



Board of Trustees

Audit Committee Meeting

September 1, 2022

Table of Contents

1. Agenda
2. Approval of Minutes Memo
 - May 19, 2022
3. KPMG Audit Report
4. APFC Detailed Review of the FY22 Year-End Financial Statements

Board of Trustees Audit Committee Meeting

September 1, 2022

1:00 – 3:30 p.m.

David Rose Board Room (3rd Floor of the Michael J. Burns Building)
801 W 10th Street, Juneau, AK 99801

Webinar Access (click link to join webinar)

Join via WebEx and enjoy the ability to listen on your computer and follow presentations:

<https://apfc.org/bot-audit-committee>

Event Password: APFCAudit

Teleconference Option

*If you are unable to join in-person or via webinar, please contact us at
(907) 796-1501 to receive a teleconference number*

AGENDA

THURSDAY, SEPTEMBER 1, 2022

- 1:00 p.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- APPROVAL OF MINUTES (Action)
- Audit Committee Minutes – May 19, 2022
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
- 1:15 p.m. KPMG AUDIT REPORT (Information)
Beth Stuart, Engagement Partner, KPMG
Melissa Beedle, Engagement Manager, KPMG
- 2:00 p.m. EXECUTIVE SESSION – KPMG - Discuss integrity of financial statements/controls
- 2:30 p.m. DETAILED REVIEW OF FY22 YEAR-END FINANCIAL STATEMENTS (Information)
Valerie Mertz, Chief Financial Officer
Jacki Mallinger, Senior Portfolio Accountant
- FY22 Management's Discussion & Analysis
 - FY22 Financial Statements
 - FY22 Financial Statements Notes
- 3:15 p.m. UPDATE ON LEGAL MATTERS
Chris Poag, General Counsel
- 3:30 p.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 3:45 p.m. ADJOURNMENT

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

SUBJECT: Approval of Minutes

ACTION: X

DATE: September 1, 2022

INFORMATION:

BACKGROUND:

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

- May 19, 2022 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 19, 2022

8:15 a.m.

Originating at:
Ted Ferry Civic Center
888 Venetia Avenue
Ketchikan, Alaska 99901

Trustees Present:
Steve Rieger, Chair
William Moran

Corri Feige

APFC Staff Present:
Val Mertz, Acting CEO/CFO
Marcus Frampton, CIO
Jacki Mallinger
Nellie Metcalfe
Sara Race
Steve Adams
Christopher LaVallee
Chad Brown

Chris Poag, General Counsel
Jennifer Thorsteinson
Paulyn Swanson
Adam Kane
Norix Mangual
Larissa Murray
Ely Cook
Valeria Buschfort

Other Participants:
Melissa Beedle, KPMG

Beth Stuart, KPMG

PROCEEDINGS

CALL TO ORDER

CHAIR RIEGER called the Audit Committee meeting to order and asked for a roll call.

MS. THORSTEINSON called the roll.

APPROVAL OF AGENDA

CHAIR RIEGER moved to approval of the agenda and asked for a motion.

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

There being no objection, the MOTION was APPROVED.

APPROVAL OF MINUTES

CHAIR RIEGER moved to approval of the minutes of September 2, 2021.

MOTION: A motion to approve the minutes of September 2, 2021, was made by TRUSTEE MORAN; seconded by TRUSTEE FEIGE.

There being no objection, the MOTION was APPROVED.

AUDIT REPORT

CHAIR RIEGER moved to KPMG. He stated that Melissa Beedle and Beth Stuart were online, and asked them to begin.

MS. STUART stated that she would be serving as the audit partner for the Corporation audit this year. She continued that she was glad to be back. She added that Melissa Beedle was also online, but did not have much of a voice and would jump in when needed. She stated that in their packet there was a presentation prepared that summarized some of the required communications that there would be with the committee as the audit is kicked off. The audit cycle was beginning with the audit planning, and the communications are focused around sharing the intended audit approach and getting information as to whether there are risks or other concerns that the committee may have that should be incorporated into the audit plan. This is the very preliminary stage of the audit. She pointed out her contact information and stated if there were ever concerns that came up throughout the year to get in contact with her. She valued communication directly with the Audit Committee as the responsibilities as the Corporation's auditors were fulfilled.

TRUSTEE FEIGE asked about the risk of fraud under the audit considerations and what that meant.

MS. STUART explained that was more focused around the potential for financial reporting fraud through the IT system. The focus on the manipulation of information after it comes from the service providers in the journal entry process or in preparation of the financial statements. She moved to the summary of some of the communications that were required by professional standards to communicate to the Audit Committee. The scope will be to audit the Fund as of

June 30, 2022. It is conducted under both auditing standards that are promulgated for the United States, as well as Government Auditing Standards, which is a second layer of audit standards that are a bit more robust. A report on internal controls over financial reporting are not issued the way a public company would. The Permanent Fund Corporation does not have an internal control. It is not required, and it had not been found to be necessary. She added that when the audit opinion is issued, it states that financial statements are materially correct, and materiality is a matter of professional judgment. She talked about the audit timeline and stated that it was the early stages of the audit, the planning and risk assessment, and we are developing the audit plan. We are coordinating the audit timeline with management and getting staffing finalized. There will be interim audit procedures performed that will focus on internal controls and process understanding, risk identification, and then the year-end audit procedures will be performed after June 30th.

MS. MERTZ reassured the committee that the internal materiality level was much less than 200 million.

MS. STUART stated that would be the level of materiality that they were talking about at which there would be a materiality statement to the financials; and a qualified opinion would be given on the financial statements if management refused to correct the error. She continued that because of the nature of the Fund, more time is spent thinking about materiality than in a normal profit-based commercial entity or other Government entities because the assets compared to the change in net assets is disproportional. She looked forward to working with the management team, to execute the audit starting soon, and wrapping up by early September.

CHAIR RIEGER asked for any questions. There being none, he moved to fiscal year '22 year-to-date financial statement review and recognized Ms. Mertz.

FISCAL YEAR '22 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW

MS. MERTZ stated that the year-to-date financial results for FY22 are reviewed every May. She introduced Jacki Mallinger, the senior portfolio accountant that oversees the audit process for the Fund and also the monthly reporting of the financial statements. She asked her to begin.

MS. MALLINGER presented the fiscal year-to-date financial results and started with some key takeaways. The accounting net income as of March 31st was \$2.3 billion, which included unrealized gains and losses. She went through her presentation and explained as she went through the balance sheet beginning with assets. She answered questions as she continued. The last section of the balance sheet is Fund balance with three components that are invested together and under a single asset allocation. The committed and assigned portions make up the earnings reserve account which she described.

CHAIR RIEGER asked about the Amerada Hess amount.

MS. MERTZ stated that her understanding was that amount was ring-fenced in statute and is not separated within the principal amount. It is invested alongside the rest of the funds and is an accounting tracking.

MR. POAG explained that part of the concern was that judge and jury would have a stake in the outcome of the proceeding because a dividend was received, and the promise was made that this

money would be ring-fenced and would never result in future dividend increases. It is a source of capital projects.

MS. MALLINGER stated the last part of the Fund balance is the assigned portion, also referred to as the spendable portion, which is available for appropriation by the Legislature. It represents the uncommitted realized earnings. She then explained the statement of revenues and expenditures. She noted that the Total Fund balance was \$81.4 billion as of March 31st.

CHAIR RIEGER stated that it was a great presentation and moved to the Audit Committee Self-Assessment.

AUDIT COMMITTEE SELF-ASSESSMENT

CHAIR RIEGER continued that there was a summary, and he thought they gave themselves pretty good marks. He was concerned about missing something with legal matters, but he always felt fully informed.

TRUSTEE FEIGE stated that if there was something that was discussed with legal counsel, the Audit Committee would be made aware of it. Mr. Poag does give updates on litigation that could potentially impact the Fund regularly through the general meetings.

CHAIR RIEGER pointed out that there could be legal issues that had not risen to the point of litigation.

MS. MERTZ stated that they could add a standing agenda item for general counsel to brief the committee on anything that is on the horizon. She continued that anything that would fall into this category is included in the litigation summary in the regular board packet.

MR. POAG stated that there is no litigation of which he was aware. The second step will happen in July as the audit is completed. He would be required, through a letter from Ms. Mertz, that he provide the auditors with two types of claims: one of pending or threatened litigation -- and for years there had been a pending litigation listed. It was a merger payout that resulted in an equity claim to claw back the money we received. After ten years of litigation, he reported that litigation had been resolved, and we would not need to return the roughly \$1.5 million in merger payouts received. That will not show up on the report to the external auditors. The second thing he is required to do in that letter is to advise the external auditor if there are unasserted claims, which are claims that have a probability of assertion, with a reasonable probability of an unfavorable outcome. He would advise the CEO to report that on the financial disclosures because that is required to be in an audit. He added that he was not aware of any unasserted claims that would need to be disclosed. His obligation would be to advise the CEO of the need to disclose that in a financial disclosure statement.

CHAIR RIEGER noted that on the self-assessment Trustee Feige had a reference that it would be nice to have a discussion on climate-risk reporting.

TRUSTEE FEIGE replied that it is so much in the mainstream, and she would like to know what it means to the Fund and the risk.

MS. MERTZ stated that any reporting by a regulatory body would become part of the Audit
Alaska Permanent Fund Corporation 4 Audit Committee Meeting Minutes
May 19, 2022

Committee review. The Fund is not subject to the SEC reporting requirements. She continued that it would be a great topic to explore, and suggested September to brief the committee.

TRUSTEE FEIGE asked about accounting personnel succession planning.

MS. MERTZ replied that it was important for the committee and the Full Board to be comfortable that those conversations are happening. It was an important topic across the organization.

CHAIR RIEGER suggested speaking about recruitment and retention in an executive session, and to schedule it for the next meeting. He stated that it would be useful to clarify what risk pieces the Audit Committee was expected to take on, and to make sure that all the risk pieces get considered somewhere. He asked for anything else to come before the committee. There being nothing, he asked for a motion to adjourn.

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

There being no objection, the MEETING was ADJOURNED.

(Audit Committee meeting adjourned at 9:23 a.m.)



SUBJECT: Report of Annual Audit

ACTION: _____

DATE: September 1, 2022

INFORMATION: _____ X _____

BACKGROUND:

The charter for the Audit Committee requires the committee to review the annual audited financial statements prior to filing or distribution of the final report.

STATUS:

The financial audit for fiscal year 2022 will be completed by KPMG with a report date of September 1st following the committee's review. Beth Stuart, engagement partner, and Melissa Beedle, engagement manager, will present a summary of the audit results. A copy of the presentation is included here.



Alaska Permanent Fund Corporation

Discussion with Those Charged
with Governance

Audit results for the year ending June 30, 2022

September 1, 2022

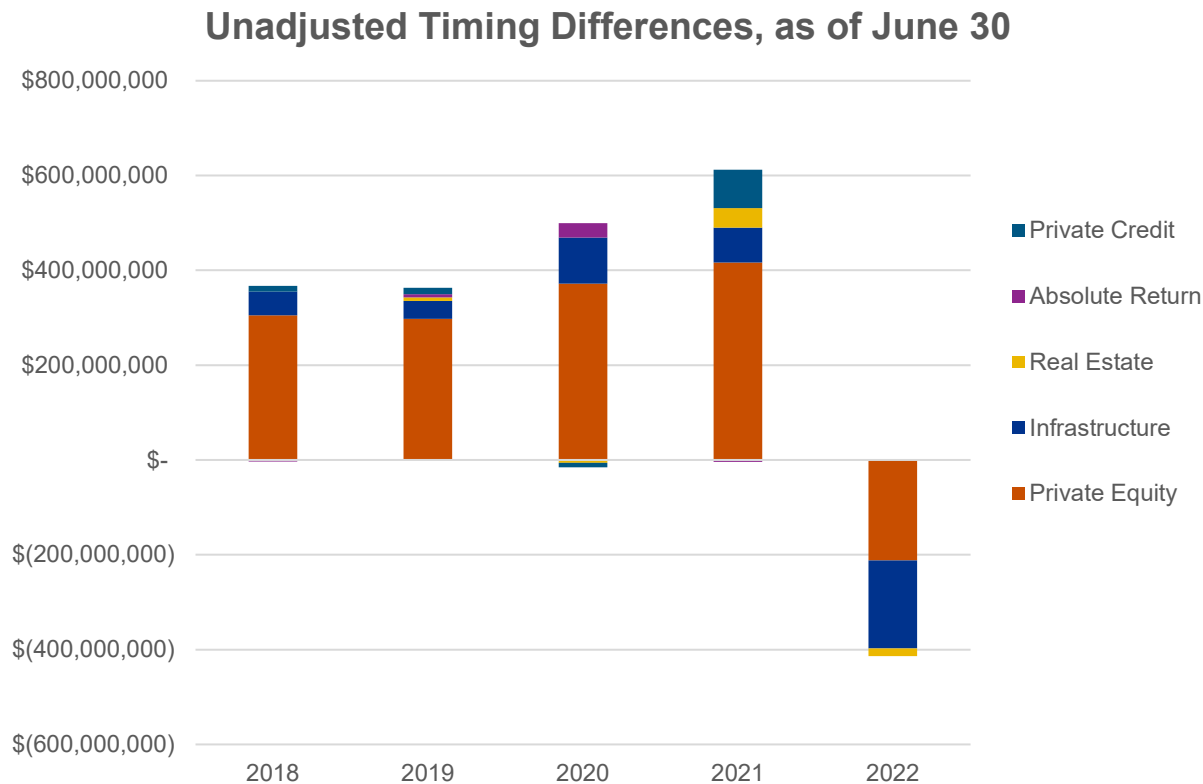
Summary: Audit results required communications and other matters

		Response
Audit results	Outstanding matters	No outstanding matters are expected as of September 1
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	To be provided.
	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.
	Auditors' report	We expect to issue an unmodified opinion.
	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 5-6.
	Significant financial statement disclosures	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 it is available.	

Summary: Audit results required communications and other matters

		Response
Audit results	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 misstatements, to be distributed under separate cover.

Uncorrected audit misstatements



Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

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.

Transparency report and Impact plan

2021 Transparency report

- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards

2022 Impact plan

- U.S. Impact Plan spotlights
 - Audit quality
 - Accelerate 2025
 - Reducing our carbon footprint
 - Community impact



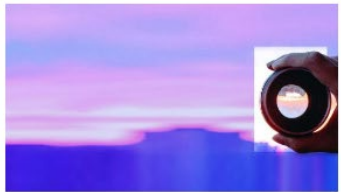
Reports and supplements available at:
audit.kpmg.us/auditquality/transparency

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Recent insights



INSIGHT

Midyear observations on the board agenda


As boards and their committees continue to calibrate their agendas in response to ongoing disruption and uncertainty, we offer midyear observations to On the 2022 board agenda.



INSIGHT

Clarifying committee oversight

Boards may need to reassess whether their delegation of risk oversight responsibilities is clear, properly aligned, and coordinated.



INSIGHT

On growth, macrotrends, and the future

Author and luminary Dr. Vaclav Smil shares his views on the dialogue around macro risks and realities shaping the future.

Rise of the ESG agenda



Environmental criteria consider how a company acts in its role as a steward of nature, such as energy use, recycling practices, pollution, and natural resource conservation.



Social criteria examine how well a company manages relationships with employees, suppliers, customers, and the community, including diversity and inclusion metrics.



Governance criteria are concerned with a company's leadership, internal controls, executive pay, audits, and shareholder rights. An example is ethnic diversity in the board of directors.



Access to capital

Investors increasingly factor in ESG considerations when making investment decisions.



Regulatory developments

ESG-related compliance costs and disclosure requirements continue to evolve.



Societal pressure

Stakeholders increasingly scrutinize companies' ESG performance and transparency affecting project approval, brand acceptance and consumer demand.



Enhanced risk management and investment returns

Many institutional investors now consider ESG factors in their investment analysis.



Reporting standards

Measurement and reporting of ESG-related information is maturing rapidly, as disclosure standards are making headway.



Workforce of the future

ESG has become a key factor in attracting and retaining top talent.

Common challenges and pain points

Investors are demanding more transparency around ESG risks but lack of standards make interpretation of data challenging



Unclear roles and responsibilities resulting in lack of accountability



Greenwashing and social washing, which is a disconnect between ESG stories and supported and reliable data



Inconsistent information across reports (e.g. CDP, financial statements, sustainability report, website)



Lack of short, medium and long-term actions supporting Net Zero commitments



Identification of material scope 3 categories, and data collection and reporting



Lack of documentation of data lineage and controls over data gathering, maintenance and reporting



Achievement of Net Zero relies on offsets rather than absolute reductions



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

DATE: September 1, 2022 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 2022 will be completed by KPMG with a report date of September 1st. 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 FY2022 year-end results.

The logo for the Alaska Permanent Fund Corporation (APFC) features the letters "APFC" in a white, serif font, centered within a dark blue rectangular box. The background of the slide is a teal-tinted photograph of a large, multi-story building with many windows.

APFC

ALASKA PERMANENT
FUND CORPORATION

Detailed Review of FY22 Year-End Financial Statements

September 1, 2022

Key Takeaways

- Accounting (GAAP) net loss: \$2.7b
- Statutory net income: \$4.8b
- Mineral revenues deposited to corpus: \$540m
- Statutory inflation rate: 4.70%, \$2.4b
- POMV transfers to General Fund: \$3.1b
- Total return: -1.32%

Total Assets (millions)

Government bonds	1,965,105,391.13	1,947,073,624.58	19,051,766.55	1,739,589,946.71	1,723,347,887.66	16,241,638.05	(225,516,444.42)	(223,725,736.91)	(1,790,737.51)	1,847,874,000.00
Traded Funds	1,430,369,035.21	1,417,263,814.91	13,125,220.30	1,410,522,545.22	1,397,353,696.64	13,168,848.58	(19,896,409.99)	(19,310,116.27)	43,626.28	1,417,264,000.00
	15,291,196,619.55	15,150,884,915.02	140,311,704.93	14,099,945,955.89	13,968,306,790.27	131,639,175.62	(1,191,250,664.06)	(1,182,578,134.75)	(8,672,529.31)	15,150,885,000.00

Bonds BV 12100	15,150,884,915.02	140,311,704.93	15,291,196,619.55	0.990284021	0.009715979	Total Non US MV	AFF Non US MV
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Assets	FY22	FY21
Cash	\$4,050.4	\$5,828.4
Receivables	608.0	787.7
Investments	73,330.9	77,931.8
Total assets	\$77,989.3	\$84,547.9

Amortized Cost	174,061,277
Government bonds	(354,604.16)
Asset backed securities	(4,858,954.59)
Government bonds	(406,253.62)
Traded funds	(1,790,737.51)
	(963,974.46)
	43,626.28
	(8,672,529.31)

AMHT	Cost	Market Value	AMHT Unrealized G/L
	(12100 + 12850)	(Cost + 13830 + 13850)	(MV - Cost)
	140,311,704.93	131,639,175.62	(8,672,529.31)

CEM (V/D)	
Mark	Open or Cash/Market
Print	Key

CEM (V/D)	
Mark	Open or Cash/Market
Print	Key

Capital Flows (55)	
Portfolio	Edit

ID	Portfolio	Status
23259	KX21002	Confirmed
23487	KX21005	Confirmed
23415	KX21003	Confirmed
23415	KX21002	Confirmed
23415	KX21001	Confirmed
23415	KX21004	Confirmed
23415	KX21006	Confirmed
23415	KX21007	Confirmed
23415	KX21008	Confirmed
23415	KX21009	Confirmed
23415	KX21010	Confirmed
23415	KX21011	Confirmed
23415	KX21012	Confirmed
23415	KX21013	Confirmed
23415	KX21014	Confirmed
23415	KX21015	Confirmed
23415	KX21016	Confirmed
23415	KX21017	Confirmed
23415	KX21018	Confirmed
23415	KX21019	Confirmed
23415	KX21020	Confirmed

Investments (millions)

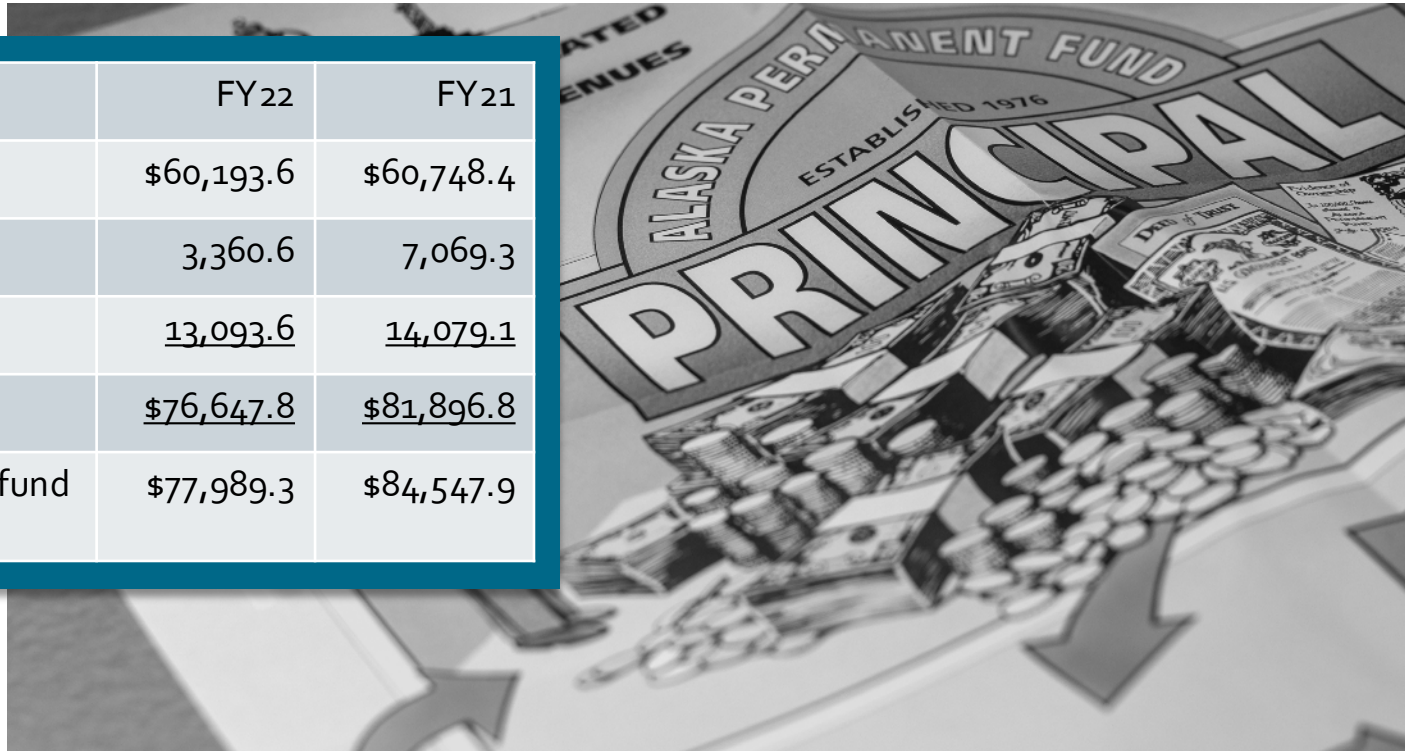
Investments at fair value		FY22	FY21
	Marketable debt securities	\$13,968.3	\$16,438.4
	Preferred and common stock	25,778.9	30,471.8
	Real estate	7,103.7	5,662.7
	Absolute return	5,068.4	5,170.6
	Private credit	2,525.2	2,257.1
	Private equity	15,805.4	15,294.4
	Infrastructure	<u>3,081.0</u>	<u>2,636.8</u>
	Total investments	\$73,330.9	\$77,931.8

Liabilities (millions)

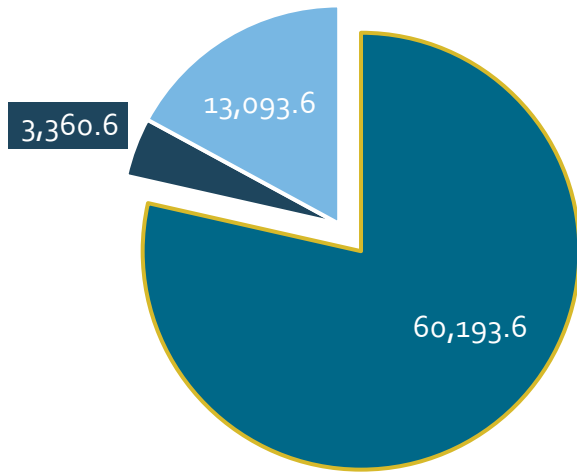
Liabilities		FY22	FY21
	Accounts payable	\$1,316.1	\$2,601.0
	Income distributable	<u>25.4</u>	<u>50.1</u>
	Total liabilities	\$1,341.5	\$2,651.1

Fund Balances (millions)

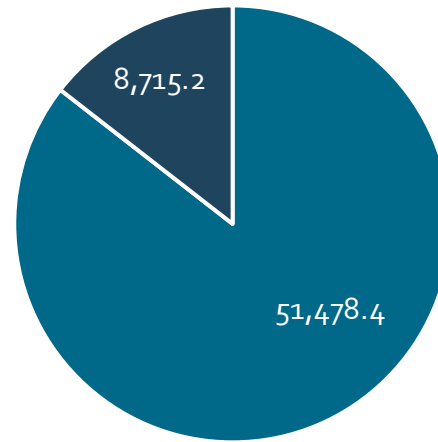
Fund balances	FY22	FY21
Nonspendable	\$60,193.6	\$60,748.4
Committed	3,360.6	7,069.3
Assigned	<u>13,093.6</u>	<u>14,079.1</u>
Total fund balances	<u>\$76,647.8</u>	<u>\$81,896.8</u>
Total liabilities and fund balances	\$77,989.3	\$84,547.9



Nonspendable (millions)

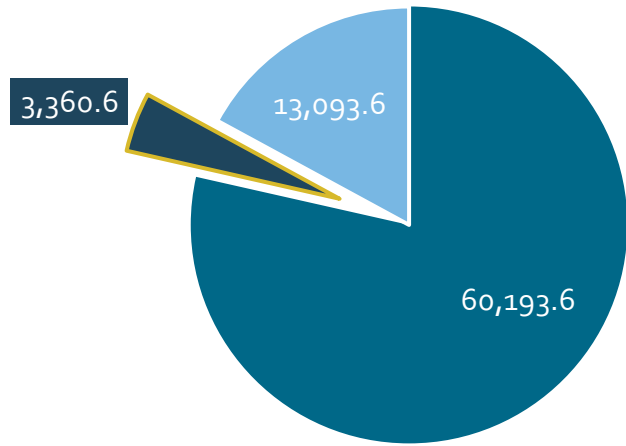


■ Nonspendable ■ Committed ■ Assigned

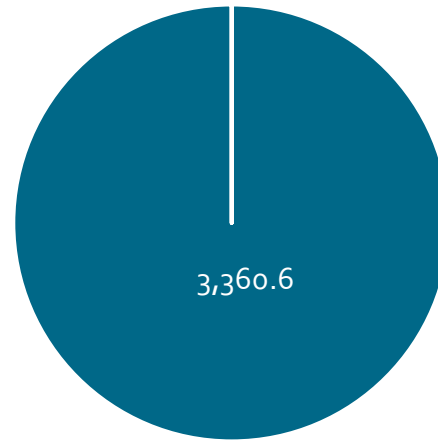


■ Corpus ■ Unrealized Appreciation

Committed (millions)



■ Nonspendable ■ Committed ■ Assigned



■ General Fund Appropriation

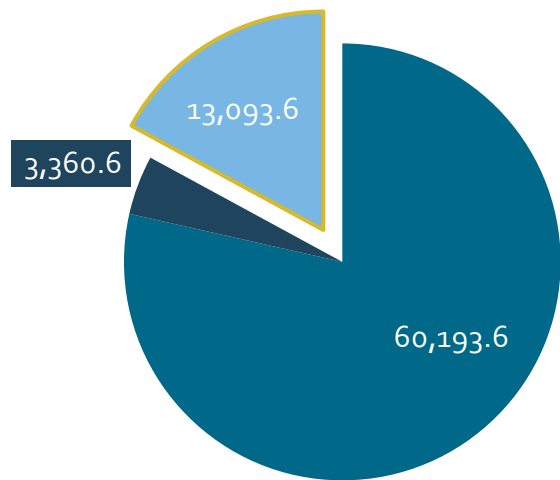
FY22 General Fund Transfer Calculation

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)		5.00%
	Amount available for appropriation per AS 37.13.140(b)		3,360.6

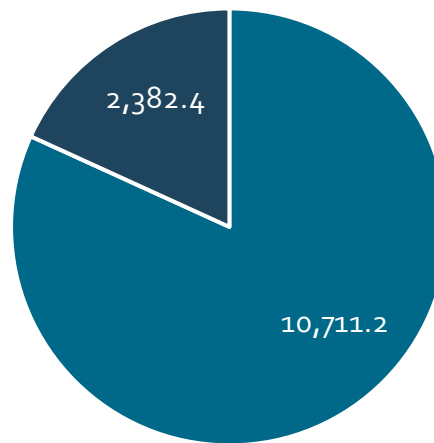
FY23 General Fund Transfer Calculation

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2023 (millions)			
FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,473
2022	76,648	424	76,224
		Average market value	70,584
		Percentage from AS 37.13.140(b)	5.00%
		Amount available for appropriation per AS 37.13.140(b)	3,529

Assigned (millions)



■ Nonspendable ■ Committed ■ Assigned



■ Realized Earnings ■ Unrealized Appreciation

Revenues (millions)

Revenues		FY22	FY21
	Interest	\$456.1	\$436.5
	Dividends	696.8	558.1
	Real estate and other income	<u>531.2</u>	<u>530.2</u>
	Total interest, dividends & other income	\$1,684.1	\$1,524.8
	Total increase (decrease) in fair value of investments	<u>(4,226.9)</u>	<u>18,066.4</u>
	Total revenues	\$(2,542.8)	\$19,591.2

Net Change in Investments Value (millions)

Net increase (decrease) in fair value	FY22	FY21
Marketable debt securities	\$(2,467.7)	\$174.4
Preferred and common stock	(4,851.6)	11,200.7
Real estate	952.2	157.8
Absolute return	287.2	686.0
Private credit	103.0	278.4
Private equity	1,260.7	5,823.1
Infrastructure	551.2	463.6
Derivatives & currency	(61.9)	(717.6)
Total net increase (decrease)	\$(4,226.9)	\$18,066.4

Expenditures (millions)

Expenditures		FY22	FY21
	Operating expenditures	\$(142.2)	\$(166.2)
	Other legislative appropriations	<u>(9.3)</u>	<u>(8.4)</u>
	Total expenditures	<u>\$(151.5)</u>	<u>\$(174.6)</u>
	Excess (deficiency) of revenues over expenditures	\$(2,694.3)	\$19,416.6

Statutory Net Income (millions)

	FY22	FY21
Accounting (GAAP) net income (loss)	\$(2,694.3)	\$19,416.6
Unrealized (gains) losses	7,520.2	(11,404.1)
ACIF realized income	<u>(25.4)</u>	<u>(50.1)</u>
Statutory net income	\$4,800.5	\$7,962.4



Changes in Fund Balances (millions)

Other financing sources (uses)		FY22	FY21
	Transfers in	\$540.0	\$319.6
	Transfers out	<u>(3,904.7)</u>	<u>(3,141.6)</u>
	Net change in fund balances	\$(5,249.0)	\$16,594.6
Fund balances	Beginning of period	<u>\$81,896.8</u>	<u>\$65,302.2</u>
	End of period	\$76,647.8	\$81,896.8

Adjustments for hard close

Adjustment	Impact
Lagged valuations on private assets →	\$321m net decrease in fair value of investments
Impairments on real estate and alternative investments →	\$258m reclassified from unrealized to realized loss
Revised estimate of royalty deposits from DNR →	\$8.9m increase to corpus



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, 2022 and June 30, 2021. 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

- Following a year of unprecedented growth, public markets were extremely volatile and ended the year in negative territory. The Fund ended the fiscal year (“FY”) at a total return of -1.32 percent. Total return for the Fund has been negative only five other times in its history. Despite the negative performance, the fund outperformed the performance benchmark by 192 basis points. Total fund return for FY2021 outperformed this benchmark by 198 basis points at 29.73 percent.
- FY2022’s deficiency of revenues over expenditures (net loss) was \$2.7 billion. This is in stark contrast to the \$19.4 billion earned in FY2021 and is also significantly lower than FY2020’s level of \$1.6 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, 2022 balance sheet reflects a \$3.4 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2023. The June 30, 2021 balance sheet reflects a \$3.1 billion commitment of fund balance for the appropriation that was 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 FY2022, this amount came in at \$540 million, well above FY2021’s deposits of \$320 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 FY2021, the statutory inflation rate was 1.23 percent, which would have resulted in a transfer of \$577 million to the corpus. In FY2022, the statutory inflation rate was 4.70 percent and would have resulted in a transfer of \$2.4 billion, but because there was no appropriation included in the FY2021 or FY2022 budgets, no transfers were made. There was also no appropriation for inflation proofing for FY2016 – FY2018. If appropriated, the transfers for all five years would have totaled \$4.4 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 introduce 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

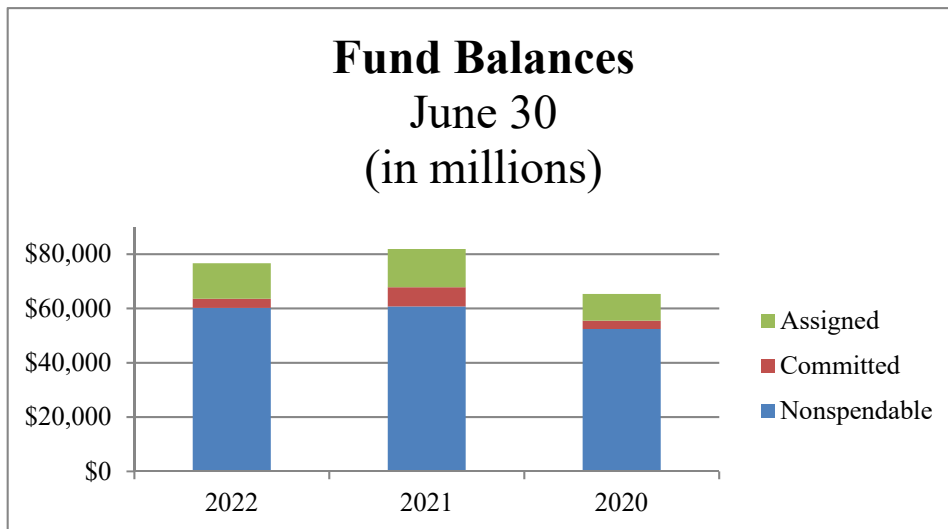
The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2022, as well as the prior fiscal year’s ending balances at June 30, 2021.

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 (79 percent as of June 30, 2022) which is not available for government appropriation by the State of Alaska.
- Committed fund balance (4 percent as of June 30, 2022) 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.
- The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance decreased by 7 percent from FY2021 to FY2022, from \$14.1 billion to \$13.1 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 FY2022, the amounts contributing to the net decrease of approximately \$986 million in the assigned fund balance were:
 - (i) realized income of \$4.8 billion;
 - (ii) the commitment of \$3.4 billion for transfer to the General Fund; and
 - (iii) the allocation of a portion of unrealized gains and losses, which decreased from FY2021 to FY2022 by \$2.4 billion, to a balance of \$2.4 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 FY2022 and FY2021.

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, 2022 and 2021.

Balance Sheets	June 30		Net change	Percent
	2022	2021		
Assets				
Cash and temporary investments	\$ 4,050,412,000	5,828,413,000	(1,778,001,000)	(31)%
Receivables, prepaid expenses and other assets	607,996,000	787,673,000	(179,677,000)	(23)%
Investments	73,330,941,000	77,931,831,000	(4,600,890,000)	(6)%
Securities lending collateral	4,576,504,000	4,348,802,000	227,702,000	5%
Total assets	\$ 82,565,853,000	88,896,719,000	(6,330,866,000)	(7)%
Liabilities				
Accounts payable	1,316,142,000	2,601,006,000	(1,284,864,000)	(49)%
Income distributable to the State of Alaska	25,359,000	50,116,000	(24,757,000)	(49)%
Securities lending collateral	4,576,504,000	4,348,802,000	227,702,000	5%
Total liabilities	\$ 5,918,005,000	6,999,924,000	(1,081,919,000)	(15)%
Fund balances				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	51,478,388,000	46,938,431,000	4,539,957,000	10%
Unrealized appreciation on invested assets	8,715,215,000	13,809,979,000	(5,094,764,000)	(37)%
Total nonspendable	60,193,603,000	60,748,410,000	(554,807,000)	(1)%
Committed:				
General Fund appropriation	3,360,567,000	3,069,296,000	291,271,000	9%
Permanent Fund corpus	—	4,000,000,000	(4,000,000,000)	n/a
Total committed	3,360,567,000	7,069,296,000	(3,708,729,000)	(52)%
Assigned for future appropriations:				
Realized earnings	10,711,327,000	9,271,412,000	1,439,915,000	16%
Unrealized appreciation on invested assets	2,382,351,000	4,807,677,000	(2,425,326,000)	(50)%
Total assigned	13,093,678,000	14,079,089,000	(985,411,000)	(7)%
Total fund balances	\$ 76,647,848,000	81,896,795,000	(5,248,947,000)	(6)%
Total liabilities and fund balances	\$ 82,565,853,000	88,896,719,000	(6,330,866,000)	(7)%

The value of the Fund's assets, excluding securities lending collateral, decreased significantly between June 30, 2021 and June 30, 2022. The value of the Fund's assets is most significantly impacted by investment performance. Comparative performance for each asset class is shown below:

	<u>FY2022</u>	<u>FY2021</u>
Public Equity	-14.32%	46.92%
Fixed Income	-10.82%	3.68%
Private Equity & Special Opportunities	17.60%	64.61%
Real Estate	23.41%	1.41%
Private Income	16.20%	18.06%
Absolute Return	7.98%	12.40%
Risk Parity	-17.93%	23.32%
Cash	-0.83%	not available
TOTAL FUND	-1.32%	29.73%

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 FY2022 was \$10.4 billion, with a low of \$9.2 billion and a high of \$12.3 billion. The Fund had earnings from securities lending of \$29.0 million during FY2022, a significant increase from \$23.7 million received in FY2021.

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 98 percent in FY2022 and 99 percent in FY2021. The decrease of approximately \$1.3 billion from FY2021 to FY2022 was primarily due to the timing of fixed income purchases at the end of the fiscal year.

The sole amount due to the State of Alaska at the end of FY2022 and FY2021 is the transfer to the Alaska Capital Income Fund (ACIF). This amount is calculated based on realized earnings and was \$25.4 million for FY2022 and \$50.1 million for FY2021. The \$25 million dollar decrease from the prior year is caused by much lower realized returns in FY2022 versus FY2021.

Total fund balance decreased by 6 percent from FY2021 to FY2022, or \$5.2 billion, consistent with the -1.32 percent total return for the year and the net transfers out of the Fund. Components of this decrease were \$1.7 billion in stock dividends, bond interest, and cash flow income from other investments, \$540 million in dedicated mineral deposits, offset by decrease in the fair value of investments of \$4.2 billion, operating expenses and other appropriations of \$152 million, and the General Fund transfer of \$3.1 billion. Deposits from the State of Alaska were up more than 68 percent from the FY2021 dedicated revenues of \$320 million.

In comparison, total fund balance increased from FY2020 to FY2021 by 25 percent, or \$17 billion, due to net income of the Fund of \$19.4 billion and transfers in (State dedicated mineral revenues of \$320 million) offset by transfers out (General Fund of \$3.1 billion and ACIF of \$50 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 FY2022 as compared to FY2021 are shown in both dollars and percentages.

Statements of Revenues, Expenditures and Changes in Fund Balances	Year Ended June 30		Net change	Percent
	2022	2021		
Revenues				
Total interest, dividends, real estate and other income	\$ 1,684,101,000	1,524,731,000	159,370,000	10%
Total net increase (decrease) in the fair value of investments	(4,226,811,000)	18,066,481,000	(22,293,292,000)	(123)%
Total revenues	(2,542,710,000)	19,591,212,000	(22,133,922,000)	(113)%
Expenditures				
Operating expenditures	(142,258,000)	(166,151,000)	23,893,000	(14)%
Other legislative appropriations	(9,281,000)	(8,444,000)	(837,000)	10%
Total expenditures	(151,539,000)	(174,595,000)	23,056,000	(13)%
Excess (deficiency) of revenues over expenditures	(2,694,249,000)	19,416,617,000	(22,110,866,000)	(114)%
Other financing sources (uses)				
Transfers in – dedicated				
State revenues	539,957,000	319,585,000	220,372,000	69%
Transfers out – appropriations	(3,094,655,000)	(3,141,609,000)	46,954,000	(1)%
Net change in fund balances	(5,248,947,000)	16,594,593,000	(21,843,540,000)	(132)%
Fund balances				
Beginning of period	81,896,795,000	65,302,202,000	16,594,593,000	25%
End of period	\$ 76,647,848,000	81,896,795,000	(5,248,947,000)	(6)%

During FY2022, cash flow revenue from interest, dividends, real estate, and other sources was slightly higher than FY2021 levels at \$140 million per month on average, up from \$127 million per month on average in FY2021. Cash flow income for both FY2022 and FY2021 was higher than the average in FY2020 of \$117 million per month.

The change in the fair value of investments decreased by 123 percent from \$18.1 billion in FY2021 to -\$4.2 billion in FY2022. The public equity portfolio experienced large losses during FY2022 following the extreme gains in value during FY2021 that were experienced in the recovery from the COVID-19 pandemic. FY2021's change in fair value of investments was a 4,893 percent increase from the \$362 million gain in FY2020, reflective of this market recovery in FY2021.

Operating expenditures decreased from FY2021 to FY2022 by 14 percent. This decrease is in contrast to the increase experienced between FY2020 and FY2021 of 38 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 significantly from FY2021 to FY2022 by 69 percent (\$220 million), totaling \$540 million in FY2022 compared to \$320 million in FY2021. These transfers totaled \$319 million in FY2020. 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 \$25 million in FY2022 and \$50 million in FY2021. The earnings for FY2020 were \$20 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

	<i>June 30,</i>	
	2022	2021
Assets		
Cash and temporary investments	\$ 4,050,412,000	5,828,413,000
Receivables, prepaid expenses and other assets	607,996,000	787,673,000
Investments:		
Marketable debt securities	13,968,342,000	16,438,369,000
Preferred and common stock	25,778,893,000	30,471,793,000
Real estate	7,103,716,000	5,662,727,000
Absolute return	5,068,383,000	5,170,653,000
Private credit	2,525,199,000	2,257,082,000
Private equity	15,805,405,000	15,294,438,000
Infrastructure	3,081,003,000	2,636,769,000
Total investments	73,330,941,000	77,931,831,000
Securities lending collateral	4,576,504,000	4,348,802,000
Total assets	\$ 82,565,853,000	88,896,719,000
Liabilities		
Accounts payable	1,316,142,000	2,601,006,000
Income distributable to the State of Alaska	25,359,000	50,116,000
Securities lending collateral	4,576,504,000	4,348,802,000
Total liabilities	\$ 5,918,005,000	6,999,924,000
Fund balances		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	51,478,388,000	46,938,431,000
Unrealized appreciation on invested assets	8,715,215,000	13,809,979,000
Total nonspendable	60,193,603,000	60,748,410,000
Committed:		
General Fund appropriation	3,360,567,000	3,069,296,000
Permanent Fund corpus	—	4,000,000,000
Total committed	3,360,567,000	7,069,296,000
Assigned for future appropriations:		
Realized earnings	10,711,327,000	9,271,412,000
Unrealized appreciation on invested assets	2,382,351,000	4,807,677,000
Total assigned	13,093,678,000	14,079,089,000
Total fund balances	\$ 76,647,848,000	81,896,795,000
Total liabilities and fund balances	\$ 82,565,853,000	88,896,719,000

See accompanying notes to the financial statements.

Alaska Permanent Fund

Statements of revenues, expenditures and changes in fund balances

	<i>Year Ended June 30,</i>	
	2022	2021
Revenues		
Interest	\$ 456,145,000	436,481,000
Dividends	696,785,000	558,073,000
Real estate and other income	531,171,000	530,177,000
Total interest, dividends, real estate and other income	1,684,101,000	1,524,731,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	(2,467,669,000)	174,364,000
Preferred and common stock	(4,851,614,000)	11,200,746,000
Real estate	952,170,000	157,866,000
Absolute return	287,167,000	685,979,000
Private credit	103,045,000	278,447,000
Private equity	1,260,733,000	5,823,101,000
Infrastructure	551,246,000	463,643,000
Foreign currency forward exchange contracts and futures	(250,310,000)	(11,325,000)
Currency	188,421,000	(706,340,000)
Total net increase (decrease) in the fair value of investment:	(4,226,811,000)	18,066,481,000
Total revenues	(2,542,710,000)	19,591,212,000
Expenditures		
Operating expenditures	(142,258,000)	(166,151,000)
Other legislative appropriations	(9,281,000)	(8,444,000)
Total expenditures	(151,539,000)	(174,595,000)
Excess (deficiency) of revenues over expenditures	(2,694,249,000)	19,416,617,000
Other financing sources (uses)		
Transfers in - dedicated State revenues	539,957,000	319,585,000
Transfers out - statutory and legislative appropriations	(3,094,655,000)	(3,141,609,000)
Net change in fund balances	(5,248,947,000)	16,594,593,000
Fund balances		
Beginning of period	81,896,795,000	65,302,202,000
End of period	\$ 76,647,848,000	81,896,795,000

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, private credit, private equity, and infrastructure 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% 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, et al.* This legislation took effect for FY2019 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, 2022 and 2021 were 4.70 percent and 1.23 percent, respectively. The transfer would have been \$2.4 billion for FY2022; however, the necessary appropriation was not included in the budget authorization so no transfer was made. The transfer for FY2021, which was also not appropriated, would have been \$577 million.

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/decrease in the fair value of investments at the time the futures contract expires. The net change in unrealized gains and losses is also included in the net increase/decrease 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 at 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, 2022, the APFC’s strategic asset allocation targets were as follows:

<u>Asset class</u>	<u>Asset class target</u>
Public equity	38%
Fixed income	20%
Private equity & special opportunities	16%
Real estate	8%
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 38 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 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, 2022, the Fund held fixed income investments with floating, variable, and step interest rates, valued at \$643,420,000. 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:

	2022	2021
Cash	\$ 152,106,000	202,593,000
Pooled funds	1,642,069,000	1,322,111,000
Commercial paper	39,559,000	563,191,000
U.S. Treasury bills	2,174,017,000	3,715,823,000
FX forward exchange contracts	42,662,000	24,695,000
Total cash and temporary investments	\$ 4,050,413,000	5,828,413,000

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 AND OTHER ASSETS

Receivables and other assets at June 30 are as follows:

	2022	2021
Interest receivable	\$ 94,834,000	107,526,000
Dividends receivable	65,832,000	52,578,000
Sales receivable	344,412,000	567,735,000
Dedicated State revenues receivable	102,918,000	59,834,000
Total receivables and other assets	\$ 607,996,000	787,673,000

5. MARKETABLE DEBT SECURITIES

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

2022	Cost	Fair value	Unrealized gains (losses)
U.S. treasury and government notes/bonds	\$ 2,370,392,000	2,250,558,000	(119,834,000)
Mortgage-backed securities	1,972,829,000	1,901,045,000	(71,784,000)
U.S. corporate bonds	5,952,652,000	5,334,098,000	(618,554,000)
Commercial mortgage/asset-backed securities	682,367,000	627,444,000	(54,923,000)
Non-U.S. treasury and government bonds	1,947,077,000	1,723,352,000	(223,725,000)
Non-U.S. corporate bonds	808,327,000	734,488,000	(73,839,000)
Commingled and exchange traded funds	1,417,266,000	1,397,357,000	(19,909,000)
Total marketable debt securities	\$ 15,150,910,000	13,968,342,000	(1,182,568,000)
2021			
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

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. Accounts with high yield mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds). 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, 2022, 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	\$	475,932,000	292,951,000	768,883,000	5.50%
AA		497,043,000	388,284,000	885,327,000	6.34%
A		1,359,809,000	351,492,000	1,711,301,000	12.25%
BBB		2,699,620,000	499,361,000	3,198,981,000	22.90%
BB		705,980,000	156,815,000	862,795,000	6.18%
B		210,316,000	23,542,000	233,858,000	1.68%
CCC		3,624,000	3,015,000	6,639,000	0.05%
CC		—	—	—	—
C		—	—	—	—
D		28,000	104,867,000	104,895,000	0.75%
Total fair value of rated debt securities					
		5,952,352,000	1,820,327,000	7,772,679,000	55.65%
Commingled and exchange traded funds		996,701,000	400,656,000	1,397,357,000	10.00%
Not rated		13,896,000	679,289,000	693,185,000	4.96%
U.S. government explicitly backed by the U.S. government (AA)		2,632,102,000	—	2,632,102,000	18.84%
U.S. government implicitly backed by the U.S. government (AA)		1,473,019,000	—	1,473,019,000	10.55%
Total fair value debt securities	\$	11,068,070,000	2,900,272,000	13,968,342,000	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 duration in comparison to established benchmarks. At June 30, 2022, the effective duration by investment type, based on fair value, is as follows:

	Percent of bond holdings	Duration
Domestic bonds		
Treasury and government notes/bonds	20.33%	6.70
Mortgage-backed securities	17.18%	6.85
Corporate bonds	48.19%	8.02
Commercial mortgage and asset-backed securities	5.29%	3.43
Commingled and exchange traded funds	9.01%	—
Total domestic bonds	100.00%	6.58
Non-domestic bonds		
Treasury and government bonds	59.42%	7.47
Corporate bonds	25.33%	7.75
Commercial mortgage and asset-backed securities	1.44%	1.23
Commingled and exchange traded funds	13.81%	—
Total non-domestic bonds	100.00%	6.42

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 \$(1.4) million as of June 30, 2022 and \$9.1 million as of June 30, 2021:

2022	Cost	Fair value	Unrealized gains (losses)
Direct investments			
Domestic stock	\$ 12,377,144,000	13,658,169,000	1,281,025,000
Non-domestic stock	12,339,900,000	11,925,586,000	(414,314,000)
Commingled funds	207,743,000	195,138,000	(12,605,000)
Total preferred and common stock	\$ 24,924,787,000	25,778,893,000	854,106,000
2021			
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

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, 2022, 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	\$ (418,000)	(53,215,000)	303,548,000	39,788,000	289,703,000
Brazil Real	1,254,000	(363,000)	132,199,000	—	133,090,000
Canadian Dollar	(1,258,000)	(45,001,000)	647,036,000	39,010,000	639,787,000
Chilean Peso	120,000	—	6,095,000	—	6,215,000
Chinese Yuan Renminbi	3,932,000	(185,112,000)	293,303,000	179,644,000	291,767,000
Colombian Peso	466,000	(6,401,000)	1,212,000	5,283,000	560,000
Czech Koruna	11,000	—	1,354,000	—	1,365,000
Danish Krone	830,000	(17,065,000)	150,600,000	16,463,000	150,828,000
Egyptian Pound	7,000	(10,000)	944,000	—	941,000
Euro Currency	8,260,000	(601,279,000)	3,423,172,000	500,756,000	3,330,909,000
Hong Kong Dollar	9,984,000	(13,381,000)	976,107,000	—	972,710,000
Hungarian Forint	240,000	(1,225,000)	5,578,000	922,000	5,515,000
Indian Rupee	3,736,000	—	312,772,000	—	316,508,000
Indonesian Rupiah	374,000	(24,716,000)	79,768,000	23,065,000	78,491,000
Israeli Shekel	723,000	(15,565,000)	59,379,000	15,312,000	59,849,000
Japanese Yen	13,271,000	(416,825,000)	1,124,784,000	400,598,000	1,121,828,000
Kuwaiti Dinar	13,000	—	1,592,000	—	1,605,000
Malaysian Ringgit	553,000	(21,065,000)	28,113,000	20,277,000	27,878,000
Mexican Peso	278,000	(12,959,000)	61,046,000	12,907,000	61,272,000
New Taiwan Dollar	3,067,000	(3,202,000)	402,027,000	—	401,892,000
New Zealand Dollar	1,192,000	(12,920,000)	17,793,000	12,119,000	18,184,000
Norwegian Krone	(60,000)	(10,404,000)	90,397,000	10,476,000	90,409,000
Pakistan Rupee	4,000	—	285,000	—	289,000
Peruvian Sol	653,000	(11,809,000)	—	13,095,000	1,939,000
Philippines Peso	80,000	—	7,819,000	—	7,899,000
Polish Zloty	259,000	—	41,800,000	—	42,059,000
Pound Sterling	3,594,000	(186,967,000)	1,129,360,000	121,358,000	1,067,345,000
Qatari Riyal	271,000	—	40,988,000	—	41,259,000
Russian Ruble	94,000	—	59,211,000	1,728,000	61,033,000
Saudi Arabian Riyal	739,000	—	80,931,000	—	81,670,000
Singapore Dollar	890,000	(3,734,000)	51,293,000	4,753,000	53,202,000
South African Rand	647,000	163,000	81,993,000	—	82,803,000
South Korean Won	2,526,000	(47,263,000)	363,710,000	45,765,000	364,738,000
Swedish Krona	1,907,000	(719,000)	187,177,000	—	188,365,000
Swiss Franc	2,595,000	(4,663,000)	367,981,000	—	365,913,000
Thailand Baht	167,000	(3,866,000)	46,965,000	4,112,000	47,378,000
Turkish Lira	256,000	—	13,574,000	—	13,830,000
UAE Dirham	16,000	—	16,616,000	—	16,632,000
Total foreign currency exposure	\$ 61,273,000	(1,699,566,000)	10,608,522,000	1,467,431,000	10,437,660,000

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 FY2022, 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, \$_____ million of unrealized losses were realized through a write-down of cost to fair value. In FY2021, one real estate holding was impaired with a related write-down of \$3.8 million. Real estate investments at June 30 are summarized as follows:

2022	Cost	Fair value	Unrealized gains
Real estate investment trusts	\$ 875,977,000	987,913,000	111,936,000
Real estate funds and notes	1,248,989,000	1,557,607,000	308,618,000
American Homes 4 Rent II	101,659,000	170,432,000	68,773,000
Directly owned real estate -			
Retail	933,515,000	1,704,316,000	770,801,000
Office	1,077,574,000	1,362,368,000	284,794,000
Hotel	59,404,000	67,987,000	8,583,000
Industrial	110,953,000	662,599,000	551,646,000
Multifamily	168,734,000	349,086,000	180,352,000
Development	231,092,000	241,407,000	10,315,000
Total real estate	\$ 4,807,897,000	7,103,715,000	2,295,818,000
2021			
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

As of June 30, 2022, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$552 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 FY2022, it was determined that nine private equity 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, \$_____ million of unrealized losses were realized through a write-down of cost to fair value. In FY2021, 12 private equity funds were impaired with a related write-down of \$49.8 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 and 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 FY2022 and FY2021, no infrastructure funds were determined to be impaired.

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 FY2022, no private credit funds were determined to be impaired. In FY2021, three private credit funds were impaired with a related write-down of \$11.1 million.

Alternative investments at June 30 are summarized as follows:

2022	Cost	Fair value	Unrealized gains
Absolute return	\$ 3,802,239,000	5,068,383,000	1,266,144,000
Private equity	9,258,838,000	15,805,405,000	6,546,567,000
Infrastructure	2,146,701,000	3,081,003,000	934,302,000
Private credit	2,181,723,000	2,525,199,000	343,476,000
Total alternative investments	\$ 17,389,501,000	26,479,990,000	9,090,489,000
2021			
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

As of June 30, 2022, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$152 million for absolute return, \$4.3 billion for private equity, \$1.3 billion for infrastructure, and \$1.9 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:

	2022	2021
Fair value of securities on loan, secured by cash collateral	\$ 4,444,926,000	4,249,447,000
Cash collateral	4,576,504,000	4,348,802,000
Fair value of securities on loan, secured by non-cash collateral	5,734,687,000	7,445,378,000
Non-cash collateral	6,341,250,000	8,230,657,000

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, 2022 and 2021, the Fund incurred no losses from securities lending transactions. The Fund received income of \$29.0 million and \$23.7 million from securities lending for the years ended June 30, 2022 and 2021, 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:

	2022	2021
Accrued liabilities	\$ 25,651,000	28,888,000
Securities purchased	1,290,492,000	2,572,118,000
Total accounts payable	\$ 1,316,143,000	2,601,006,000

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 was \$3,069,296,000 in FY2022. For FY2023 the amount appropriated is \$3,360,567,000, to be split evenly between the Dividend and General Funds. This amount is shown as committed as of June 30, 2022.

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:

	2022	2021
<hr/>		
Income distributed during the year:		
General fund transfer	\$ 3,069,296,000	3,091,493,000
Income distributable at year end:		
Alaska Capital Income Fund	25,359,000	50,116,000
Total statutory and legislative appropriations	\$ 3,094,655,000	3,141,609,000

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:

	2022	2021
Nonspendable		
Balance, beginning of year	\$ 60,748,410,000	52,408,063,000
Dedicated State revenues	539,957,000	319,585,000
Commitment to principal	4,000,000,000	—
Change in unrealized appreciation (depreciation) on invested assets	(5,094,764,000)	8,020,762,000
Balance, end of year	\$ 60,193,603,000	60,748,410,000
Committed		
Balance, beginning of year	\$ 7,069,296,000	3,091,493,000
General Fund transfer to liability	(3,069,296,000)	(3,091,493,000)
General Fund commitment	3,360,567,000	3,069,296,000
Commitment to principal	(4,000,000,000)	4,000,000,000
Balance, end of year	\$ 3,360,567,000	7,069,296,000
Assigned		
Balance, beginning of year	\$ 14,079,089,000	9,802,646,000
General Fund commitment	(3,360,567,000)	(3,069,296,000)
Commitment to principal	—	(4,000,000,000)
Settlement earnings payable to the ACIF	(25,359,000)	(50,116,000)
Realized earnings, net of operating expenditures	4,825,841,000	8,012,519,000
Change in unrealized appreciation (depreciation) on invested assets	(2,425,326,000)	3,383,336,000
Balance, end of year	\$ 13,093,678,000	14,079,089,000
Total		
Balance, beginning of year	\$ 81,896,795,000	65,302,202,000
Dedicated State revenues	539,957,000	319,585,000
General Fund transfer	(3,069,296,000)	(3,091,493,000)
Settlement earnings payable to the ACIF	(25,359,000)	(50,116,000)
Excess (deficiency) of investment revenues over expenditures	(2,694,249,000)	19,416,617,000
Balance, end of year	\$ 76,647,848,000	81,896,795,000

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

	2022	2021
Dedicated State revenues	\$ 18,456,131,000	17,916,174,000
Special appropriations	14,885,906,000	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	\$ 51,478,388,000	46,938,431,000

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, 2022, the Fund's net unrealized gain was \$11,097,566,000, of which \$8,715,215,000 was allocated to the nonspendable fund balance and \$2,382,351,000 was allocated to the assigned fund balance. 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.

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 \$25,359,000 during FY2022 and \$50,116,000 during FY2021.

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:

2022	Measured using input levels			Measured using NAV	Total
	Level 1	Level 2	Level 3		
Marketable debt securities	\$ 3,614,218,000	10,338,219,000	15,905,000	—	13,968,342,000
Preferred and common stock	25,778,879,000	—	13,000	—	25,778,892,000
Real estate	988,308,000	—	—	6,115,408,000	7,103,716,000
Absolute return	—	—	—	5,068,383,000	5,068,383,000
Private credit	—	—	—	2,525,199,000	2,525,199,000
Private equity	91,226,000	—	—	15,714,179,000	15,805,405,000
Infrastructure	—	—	—	3,081,003,000	3,081,003,000
Total investments	\$ 30,472,631,000	10,338,219,000	15,918,000	32,504,172,000	73,330,940,000

2021	Measured using input levels			Measured using NAV	Total
	Level 1	Level 2	Level 3		
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

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 and those 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 held real estate, real estate debt investments, and private real estate funds 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.

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 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.

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.

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.

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, 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 FY2022, approximately \$_____ million of net impairments were recorded. During FY2021, approximately \$65 million of net impairments were recorded.

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

	2022	2021
Excess (deficiency) of revenues over expenditures	\$ (2,694,249,000)	19,416,617,000
Unrealized (gains) losses	7,520,090,000	(11,404,098,000)
Settlement earnings	(25,359,000)	(50,116,000)
Statutory net income	\$ 4,800,482,000	7,962,403,000

18. INVESTMENT INCOME BY SOURCE

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

	2022	2021
Interest		
Marketable debt securities	\$ 448,266,000	432,314,000
Short-term and other	7,880,000	4,167,000
Total interest	\$ 456,146,000	436,481,000
Total dividends	\$ 696,785,000	558,073,000
Real estate and other income		
Directly owned real estate income, net of fees	89,821,000	75,271,000
Real estate investment trust income, net of fees	28,373,000	22,613,000
Real estate fund and notes, net of fees	42,925,000	8,110,000
Absolute return income, net of fees	10,000	—
Private credit income, net of fees	69,981,000	80,094,000
Infrastructure income, net of fees	43,200,000	16,021,000
Private equity income, net of fees	204,730,000	302,533,000
Class action litigation income	22,664,000	1,160,000
Security lending, commission recapture, and other income	29,467,000	24,375,000
Total real estate and other income	\$ 531,171,000	530,177,000

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, 2022 ranged between one and 114 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, 2022 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 FY2022 and FY2021 are summarized as follows:

	2022	2021
Balances at June 30		
Face value of FX forward contracts	\$ 1,867,076,000	5,895,569,000
Net unrealized gains on FX forward contracts	<u>42,662,000</u>	<u>24,695,000</u>
Fair value of FX forward contracts	<u>\$ 1,909,738,000</u>	<u>5,920,264,000</u>
Activity for fiscal years ending June 30		
Change in holding gains	\$ 17,923,000	19,018,000
Realized gains (losses)	<u>156,428,000</u>	<u>(87,693,000)</u>
Net increase (decrease) in fair value of FX forward contracts	<u>\$ 174,351,000</u>	<u>(68,675,000)</u>

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 FY2022 and FY2021 is summarized as follows:

	2022	2021
Balances at June 30		
Face value of equity index futures	\$ (1,995,000)	94,252,000
Net unrealized gains (losses) on futures	(1,366,000)	9,131,000
Fair value of equity index futures	<u>\$ (3,361,000)</u>	<u>103,383,000</u>
Activity for fiscal years ending June 30		
Change in holding gains (losses)	\$ (10,503,000)	6,553,000
Realized gains (losses)	(25,948,000)	41,577,000
Net increase (decrease) in fair value of equity index futures	<u>\$ (36,451,000)</u>	<u>48,130,000</u>

Activity and balances related to futures in fixed income accounts for FY2022 and FY2021 is summarized as follows:

	2022	2021
Balances at June 30		
Face value of U.S. Treasury index futures	\$ 36,314,000	106,178,000
Net unrealized gains (losses) on futures	3,556,000	(5,717,000)
Fair value of U.S. Treasury index futures	<u>\$ 39,870,000</u>	<u>100,461,000</u>
Activity for fiscal years ending June 30		
Change in unrealized gains (losses)	\$ 9,276,000	(5,015,000)
Realized gains	40,964,000	14,405,000
Net increase in fair value of U.S. Treasury index futures	<u>\$ 50,240,000</u>	<u>9,390,000</u>

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 derivative instruments 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:

	2022	2021
APFC operating expenditures		
Salaries and benefits	\$ 13,300,000	10,707,000
Communications and electronic services	6,688,000	5,360,000
Consulting fees	3,071,000	3,184,000
Training, supplies, services and other	1,029,000	774,000
Rent	510,000	509,000
Travel	508,000	116,000
Legal and audit fees	944,000	897,000
Property and equipment	635,000	605,000
Public information and subscriptions	291,000	145,000
Subtotal APFC operating expenditures	26,976,000	22,297,000
Investment management and custody fees		
Investment management fees	114,089,000	142,683,000
Custody and safekeeping fees	1,194,000	1,171,000
Subtotal investment management and custody fees	115,283,000	143,854,000
Total operating expenditures, investment management and custody fees	\$ 142,259,000	166,151,000
Other legislative appropriations from corporate receipts		
Department of Natural Resources	6,493,000	6,147,000
Department of Law	2,688,000	2,198,000
Department of Revenue	100,000	99,000
Total other legislative appropriations	\$ 9,281,000	8,444,000
Total expenditures	\$ 151,540,000	174,595,000

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, 2022 and 2021 amounted to \$9,023,000 and \$7,395,000, 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, 2022 and 2021 amounted to \$7,908,000 and \$5,465,000, respectively.