Board of Trustees

Audit Committee Meeting

September 2, 2021

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APFC ALASKA PERMANENT FUND CORPORATION
801 W 10TH SUITE 302 | JUNEAU, AK 99801
907.796.1500 | apfc.org

Board of Trustees Audit Committee Meeting

September 2, 2021
8:00 – 11:00 a.m.

Atwood Conference Center 102/104
Anchorage, AK

Webinar Access (click link to join webinar)
Join via WebEx and enjoy the ability to listen on your computer and follow presentations:
https://apfc.webex.com/apfc/onstage/g.php?MTID=e546c8adca478207ca284f7309a7e7418
Event Password: APFCAudit

Teleconference Option
If you are unable to join in-person or via webinar, please contact us at (907) 796-1500 to receive a teleconference number

AGENDA

THURSDAY, SEPTEMBER 2, 2021

8:00 a.m. CALL TO ORDER

ROLL CALL (Action)

APPROVAL OF AGENDA (Action)

APPROVAL OF MINUTES (Action)
- Audit Committee Minutes – May 18, 2021

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

8:10 a.m. KPMG AUDIT REPORT (Information)
Mike Hayhurst, Engagement Partner, KPMG
Melissa Beedle, Engagement Manager, KPMG

9:00 a.m. EXECUTIVE SESSION #1 – KPMG - Discuss integrity of financial statements/controls

9:15 a.m. DETAILED REVIEW OF FY21 YEAR-END FINANCIAL STATEMENTS (Information)
Valerie Mertz, Chief Financial Officer, APFC
- FY21 Management's Discussion & Analysis
- FY21 Financial Statements
- FY21 Financial Statements Notes

9:45 a.m. EXECUTIVE SESSION #2 – Business Continuity and Disaster Recovery (BCDR)
Scott Balovich, Director of IT
Sara Race, Director of Business Operations

10:30 a.m. EXECUTIVE SESSION #3 – Regulatory Compliance
Sebastian Vadakumcherry, Chief Risk Officer

10:45 a.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS

11:00 a.m. ADJOURNMENT

NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS
(Please telephone Jennifer Thorsteinson at 907.796.1519 with agenda questions.)

SUBJECT: Approval of Minutes ACTION: __X__

DATE: September 2, 2021 INFORMATION:

BACKGROUND:

Staff reviewed the following Audit Committee meeting summary minutes, draft copies are attached for your approval.

- May 18, 2021 Audit Committee Meeting

RECOMMENDATION:

Approval of the summary minutes of the Board of Trustees committee meeting listed above.

ALASKA PERMANENT FUND CORPORATION

AUDIT COMMITTEE MEETING
WEBEX/TELECONFERENCE
May 18, 2021
2:30 p.m.

Originating at:
Alaska Permanent Fund Corporation
801 West 10th Street
David Rose Board Room
Juneau, Alaska 99801

SUMMARY MINUTES

Trustees Present:
Corri Feige, Chair
Steve Rieger
Ethan Schutt
William Moran
Craig Richards

Trust Staff Present:
Angela Rodell, CEO
Val Mertz, CFO
Chris Poag, General Counsel
Jennifer Thorsteinson
Jacki Mallinger
Paulyn Swanson
Nellie Metcalfe

Other Participants:
Mike Hayhurst, KPMG
Melissa Beedle, KPMG

PROCEEDINGS

CALL TO ORDER

CHAIR FEIGE called the meeting to order and began with a roll call

MS. THORSTEINSON stated that Trustee Moran was on his way and Trustee Schutt was present.

CHAIR FEIGE asked for a motion to approve the agenda.

APPROVAL OF AGENDA

MOTION: A motion to approve the agenda was made by TRUSTEE SCHUTT; seconded by TRUSTEE FEIGE.

There being no objection, the MOTION WAS APPROVED.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes of September 2, 2020 was made by TRUSTEE SCHUTT; seconded by TRUSTEE FEIGE.

There being no objection, the MOTION WAS APPROVED.

CHAIR FEIGE stated that Trustee Moran was on his way. His flight had been delayed. She asked for any scheduled appearances or public comment. There being no public comment, she continued to the fiscal year '21 KPMG audit preview.

FY21 KPMG AUDIT PREVIEW AND RISK ASSESSMENT REVIEW

MR. HEYHURST stated appreciation for the opportunity to present the audit plan and risk assessment and looked forward to being in person at the next meeting. He asked Ms. Beedle to continue the presentation.

MS. BEEDLE began by reaffirming their commitment to the Permanent Fund and strove to perform a quality audit with an exceptional client experience done through audit quality, client experience, productivity and providing relevant insights to the Fund and the Audit Committee. She moved to the high-level summary of the audit plan and explained how modernizing the audit experience has enhanced quality and efficiency, delivering an exceptional experience modeled by a responsive team enriched with audit insights.

CHAIR FEIGE asked if the modernization key elements were worked on specifically, or was it about IT, communication, data analytics and AI.

MS. BEEDLE replied that it was about data analytics and AI; using that was an overall picture. It also allowed taking the journal entries posted and extracting unusual items and pulling out other insights from that directly. She added that in the future it will be more standardization of the audit process in general. She continued about some of the cyber security risks and moved to the required communications under AICPA and Government Auditing Standards. She added that the lead audit engagement partner is Mike Hayhurst. She stated that the purpose of the audit is to issue an opinion as to whether the financial statements are free of material misstatements and are presented in accordance with Generally Accepted Accounting Principles.

CHAIR FEIGE stated that the scope of the audit mentioned that it was not for the purposes of expressing an opinion on the effectiveness of the entity's internal controls for reporting. She asked at what point of the audit would the opinion on whether the internal controls are appropriate be expressed.

MR. HAYHURST replied that came back when the PCAOB was put in place. For public companies that filed with the SEC, an integrated audit is performed, which is a requirement. That meant a significant number of tests on all the significant controls that address any potential

point where an error could be made and then ultimately reissue an opinion on the financials, as well as an opinion on internal controls over financial reporting. He added, that was not a level of work done for private companies or a company that does not file with the SEC, so there is no point where an opinion is issued.

MS. BEEDLE stated that, as part of the audit, an opinion is issued given a level of materiality. That materiality is a judgment call by the audit team and audit partners involved in the engagement. She continued that the deadline started with planning and risk procedures with the work to continue through August with the plan to be in a position to issue the audit opinion shortly after the September 2nd Audit Committee meeting. She moved to the two significant risks identified in the audit process: The first one related to management override of controls which was specific to all entities, whether public or not public. Management is in a position to post top-sided journal entries to the financial statements that do not go through the normal review and approval process, but then we do perform additional procedures and audit those. She stated that the other significant risk identified related to the valuation of alternate investments. She explained that this related to the timing of the lag and when the valuations were reported to the Permanent Fund versus what was actually recorded in the financial statements.

MS. MERTZ explained that each of the fund investments are required to have an annual audit. Their valuations that are put into the statements are being sent, and they ultimately end up in the audited valuations. Then all of those are submitted to KPMG as a part of the audit. She added that there is a robust audit review process where everything is looked at to make sure that the firm is reputable, the opinion is clean. Ultimately, KPMG has valuation experts that test that work.

MS. BEEDLE pointed out that the valuation of real estate and the real estate portfolio are considered an additional risk, and more time is spent reviewing those, involving a specialist to review the appraisals and evaluations. She stated that management and the Fund are relied on to talk about any changes on the board of trustees or management or any significant changes in the investments that need to be addressed before the audit opinion is issued. She added that management and the Audit Committee are responsible for the financial reporting, and there are a couple of internal controls to support that appropriate reporting. The audit does not relieve management or the Audit Committee of their duties.

CHAIR FEIGE asked to talk about the cyber security considerations and develop them in more detail. She asked how the modernization of the audit process was being expanded to cyber security.

MR. HAYHURST replied that the process was actually started, and it has been in place for a couple of years as part of the audit.

MS. BEEDLE stated that the controls the Permanent Fund has in place has been looked at, and we have been engaged to look at those specifically related to setting up new vendors and how wire transfers get put out.

CHAIR FEIGE thanked all and noted that Trustee Rieger and Trustee Richards have joined the meeting.

FY 21 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW

CHAIR FEIGE moved on to the financial statement review and recognized Ms. Mertz.

MS. MERTZ stated that this item is required by the governance manual to update the committee on the financial results to date, which is through March, at this point. She began by introducing Jacki Mallinger who joined APFC in the summer of 2016 as a summer intern, and was brought on as a permanent employee before her internship was over.

MS. MALLINGER stated that she had been with the Fund now for five years and her main focus is financial reporting, and helping to coordinate the annual audit.

MS. MERTZ began the presentation with some high-level highlights from the first three quarters of fiscal year '21 and stated that the accounting net income included the unrealized gains that the portfolio experienced over the year.

CHAIR FEIGE stated, for the record, that Trustee Moran joined the meeting.

MS. MERTZ continued and reminded all that GAAP required that the investments be recorded at fair value, and then changes in the fair value of investments could be due to rebalancing within the portfolio or redemptions to meet liquidity needs and then just general investment performance. Here presentation continued onto liabilities and then the last section of the balance sheet was Fund balance. She went through the three components to Fund balance, non-spendable, committed, and assigned. The committed and assigned components make up the earnings reserve amount. She added that each component is invested together under a single asset allocation.

MS. MALLINGER moved to the components and stated that the nonspendable portion of the Fund balance is what is referred to as principal and it not available for Government appropriation. She explained that the principal contains the corpus which includes mineral deposits and other appropriations, such as inflation-proofing. Then the principal also contains unrealized gains applicable or attributable to the corpus itself. She stated that another component of Fund balance is the committed portion that represents amounts that have been appropriated by the Legislature for use in the next fiscal year. She continued the presentation to the last component of Fund balance that is the assigned portion, also referred to as the spendable portion as it is available for future appropriation by the Legislature. The assigned portion represents accumulated net earnings of the Fund inception to date that have not already been transferred out.

MS. MERTZ continued through the statement of revenue expenditures and changes in Fund balance, and stated that there were two components to revenue. The first is cash-flow income which includes interest on bonds, dividends on stock, real estate, distributions off of the private equity funds that are held. The second component of revenue is the total increase in the fair value of investments which is broken out by asset class. She explained what was driving real estate and other income, and then moved to the expenditures area, tracking the operating expenditure line.

AUDIT COMMITTEE SELF-ASSESSMENT

CHAIR FEIGE moved on to the Audit Committee Self-Assessment and asked Ms. Mertz to open

the discussion.

MS. MERTZ stated that another requirement of the Audit Committee Charter is that the committee do a self-assessment annually; historically done at the May meeting. She continued that a self-assessment form which came from KPMG had been distributed to the committee members in advance of the meeting. She added that it is for discussion purposes and just has the committee assess where they are and also where they feel staff is and where the auditors are in terms of complying with the various requirements of the charter.

CHAIR FEIGE asked Trustee Schutt and Trustee Moran to take a run at the self-assessment form and added that it would be good to identify their thoughts and concerns. She identified a question about the visibility to any legal actions that the Fund is engaged in and if there were any out there that the committee should be aware of.

MR. POAG stated that the charter suggested that every year he is supposed to tell the committee about any legal matters that could have a material impact on the Fund's financial statements. The parameters given by KPMG in the past was a lawsuit that could result in an outflow of money in excess of $1 million. He disclosed that there was one matter that fit into parameter. There is $1.34 million at stake with the chances of having to pay that being extremely remote. He explained that the case had been going on for 11 years and is nearing the end. But it will not end this year and may be another year or two. The matter had to do with a publicly traded company that was having some financial difficulty in 2007 and it was decided to go from a public company to a private company. Through a leveraged buyout, all the shareholders received about $8 million in payments and then turned in their shares which the company bought back. APFC, through various public equity holdings, received $10.43 million in merger payouts, but the decision to go private did not save the company from financial problems and the company went bankrupt in one year. In bankruptcy, the company had a ton of debt and very little assets. The unsecured creditors were frustrated because there were no assets to be distributed. They constituted an unsecured creditors committee, and they launched a series of lawsuits. The only place there was to get money was the shareholders that received the payments. They started a nominal class action against the shareholders who received payments. He explained the claims and stated that what remains is the intentional fraudulent conveyance claims which the District Court for the 2nd Circuit of New York granted a motion to dismiss on, but is now on appeal. That would require the plaintiffs to show that there was intent to defraud the creditors and that happened within one year of the transfer. It appears that the good news is that the $1.34 million will be kept by the Fund.

CHAIR FEIGE stated that was what she had flagged and moved to other matters and future agenda items.

OTHER MATTERS/FUTURE AGENDA ITEMS
CHAIR FEIGE requested expanding the discussion on the cyber security piece at the next Audit Committee meeting. She would like to understand what the redundancies are, what adaptations have been made by moving into a digital platform as a result of COVID. She added that if there were any other specific COVID adaptations generally across internal controls or across internal reporting to also be included. She asked for anything else from the committee.

TRUSTEE MORAN stated total support in looking at cyber security, and to see how much

advanced in the last six months or so.

CHAIR FEIGE asked for a motion to adjourn.

MOTION: A motion to adjourn the meeting was made by TRUSTEE MORAN.

The MEETING WAS ADJOURNED.

(Audit Committee adjourned at 4:03 p.m.)

Alaska Permanent Fund Corporation

Discussion with Those Charged with Governance

Audit results for the year ending June 30, 2021

September 2, 2021

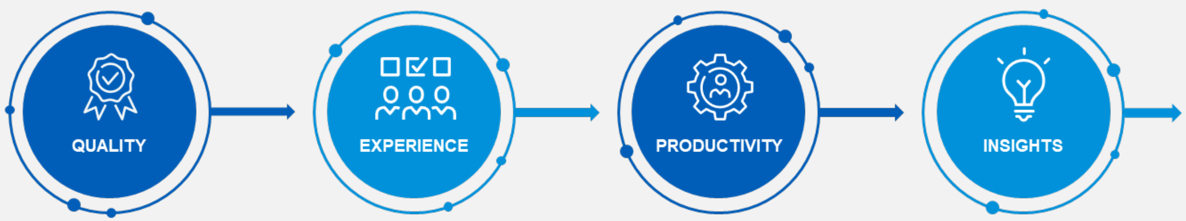
Our commitment to you

Delivering a better audit experience drives us.

With KPMG you can expect an experience that's better for your team, organizations and the capital markets. An experience that's built for a world that demands agility and integrity.

See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

We aim to deliver an exceptional client experience for the Permanent Fund by focusing on:



Required Communications to Those Charged with Governance

Summary: Audit results required communications and other matters

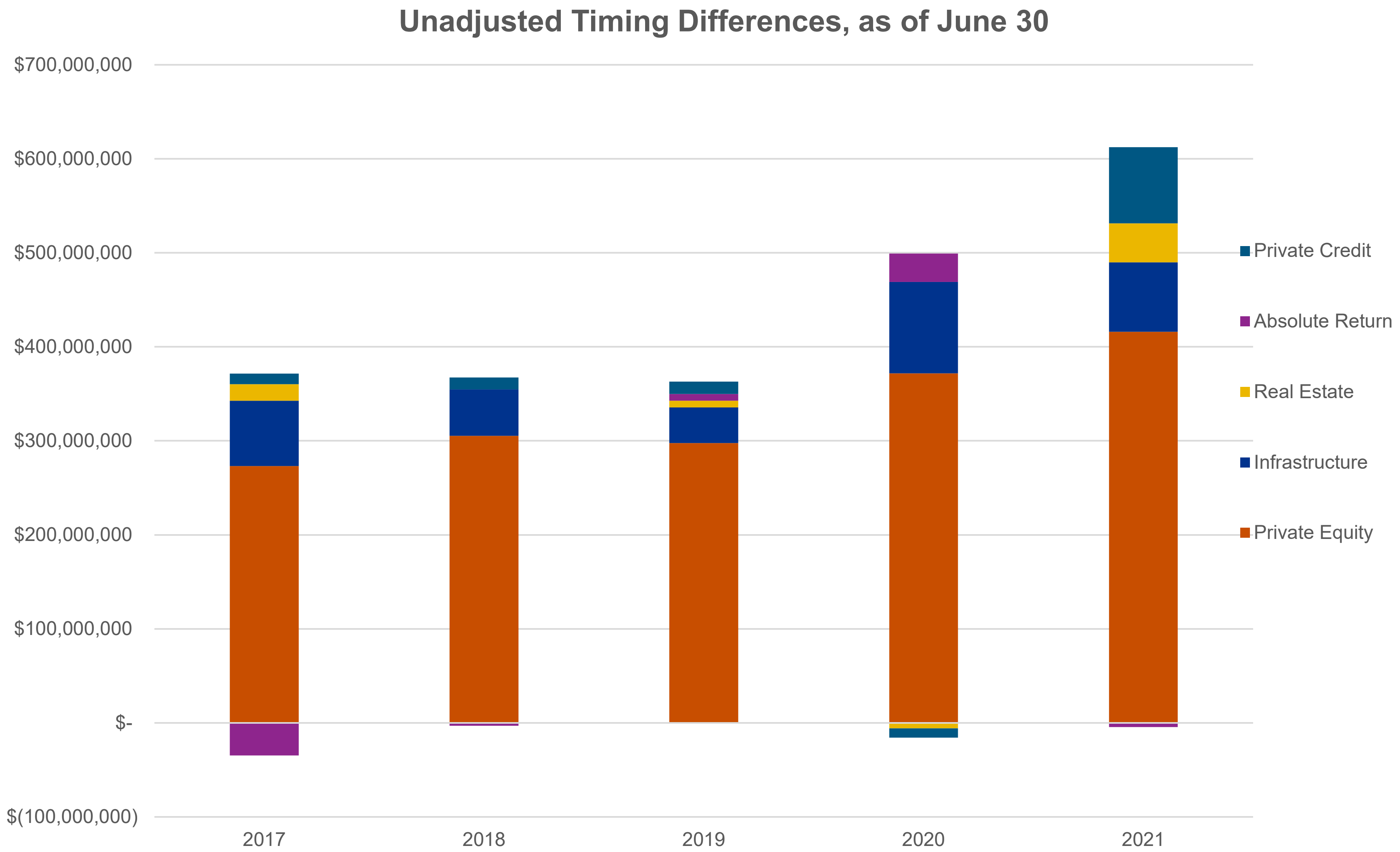
Audit results

	Response
Outstanding matters	Final quality review of the financial statements Management representation letter
Significant unusual transactions	No significant unusual transactions identified during the audit.
Uncorrected audit misstatements	Slide to be provided at meeting
Corrected audit misstatements	No corrected misstatements identified during the audit.
Financial presentation and disclosure omissions	No matters to communicate.
Non-GAAP policies and practices	No matters to communicate
Material weaknesses and significant deficiencies in internal control	No matters identified
Auditors' report	No matters identified
Changes to our risk assessment and planned audit strategy	No matters to report
Significant accounting policies and practices	No matters to report
Significant accounting estimates	See slides 7-8
Related parties	No matters to report
Going concern	No matters to report
Other information	The audit team will obtain the draft of the annual report and review for consistency with the audited financial statements when available.

Summary: Audit results required communications and other matters

Audit results		Response
	Subsequent events	No matters to report
	Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	Noncompliance with laws and regulations	No matters to report
	Significant difficulties encountered during the audit	No matters to report
	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report
	Management's consultation with other accountants	No matters to report
	Difficult or contentious matters for which the auditor consulted	No matters to report
	Disagreements with management	No matters to report
	Other significant matters	No matters to report
	Written communications	Management representation letter, including summary of uncorrected misstatement to be distributed under separate covers

Uncorrected audit misstatements



Significant accounting policies and practices

Description of significant accounting policies and practices	Audit findings
— The Fund's policies are disclosed in Note 2 to the financial statements and are consistent with prior years. — Governmental Accounting Standards (specifically GASB Statement No. 54) provides guidance on the classification of Fund Balance.	**Qualitative aspects** — We did not identify indication of significant elements of management bias when reviewing these policies.

Significant accounting estimates

Description of significant accounting estimates

— Valuation of directly owned real estate investments

Audit findings

Management's process used to develop the estimates

— Management uses a third party, Cushman & Wakefield, to manage the appraisals of the directly held real estate assets. Each property is valued quarterly by third party advisors and annually through an appraisal performed by a third-party selected by Cushman & Wakefield. Management reviews the assumptions used within the valuations for reasonableness.

Significant assumptions used that have a high degree of subjectivity

— Assumptions used in the determination of the valuation that have a degree of subjectivity include management estimates related to vacancy and renewal probability, rent growth and expense growth. None of these assumptions are presumed to include a significant risk for our audit.

Indicators of possible management bias

— There were no indicators of possible management bias identified during our audit of this estimate.

Conclusions

— We determined that the methods used by management and the valuations recorded by management are reasonable and not affected by indicators of management bias.

Significant accounting estimates

Description of significant accounting estimates

— Valuation of private investments

Audit findings

Management's process used to develop the estimates

— Management receives periodic capital statements from external fund managers. These capital statements are the starting point to estimate fair value of each private investment and are adjusted for any contributions or distributions made during the period and any other factors management believes impact fair value.

Significant assumptions used that have a high degree of subjectivity

— None

Indicators of possible management bias

— There were no indicators of possible management bias identified during our audit of this estimate.

Conclusions

— We determined that the methods used by management and the valuations recorded by management are reasonable and not affected by indicators of management bias.

Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at www.kpmg.com/ACI

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APFC ALASKA PERMANENT FUND CORPORATION
801 W 10TH SUITE 302 | JUNEAU, AK 99801
907.796.1500 | apfc.org

SUBJECT: Review of Year-End Financial Statements ACTION: ____________

DATE: September 2, 2021 INFORMATION: X

BACKGROUND:

The corporate governance manual requires the Audit Committee to review the annual audited financial statements prior to filing or distribution of the final report

STATUS:

The financial audit for fiscal year 2021 will be completed by KPMG with a report date of September 2nd. The reports were still being finalized at the packet deadline. A draft of management's discussion and analysis, the financial statements and the footnotes are included here. Significant changes, if any, will be highlighted during the presentation of FY2021 year-end results.

APFC ALASKA PERMANENT FUND CORPORATION

Detailed Review of FY21 Year-End Financial Statements

September 2, 2021

Highlights

- Accounting net income: $19.4b
- Statutory net income: $7.9b
- Mineral revenues deposited to corpus: $320m
- Inflation rate for FY21 1.23%, $577m
- FY21 POMV transfers to General Fund, $3.1b
- Total return 29.73%

Total Assets (millions)

Assets		FY21	FY20
	Cash	$5,828.4	$4,815.9
	Receivables	787.7	2,194.7
	Investments	77,931.8	60,894.0
	Securities lending collateral	4,348.8	1,540.2
	Total Assets	$88,896.7	$69,444.8

Investments (millions)

Investments at Fair Value		FY21	FY20
	Marketable debt securities	$16,438.4	$13,595.5
	Preferred and common stock	30,471.8	25,109.8
	Real estate	5,662.7	4,303.6
	Absolute return	5,170.6	4,288.5
	Private equity	15,294.4	9,803.9
	Infrastructure	2,636.8	1,902.3
	Private credit	2,257.1	1,890.4
	Total Investments	$77,931.8	$60,894.0

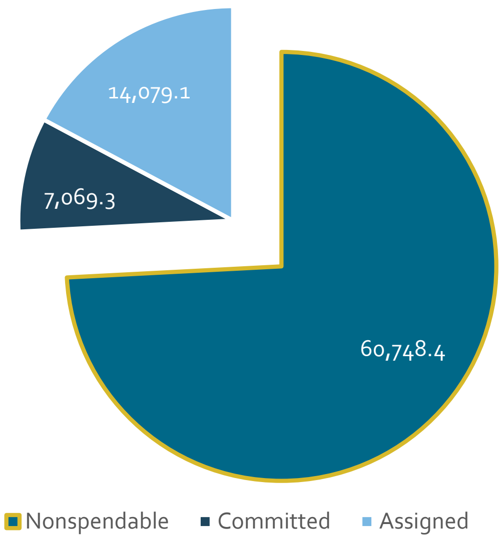
Liabilities (millions)

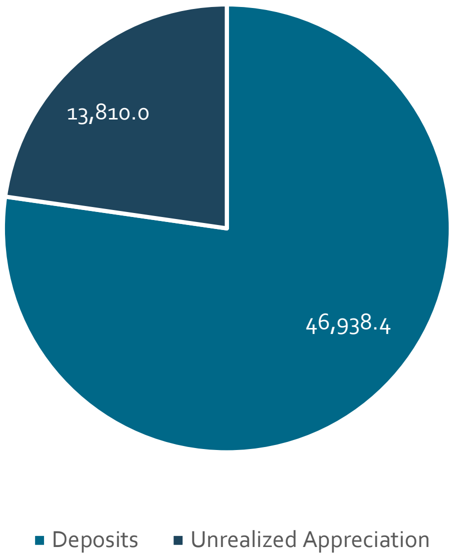
Liabilities		FY21	FY20
	Accounts Payable	$2,601.0	$2,581.9
	Income Distributable	50.1	20.5
	Securities Lending Collateral	4,348.8	1,540.2
	Total Liabilities	$6,999.9	$4,142.6

Fund Balances (millions)

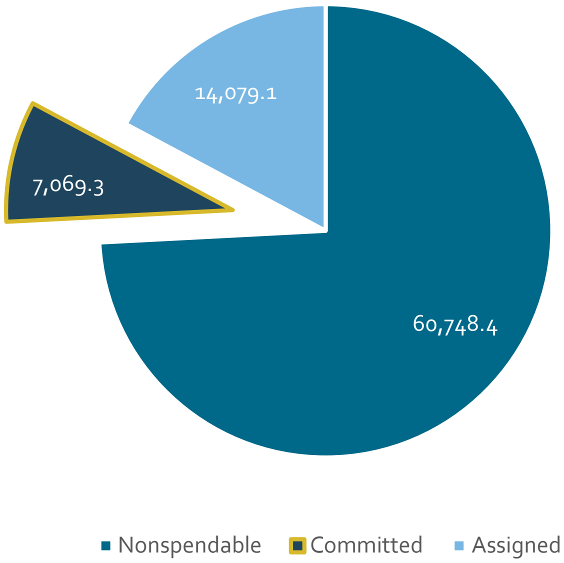
Fund balances		FY21	FY20
	Nonspendable	$60,748.4	$52,408.1
	Committed	7,069.3	3,091.5
	Assigned	14,079.1	9,802.6
	Total fund balances	$81,896.8	$65,302.2
	Total liabilities and fund balances	$88,896.7	$69,444.8

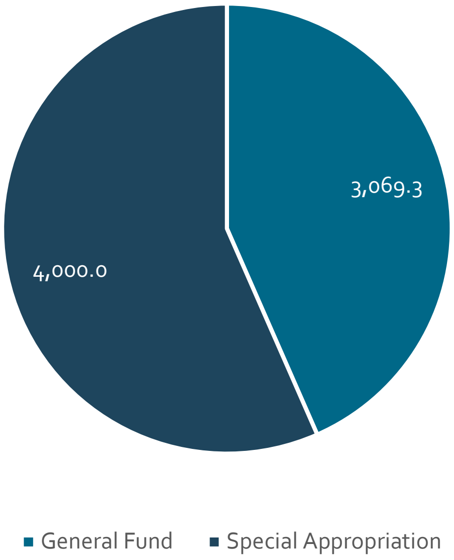
Nonspendable





Committed


14,079.1
7,069.3
60,748.4
Nonspendable
Committed
Assigned


3,069.3
4,000.0
General Fund
Special Appropriation

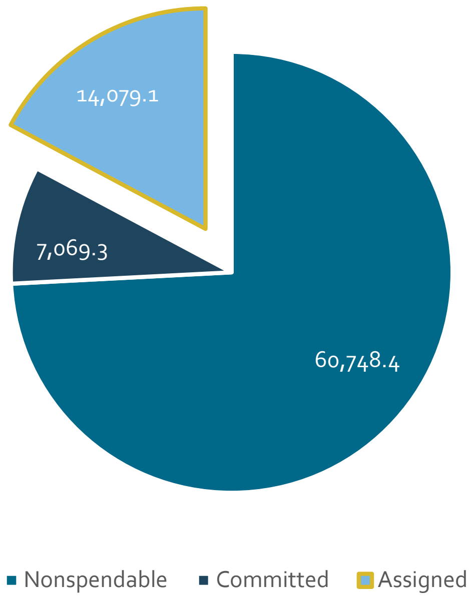
FY22 General Fund Transfer Calculation

ALASKA PERMANENT FUND			
GENERAL FUND COMMITMENT			
FISCAL YEAR ENDING JUNE 30, 2021			
(millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2016	52,770	424	52,345
2017	59,785	424	59,361
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
		Average market value	61,386
		PERCENTAGE from AS 37.13.140(b)	5%
		Amount available for appropriation per AS 37.13.140(b)	3,069.3

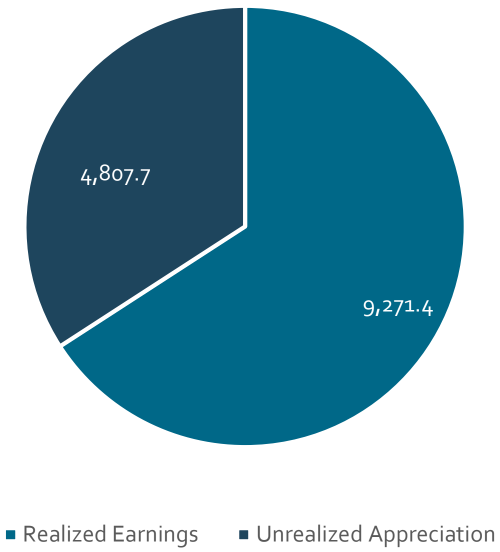
FY23 General Fund Transfer Calculation

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2022 (millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2017	59,785	424	59,361
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,473
		Average market value	67,212
		PERCENTAGE from AS 37.13.140(b)	5%
		Amount available for appropriation per AS 37.13.140(b)	3,360.6

Assigned



14,079.1
7,069.3
60,748.4
Nonspendable
Committed
Assigned



4,807.7
9,271.4
Realized Earnings
Unrealized Appreciation

Revenues (millions)

Revenues		FY21	FY20
	Interest	$436.5	$492.9
	Dividends	558.1	515.3
	Real estate and other income	530.2	394.7
	Total interest, dividends & other income	$1,524.8	$1,402.9
	Total increase (decrease) in fair value of investments	18,066.4	361.8
	Total Revenues	$19,591.2	$1,764.7

Net Change in Investments Value (millions)

Net increase (decrease) in fair value	FY21	FY20
Marketable debt securities	$174.4	$433.9
Preferred and common stock	11,200.7	40.7
Real estate	157.8	(456.4)
Absolute return	686.0	44.4
Private equity	5,823.1	886.0
Infrastructure	463.6	(347.9)
Private credit	278.4	(5.1)
Derivatives & Currency	(717.6)	(233.8)
Total net increase (decrease)	$18,066.4	$361.8

Expenditures (millions)

Expenditures		FY21	FY20
	Operating expenditures	$(166.2)	$(120.4)
	Other legislative appropriations	(8.4)	(7.8)
	Total expenditures	$(174.6)	$(128.2)
	Excess of revenues over expenditures	$19,416.6	$1,636.5

Statutory Net Income (millions)

	FY21	FY20
Accounting (GAAP) net income	$19,416.6	$1,636.5
Unrealized (gains) losses	(11,404.1)	1,490.0
ACIF realized income	$(50.1)	$(20.5)
Statutory net income	$7,962.4	$3,106.0

Changes in fund balances (millions)

Other financing sources (uses)		FY21	FY20
	Transfers in	$319.6	$319.0
	Transfers out	(3,141.6)	(2,953.6)
	Net change in fund balances	$16,594.6	$(998.1)
Fund balances	Beginning of period	$65,302.2	$66,300.3
	End of period	$81,896.8	$65,302.2


Questions?

Management’s Discussion and Analysis

The Alaska Permanent Fund Corporation (“APFC”) management is pleased to provide this Management’s Discussion and Analysis (“MD&A”) of the financial activities of the Alaska Permanent Fund (“Fund” or “Permanent Fund”) for the fiscal years ended June 30, 2021 and June 30, 2020. This narrative is intended to provide management’s insight into the results of operations from the past two fiscal years and highlight specific factors that contributed to those results. The MD&A is comprised of three sections: financial highlights, discussion regarding use of the financial statements, and analysis of the financial statements; the sections should be reviewed together with the financial statements and related notes that follow it.

Financial Highlights

- In response to the COVID-19 pandemic, APFC staff seamlessly transitioned to remote work in March, 2020 and spent most of FY2021 out of the office. There was no disruption to the portfolio as remote capability allowed staff to support extraordinary portfolio activity resulting from pandemic market volatility.
- Public markets experienced unprecedented growth as the recovery from the depths of the COVID-19 pandemic continued throughout the year. The Fund ended the fiscal year (“FY”) at an all-time high of 29.73 percent total return. Total return for the Fund has exceeded 25 percent only one other time in its history, in FY1985 with a return of 25.58 percent. Total fund return for FY2021 outperformed the performance benchmark of 27.75 percent by 198 basis points.
- FY2021’s excess of revenues over expenditures (net income) was $19.4 billion. This represents a large increase from FY2020 of $1.6 billion and is also significantly higher than FY2019’s level of $3.8 billion.
- During FY2018, legislation was passed which, subject to appropriation, provides for a transfer from the Earnings Reserve Account to the General Fund to help balance the State’s budget. The amount of the transfer is based upon a percentage of the average market value of the Fund at the end of the first five of the preceding six fiscal years. The funding for the Alaska Permanent Fund dividend is then transferred from the General Fund. The June 30, 2020 balance sheet reflects a $3.1 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2021. The June 30, 2021 balance sheet reflects a $3.1 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2022.
- The portion of dedicated State of Alaska revenues deposited into the principal (or “corpus”) of the Fund is based on mineral prices and production. In FY2021, this amount came in at $320 million, just above FY2020’s deposits of $319 million.
- Inflation proofing of the Fund’s corpus is outlined in Alaska Statute and, like the transfer to the General Fund, is subject to appropriation. In FY2020, the inflation rate was 1.81 percent, resulting in a transfer of $758 million to the corpus. In FY2021, the inflation rate was 1.23 percent, but because there was no appropriation included in the FY2021 budget, no transfer was made. There was also no appropriation for inflation proofing for FY2016 – FY2018. If appropriated, the transfers for all four years would have totaled $2.0 billion.
- During FY2021, legislation was passed to transfer $4 billion from the Earnings Reserve Account to the corpus in FY2022. This amount is reflected as committed fund balance on the June 30, 2021 balance sheet. The transfer was completed on July 1, 2021.

Using the Financial Statements

This section of the MD&A aims to provide an introduction to the Fund’s required financial statement components which include: Balance Sheets; Statements of Revenues, Expenditures and Changes in Fund Balances; and Notes to the Financial Statements.

Balance Sheets

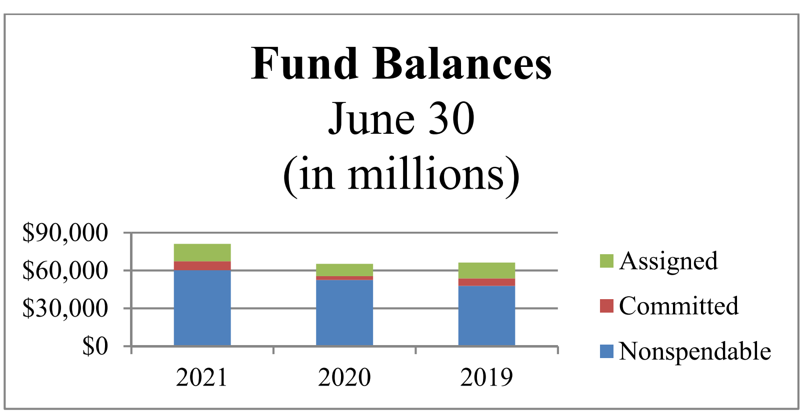
The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2021, as well as the prior fiscal year's ending balances at June 30, 2020.

Assets are grouped into broad categories for ease of readability and analysis. Receivables include cash not yet received from the sale of investments, as well as dividends and interest receivable from stock and bond holdings. Investments are broken out by traditional asset class and are shown at market value. The securities lending cash collateral (cash received from the borrower on loans of securities that is returned to the borrower once the loan is terminated without default) is shown as an asset.

Liabilities on the Balance Sheets primarily consist of obligations for investments purchased but not yet settled (shown in the accounts payable grouping), the amount payable to the State of Alaska for the Alaska Capital Income Fund (ACIF), and the securities lending cash collateral that is returned to borrowers of the Fund's stocks and bonds when the borrowers return those loaned assets to the Fund.

In the graph set forth below, fund balances are shown in three categories: nonspendable, committed, and assigned.

- The largest category is nonspendable (74 percent as of June 30, 2021) which is not available for government appropriation by the State of Alaska.
- Committed fund balance (9 percent as of June 30, 2021) represents amounts that have been signed into law before the end of the fiscal year, for transfer to another account or purpose during the subsequent fiscal year. In both years, this includes the legislation which took effect at the beginning of FY2019, which provides for a percent-of-market-value transfer from the Earnings Reserve Account to the General Fund. For FY2021, it also includes legislative action to transfer an additional $4 billion from the Earnings Reserve Account to the corpus. A special legislative session is currently underway that may result in additional transfers out of the Earnings Reserve Account. These transfers will be recorded when they have been appropriated.
- The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance increased by 44 percent from FY2020 to FY2021, from $9.8 billion to $14.1 billion. Generally, five factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses (statutory net income); the State of Alaska general fund transfer; inflation proofing (a transfer of assets from the assigned to the nonspendable fund balance); special appropriations out of the Earnings Reserve Account; and the change in unrealized gains and losses allocated to the assigned fund balance. During FY2021, the amounts contributing to the net increase of approximately $4.3 billion in the assigned fund balance were:
    - (i) realized income of $8.0 billion;
    - (ii) the commitment of $3.1 billion for transfer to the General Fund;
    - (iii) the commitment of a $4 billion transfer from realized earnings to principal; and
    - (iv) the allocation of a portion of unrealized gains and losses, which increased from FY2020 to FY2021 by $3.4 billion, to a balance of $4.8 billion.



Statements of Revenues, Expenditures and Changes in Fund Balances

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the 12 months in FY2021 and FY2020.

Revenues are shown in two sections on the statement, separating cash receipts of various investment holdings such as interest, dividends, and real estate rental income, from the change in value of investment holdings. The first section of the revenues also includes miscellaneous income such as class action litigation proceeds and securities lending income. The second section of revenues ("Net increase (decrease) in the fair value of investments") includes both realized and unrealized gains and losses on investments. Realized gains and losses are produced only through the sale of investments, while unrealized gains and losses are the result of changes in the fair value of investments without the sale of those investments. Realized and unrealized gains and losses are summarized by asset class to match the groupings on the Balance Sheets and represent the total net increase or decrease for the year in each asset category.

To derive the total net change in fund balances from the prior year to the current year, the Statements of Revenues, Expenditures and Changes in Fund Balances also includes the Fund's expenditures and other sources and uses of funds. Operating expenditures include fees paid to external investment managers, salaries of APFC employees, and other routine operating costs such as rent, travel, and legal fees. Other legislative appropriations made through the State's annual budget process are obligations for support services received from other State of Alaska departments.

Dedicated State revenues transferred into the Fund's principal are based on a percentage of mineral revenues that the State receives. Transfers out of the Fund are the percent-of-market-value transfer to the General Fund and the annual deposit to the Alaska Capital Income Fund (ACIF).

Notes to the Financial Statements

The Notes to the Financial Statements are an essential element to fully understanding all financial aspects of the Fund and to interpreting the major components of the financial statements. The Notes to the Financial Statements can be found immediately following the Statements of Revenues, Expenditures and Changes in Fund Balances.

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double-digit ratios (excluding securities lending collateral, held separately by the custodian for repayment to the borrower upon a loan's completion), the nonspendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund, and provides a comparison of the change between balances at June 30, 2021 and 2020.

Balance Sheets	June 30 2021	2020	Net change	Percent
Assets				
Cash and temporary investments	$ **5,828,413,000**	4,815,872,000	1,012,541,000	21%
Receivables, prepaid expenses and other assets	**787,673,000**	2,194,723,000	(1,407,050,000)	(64)%
Investments	**77,931,831,000**	60,893,991,000	17,037,840,000	28%
Securities lending collateral	**4,348,802,000**	1,540,240,000	2,808,562,000	182%
Total assets	$ **88,896,719,000**	69,444,826,000	19,451,893,000	28%
Liabilities				
Accounts payable	**2,601,006,000**	2,581,892,000	19,114,000	1%
Income distributable to the State of Alaska	**50,116,000**	20,492,000	29,624,000	145%
Securities lending collateral	**4,348,802,000**	1,540,240,000	2,808,562,000	182%
Total liabilities	$ **6,999,924,000**	4,142,624,000	2,857,300,000	69%
Fund balances				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	**46,938,431,000**	46,618,846,000	319,585,000	1%
Unrealized appreciation on invested assets	**13,809,979,000**	5,789,217,000	8,020,762,000	139%
Total nonspendable	**60,748,410,000**	52,408,063,000	8,340,347,000	16%
Committed:				
General Fund appropriation	**3,069,296,000**	3,091,493,000	(22,197,000)	(1)%
Permanent Fund corpus	**4,000,000,000**	—	4,000,000,000	n/a
Total committed	**7,069,296,000**	3,091,493,000	3,977,803,000	129%
Assigned for future appropriations:				
Realized earnings	**9,271,412,000**	8,378,305,000	893,107,000	11%
Unrealized appreciation on invested assets	**4,807,677,000**	1,424,341,000	3,383,336,000	238%
Total assigned	**14,079,089,000**	9,802,646,000	4,276,443,000	44%
Total fund balances	$ **81,896,795,000**	65,302,202,000	16,594,593,000	25%
Total liabilities and fund balances	$ **88,896,719,000**	69,444,826,000	19,451,893,000	28%

The value of the Fund's assets, excluding securities lending collateral, increased greatly between June 30, 2020 and June 30, 2021. The value of the Fund's assets is most significantly impacted by investment performance. Comparative performance for each asset class is shown below:

	FY2021	FY2020
Public Equity	**46.92%**	0.41%
Fixed Income	**3.68%**	4.19%
Private Equity & Special Opportunities	**64.61%**	1.94%
Real Estate	**1.41%**	-0.16%
Infrastructure & Private Income	**18.06%**	-0.39%
Absolute Return	**12.40%**	1.46%
Asset Allocation	**not available**	-0.25%
Risk Parity	**23.32%**	not available
Cash	**not available**	not available
TOTAL FUND	**29.73%**	2.01%

The ending values of securities lending collateral invested and the related liability are dependent upon the amount of securities out on loan on any particular day. These values can change significantly from day to day and year to year, depending on activity in the market. The average value of assets on loan during FY2021 was $9.9 billion, with a low of $7.5 billion and a high of $11.6 billion. The Fund had earnings from securities lending of $23.7 million during FY2021, a significant decrease from $31.4 million received in FY2020.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due, but not yet settled, on securities purchased. The open transactions can vary widely from day to day and are usually the largest portion of Fund payables, representing 99 percent of both FY2021 and FY2020 accounts payable balances. The increase of $19 million from FY2020 to FY2021 was primarily due to an increase in pending public equity purchases caused by rebalancing at the end of the fiscal year.

The sole amount due to the State of Alaska at the end of FY2021 and FY2020 is the transfer to the Alaska Capital Income Fund (ACIF). This amount is calculated based on realized earnings and was $50.1 million for FY2021 and $20.5 million for FY2020. The $30 million dollar increase from the prior year is caused by much higher realized returns in FY2021 versus FY2020.

Total fund balance increased by 25 percent from FY2020 to FY2021, or $16.6 billion, consistent with the 29.7 percent total return for the year and the net transfers out of the Fund. Components of this increase were $1.5 billion in stock dividends, bond interest, and cash flow income from other investments, $320 million in dedicated mineral deposits, and an increase in the fair value of investments of $18.1 billion offset by operating expenses and other appropriations of $175 million and the General Fund transfer of $3.1 billion. Deposits from the State of Alaska were up less than 1 percent from the FY2020 dedicated revenues of $319 million.

In comparison, total fund balance decreased from FY2019 to FY2020 by 2 percent, or $1 billion, due to net income of the Fund of $1.6 billion and transfers in (State dedicated mineral revenues of $319 million) offset by transfers out (General Fund of $2.9 billion and ACIF of $21 million).

The table below is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY2021 as compared to FY2020 are shown in both dollars and percentages.

Statements of Revenues, Expenditures and Changes in Fund Balances	Year Ended June 30 2021	2020	Net change	Percent
Revenues				
Total interest, dividends, real estate and other income	$ **1,524,731,000**	1,402,898,000	121,833,000	9%
Total net increase in the fair value of investments	**18,066,481,000**	361,738,000	17,704,743,000	4,894%
Total revenues	**19,591,212,000**	1,764,636,000	17,826,576,000	1,010%
Expenditures				
Operating expenditures	**(166,151,000)**	(120,382,000)	(45,769,000)	38%
Other legislative appropriations	**(8,444,000)**	(7,792,000)	(652,000)	8%
Total expenditures	**(174,595,000)**	(128,174,000)	(46,421,000)	36%
Excess of revenues over expenditures	**19,416,617,000**	1,636,462,000	17,780,155,000	1,086%
Other financing sources (uses)				
Transfers in – dedicated State revenues	**319,585,000**	319,049,000	536,000	—%
Transfers out – appropriations	**(3,141,609,000)**	(2,953,576,000)	(188,033,000)	6%
Net change in fund balances	**16,594,593,000**	(998,065,000)	17,592,658,000	(1,763)%
Fund balances				
Beginning of period	**65,302,202,000**	66,300,267,000	(998,065,000)	(2)%
End of period	$ **81,896,795,000**	65,302,202,000	16,594,593,000	25%

During FY2021, cash flow revenue from interest, dividends, real estate, and other sources was slightly higher than FY2020 levels at $127 million per month on average, up from $117 million per month on average in FY2020. Cash flow income for both FY2021 and FY2020 was lower than the average in FY2019 of $130 million per month.

The change in the fair value of investments increased by 4,894 percent from $362 million in FY2020 to $18.1 billion in FY2021. The public and private equity portfolios experienced unprecedented gains during FY2021 following the extreme drawdowns in value during FY2020 due to the COVID-19 pandemic. FY2020's change in fair value of investments was an 85 percent decrease from the $2.4 billion gain in FY2019, reflective of the pandemic's effect on the markets in FY2020.

Operating expenditures increased from FY2020 to FY2021 by 38 percent. This increase is in contrast to the decrease experienced between FY2019 and FY2020 of 9 percent. The volatility between years is mainly caused by fluctuations in amounts paid in investment management fees. Investment management fees depend upon the value of assets under management by external managers and their performance relative to their benchmarks. Market volatility and changes to asset allocation cause fees to fluctuate.

Transfers in of dedicated State revenues increased slightly from FY2020 to FY2021 by less than 1 percent ($536 thousand), totaling $320 million in FY2021 compared to $319 million in FY2020. These transfers totaled $385 million in FY2019. The Alaska Constitution requires that at least 25% of mineral royalties and related payments received by the State be transferred to the Permanent Fund. State statutes mandate an additional 25% on select leases be deposited. Transfers in of dedicated state revenues under these statutes are subject to legislative appropriation.

Transfers out of the Fund are for two purposes: 1) an appropriation to the General Fund and 2) an appropriation to fund the Alaska Capital Income Fund (ACIF). The General Fund and ACIF transfers are subject to legislative appropriation. The total transfer amount is shown as committed fund balance at the end of the year in which the appropriation is made, and the commitment is released when the transfers are made. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of $50 million in FY2021 and $21 million in FY2020. The earnings for FY2019 were $29 million.

Economic, Investment, and Political Factors

The market value of and earnings from the Fund's assets are directly impacted by the volatility of the financial markets, as well as investment decisions made by the Trustees, internal Fund management, and external Fund investment managers. Diversification of asset allocation and investments within each allocation are intended to mitigate the risk of volatility of the financial markets. The APFC, as a component unit of the State of Alaska, is subject to legislative changes that govern the APFC and the Fund.

Additional Information

This financial report is designed to provide an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. This report does not include any other funds owned or managed by the State of Alaska or APFC. Due to the potential volatility of the financial markets, Fund values and income may vary greatly from period to period. For more information on the Fund, both current and historical, readers are encouraged to visit www.apfc.org or send specific information requests to the Alaska Permanent Fund Corporation at 801 West 10th Street, Suite 302, Juneau, Alaska 99801.

Alaska Permanent Fund

Balance sheets

		June 30, 2021	June 30, 2020
Assets			
Cash and temporary investments	$	5,828,413,000	4,815,872,000
Receivables, prepaid expenses and other assets		787,673,000	2,194,723,000
Investments:			
Marketable debt securities		16,438,369,000	13,595,452,000
Preferred and common stock		30,471,793,000	25,109,759,000
Real estate		5,662,727,000	4,303,604,000
Absolute return		5,170,653,000	4,288,542,000
Private credit		2,257,082,000	1,890,392,000
Private equity		15,294,438,000	9,803,985,000
Infrastructure		2,636,769,000	1,902,257,000
Total investments		77,931,831,000	60,893,991,000
Securities lending collateral		4,348,802,000	1,540,240,000
Total assets	$	88,896,719,000	69,444,826,000
Liabilities			
Accounts payable		2,601,006,000	2,581,892,000
Income distributable to the State of Alaska		50,116,000	20,492,000
Securities lending collateral		4,348,802,000	1,540,240,000
Total liabilities	$	6,999,924,000	4,142,624,000
Fund balances			
Nonspendable:			
Permanent Fund corpus - contributions and appropriations		46,938,431,000	46,618,846,000
Unrealized appreciation on invested assets		13,809,979,000	5,789,217,000
Total nonspendable		60,748,410,000	52,408,063,000
Committed:			
General Fund appropriation		3,069,296,000	3,091,493,000
Permanent Fund corpus		4,000,000,000	—
Total committed		7,069,296,000	3,091,493,000
Assigned for future appropriations:			
Realized earnings		9,271,412,000	8,378,305,000
Unrealized appreciation on invested assets		4,807,677,000	1,424,341,000
Total assigned		14,079,089,000	9,802,646,000
Total fund balances	$	81,896,795,000	65,302,202,000
Total liabilities and fund balances	$	88,896,719,000	69,444,826,000

See accompanying notes to the financial statements.

Alaska Permanent Fund

Statements of revenues, expenditures and changes in fund balances

		Year Ended June 30,	
		2021	**2020**
Revenues			
Interest	$	436,481,000	492,899,000
Dividends		558,073,000	515,335,000
Real estate and other income		530,177,000	394,664,000
Total interest, dividends, real estate and other income		1,524,731,000	1,402,898,000
Net increase (decrease) in the fair value of investments:			
Marketable debt securities		174,364,000	433,840,000
Preferred and common stock		11,200,746,000	40,654,000
Real estate		157,866,000	(456,356,000)
Absolute return		685,979,000	44,446,000
Private credit		278,447,000	(5,146,000)
Private equity		5,823,101,000	885,987,000
Infrastructure		463,643,000	(347,896,000)
Foreign currency forward exchange contracts and futures		(11,325,000)	(7,001,000)
Currency		(706,340,000)	(226,790,000)
Total net increase in the fair value of investments		18,066,481,000	361,738,000
Total revenues		19,591,212,000	1,764,636,000
Expenditures			
Operating expenditures		(166,151,000)	(120,382,000)
Other legislative appropriations		(8,444,000)	(7,792,000)
Total expenditures		(174,595,000)	(128,174,000)
Excess (deficiency) of revenues over expenditures		19,416,617,000	1,636,462,000
Other financing sources (uses)			
Transfers in - dedicated State revenues		319,585,000	319,049,000
Transfers out - statutory and legislative appropriations		(3,141,609,000)	(2,953,576,000)
Net change in fund balances		16,594,593,000	(998,065,000)
Fund balances			
Beginning of period		65,302,202,000	66,300,267,000
End of period	$	81,896,795,000	65,302,202,000

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021 and 2020

1. ENTITY

The Constitution of the State of Alaska ("State") was amended by public referendum in 1976 to dedicate a portion of certain natural resource revenues to the Alaska Permanent Fund ("Fund"). Contributions to the Fund are to be invested in income-producing investments in accordance with the prudent investor rule. In 1980, the Alaska State Legislature ("Legislature") established the Alaska Permanent Fund Corporation ("APFC"), a State governmental instrumentality within the Department of Revenue, to manage and invest Fund assets. The APFC is managed by a six-member board of trustees ("Trustees" or "Board") consisting of the Commissioner of Revenue, one other head of a principal state department, and four public members with recognized competence and experience in finance, investments, or other business management related fields. The Governor appoints the public members to staggered four-year terms and can remove public members only for cause. The Board employs an executive director who in turn employs additional staff as necessary. The Fund's assets are diversified across a wide variety of investments in accordance with statutes, regulations, and APFC's investment policy. The Fund's investment performance is generally related to the success of the financial markets. While diversification aims to mitigate volatility, significant period-to-period fluctuations in investment performance may occur.

By annual appropriation, the APFC transfers (i) a portion of the Fund's realized earnings to the State's general fund, (ii) a portion of realized earnings sufficient to offset the effect of inflation on contributions and appropriations to the nonspendable balance of the Fund, (iii) realized earnings on the balance of the North Slope royalty case settlement money (*State v. Amerada Hess, et al.*) to the Alaska Capital Income Fund (ACIF), and (iv) any special appropriations authorized by the Legislature and the Governor. The remaining balance of the Fund's realized earnings (referred to in Alaska Statute as the Earnings Reserve Account) is held in the assigned fund balance by the APFC and is subject to appropriation by the Legislature. The nonspendable fund balance (referred to in the Alaska Constitution as the principal) includes the historical cost basis of contributions and appropriations. Because the Alaska Constitution specifies that principal can only be used for income-producing investments, it is unavailable for appropriation by the Legislature. Unrealized gains and losses (appreciation/depreciation) on Fund assets are allocated proportionately between the principal and the Earnings Reserve Account. The unrealized amounts allocated to contributions and appropriations are considered a component of principal and are nonspendable, unless and until they become realized, at which point they will be transferred to the Earnings Reserve Account in the assigned (realized earnings) fund balance. All assets are aggregated for investment purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

The Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In preparing the financial statements, APFC management is required to make estimates and assumptions as of the date of the balance sheet that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets, liabilities, revenues, and expenses for the period. The fair value of real estate, absolute return, private equity, infrastructure, and private credit investments, and the related unrealized gains and losses thereon, are particularly sensitive estimates. Actual results could differ from those estimates.

Cash and temporary investments

The amounts shown on the balance sheets as cash and temporary investments include cash on deposit at the custodian bank, cash swept to overnight investment funds, cash collateral held at derivatives brokers, U.S. Treasury bills, commercial paper, and the net fair value of foreign exchange forward contracts. The APFC's asset allocation includes approximately two percent in cash. APFC's investment policy specifies that funds dedicated

to this portion of the asset allocation will be invested in money market funds or fixed income securities with weighted-average maturities of no greater than 24 months.

General Fund appropriations

In FY2018 the Legislature passed Senate Bill 26, which created a percent of market value draw on the Earnings Reserve Account for transfer to the general fund. Alaska Statute 37.13.140 was amended to specify the formula for percent of market value as 5.25%, stepping down to 5% in FY2021, of the average market value of the fund as of June 30 for the first five of the preceding six fiscal years, including the fiscal year just ended. The average market value of the fund includes the Earnings Reserve Account, but not the principal attributed to the settlement of *State v. Amerada Hess*. This legislation took effect for FY2018 and replaced the appropriation to the dividend fund. The amount appropriated prior to year-end as transferrable to the general fund for the next fiscal year is shown as committed fund balance on the financial statements at June 30.

Inflation proofing

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to offset the effect of inflation on Fund principal during the fiscal year. Based on advice from the Alaska Department of Law, an annual intra-fund inflation proofing transfer (from the assigned to the nonspendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total of the nonspendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rates for the years ended June 30, 2021 and 2020 were 1.23 percent and 1.81 percent, respectively. This resulted in a transfer to principal of $758 million in FY2020. The transfer would have been $577 million for FY2021; however, the necessary appropriation was not included in the budget authorization so no transfer was made.

Fund balance

- *Unrealized gains and losses*
  A State of Alaska Attorney General's Opinion dated June 16, 2009 clarified the accounting treatment of the Fund's unrealized gains and losses by providing that unrealized appreciation or depreciation on invested assets should be allocated proportionately to principal and the Earnings Reserve Account.
- *Nonspendable fund balance*
  Nonspendable fund balance includes items that cannot be spent. This includes the corpus of the Permanent Fund, and the unrealized gains and losses allocated to it.
- *Committed fund balance*
  Committed fund balance can only be used for specific purposes subject to constraints imposed by a formal action of the Alaska Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law creating, modifying or rescinding an appropriation. Earnings Reserve Account amounts appropriated to the General Fund are included in this classification. The commitment is released when the transfer to the General Fund has been made. In FY2021, a commitment to principal is also included as committed fund balance.
- *Assigned fund balance*
  Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are not committed. The Alaska Legislature is the body authorized by the Alaska Constitution to assign amounts to a specific purpose. Alaska Statute 37.13.020 authorizes the Legislature to assign funds in the Earnings Reserve Account. The Earnings Reserve Account includes realized earnings and the unrealized gains and losses allocated to it.

Forward exchange contracts

Fund managers enter into a variety of forward currency contracts in their trading activities and management of foreign currency exchange rate risk exposure. These contracts are typically intended to neutralize the effect of foreign currency fluctuations, and the contract amounts do not appear on the balance sheet. Realized gains and losses are included in the net increase/decrease in the fair value of investments at the time the contract is settled and determined based on the difference between the contract rate and the market rate at the time of maturity or closing. Unrealized gains and losses are also included in the net increase/decrease in the fair value of investments, and are calculated based on the difference between the contract rate and a forward market rate determined as of the balance sheet date.

A portion of the investment in forward exchange contracts is intended to manage, rather than neutralize, foreign currency fluctuations. Certain managers seek to control the effect of fluctuations in foreign exchange rates within their overall portfolio strategy rather than on a security by security basis. They attempt to optimize their foreign currency exposure in a market rather than accept the natural geographical exposure to the market's currency.

Futures

Certain equity and fixed income managers for the Fund are permitted to buy and sell equity and interest rate index futures. The gross contract and fair value of futures do not appear in the balance sheets. The net unrealized gain or loss on open futures trades is included in investments on the balance sheets, based on the difference between the future's purchase price and the current value of such index futures. Realized gains and losses on futures are included in the net increase in the fair value of investments at the time the futures contract expires. The net change in unrealized gains and losses is included in the net increase in the fair value of investments.

Income taxes

In the opinion of legal counsel, the Fund should not be subject to United States federal income taxation under the doctrine of implied statutory immunity for states because it is an integral part of the State, and it performs an essential governmental function, with its income, if any, accruing to the State. The Fund may be subject to tax in certain international jurisdictions.

Investments and related policies

Carrying value of investments

The Fund considers all of its ownership interests in securities and other assets to be investments because they are held for the purpose of income or profit and have a present service capacity based solely on their ability to generate cash or be sold to generate cash. Investments are reported at fair value in the financial statements. Investments without a readily determinable fair value are generally reported by using the net asset value per share (or its equivalent) of the investment. Securities transactions are recorded on the trade date that securities are purchased or sold. Unrealized gains and losses are reported as components of net change in fund balance.

State investment regulations

In accordance with Alaska Statute 37.13.120(a), the Trustees have adopted regulations designating the types of eligible investments for Fund assets. The regulations follow the prudent investor rule, requiring the exercise of judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the Fund over time while maximizing the expected total return from both income and the appreciation of capital.

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund's investment portfolio. To help achieve this goal, the Trustees allocate the Fund's investments among various asset classes. At June 30, 2021, the APFC's strategic asset allocation targets were as follows:

Asset Class	Asset Class Target
Public Equity	39%
Fixed Income	21%
Private Equity & Special Opportunities	15%
Real Estate	7%
Infrastructure & Private Income	9%
Absolute Return	6%
Risky Parity	1%
Cash	2%

To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each asset class, the APFC's Chief Investment Officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the investment policy), the APFC's Executive Director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target dollar allocation for the public equities class is 39 percent, with the green zone range set at plus or minus five percent, the yellow zone range set at zero to five percent beyond the green zone, and red zone range set at greater than five percent beyond the green zone. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The APFC manages the Fund's concentration of credit risk by following its strategic asset allocation policy, diversifying investments among managers with varying investment styles and mandates, and monitoring tracking error. Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked. The APFC's policy for mitigating this risk of loss for fixed income and equity investments is to ensure compliance with APFC investment policy and investment manager contracts. There is no single-issuer exposure within the APFC portfolio that comprises five percent or more of the overall portfolio. Therefore, no concentration of credit risk is reported in the notes to the financial statements.

Credit risk

Credit risk is the risk that an issuer or other counterparty to a marketable debt investment will not fulfill its obligations. The APFC requires that its investment grade fixed income managers, both internal and external, invest in domestic and non-domestic bonds that have an explicit or implied investment grade rating. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within seven months. Certain high yield investment managers are allowed to invest a specified amount of funds in bonds rated below investment grade.

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure the Fund's deposits may not be returned. The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Fund). For the Fund's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund. Late deposits of cash which miss the money market sweep deadline are deposited to an interest-bearing account at the custodian.

Foreign currency risk

Foreign currency risk is the risk of loss from adverse changes in foreign currency exchange rates. Foreign currency risk is managed through foreign currency forward contracts, and by diversifying assets into various countries and currencies.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The APFC manages the Fund's exposure to interest rate risk in part through tracking error guidelines set forth in the APFC's investment policy. Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance, maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with a duration of five years, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of five percent.

At June 30, 2021, the Fund held fixed income investments with floating, variable, and step interest rates, valued at $758,105,000. These fixed income investments were both domestic and non-domestic, and had current annual interest rates ranging from 0 to 15.5 percent.

Transfers in

Contributions from dedicated State revenues are recorded when certain revenues defined by the constitution, or by statute and legislative appropriation, are received or reported by the Alaska Department of Natural Resources and are available to meet current obligations. Contributions from appropriations and other sources are recorded when received.

Transfers out

Transfers out to other State agencies are recorded when measurable and represent a present obligation to pay.

3. CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments, which includes the market values of foreign currency (FX) and FX forward exchange contracts, are summarized as follows at June 30:

	2021	2020
Cash	$ **202,593,000**	1,066,846,000
Pooled funds	**1,322,111,000**	3,655,468,000
Commercial paper	**563,191,000**	37,812,000
U.S. Treasury bills	**3,715,823,000**	50,086,000
FX forward exchange contracts	**24,695,000**	5,660,000
Total Cash and Temporary Investments	**$ 5,828,413,000**	4,815,872,000

Uninvested cash was held at the custodian, sub-custodian, or derivatives broker banks, primarily in interest-bearing accounts. All pooled funds were invested in a money market fund. U.S. Treasury bills are explicitly guaranteed by the U.S. government.

4. RECEIVABLES, PREPAID EXPENSES AND OTHER ASSETS

Receivables, prepaid expenses and other assets at June 30 are as follows:

	2021	2020
Interest receivable	$ **107,526,000**	103,433,000
Dividends receivable	**52,578,000**	64,392,000
Sales receivable	**567,735,000**	1,999,461,000
Dedicated state revenues receivable	**59,834,000**	27,437,000
Total receivables, prepaid expenses and other assets	**$ 787,673,000**	2,194,723,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities at June 30 are summarized as follows, categorized by debt instrument type and by country of registration:

2021	Cost	Fair value	Unrealized gains (losses)
U.S. treasury and government notes/bonds	**$ 2,389,975,000**	**2,396,855,000**	**6,880,000**
Mortgage-backed securities	**2,535,497,000**	**2,543,881,000**	**8,384,000**
U.S. corporate bonds	**6,259,931,000**	**6,700,979,000**	**441,048,000**
Commercial mortgage/asset-backed securities	**674,984,000**	**681,384,000**	**6,400,000**
Non-U.S. treasury and government bonds	**2,358,445,000**	**2,333,976,000**	**(24,469,000)**
Non-U.S. corporate bonds	**998,114,000**	**1,073,502,000**	**75,388,000**
Commingled and exchange traded funds	**712,403,000**	**707,792,000**	**(4,611,000)**
Total marketable debt securities	**$ 15,929,349,000**	**16,438,369,000**	**509,020,000**
2020			
U.S. treasury and government notes/bonds	$ 1,450,630,000	1,481,186,000	30,556,000
Mortgage-backed securities	2,087,591,000	2,111,917,000	24,326,000
U.S. corporate bonds	5,803,147,000	6,216,160,000	413,013,000
Commercial mortgage/asset-backed securities	244,299,000	256,740,000	12,441,000
Non-U.S. treasury and government bonds	2,049,619,000	2,009,412,000	(40,207,000)
Non-U.S. corporate bonds	1,082,211,000	1,133,916,000	51,705,000
Commingled and exchange traded funds	412,428,000	386,121,000	(26,307,000)
Total marketable debt securities	$ 13,129,925,000	13,595,452,000	465,527,000

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organization (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Managers with high yield mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds) based on the terms of their contracts. For purposes of this note, if credit ratings differ among the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2021, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO quality ratings		Domestic	Non-domestic	Total fair value	Percentage of holdings
AAA	$	466,392,000	276,968,000	743,360,000	4.52%
AA		510,927,000	354,475,000	865,402,000	5.26%
A		1,405,528,000	565,066,000	1,970,594,000	11.99%
BBB		3,260,232,000	974,917,000	4,235,149,000	25.76%
BB		940,040,000	360,982,000	1,301,022,000	7.91%
B		612,114,000	245,705,000	857,819,000	5.22%
CCC		132,794,000	78,399,000	211,193,000	1.28%
CC		464,000	—	464,000	0.00%
C		—	—	—	0.00%
D		108,000	40,766,000	40,874,000	0.25%
Total fair value of rated debt securities		**7,328,599,000**	**2,897,278,000**	**10,225,877,000**	**62.21%**
Commingled and exchange traded funds		707,792,000	1,000	707,793,000	4.31%
Not rated		63,345,000	531,765,000	595,110,000	3.62%
U.S. government explicitly backed by the U.S. government (AA)		2,952,208,000	—	2,952,208,000	17.96%
U.S. government implicitly backed by the U.S. government (AA)		1,957,381,000	—	1,957,381,000	11.91%
Total fair value debt securities	**$**	**13,009,325,000**	**3,429,044,000**	**16,438,369,000**	**100.00%**

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio effective duration in comparison to established benchmarks. At June 30, 2021, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration (Years)
Domestic bonds		
Treasury and government notes/bonds	18.43%	7.21
Mortgage-backed securities	19.55%	4.58
Corporate bonds	51.51%	8.54
Commercial mortgage and asset-backed securities	5.07%	3.90
Commingled and exchange traded funds	5.44%	—
Total domestic bonds	**100.00%**	**6.82**
Non-domestic bonds		
Treasury and government bonds	68.06%	7.88
Corporate bonds	31.31%	7.10
Commercial mortgage and asset-backed securities	0.63%	9.12
Commingled and exchange traded funds	0.00%	4.68
Total non-domestic bonds	**100.00%**	**7.64**

8. PREFERRED AND COMMON STOCK

Direct investments in preferred and common stock are held by the APFC's custodian bank on behalf of the Fund. The Fund also invests in commingled stock funds, which are held by the custodian bank of the fund manager on behalf of fund investors, and equity index futures, which are held at the prime broker.

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows, which include the net fair value of equity index futures of $9.1 million as of June 30, 2021 and $2.6 million as of June 30, 2020:

2021	**Cost**	**Fair value**	**Unrealized holding gains (losses)**
Direct investments			
Domestic stock	**$ 11,706,300,000**	**16,522,154,000**	**4,815,854,000**
Non-domestic stock	**10,561,737,000**	**13,379,045,000**	**2,817,308,000**
Commingled funds	**459,173,000**	**570,594,000**	**111,421,000**
Total preferred and common stock	**$ 22,727,210,000**	**30,471,793,000**	**7,744,583,000**
2020			
Direct investments			
Domestic stock	$ 11,122,771,000	12,969,390,000	1,846,619,000
Non-domestic stock	10,941,930,000	11,298,111,000	356,181,000
Commingled funds	866,224,000	842,258,000	(23,966,000)
Total preferred and common stock	$ 22,930,925,000	25,109,759,000	2,178,834,000

9. FOREIGN CURRENCY EXPOSURE

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets in various countries and currencies. At June 30, 2021, the Fund's cash holdings, foreign currency forward contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

Foreign currency	Cash and equivalents	Foreign exchange forward contracts	Equity, private debt, real estate, infrastructure	Marketable Debt	Total foreign currency exposure
Australian Dollar	$ 4,348,000	36,263,000	404,656,000	51,645,000	496,912,000
Brazil Real	4,219,000	(1,508,000)	187,154,000	44,513,000	234,378,000
Canadian Dollar	8,349,000	92,323,000	684,165,000	43,149,000	827,986,000
Chilean Peso	1,744,000	(17,549,000)	8,336,000	19,876,000	12,407,000
Chinese Yuan Renminbi	7,638,000	(108,394,000)	284,036,000	149,161,000	332,441,000
Colombian Peso	2,243,000	(22,177,000)	1,275,000	38,744,000	20,085,000
Czech Koruna	475,000	(972,000)	1,641,000	17,861,000	19,005,000
Danish Krone	6,177,000	(2,748,000)	188,570,000	–	191,999,000
Dominican Republic Peso	–	–	–	391,000	391,000
Egyptian Pound	4,483,000	(4,231,000)	224,000	5,657,000	6,133,000
Euro Currency	60,826,000	(335,177,000)	3,661,842,000	415,845,000	3,803,336,000
Hong Kong Dollar	9,267,000	(15,843,000)	1,322,895,000	–	1,316,319,000
Hungarian Forint	240,000	5,553,000	6,141,000	6,789,000	18,723,000
Indian Rupee	2,036,000	7,275,000	336,572,000	28,000	345,911,000
Indonesian Rupiah	2,427,000	(28,831,000)	46,058,000	78,989,000	98,643,000
Israeli Shekel	(6,067,000)	8,979,000	44,148,000	–	47,060,000
Japanese Yen	9,562,000	(335,990,000)	1,540,396,000	365,317,000	1,579,285,000
Kuwaiti Dinar	26,000	–	1,124,000	–	1,150,000
Malaysian Ringgit	1,201,000	(17,219,000)	23,759,000	66,384,000	74,125,000
Mexican Peso	(4,816,000)	(15,307,000)	61,690,000	73,579,000	115,146,000
New Taiwan Dollar	4,790,000	(1,745,000)	499,561,000	–	502,606,000
New Zealand Dollar	4,079,000	(145,740,000)	14,656,000	8,923,000	(118,082,000)
Norwegian Krone	1,191,000	(180,021,000)	69,628,000	11,508,000	(97,694,000)
Pakistan Rupee	108,000	–	538,000	–	646,000
Peruvian Sol	402,000	(7,978,000)	–	13,388,000	5,812,000
Philippines Peso	261,000	1,572,000	10,122,000	–	11,955,000
Polish Zloty	868,000	24,118,000	53,507,000	20,681,000	99,174,000
Pound Sterling	1,548,000	(215,089,000)	1,095,451,000	100,570,000	982,480,000
Qatari Riyal	3,000	79,000	9,207,000	–	9,289,000
Romanian Leu	124,000	7,431,000	–	2,706,000	10,261,000
Russian Ruble	4,728,000	(25,476,000)	51,931,000	66,384,000	97,567,000
Saudi Arabian Riyal	605,000	–	83,798,000	–	84,403,000
Serbian Dinar	372,000	–	–	–	372,000
Singapore Dollar	1,159,000	1,484,000	52,404,000	–	55,047,000
South African Rand	3,443,000	(34,284,000)	92,688,000	48,288,000	110,135,000
South Korean Won	5,611,000	(36,206,000)	565,995,000	48,136,000	583,536,000
Swedish Krona	5,066,000	121,397,000	283,266,000	–	409,729,000
Swiss Franc	1,488,000	(77,441,000)	410,733,000	–	334,780,000
Thailand Baht	367,000	2,861,000	33,752,000	22,710,000	59,690,000
Turkish Lira	540,000	3,751,000	22,311,000	4,031,000	30,633,000
UAE Dirham	57,000	–	7,171,000	–	7,228,000
Ukraine Hryvana	–	–	–	61,000	61,000
Uruguayan Peso	–	–	–	658,000	658,000
Total foreign currency exposure	**$ 151,188,000**	**(1,316,840,000)**	**12,161,401,000**	**1,725,972,000**	**12,721,721,000**

Cash amounts in the schedule above include receivables, payables, and cash balances in each related currency. If payables exceed receivables and cash balances in a currency, then the total cash balance for that currency will appear as a negative value. The remaining Fund investments are denominated in U.S. dollars and are not included in the schedule above.

10. REAL ESTATE

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, multi-family and industrial real estate operating companies, private real estate funds, and other entities in which the assets consist primarily of real property. The Fund's directly owned real estate is through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the majority of the Fund's directly owned real estate investments. An internal real estate management program was initiated during FY2021 and two existing direct holdings were moved into this program. The Fund also holds a portfolio of real estate loans collateralized by income-producing, institutional real estate in the United States; these are administered by an external institutional real estate management firm.

The APFC periodically reviews real estate investments for other than temporary impairment. During FY2021, it was determined that one direct real estate holding was impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the asset. In order to reflect the impairment in statutory net income and fund balance classifications, $3.8 million of unrealized losses were realized through a write-down of cost to fair value. In FY2020, one real estate holding was impaired with a related write-down of $7.9 million. Real estate investments at June 30 are summarized as follows:

2021		**Cost**	**Fair value**	**Unrealized holding gains**
Real estate investment trusts	**$**	**682,890,000**	**944,695,000**	**261,805,000**
Real estate funds and notes		**987,201,000**	**1,043,254,000**	**56,053,000**
American Homes 4 Rent II		**115,866,000**	**145,832,000**	**29,966,000**
Directly owned real estate -				
Retail		**794,974,000**	**1,347,873,000**	**552,899,000**
Office		**1,073,478,000**	**1,274,920,000**	**201,442,000**
Hotel		**59,422,000**	**65,947,000**	**6,525,000**
Industrial		**242,284,000**	**477,168,000**	**234,884,000**
Multifamily		**176,475,000**	**291,093,000**	**114,618,000**
Development		**71,926,000**	**71,945,000**	**19,000**
Total real estate	**$**	**4,204,516,000**	**5,662,727,000**	**1,458,211,000**
2020				
Real estate investment trusts	$	180,293,000	214,924,000	34,631,000
Real estate funds and notes		343,755,000	363,572,000	19,817,000
American Homes 4 Rent II		128,620,000	147,555,000	18,935,000
Directly owned real estate -				
Retail		785,771,000	1,540,130,000	754,359,000
Office		1,014,231,000	1,241,455,000	227,224,000
Hotel		59,448,000	66,205,000	6,757,000
Industrial		255,714,000	409,290,000	153,576,000
Multifamily		220,439,000	320,473,000	100,034,000
Total real estate	$	2,988,271,000	4,303,604,000	1,315,333,000

As of June 30, 2021, the APFC, on behalf of the Fund, had outstanding future funding commitments of $400 million for real estate fund investments.

11. ALTERNATIVE INVESTMENTS

Alternative investments include the Fund's investments in absolute return and risk parity strategies, private equity, infrastructure, and private credit. The APFC periodically reviews alternative investments for other than temporary impairment.

Absolute return strategies are investments in specialized funds that seek to deliver returns that are largely uncorrelated with traditional market driven asset classes. The Fund invested in two absolute return limited partnerships in which the Fund was the only limited partner ("fund-of-one"); both are currently in liquidation. The Fund also holds direct hedge fund investments, in which the Fund is one of many limited partners. Risk parity strategies also seek to deliver returns that are largely uncorrelated with global public markets, however they do so through allocation of risk rather than allocation of capital. External investment management services for both strategies are provided by institutional investment managers who have acknowledged their status as fiduciaries to the Fund. Because of the off-exchange and private nature of many absolute return strategies, investments may have no readily determinable fair value, and the estimated fair values could differ significantly from values that would be obtained in a market transaction for the assets. Risk parity strategy investments are generally more liquid but may also not have readily determinable fair value depending on the underlying investments of a given fund. For both strategies, each manager provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit.

The Fund holds private equity through investments in limited liability companies and limited partnerships that typically invest in unlisted, illiquid common and preferred stock and, to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The APFC has hired external advisors to assist in the selection of private equity holdings diversified by geography and strategy. Private equity is funded slowly over time as opportunities are identified by APFC staff, the external advisors, and the underlying fund managers. The underlying private equity funds provide the Fund with fair value estimates of the investments utilizing the most current information available. In addition, the external advisors review the fair value estimates and the underlying private equity funds undergo annual independent audits. Private equity investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

During FY2021, it was determined that 12 private equity funds were impaired because it was more likely than not that the Fund would not recover their carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, $49.8 million of unrealized losses were realized through a write-down of cost to fair value. In FY2020, 20 private equity funds were impaired with a related write-down of $195.2 million. These impairments have no impact on the carrying value of investments or on the net increase in the fair value of private equity investments.

Infrastructure investments involve ownership or operating agreements in essential long-term service assets with high barriers to entry. Examples of infrastructure assets include toll roads, airports, deep water ports, communication towers, and energy generation, storage and transmission facilities. Investments in this asset class are expected to have inflation protection attributes and exhibit low correlations with other major asset classes in the Fund's investment strategy. The Fund holds infrastructure investments through commingled funds organized as limited partnerships whose investment managers provide periodic fair value estimates, as well as through securities listed on public exchanges. The limited partnerships undergo annual independent audits. Infrastructure investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

During FY2021, it was determined that no infrastructure funds were impaired. In FY2020, one infrastructure fund was impaired with a related write-down of $24.5 million.

The Fund invests in private credit through limited partnerships that invest either directly in distressed or mezzanine debt, or in commingled limited liability funds with a distressed debt or credit opportunity focus. These investments are funded over time, as opportunities arise. The limited partnerships and funds undergo annual independent audits. Private credit investments by their nature generally have no readily determinable fair value, and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

During FY2021, it was determined that three private credit funds were impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, $11.1 million of unrealized losses were realized through a write-down of cost to fair value. In FY2020, three private credit funds were impaired with a related write-down of $41.8 million.

Alternative investments at June 30 are summarized as follows:

2021		**Cost**	**Fair value**	**Unrealized holding gains**
Absolute return	**$**	**4,180,792,000**	**5,170,653,000**	**989,861,000**
Private equity		**8,381,923,000**	**15,294,438,000**	**6,912,515,000**
Infrastructure		**2,004,046,000**	**2,636,769,000**	**632,723,000**
Private credit		**1,914,808,000**	**2,257,082,000**	**342,274,000**
Total alternative investments	**$**	**16,481,569,000**	**25,358,942,000**	**8,877,373,000**
2020				
Absolute return	$	3,989,336,000	4,288,542,000	299,206,000
Private equity		7,162,435,000	9,803,985,000	2,641,550,000
Infrastructure		1,728,714,000	1,902,257,000	173,543,000
Private credit		1,760,455,000	1,890,392,000	129,937,000
Total alternative investments	$	14,640,940,000	17,885,176,000	3,244,236,000

As of June 30, 2021, the APFC, on behalf of the Fund, had outstanding future funding commitments of $100 million for absolute return, $5.1 billion for private equity, $1.9 billion for infrastructure, and $1.3 billion for private credit investments. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

12. SECURITIES LENDING

State regulations at 15 AAC 137.510 and APFC investment policy authorize the APFC to enter into securities lending transactions on behalf of the Fund. Through a contract with the Bank of New York Mellon (the Bank), the Fund lends marketable debt and equity securities to borrowers who are banks and broker-dealers. The loans are collateralized with cash or certain marketable securities. Under APFC's contract with the Bank, the Bank must mark the loaned securities and collateral to the market daily, and the loan agreements require the borrowers to maintain the collateral at not less than 102 percent of the fair value of the loaned securities for domestic securities (and non-domestic loaned securities denominated in U.S. dollars) and not less than 105 percent of the fair value for other non-domestic loaned securities. The APFC can sell securities that are on loan. If a borrower fails to return the loaned securities (borrower default), the Bank can use cash collateral (and the proceeds on the sale of any non-cash collateral) to purchase replacement securities. Generally, the APFC is protected from credit risk associated with the lending transactions through indemnification by the Bank against losses resulting from counterparty failure, the reinvestment of cash collateral, default on collateral investments, or a borrower's failure to return loaned securities.

Cash collateral received for loaned securities is reported on the Fund's balance sheets and invested by the Bank of New York Mellon on behalf of the Fund. As of June 30, 2021, such investments were in overnight repurchase agreements that had a weighted-average-maturity of one day. The average term of the loans was also one day. At June 30, the value of securities on loan is as follows:

	2021	2020
Fair value of securities on loan, secured by cash collateral	**$ 4,249,447,000**	1,512,625,000
Cash collateral	**4,348,802,000**	1,540,240,000
Fair value of securities on loan, secured by non-cash collateral	**7,445,378,000**	6,126,859,000
Non-cash collateral	**8,230,657,000**	6,699,184,000

The Fund receives 80 percent of earnings derived from securities lending transactions and the Bank of New York Mellon retains 20 percent. During the years ended June 30, 2021 and 2020, the Fund incurred no losses from securities lending transactions. The Fund received income of $23.7 million and $31.4 million from securities lending for the years ended June 30, 2021 and 2020, respectively, which is included in the real estate and other income line on the Statements of Revenues, Expenditures and Changes in Fund Balances.

13. ACCOUNTS PAYABLE

Accounts payable include trades entered into on or before June 30 that settle after fiscal year end. Cash held for trade settlements is included in cash and short-term investments. Accounts payable at June 30 are summarized as follows:

	2021	2020
Accrued liabilities	**$ 28,888,000**	**30,885,000**
Securities purchased	**2,572,118,000**	**2,551,007,000**
Total accounts payable	**$ 2,601,006,000**	**2,581,892,000**

14. STATUTORY AND LEGISLATIVE APPROPRIATIONS

Historically, the Legislature has appropriated portions of the Fund's statutory net income to the Permanent Fund Dividend Fund (Dividend Fund), a sub-fund of the State's general fund created in accordance with Alaska Statute 43.23.045 and administered by the Alaska Department of Revenue. The Dividend Fund is used primarily for the payment of dividends to qualified Alaska residents. In addition, the Legislature has appropriated a portion of the dividend distribution to fund various other agency activities.

Beginning with FY2019, legislation requires that, upon appropriation, a portion of the realized earnings be transferred to the State's General Fund instead of the Dividend Fund, based upon a percent-of-market-value calculation. The amount transferred to the general fund for State operating expenses was $3,091,493,000 in FY2021, and the amount appropriated is $3,069,296,000 for FY2022, which is shown as committed as of June 30, 2021.

Per statute, realized earnings on the principal balance of the dedicated State revenues from the North Slope royalty case settlements (*State v. Amerada Hess, et al.*) have been appropriated from the Fund to the Alaska Capital Income Fund (ACIF) established under Alaska Statute 37.05.565. Funds in the ACIF may be further appropriated for any public purpose. During years with net realized losses, no funds are transferred to the ACIF. Statutory and legislative appropriations made during the years ended June 30 are summarized as follows:

	2021	2020
Income distributed during the year:		
General fund transfer	**$ 3,091,493,000**	**2,933,084,000**
Income distributable at year end:		
Alaska Capital Income Fund	**50,116,000**	**20,492,000**
Total statutory and legislative appropriations	**$ 3,141,609,000**	**2,953,576,000**

Appropriations for APFC operating expenses and other specific State agencies are made separately and are detailed in Note 20.

15. FUND BALANCES

Fund balance activity during the years ended June 30 is summarized as follows:

	2021	2020
Nonspendable		
Balance, beginning of year	**$ 52,408,063,000**	47,819,610,000
Dedicated State revenues	**319,585,000**	319,049,000
Inflation proofing transfer from assigned	–	757,687,000
Commitment to principal	–	4,000,000,000
Change in unrealized appreciation on invested assets	**8,020,762,000**	(488,283,000)
Balance, end of year	**$ 60,748,410,000**	52,408,063,000
Committed		
Balance, beginning of year	**$ 3,091,493,000**	5,933,084,000
General Fund transfer to liability	**(3,091,493,000)**	(1,933,084,000)
General Fund commitment	**3,069,296,000**	3,091,493,000
Commitment to principal	**4,000,000,000**	(4,000,000,000)
Balance, end of year	**$ 7,069,296,000**	3,091,493,000
Assigned		
Balance, beginning of year	**$ 9,802,646,000**	12,547,573,000
Inflation proofing transfer to nonspendable	–	(757,687,000)
General Fund commitment	**(3,069,296,000)**	(3,091,493,000)
Additional transfer to General Fund	–	(1,000,000,000)
Commitment to principal	**(4,000,000,000)**	–
Settlement earnings payable to the ACIF	**(50,116,000)**	(20,492,000)
Realized earnings, net of operating expenditures	**8,012,519,000**	3,126,445,000
Change in unrealized appreciation on invested assets	**3,383,336,000**	(1,001,700,000)
Balance, end of year	**$ 14,079,089,000**	9,802,646,000
Total		
Balance, beginning of year	**$ 65,302,202,000**	66,300,267,000
Dedicated State revenues	**319,585,000**	319,049,000
General Fund transfer	**(3,091,493,000)**	(1,933,084,000)
Additional transfer to General Fund	–	(1,000,000,000)
Settlement earnings payable to the ACIF	**(50,116,000)**	(20,492,000)
Excess of investment revenues over expenditures	**19,416,617,000**	1,636,462,000
Balance, end of year	**$ 81,896,795,000**	65,302,202,000

The composition of the contributions and appropriations in the nonspendable fund balance at June 30 is shown as follows:

		2021	2020
Dedicated State revenues	$	**17,916,174,000**	17,596,589,000
Special appropriations		**10,885,906,000**	10,885,906,000
Inflation proofing		**17,983,440,000**	17,983,440,000
Settlement earnings		**152,911,000**	152,911,000
Total contributions and appropriations	$	**46,938,431,000**	46,618,846,000

On June 16, 2009, the Alaska Attorney General issued a legal opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, proportionate values of the unrealized appreciation or depreciation of invested assets should be allocated to nonspendable fund balances and assigned fund balances. As of June 30, 2021, the Fund's net unrealized gain was $18,617,656,000, of which $13,809,979,000 was allocated to the nonspendable fund balance and $4,807,677,000 was allocated to the assigned fund balance. As of June 30, 2020, the Fund's net unrealized gain was $7,213,558,000, of which $5,789,217,000 was allocated to the nonspendable fund balance and $1,424,341,000 was allocated to the assigned fund balance.

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (*State v. Amerada Hess, et al.*). Accumulated settlement related activity, included in the contributions and appropriations balance of the Fund at June 30, is $424,399,000. By statute, realized earnings from these settlement payments are to be treated in the same manner as other Fund income, except that these settlement earnings are excluded from the calculation of the transfer to the General Fund and are not subject to inflation proofing. Since 2005, the Legislature has appropriated these settlement earnings to the Alaska Capital Income Fund (ACIF). Prior to 2005, the statute required such earnings to be appropriated to Fund principal. The Fund realized earnings on settlement principal of $50,116,000 during FY2021 and $20,492,000 during FY2020.

16. FAIR VALUE MEASUREMENT

Various inputs are used in valuing the investments held by the Fund. GAAP establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These input levels are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market.

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly.

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset.

Investments measured using net asset value (NAV) per share as a practical expedient to fair value are not categorized into input levels. The input levels used to measure the Fund's investments and derivative instruments at June 30 are summarized as follows:

		Measured using input levels			Measured using	
2021		**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total**
Marketable debt securities	**$**	**3,023,565,000**	**13,331,791,000**	**83,013,000**	**—**	**16,438,369,000**
Preferred and common stock		**30,189,384,000**	**27,000**	**40,000**	**282,342,000**	**30,471,793,000**
Real estate		**944,679,000**	**—**	**—**	**4,718,048,000**	**5,662,727,000**
Absolute return		**—**	**—**	**—**	**5,170,653,000**	**5,170,653,000**
Private credit		**—**	**—**	**—**	**2,257,082,000**	**2,257,082,000**
Private equity		**162,245,000**	**—**	**—**	**15,132,193,000**	**15,294,438,000**
Infrastructure		**227,887,000**	**—**	**—**	**2,408,882,000**	**2,636,769,000**
Total investments	**$**	**34,547,760,000**	**13,331,818,000**	**83,053,000**	**29,969,200,000**	**77,931,831,000**

		Measured using input levels			Measured using	
2020		**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total**
Marketable debt securities	$	1,868,303,000	11,650,169,000	76,980,000	—	13,595,452,000
Preferred and common stock		24,923,991,000	3,000	—	185,765,000	25,109,759,000
Real estate		214,971,000	—	—	4,088,633,000	4,303,604,000
Absolute return		—	—	—	4,288,542,000	4,288,542,000
Private credit		—	—	—	1,890,392,000	1,890,392,000
Private equity		93,761,000	—	—	9,710,224,000	9,803,985,000
Infrastructure		195,710,000	—	—	1,706,547,000	1,902,257,000
Total investments	$	27,296,736,000	11,650,172,000	76,980,000	21,870,103,000	60,893,991,000

Marketable debt securities and preferred and common stock classified as level 1 are valued using prices quoted in active markets for those securities. Debt securities classified as level 2 are valued using matrix pricing. Pricing is sourced from various sources. Marketable debt securities valued at level 3 are term loans.

Publicly traded real estate investment trusts are valued using prices quoted in active markets and are reported as level 1. Directly owned real estate through ownership of interests in corporations, limited liability companies, and partnerships that hold title to real estate are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. The underlying directly owned real estate investments are subject to annual appraisals and audits. American Homes 4 Rent II is reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions, and does not allow redemptions until the company is wound-up and dissolved.

Absolute return investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Absolute return investments undergo annual independent financial statement audits. The redemption notice period is from 1-91 days and the frequency of redemption is daily to quarterly.

Private equity investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Private equity investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 10-12 years.

Publicly traded infrastructure investments are classified as level 1 and are valued using prices quoted in active markets for those securities. The majority of infrastructure investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Infrastructure investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 5-7 years.

Private credit investments are reported at NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions. Private credit investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 5-7 years.

17. STATUTORY NET INCOME

By Alaska law, statutory net income is computed in accordance with U.S. generally accepted accounting principles (GAAP), excluding settlement income from the North Slope royalty case (*State v. Amerada Hess, et al.)* and any unrealized gains or losses. However, the excess of revenues over expenditures is required by GAAP to include unrealized gains and losses and income, regardless of source. Consequently, GAAP excess of revenues over expenditures and statutory net income differ.

The APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than cost over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment's remaining estimated holding period. If an other than temporary impairment is determined to exist for an investment, a realized loss will be recorded which will replace the previously recorded unrealized loss. Carrying value will not be affected, but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Fund. During FY2021, approximately $65 million of net impairments were recorded. During FY2020, approximately $269 million of net impairments were recorded.

Statutory net income for the years ended June 30 is calculated as follows:

		2021	2020
Excess of revenues over expenditures	$	**19,416,617,000**	1,636,462,000
Unrealized (gains) losses		**(11,404,098,000)**	1,489,983,000
Settlement earnings		**(50,116,000)**	(20,492,000)
Statutory net income	$	**7,962,403,000**	3,105,953,000

18. INVESTMENT INCOME BY SOURCE

Investment income during the years ended June 30 is summarized as follows:

	2021	2020
Interest		
Marketable debt securities	**$ 432,314,000**	457,889,000
Short-term and other	**4,167,000**	35,010,000
Total interest	**$ 436,481,000**	492,899,000
Total dividends	**$ 558,073,000**	515,335,000
Real estate and other income		
Directly owned real estate net rental income	**75,271,000**	106,130,000
Real estate investment trust dividends	**22,613,000**	56,422,000
Real estate fund and notes, net of fees	**8,110,000**	661,000
Private credit interest income, net of fees	**80,094,000**	63,577,000
Infrastructure interest and dividend income, net of fees	**16,021,000**	84,576,000
Private equity dividend income, net of fees	**302,533,000**	46,471,000
Class action litigation income	**1,160,000**	4,861,000
Loaned securities, commission recapture and other income	**24,375,000**	31,966,000
Total real estate and other income	**$ 530,177,000**	394,664,000

19. FOREIGN EXCHANGE CONTRACTS, FUTURES, AND OFF-BALANCE SHEET RISK

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2021 ranged between one and 127 days.

The counterparties to the FX forward contracts consist of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties. The Fund’s market risk as of June 30, 2021 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

Activity and balances related to FX forward contracts for FY2021 and FY2020 are summarized as follows:

	2021	2020
Balances at June 30		
Face value of FX forward contracts	**$ 5,895,569,000**	3,154,765,000
Net unrealized holding gains on FX forward contracts	**24,695,000**	5,660,000
Fair value of FX forward contracts	**$ 5,920,264,000**	3,160,425,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	**$ 19,018,000**	27,160,000
Realized gains (losses)	**(87,693,000)**	24,322,000
Net increase (decrease) in fair value of FX forward contracts	**$ (68,675,000)**	51,482,000

Certain APFC equity investment managers are permitted to trade in equity index futures for the Fund's account, and the internal fixed income management team trades U.S. Treasury index futures. Equity index futures are traded in both domestic and non-domestic markets based on an underlying stock exchange value. Equity and fixed income index futures are settled with cash for the net difference between the trade price and the settle price.

Activity and balances related to futures in equity accounts for FY2021 and FY2020 is summarized as follows:

	2021	2020
Balances at June 30		
Face value of equity index futures	$ **94,252,000**	38,952,000
Net unrealized holding gains on futures	**9,131,000**	2,587,000
Fair value of equity index futures	$ **103,383,000**	41,539,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	$ **6,553,000**	1,316,000
Realized gains (losses)	**41,577,000**	(1,865,000)
Net increase (decrease) in fair value of equity index futures	$ **48,130,000**	(549,000)

Activity and balances related to futures in fixed income accounts for FY2021 and FY2020 is summarized as follows:

	2021	2020
Balances at June 30		
Face value of U.S. Treasury index futures	$ **106,178,000**	100,596,000
Net unrealized holding losses on futures	**(5,717,000)**	(707,000)
Fair value of U.S. Treasury index futures	$ **100,461,000**	99,889,000
Activity for fiscal years ending June 30		
Change in unrealized holding gains (losses)	$ **(5,015,000)**	3,322,000
Realized gains (losses)	**14,405,000**	(60,613,000)
Net increase (decrease) in fair value of U.S. Treasury index futures	$ **9,390,000**	(57,291,000)

The face value of FX forward contracts and futures shown in these schedules is not required to be included in the Fund's balance sheets. All other activity amounts shown above are included in the Fund's financial statements in the Foreign currency forward exchange contracts and futures line on the Statements of Revenues, Expenditures and Changes in Fund Balances.

20. EXPENDITURES

Fund expenditures for the years ended June 30 are summarized as follows:

		2021	2020
APFC operating expenditures			
Salaries and benefits	$	**10,707,000**	10,296,000
Communications and electronic services		**5,360,000**	5,493,000
Consulting fees		**3,184,000**	4,116,000
Training, supplies, services and other		**774,000**	1,007,000
Rent		**509,000**	507,000
Travel		**116,000**	431,000
Legal and audit fees		**897,000**	1,486,000
Property and equipment		**605,000**	837,000
Public information and subscriptions		**145,000**	171,000
Subtotal APFC operating expenditures		**22,297,000**	24,344,000
Investment management and custody fees			
Investment management fees		**142,683,000**	94,706,000
Custody and safekeeping fees		**1,171,000**	1,332,000
Subtotal investment management and custody fees		**143,854,000**	96,038,000
Total operating expenditures, investment management and custody fees	$	**166,151,000**	120,382,000
Other legislative appropriations from corporate receipts			
Department of Natural Resources		**6,147,000**	6,132,000
Department of Law		**2,198,000**	1,562,000
Department of Revenue		**99,000**	98,000
Total other legislative appropriations	$	**8,444,000**	7,792,000
Total expenditures	$	**174,595,000**	128,174,000

Through the appropriations and budget process, the Legislature allocates corporate receipts to other State departments to compensate these departments for work done on behalf of the Fund during the year.

21. PENSION PLANS

All APFC full-time, regular employees participate in the State of Alaska Public Employees Retirement System (PERS). PERS is a multiple-employer public employee retirement system established and administered by the State to provide pension and post-employment healthcare benefits to eligible retirees. The PERS financial report can be obtained from the State of Alaska's Retirement and Benefits website. Benefit and contribution provisions are established by state law and can be amended only by the Legislature.

PERS consists of Defined Contribution Retirement (PERS-DCR) and Defined Benefit Retirement (PERS-DBR) plans. Employees who entered the system on or after July 1, 2006 participate in the PERS-DCR plan. Employees who entered the system prior to July 1, 2006 participate in the PERS-DBR plan. PERS-DBR employees contribute 6.75 percent of their annual salaries to PERS and PERS-DCR members contribute 8 percent.

As an integrated cost sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent of eligible employee salaries for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2021 and 2020 amounted to $7,395,000 and $7,114,000, respectively.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or honoraria, up to a specified maximum, to SBS-AP. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honoraria for individuals subject to SBS-AP for the years ended June 30, 2021 and 2020 amounted to $5,465,000 and $5,141,000, respectively.