15.3 billion in the Earnings Reserve Account. As we enter the second half of the fiscal year, the Fund has reached daily market values of more than \$66 billion and is experiencing increased market volatility.

The performance of the total Fund is measured against three benchmarks: the Board of Trustee’s Strategic return objective of CPI+5%, which provides a long term benchmark for the Fund’s real rate of return; the blended performance benchmark comprised of a blend of indices reflective of the Funds’ asset allocation, which measures how effectively staff has implemented the investment strategy; and a passive benchmark reflective of a traditional portfolio of stocks and bonds. As noted in the chart below the Fund has outperformed these benchmarks in the first two quarters of FY18, as well as in the 3 and 5 year time frames – performance that validates the work that APFC staff does each day to maximize value through active management of the Fund.

Performance vs Benchmark Objectives (as of December 31, 2017)

	FYTD 18	3 Years	5 Years
Total Fund Performance	8.45%	9.20%	9.10%
Passive Index Benchmark (60% Stocks 30% Bonds 10% RE & TIPS)	8.07%	6.81%	7.35%
Performance Blended Benchmark	7.18%	7.04%	8.07%
Board of Trustees Strategic Return Objective (CPI + 5%)	3.10%	6.64%	6.44%

APFC maintains a well-diversified portfolio in both public and private markets across seven asset classes. In reviewing recent performance results, Angela Rodell, CEO of the Alaska Permanent Fund Corporation, noted that she was “pleased to see the quality and diversity of the portfolio’s investment returns across all asset classes. Double digit performance returns have been achieved not only in public equities, but in APFC’s private equity and infrastructure holdings as well.”

Public Equities – APFC’s \$28.2 billion Public Equities allocation delivered 11.89% returns and outperformed the benchmark during the first half of FY18. The primary contribution to outperformance came from an asset allocation emphasizing emerging markets over domestic equities and the return generated by the Fund’s active managers. Overall, the performance was strong across all sectors: Domestic Equities up 11.68%, International Equities up 13.09%, and Global Equities up 10.81%.

Fixed Income Plus - the Fixed Income Plus portfolio of \$13.7 billion, once again outperformed its benchmark for the first half of fiscal 2018, ranking in the top decile of fixed income managers. The largest contributors to the strong relative performance were the internally managed US Aggregate, and Investment Grade Corporate portfolios. The externally managed REIT and Listed Infrastructure managers also performed very well during the period, contributing to the outperformance.

Private Equity and Growth Opportunities - the Private Equity and Special Growth Opportunities portfolios total \$7.6 billion and continue to perform well. Over the last six months alone these assets generated a return of 13.91%. Over 1 year, 3-year and 5-year periods the combined portfolios delivered net annualized returns of 20.89%, 23.56%, and 21.70%, respectively. Measured differently, since program inception in 2004 the PE and Special Growth Opportunities portfolios have generated \$4.5 billion in cumulative investment gains. Of that, \$3.2 billion (72% of total) has been earned in the last three years.

Infrastructure, Private Credit, and Special Income Opportunities – Infrastructure, Private Credit, and Special Income Opportunities assets total \$3.5 billion and offer a strategy designed to couple attractive net returns, steady income, and limited volatility. The largest area of this portfolio, Infrastructure, returned 12.40% in the six months ended December 31, 2017 bringing the 3 and 5 year returns to 18.51% and 15.02%, respectively. Private Credit, which is benchmarked to US High Yield Bonds, has outperformed this index for all periods earning 5.03%, 6.49%, and 7.66% in the six months, 3 years, and 5 years ended December 31, 2017.

Real Estate - APFC's real estate strategy involves primarily direct holdings of minimally leveraged, institutional quality, core real estate assets. This strategy is designed to provide an inflation protected return over market cycles derived from property cash flow in excess of the overall Fund's return objective. The portfolio exhibits a risk-return profile in between equities and fixed income, a steady source of current income, and can be expected to outperform more leveraged private markets strategies in challenging markets. For the six months ended December 31, 2017, the \$5.6 billion Real Estate portfolio delivered on this objective with a return of 3.06% adding to its strong performance over 3 and 5 year periods of 10.29% and 10.59%, respectively.

Absolute Return – APFC's absolute return portfolio is designed to deliver uncorrelated returns in excess of the Fund's total return objective by investing with managers that employ a variety of alternative investment strategies. In fiscal year 2016 the portfolio was restructured from a fund-of-funds model to an in-house Staff-driven program, and since that time has delivered on its return objective while earning positive returns in each monthly period that equity markets have declined. Most recently, the absolute return portfolio generated a 4.38% return through the six months ended December 31, 2017. Total assets in the strategy are currently \$2.5 billion.

Asset Allocation Strategies - During the first half of FY18, the \$3.4 billion asset allocation group, comprised of internal cash as well as multi-asset strategies, returned 3.69%. Cash returned 57 bps outperforming the 90 day T-Bills by 2 bps, and the multi-asset strategies category returned 6.08%. Global liquidity continued to support economic conditions and asset prices which resulted in positive returns across a variety of asset classes, this well-diversified portfolio of multiple assets and strategies benefited from those returns.

Statutory net income as defined in AS 37.13.140 totals \$2.4 billion as of December 31, 2017. This is the statutory calculation that directs the amount of income that flows to the Earnings Reserve Account.

Performance overviews and updates for each asset class will be presented to APFC's Board of Trustees during their quarterly meeting on February 21-22, 2018 in Juneau. Additional detailed information can be found at apfc.org and the following links for the Alaska Permanent Fund's [financial statements and investment performance](#).