

News Release

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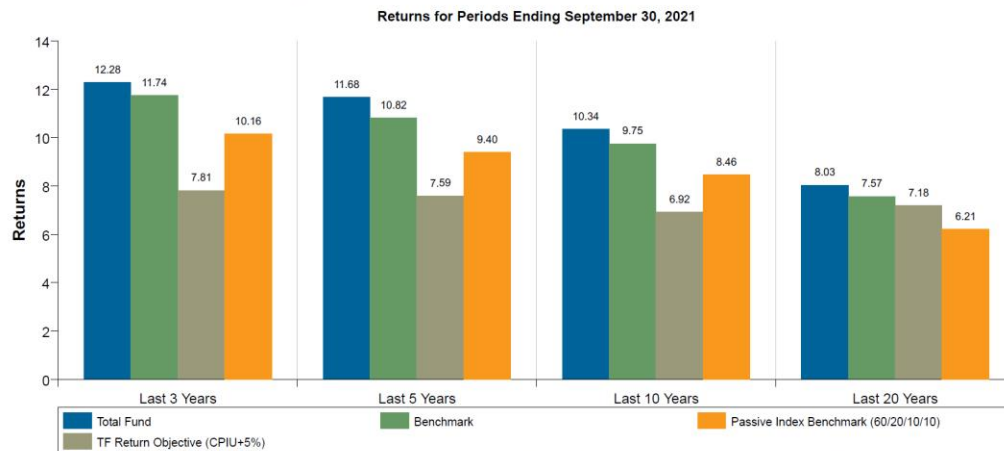
APFC's Board of Trustees Updated on the In-State Investment Program

Anchorage – The Board of Trustees held its quarterly meeting in Anchorage and via webinar on December 8 - 9, 2021 to consider the Alaska Permanent Fund's first-quarter investment performance and associated capital markets insights, the In-State Investment program, the role of Cash within the portfolio, and an update on Callan's modeling of the Earnings Reserve Account.

As of September 30, 2021, for the first quarter of fiscal year 2022 (FY22), the Alaska Permanent Fund showed a total return of 2.69%, which was ahead of all benchmarks and considered a relatively strong first quarter fueled mainly by private equity returns. In reviewing the Total Fund cumulative returns across all benchmarks over longer time horizons of 3, 5, 10 and 20 years, the performance exceeds each benchmark, including the performance peer index, the passive index, and the Boards target of 5% real return.

APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets



● Benchmark (FY21-FY22) = 38% MSCI ACWI IMI, 1.0% 90 Day T-Bills, 1.0% BB US TIPS, 5.5% BB Agg, 5.5% BB Corp IG, 2.0% BB Global Treasury ex-US Hedged, 0.5% JPM EMBI Global Diversified, 0.5% JPM GBI-EM Global Diversified TR, 2.0% BB US High Yield 2% Issuer Cap, 2.0% BB US Securitized, 16% Cambridge PE (lagged), 6.8% NCREIF Total Index (lagged), 1.2% MSCI US REIT (lagged), 5.4% Cambridge Global Pvt. Infrastructure (lagged), 3.6% Cambridge Pvt Credit (lagged), 6% HFRI Total HFOF Universe (weighted), 2% 90 Day T-Bills, 1% HFR Risk Parity Vol 12% Institutional Index.

Marcus Frampton, APFC's Chief Investment Officer, presented on FY'22 performance and positioning, focusing on portfolio exposures to China, Risk Parity and the growth in Private Equity. APFC's exposure to Private Equity has grown in accordance with the five-year plan to achieve a 19% target allocation by FY2025 through consistent annual deployment. The Fund's current overweight to the Private Equity asset reflects very strong recent returns for the asset class compounded by exceptional relative performance of APFC's private equity staff.

Chief Investment Officer Marcus Frampton notes: "While our overweight to private equity currently is at elevated levels, this reflects a doubling of our net asset value over several years while net distributions from the asset class have been in the billions. It would be impossible to achieve that without outstanding investment performance."

The two external managers working to bring optimal returns through Alaska-based investments provided a comprehensive overview of the In-State Investment Program. Barings discussed the goals, objectives and considerations of their Alaska Future Fund, and McKinley Capital Management shared highlights of their Na'-Nuuk Investment Fund, including investment criteria, target sectors, and the advantages of their Alaskan expertise.

In Depth: APFC In-State Investment Program

The In-State Alaska Investment Program was established a few years ago by the Board of Trustees through Resolution 18-03. Two external private market fund managers, Barings and McKinley Management, were selected to execute an Alaska-focused private markets investment program totaling \$200 million, a \$100 million is allocated as a commitment to each manager to invest in accordance with their program's objectives.

APFC does not make these specific investments decisions regarding the individual investments within each of the portfolios. Instead, they are made by our selected third-party private equity managers. This structure is designed to create a mechanism to reduce the potential for political influence on investment decisions.

Consistent with the requirements of Alaska Statute 37.13.120(c), the In-State Alaska Investment program is a strategic approach to identifying and supporting talented private market fund managers and compelling investments within Alaska. It targets a rate of return and a risk profile consistent with similar investments outside of Alaska.

The statute, AS 37.13.200, which the Alaska Legislature enacted when creating the Alaska Permanent Fund Corporation directs us to maintain the confidentiality of proprietary information. This provision opened the door to investment opportunities like private equity, which require investors to agree to maintain the confidentiality of proprietary information as a condition to investing in such assets.

Private market investments represent almost 50% of the assets in the Fund and although generally less liquid than public markets investments (stocks and bonds), these private market investments represent some of the highest returning assets in the Fund (private equity) and some of the best diversifiers (real estate/absolute return) to market volatility.

Through the confidentiality provisions provided in law, APFC is able to fully and effectively invest in high performing alternative asset classes. The purpose of the confidentiality obligation in AS 37.13.200 is actually designed to help not hinder the investment performance of the Fund for the benefit of all generations of Alaskans.

APFC issues a monthly performance report that is available at apfc.org for all of our asset classes and external managers, including the In-State Private Equity managers: McKinley Management, LLC and Barings, LLC. Given private markets confidentiality terms, APFC does not publish performance on an investment-by-investment basis. Rather, performance information is aggregated and provides a view of the program's generated in return based on the private equity benchmark assigned to these managers.

The full two-day agenda provided opportunities for APFC's staff, consultants, advisors, and external partners to bring forth the following information for the Board's consideration:

- A Capital Markets overview by Callan, APFC's performance consultant, noted that the Total Fund outperformed the Performance Benchmark by 53 basis points in the quarter. Manager performance in Public Equity, Private Income and Absolute Return drove relative return. Asset Allocation added to relative performance with an overweight to Private Equity. In aggregate, active management added 37 basis points to relative performance, while deviations from the Policy Target added 15 basis points.

- An informational risk overview focused on the changes in tracking errors over a one-year period, the key contributors to total fund tracking errors, and a review of the new system being implemented to enhance private asset portfolio analytics.
- Callan led an exploration of how resilient the Fund and the Earnings Reserve Account (ERA) are to varying levels of ad hoc draws from the Fund's ERA. Stress testing models highlighted that ad hoc draws would generally lead to reductions in future Market Values, Statutory Net Income, and POMV Distributions relative to the base case of the annual 5% Percent of Market Value (POMV) draw from the Fund.
- A presentation on APFC's Risk Parity portfolio focused on investment performance and the role of this asset class in the Fund's agility and growth. Bridgewater, APFC's external Risk Parity manager, presented their strategies and approaches to building a balanced portfolio to earn a consistent return over time.
- A comprehensive overview of the importance of cash in the portfolio and its role in providing operating cash, rebalancing opportunities in public markets, and the distributions and contributions for private market investments. The Fund has held a cash position of around 3%, or 1% over target allocation, on average over the past couple of years; this overweight to cash has played the role of reducing total Fund risk (rVAR) versus its benchmark.
- A sector outlook was given on the future of the value proposition and investments in China by two of APFC's private equity partners, Bridgewater and McKinley Capital Management. Both firms are leading private equity firms and currently manage various investments for APFC. They acknowledged the risks around investments in China yet recognized that opportunities remain and present a good opportunity for overall Fund diversification.
- The Board adopted an updated investment disclosure policy to ensure efficient and ongoing compliance with the State's rules on disclosure.

As noted in the Board packet, the 2022 Internship Program went live on December 1 on apfc.org under careers. APFC continues to support and promote this program which will host two interns at APFC and more working with our External Partners to provide exceptional opportunities for Alaskan students.

The Board also formally adopted the 2022 and 2023 Calendar of Board Meetings and made assignments to the Governance and Audit Committees, which will be posted on our website. A short-term subcommittee was established to review and assess current policies related to staff compensation.

After the review and completion of the annual Executive Director evaluation, the Board of Trustees of the Alaska Permanent Fund Corporation have decided to undertake a search for a new executive director to lead the Corporation in its continued growth and evolving role in support of Alaska.

The next meeting of the Board of Trustees will be the quarterly meeting on February 16-17, 2021, in Juneau and via WebEx. Meeting information can be found at <https://apfc.org/the-board-of-trustees/board-of-trustees-meetings/>.

Archived video recordings of all Board of Trustees meetings can be found on our website at <https://apfc.org/bot-video-archive/>.

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