INVESTMENT OF THE FUND

The Alaska Permanent Fund was created by visionary Alaskans who saw a way to find balance in providing a renewable benefit, to both current and future generations of Alaskans. On November 2, 1976, Alaskans established by a 2:1 margin, the Alaska Permanent Fund to preserve and convert the State’s non-renewable natural resources into a financial asset for future Alaskans. Today, APFC is a dynamic corporation with the strength of Alaska roots and a pioneering spirit that extends around the world based on our practices of prudent investing and sound governance. At the heart of our work is the Alaska Permanent Fund Corporation (APFC), an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

Over the course of the next four years, the Legislature and the Administration evaluated the concept of “income-producing investments” and how to best implement the constitutional mandate. Options included a development bank and a savings fund. During a Free Conference Committee on Senate Bill (SB) 161 in 1980, the Legislature ultimately focused on a single issue: “the management of the Fund’s Principal.” They affirmed in the language of the bill that the Fund is an inviolate trust, to conserve “…a portion of the state’s revenues from mineral resources to benefit all generations of Alaskans…” The Legislature further determined the Fund to be an independent trust with accountability to “…maintain safety of principal while maximizing total return….” In establishing a management system for the Fund, the aim of the Free Conference Committee was determined that “the Permanent Fund, with its fundamentally different goals from those of the state, should be in the hands of the same people whose primary duty is managing money for day-to-day use by the state.” The bill provided for a Governor-appointed Board of Trustees to serve as the Fund’s fiduciary, with the responsibilities of managing and investing the assets in accordance with the prudent investor rule, maintaining a reasonable diversification among investment categories, and establishing guidelines for investment.

It was 40 years ago, on April 8, 1980, that Governor Jay Hammond signed SB 161 into law, thus establishing the Alaska Permanent Fund Corporation as an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

Today, APFC is a dynamic corporation with the strength of Alaska roots and a pioneering spirit that extends around the world based on our practices of prudent investing and sound governance. At the heart of our work is the Alaska Permanent Fund Corporation (APFC), an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

APFC’s investment strategy represents a strong, enduring governance structure centered with processes that provide our staff and partners the flexibility and autonomy to be markedly agile and responsive to global market conditions. The Fund is invested across seven asset classes in both public and private markets, creating a portfolio designed to deliver compelling long-term returns under a variety of potential market conditions. All investments must balance expected returns with any risks that are undertaken, ensuring that the APFC portfolio provides an appropriate risk-adjusted return for Alaska.

THE FUND AND APFC

TRUSTEES’ PAPER — VOLUME 9

THE ROLE OF SOVEREIGN WEALTH FUNDS IN SAVING, STABILIZATION, AND GENERATING INCOME

APFC and the Fund are central to the debate currently facing the State of Alaska. As oil revenues flowing to the State’s general fund continue to decline due to price and production level, the State of Alaska is confronting the reality that there are not sufficient revenues to support state services. While the Fund was created knowing an era of declining revenues from resource wealth would be inevitable, now that we are there, the public’s expectations about the use of the Fund have changed over the past 40 years. During this unique time in Alaska’s history, as the conversation around the utilization of the Alaska Permanent Fund’s earnings evolves, the Alaska Permanent Fund Corporation Board of Trustees thought it prudent to provide a global context to the discussion. Sovereign Wealth Funds in resource-dependent economies around the world have faced the very same problems that Alaska is facing today, and have found their way through them for better or worse. The Trustees’ Paper — Volume 9 discusses best practices of our peer funds from Canada to Saudi Arabia, and closer to home from New Mexico to North Dakota. It examines the codified mechanics that have allowed these funds to flourish as well as the lack of clarity in their fundamentals that have created pitfalls. The lessons and practices highlighted in the paper that can be applied to the Fund include:

• Mission clarity — success requires clarity around the Fund’s mandate.
• The importance of rules — the adherence to a system of well-designed rules promotes sustainability and stability across volatile commodity cycles, and enables management to implement appropriate investment policies.
• Successful enforcement of saving rules — adherence to Alaska’s existing constitutional and statutory savings rules is necessary.
• POMV spending rule — the statutory spending policy adopted in 2018 aligns with the best practices of peer institutions.
• The ERA — the emphasis on permanent savings in the Principal and long-term growth of the Fund, together with the existence of a separate account available for appropriation, the ERA, warrant consideration as reliance on realized earnings to support state services increases.

INVESTMENT OF THE FUND

TARGET ASSET ALLOCATION — PORTFOLIO THEN AND NOW

To download a copy of the Trustees’ Paper — Volume 9, visit apfc.org.
When I began my role as CEO a little over four years ago, we were preparing to mark the 40th year of the Alaska Permanent Fund. The anniversary came with both excitement and trepidation, as there were clearly storms on the horizon and we knew we needed to position the Fund to weather many of those storms. This year we will commemorate the 40th anniversary of the Alaska Permanent Fund Corporation (APFC). As we look forward to celebrating with you the many APFC milestones and what they have meant for the success of the Fund, we acknowledge our work is not done. There are many challenges ahead, both here at home in Alaska and Outside, as we look to a global economy that is faltering and becoming increasingly volatile.

Balancing rewards versus risk is probably one of the most challenging aspects for APFC. As the saying goes, “There is no free lunch,” and so it is with investing. We recognize how dependent the State has become on us, and any time we debate how to increase returns we also debate whether or not the risk is worth it. The State now relies on the Alaska Permanent Fund Corporation to generate $0.47 of every $1.00 it is spending on unrestricted general fund expenditures for schools, snow plowing, state troopers, and dividends. We must regularly assess whether it is more important to “not lose money” and have a “known threshold” balance available for today’s needs, than to potentially lose it making higher risk/reward investments. Fortunately, we have a talented team of professionals who practice patience and discipline, and who understand the importance of this continuous balancing act.

Alaska is undergoing a great deal of change. Industries, workflow, and economic generation have all revolutionized over the last 40 years, and Alaska must now work to build new industries that capitalize on technology, data, climate and globalization. Over the years, our investment in Alaska has been through delivering returns, yielding dividends to Alaskans to the tune of more than $27 billion that were cycled back into the Alaska economy through consumer spending and saving. As we look to the future, we will be assessing opportunities for investment in Alaska versus our ability to invest in capital markets around the world — while ensuring we continue to deliver the returns Alaskans need to provide essential services. In this time of change, it is essential for us to maintain our center, our sense of balance. In doing so, we will all stand ready to face the many challenges ahead.

Angela Rodell
CEO, Alaska Permanent Fund Corporation

FUND PERFORMANCE — FUND VALUES AND RETURNS

CONTRIBUTIONS TO PRINCIPAL

The Principal’s value is comprised of:

- $17.3 B of Royalty Deposits — the State Constitution directs that at least 25% of Alaska’s mineral royalties (primarily oil royalties) be deposited into the Principal and State Statutes direct an additional 25% for leases after 1979.
- $17.2 B of Inflation Proofing — calculated on the deposits into the Principal of the Fund and the annual rate of inflation as provided for in the Statute to preserve its purchasing power over time.
- $11.0 B of Special Legislative Appropriations — contributions to ‘permanent savings’ appropriated by the Legislature from the ERA and the General Fund.
The Permanent Fund has two parts: Principal and the Earnings Reserve Account. This two-account system is unique to the Fund, as most classic endowments are structured as a single account with an annual draw mechanism.

The Principal is the permanent part of the Permanent Fund and is to be used only for income-producing investments per the constitutional amendment establishing the Fund. The Principal grows through royalty contributions, special appropriations, and inflation proofing. The Principal does not retain any of the realized gains on investments (above the cost basis of the original investment), nor does it receive the cash flow income from real estate properties and bond interest. For the Principal to preserve its value and purchasing power to benefit all generations, it is essential that it receives an annual appropriation to offset the effects of inflation. For FY20, the Alaska State Legislature funded inflation proofing and made a special appropriation of $4.0 billion from the ERA to the Principal of the Fund.

The Earnings Reserve Account is established in state law as an account to hold the net realized income from the Permanent Fund’s investment portfolio; it does not have a legislatively assigned investment mandate. The ERA is currently invested in the same asset allocation as the Principal but differs in that it is available for appropriation by the Legislature. SB26 Chapter 16 SLA 18, an important first step in codifying rules to establish a sustainable annual draw from the ERA, affirms the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund.

The Percent of Market Value (POMV) draw is based on a percentage of the average market value of the Fund for the first five of the preceding six fiscal years. The POMV methodology provides a certainty of liability for the management of the portfolio with a stable and predictable payout from year to year. The draw is subject to appropriation and is set in Statute at 5.25% for Fiscal Years 2019-2021 and 5.0% from Fiscal Year 2022 onward. The POMV draw in FY19 was $2.7 billion, in FY20 was $2.9 billion, and is $3.1 billion in FY21. The POMV draw for the Fund is limited not only by the statutorily allowable percentage, but is also limited by the amount that is available for appropriation in the ERA given the two-account structure of the Fund. There could be occasions when there is not sufficient realized income in the ERA to meet the maximum POMV draw.

To provide additional guidance on rules-based withdrawals, the Board passed Resolution 18-04 at a special meeting on October 17, 2018, outlining four fundamental policy provisions:

1. **Adherence** to the rules increases the likelihood that systematic draws from the Fund will be sustainable over time and will allow for the more prudent investment of the Fund due to the predictability of liquidity needs.
2. **Sustainability** requires that annual formulaic withdrawals from the ERA allow the Fund to grow annually by at least the rate of inflation.
3. **Inflation Proofing — AS 37.13.145(c)** preserves the purchasing power of the Principal and is the mechanism by which the Principal retains some value generated from the income-producing assets.
4. **Real Growth** is necessary to preserve intergenerational wealth as Alaska continues the extraction of its finite natural resources. Recognizing and executing on opportunities to grow the real value of the Fund will result in more income and thus higher sustainable draws in the future.

### ERA — USES OF THE REALIZED FUND INCOME

**FROM INCEPTION THRU SEPTEMBER 30, 2019 — THE FIRST QUARTER OF FY20**

The Fund has generated cumulated realized net income of more than $66 billion that has been deposited to the Earnings Reserve Account. Over the course of the past four decades, this net income has been used to pay current generations, saved for future generations, and a portion is undistributed and remains available for appropriation.

#### USES OF FUND INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Percent</th>
<th>Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PAID OUT TO CURRENT GENERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>8.9%</td>
<td>$3,377,600,000</td>
</tr>
<tr>
<td>Dividend Appropriations</td>
<td>36.8%</td>
<td>$26,426,300,000</td>
</tr>
<tr>
<td>Alaska Capital Income Fund (ACIF)</td>
<td>0.5%</td>
<td>$363,200,000</td>
</tr>
<tr>
<td><strong>Total Paid Out</strong></td>
<td>46.2%</td>
<td>$30,723,100,000</td>
</tr>
<tr>
<td><strong>SAVED FOR FUTURE GENERATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>25.9%</td>
<td>$17,225,900,000</td>
</tr>
<tr>
<td><strong>Total Saved</strong></td>
<td>32.5%</td>
<td>$21,566,200,000</td>
</tr>
<tr>
<td><strong>UNDISTRIBUTED REALIZED INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed to General Fund for FY21 POMV Draw</td>
<td>4.7%</td>
<td>$3,091,500,000</td>
</tr>
<tr>
<td>Committed to Principal Special Appropriations FY20</td>
<td>6.0%</td>
<td>$4,000,000,000</td>
</tr>
<tr>
<td>Committed to Inflation Proofing &amp; ACIF FY20</td>
<td>1.0%</td>
<td>$632,600,000</td>
</tr>
<tr>
<td>Earnings Available for Appropriations</td>
<td>9.6%</td>
<td>$636,400,000</td>
</tr>
<tr>
<td><strong>Total Undistributed Realized Income</strong></td>
<td>21.3%</td>
<td>$14,129,500,000</td>
</tr>
<tr>
<td><strong>TOTAL REALIZED INCOME</strong></td>
<td>100.0%</td>
<td>$66,420,800,000</td>
</tr>
</tbody>
</table>
# Guide to Alaska Permanent Fund Financial Statements

## Balance Sheets

### ASSETS: What the Fund owns.
Cash and temporary investments are liquid investments with maturities less than one year. Receivables include interest, dividends, and proceeds from the sale of investments that are yet to be received. The Investments section lists the fair value of each type of investment in the Fund. Securities lending collateral is the cash held in the Fund from parties that have borrowed securities for short-term use.

### LIABILITIES: What the Fund owes.
Accounts payable include amounts related to corporate operations as well as amounts owed for the purchase of investments yet to be paid. Income distributable to the State of Alaska represents the earnings to be transferred to the Alaska Capital Income Fund. Securities lending collateral is the cash collateral listed above that is to be paid back to the lending counterpart.

### FUND BALANCES: The assets remaining after the liabilities are paid.
The non-spendable section represents the fair value of the deposits and other appropriations into the Fund since inception, the Principal. This amount is protected from spending by the Alaska Constitution. The committed section includes two amounts appropriated by the Legislature: one for FY20 General Fund expenses, including the dividend, and one transferring $4 billion from the Earnings Reserve Account to Principal at the end of FY20. The assigned section represents the fair value of the Earnings Reserve Account, and the amount of net realized earnings available for appropriation.

## Statements of Revenues, Expenditures, & Changes in Fund Balances

### Revenues: What the Fund earns.
Revenues include interest, dividends, and other income generated by the investments of the Fund. This section includes the change in the fair value of the investments in each area of the portfolio over the course of the fiscal year.

### Expenditures: What it costs.
Expenditures are costs incurred to manage the Fund that are paid out of Fund earnings. Also included are expenses of other programs within the State of Alaska that are paid with revenues of the Fund.

### Other Financing Sources (Uses): Transfers in and out of the Fund.
Transfers in include dedicated mineral deposits as dictated by the Alaska Constitution and Statute as well as other legislative appropriations into the Fund. Transfers out are used to fund State programs as designated by the Legislature. All transfers in and out of the Fund are subject to appropriation by the Legislature.

### Fund Balances: What is left after revenues, expenses, and transfers.
This amount reflects assets under management and includes both the Principal and the ERA.

Please visit our website — apfc.org — to learn more about how APFC is investing the Alaska Permanent Fund.