

News Release

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Trustees Wrap Up Two-Day Webinar Meeting

Juneau – APFC’s Board of Trustees held its quarterly meeting via Webinar on May 20-21, 2020.

In recognition of Trustee Carl Brady’s recent passing, Chair Richards, on behalf of the staff and the Board, expressed “our profound gratitude to Carl’s family for his years of service to the Fund and the State of Alaska. We share in their loss of this monumental Alaskan.”

Trustee Brady was first appointed to the Board of Trustees in 1991, and has fulfilled the roles of both the Chair and the Vice-Chair over his decades of service. He leaves behind a long legacy of contributions. In 2005 under his Chairmanship, statutory authority was established, allowing the use of the Prudent Investor Rule for investing the Fund, providing for greater diversification of the portfolio into alternative asset classes.

With Trustee Brady’s passing, his longtime friend and fellow long serving Trustee, Bill Moran, was elected to fill the position of Vice-Chair. The Board also welcomed Trustee Steve Rieger back to the Board. Trustee Rieger previously served on the APFC Board from 2009-2013, and was recently appointed by Governor Dunleavy to the vacant public member seat.

The Board’s two-day agenda provided the Trustees the opportunity to assess the performance of the Alaska Permanent Fund (Fund) through the third quarter of fiscal year 20 (FY20), review the asset allocation of the portfolio, adopt the revised investment policy, and interview and select two investment advisors.

The portfolio continues to rebuild value, having just weathered one of the sharpest declines in the public equity market ever reported, a 33% loss within 23 days. The Fund’s investments dropped 10.49% in value over the three months ending March 31, 2020. However, over the nine months of the fiscal year, the drop-in value was lessened to 5.68%, given the robust market environment leading up to the abrupt market fall. The Fund’s negative performance returns are associated with the overall global and economic impacts related to the Covid-19 pandemic.

	3 mos. Q3 FY19	9 mos. FYTD 19	3 Years	5 Years
Performance vs. Benchmark Objectives as of March 31, 2020				
Total Fund Performance	-10.49%	-5.68%	4.62%	4.96%
Passive Index Benchmark (60% Stocks 30% Bonds 10% RE & TIPS)	-16.56%	11.08%	1.49%	2.43%
Performance Blended Benchmark	-9.54%	-4.28%	4.71%	4.52%
Board of Trustees Strategic Return Objective (CPI + 5%)	1.66%	4.49%	6.92%	6.80%

That said, APFC was well-positioned in having been overweight in the portfolio’s cash holdings at the beginning of the market turmoil. This liquidity provided our investment team with the resources necessary to leverage opportunities, redeploy into public equities, and adhere to the target asset allocation. As reported by APFC’s Chief Investment Officer Marcus Frampton, the APFC Investment Team has shifted their view from one of caution with an overweight to cash and investment grade fixed income in February, to one today with a focus on balance in accordance with the portfolio’s risk perspective versus benchmark weights for asset classes. This shift followed a deployment of \$2.6 billion of capital into equity markets in the midst of the COVID-related market sell-off in March.

The Board of Trustees sets the Investment Policy for the Fund per statutory obligations of preserving the Principal while maximizing returns, maintaining diversification amongst investments, and following the Prudent Investor Rule. During this meeting, the Board and staff discussed and ultimately adopted changes to the Investment Policy that will go into effect on July 1, 2020. These changes to the policy include: the movement of REITS and Listed Infrastructure out of the Fixed

Income Portfolio and into their respective Real Estate and Infrastructure portfolios, and the division of the Asset Allocation Portfolio into two separate portfolios - Risk Parity and Cash. The Board of Trustees declined at this time to adopt a proposed addition of Gold (via ETF's) to the menu of investable options for the Cash and Absolute Return portfolios. Included in the Investment Policy approved by the Board is a five-year asset allocation plan for the Fund.

Alaska Permanent Fund Target Asset Allocation

	Public Equity	Fixed Income	Private Equity	Real Estate	Private Income	Absolute Return	Risk Parity	Cash	Total Fund
FY2021	39%	21%	15%	7%	9%	6%	1%	2%	100%
FY2022	38%	20%	16%	8%	9%	6%	1%	2%	100%
FY2023	36%	20%	17%	9%	9%	6%	1%	2%	100%
FY2024	35%	19%	18%	10%	9%	6%	1%	2%	100%
FY2025	33%	18%	19%	12%	9%	6%	1%	2%	100%

Angela Rodell, Chief Executive Officer, notes: “The Board took an important step by adopting an investment plan for the next 5 years. This plan is especially important in light of the State’s dependence on the Fund to deliver support for essential State government services and to recognize the challenging investment climate we currently find ourselves in.”

Callan, APFC’s general consultant, provided their quarterly capital markets review and a review of APFC’s holdings. Strong emphasis was placed on the extreme financial and economic conditions of the global crisis of pandemic, including the Fed’s stimulus and actions, the potential recovery patterns of the economy, and performance analysis across all asset classes. The annual review of the portfolio’s asset allocation was also provided and considered the modest changes that were incorporated in the updated Investment Policy that the

Additionally, during the two-day meeting -

- Callan provided their FY2021 year Capital Markets Projection for the Fund is a 6.75% total return, based on an expected real return of 4.50% and a 2.25% projected inflation rate. Callan noted that the probability of exceeding a 5% real return over 10-years is approximately 44%.
- Staff presented and the Board approved a FY2021 Pacing Plan for Alternative Investments with a target of \$1.6 billion annual deployment pace for Private Equity and Special Opportunities and a \$650 million annual deployment schedule for Private Income. Consistent with prior years, flexibility thresholds to increase or decrease pacing is included in the plan.
- The Board considered phased options for the expansion of APFC’s In-State Investment Policy. This discussion was based on the fact that Alaska is currently facing an unprecedented economic challenge. While Alaska Statute AS 37.13.120(c) calls for in-state investment, identifying attractive investment opportunities in Alaska requires focused effort and dedicated resources.
- The Board approved the FY2021 APFC Budget in accordance with the operating budget appropriations passed by the Legislature and enacted by the Governor, which include merit increases for staff and a position for the Real Estate Team. APFC’s FY2021 budget, as proposed and approved, also includes reductions from FY2020 for travel, contractual services and investment management fees.
- Having conducted on-line interviews with an outstanding, exceptionally qualified group of applicants, the Board selected two new Investment Advisors: Kenneth J. Frier, Principal with SECOR Asset Management and John D. Skjervem, Chief Executive Officer, Allan Biller and Associates.

The next quarterly meeting of the Board of Trustees is the Annual Meeting and will be held on September 23-24, 2020 in Anchorage, Alaska. ###