

News Release

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Alaska Permanent Fund Returns 8.86% thru the third quarter of FY18

Juneau – The Alaska Permanent Fund’s (Fund) investments gained 8.86% thru the third quarter of fiscal year 2018 (FY18) and the Fund ended March 31, 2018 with assets under management totaling \$64.6 billion. The value of the Fund is up \$4.8 billion since the start of FY18 despite increased market volatility.

The Fund is comprised of two accounts, the Principal and the Earnings Reserve Account (ERA), that are invested as a single asset allocation with pro-rata shares attributed to each account. As of March 31, 2018, the value of the Principal includes \$40.1 billion in constitutionally protected deposits and \$6.9 billion in unrealized gains. For the same time period, the value of the ERA includes \$15.0 billion of accumulated net income, as well as \$2.6 billion in unrealized gains.

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 thru the first three quarters of FY18, as well as in the 3 and 5 year time frames. The value add that APFC staff has contributed through the active management of the Fund is a 1.65% return above the passive index benchmark thus far in FY18, which is equal to just over \$986 million in Fund value.

Performance vs Benchmark Objectives (as of March 31, 2018)

	FYTD 18	3 Years	5 Years
Total Fund Performance	8.86%	7.65%	8.35%
Passive Index Benchmark (60% Stocks 30% Bonds 10% RE & TIPS)	7.21%	6.09%	6.45%
Performance Blended Benchmark	7.34%	6.34%	7.22%
Board of Trustees Strategic Return Objective (CPI + 5%)	5.58%	6.86%	6.40%

APFC staff invests the Fund based on the target asset allocation and objectives set by the Board of Trustees. The portfolio’s performance is measured in accordance with relevant asset class benchmarks outlined in the Investment Policy. Following is a summary of performance for each asset class.

Public Equities – the \$26.8 billion Public Equities allocation delivered 11.42% returns over the past nine months, 16.31% returns over the past 12 months, and 8.65% returns per year over the past three years. The allocation outperformed the benchmark during each of the above time periods. The primary contribution to outperformance came from the excess return generated by the Fund’s active managers and asset allocation across public equity sectors.

Fixed Income Plus - The Fixed Income Plus portfolio of \$14.0 billion returned .87% and outperformed its benchmark by .42% thru the first three quarters of fiscal 2018. The bond market experienced negative returns during the past

three months as interest rates rose, and the Fixed Income Plus portfolio outperformed its benchmark by .09% during that same period. The largest contributors to the solid relative performance were Emerging Market Debt portfolios benefiting from their exposure to local currencies. The portfolio's underweight to the REIT and Listed Infrastructure sectors also helped the relative performance.

Private Equity and Special Opportunities - the Private Equity and Special Opportunities portfolios total \$7.6 billion and generated a net return of 18.94% over the past nine months, 24.38% over the last 12 months, and averaged 22.04% per year over the last 5 years. This performance is attributable in part to the Fund's internally managed co-investment program which now includes 23 investments with an average cost of \$46 million and has delivered a net IRR of 64.0% per year since inception 5 years ago. At quarter end, total gains to Alaska from co-investments exceeded \$1.4 billion.

Infrastructure, Private Credit, and Income Opportunities – Infrastructure, Private Credit, and Income Opportunities total \$3.7 billion in assets and offer a strategy designed to couple attractive net returns, steady income, and limited volatility. Infrastructure assets are a top performer for this strategy with returns of 18.93% through the first three quarters of the fiscal year, bringing the 3 and 5 year returns to 20.40% and 15.93%, respectively. Private Credit also continues to provide outstanding returns, earning 7.72%, 6.74%, and 7.59% in the fiscal year to-date, 3 years, and 5 years ended March 31, 2018.

Real Estate - APFC's real estate strategy involves primarily direct holdings of minimally leveraged, institutional quality, core real estate assets that provide a steady source of current income. For the nine months ended March 31, 2018, the \$4.1 billion Real Estate portfolio provided a return of 5.0% fiscal year to date, adding to its solid long term performance over 3 and 5 year periods of 9.44% and 10.07%, respectively.

Absolute Return – APFC's \$2.6 billion absolute return portfolio is an in-house Staff-driven program designed to invest with managers that employ a variety of uncorrelated and diversifying alternative investment strategies. Thus far in FY18, APFC's absolute return strategy has generated a 5.26% return, which is in-line with the portfolio's return objective. Importantly, this return has been generated with a low level of correlation to traditional asset classes; notably, the Absolute Return program generated positive net returns in seven of the eight months since inception of the strategy where the S&P 500 Index declined. Also highlighting the ability of the Absolute Return program to earn positive returns in difficult market environments, the program generated a positive return in the period of February through March 2018 when the S&P 500 Index declined 6.1%.

Asset Allocation- Through the first three quarters of FY18, the \$6.3 billion asset allocation group, comprised of internal cash as well as multi-asset strategies, returned 3.01%. Cash returned .86%. The Multi-asset strategies category returned 5.65% outperforming the target objective of CPI+5% by .07%. Global liquidity continued to support economic conditions and asset prices which resulted in positive returns across a variety of asset classes. This portfolio is a well-diversified portfolio of multiple assets and strategies which benefit from strong market periods but has strategies that should protect in case of a downside scenario. During this fiscal year, APFC implemented a currency overlay strategy to reduce unwanted foreign currency risk exposure resulting from holdings in international markets. Additionally, a liquidity overlay was started to help staff more efficiently manage liquidity.

Statutory net income as defined in AS 37.13.140 totals \$4.9 billion as of March 31, 2018. This is the statutory calculation that directs the annual 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 May 23-24, 2018 in Anchorage. Detailed information can be found at apfc.org and the following links for the Alaska Permanent Fund's monthly [financial statements and investment performance reports](#).