APFC ALASKA PERMANENT FUND CORPORATION
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News Release
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APFC's Board of Trustees Review Performance and Active vs Passive Management

Juneau – The Board of Trustees held its quarterly meeting in Juneau, Alaska on May 22- 23, 2019 to review the performance of the Alaska Permanent Fund (Fund) through the third quarter of fiscal year 19 (FY19), assess the opportunities of active vs passive management, review the securities lending program, and consider the asset allocation of the portfolio. The Trustees did not make any changes to the Fund's asset allocation.

The Fund's investments gained 6.48% in the three-month period between January 1, 2019 and March 31, 2019 which contributed to the portfolio moving back into positive performance territory of 3.07% thru the third quarter of FY19. The Fund ended March 31, 2019 with assets under management totaling $65.8 billion.

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 against relevant asset class benchmarks outlined in the Investment Policy. The three performance benchmarks for total Fund performance are: The Board of Trustee's Strategic return objective of CPI+5%, the blended performance benchmark comprised of a blend of indices reflective of the Funds' asset allocation, and a passive benchmark comprised of a traditional portfolio of stocks and bonds. For the recent quarter, the Fund performance trails the Passive Index Benchmark, but bests the Performance Benchmark and the CPI+5% return target. For the longer term 3- and 5-year periods, the Fund has outperformed all three targets.

Performance vs Benchmark Objectives *(as of March 31, 2019)*

	Q3 FY19	9 mos. FYTD 19	3 Years	5 Years
Total Fund Performance	**6.48%**	**3.07%**	**9.33%**	**7.24%**
Passive Index Benchmark (60% Stocks|30% Bonds|10% RE & TIPS)	9.55%	2.39%	7.43%	4.86%
Performance Blended Benchmark	6.10%	3.50%	8.31%	6.03%
Board of Trustees Strategic Return Objective (CPI + 5%)	2.37%	4.60%	7.20%	6.47%

For the quarter ending March 31, 2019, risk assets on a global basis rallied strongly in sharp contrast to the challenging market at the end of calendar year 2018. APFC's public markets portfolios reflected this strength:

- Public Equity, a $25.1 billion portfolio, delivered an outstanding return of 12.36% for the quarter – performing very well on an absolute basis as well as beating its asset class benchmark of 12.29% for the MSCI ACWI IMI Index.
- Fixed Income Plus, a $15.5 billion portfolio, generated a return for the quarter of 5.77% versus a benchmark return of 5.55%.
- Asset Allocation, a $3.7 billion portfolio that combines Cash and market-exposed strategies such as Risk Parity and Overlay Strategies, returned 4.13% versus a benchmark return of 3.88%.

Private Markets strategies at APFC, due to the nature of quarterly appraisals and valuations, did not experience as pronounced of a three month return as public assets did. Even so, the Fund experienced outperformance vs relative benchmarks on its alternative strategies.

- Private Equity & Special Opportunities, a $8.5 billion portfolio for APFC designed to deliver long-term capital appreciation and growth, returned 1.25% for the three months ending March 31, as compared to the Cambridge Private Equity Index return of minus 0.53%; five-year returns (a more relevant time period for private assets) are 23.4% for APFC vs. 11.9% on the Cambridge Private Equity Index.

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- Infrastructure & Income Opportunities, a $5.3 billion portfolio with an objective of privately sourced income and inflation protection, returned 0.20% for the quarter ending March 31 versus a benchmark return of minus 4.25% and on a five-year basis has returned 11.77% versus a benchmark return of 5.80%.
- Private Real Estate, a $4.0 billion portfolio with an objective of returning inflation-protected returns between that achieved in public equities and public fixed income returned minus 0.22% for the quarter. In the past year, the APFC has changed its valuation methodology for private real estate, which has driven some short-term distortions to returns. These negative short-term distortions are not reflective of the generally strong underlying fundamentals, occupancy and cash flows of the properties. On a long-term (five year basis), APFC's Real Estate portfolio has returned 7.97% annually outperforming its mandate of returns between levels achieved in public fixed income and public equity by a wide margin. It has and continues to be a steady source of regular income with very strong underlying fundamentals and performance.
- Absolute Return, a $3.7 billion portfolio designed to generate returns uncorrelated to broader markets and other asset classes, returned 1.17% for the quarter. This return was below the return objective for the portfolio (CPI + 500 bps) and trailed the broader hedge fund industry return of 5.71% for the quarter. On a three-year basis (the period of time since APFC restructured the Absolute Return portfolio), annualized returns have been 5.20% versus 4.34% for the broader hedge fund industry. The new strategy has, however, delivered close to a zero correlation and protected capital in down periods such as when broader markets and the hedge fund industry both experienced drawdowns.

Callan also noted in their presentation to the Board that strong recent performance has helped the total Fund perform well relative to most large public funds and endowments. The Fund ranks above median for the majority of time periods versus both types of peers.

In addition to the comprehensive overview of asset class performance, the meeting also included a panel discussion with three of APFC's equity mangers: LSV Asset Management, Dimensional Fund Advisors, and AQR Capital Management on the topic of active versus passive management. Further discussions were conducted during the overview of this asset class in which it the key take-a-ways focused on the optimal allocation to internal management, as well as the optimal mix of fixed management and performance-based fees.

Chair Craig Richards notes that "APFC spends on average 25 basis points on active management of its stock portfolio each year. With the trend of large funds to move away from active management to holding much cheaper index funds, it was a good time for the Board to examine if the active management strategy adds value for Alaskans. I think the analytics clearly demonstrate that it does. After fees, $42 million per year (or cumulative $300 million) is how much active management has added to the overall portfolio of the Fund over the past 7 years."

APFC's Alternative Investments staff provided the Board with an informational update on the current portfolio exposure, targets, and projections for the coming fiscal year's activity in the private markets' portfolios. Staff plans to invest or commit approximately $1.6 billion under the Private Equity and Special Opportunities portfolio to a combination of funds, co-investments, and direct investments in FY 2020, while maintaining flexibility to increase or decrease deployment by up to $550 million based on market conditions, opportunistic deal flow, and transaction timing. Additionally, within the Private Income portfolio staff plans to invest or commit approximately $1.3 billion to a combination of funds, co-investments, and direct investments in FY 2020, with maintaining flexibility to increase or decrease deployment by up to $300 million for FY 2020.

The next quarterly meeting of the Board of Trustees will be held on September 25-26, 2019 in Anchorage, Alaska.

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