



Board of Trustees

Annual Meeting

September 21-22, 2022

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## ANNUAL MEETING OF THE BOARD OF TRUSTEES September 21-22, 2022

**Dena'ina Civic and Convention Center – Kahtnu Room  
600 West 7th Avenue, Anchorage, AK 99501**

**\*Please sign-up for public testimony by  
emailing [jloesch@apfc.org](mailto:jloesch@apfc.org) by noon September 20\***

### Wednesday, September 21, 2022 8:30 a.m. – 4:00 p.m.

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

**Day 1 Webinar Access:** <https://apfc.org/bot-meeting-day1>  
Event Password: APFCDay1

### Thursday, September 22, 2022 8:30 a.m. – 4:45 p.m.

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

**Day 2 Webinar Access:** <https://apfc.org/bot-meeting-day2>  
Event Password: APFCDay2

#### Teleconference Access

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

## AGENDA

WEDNESDAY, SEPTEMBER 21, 2022
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|-----------|--|
| 8:30 a.m. | CALL TO ORDER<br><br>ROLL CALL (Action)<br><br>APPROVAL OF AGENDA (Action)<br><br>APPROVAL OF MINUTES (Action) <ul style="list-style-type: none"> <li>• May 18-19, 2022 Quarterly Meeting</li> <li>• July 12, 2022 Special Meeting</li> <li>• July 28, 2022 Special Meeting</li> </ul> SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION (please see note above)  |
| 8:45 a.m. | COMMITTEE REPORTS (Information) <ul style="list-style-type: none"> <li>• Audit Committee</li> </ul>  |
| 9:00 a.m. | CHIEF EXECUTIVE OFFICER'S REPORTS (Information/Standard Reports) <ul style="list-style-type: none"> <li>• Pending Board Matters, Trustee Education Report, Disclosure Report, Staff Summary Report, Staff Education &amp; Training Report, HR Summary Report, Communications Report, Legislative Update, Securities Litigation Update, Financial Report, APFC Transfers, APFC History &amp; Projections, Investment Management Fee Report, FY22 Budget Report</li> </ul> |
| 9:15 a.m. | CHIEF INVESTMENT OFFICER'S REPORT (Information)<br>Marcus Frampton, Chief Investment Officer   |

- 9:45 a.m. RISK OVERVIEW (Information)  
Sebastian Vadakumcherry, Chief Risk and Compliance Officer
- 10:15 a.m. INVESTMENT ADVISOR COMMENTS (Information)  
John Skjervem  
George Zinn  
Ken Frier
- 10:45 a.m. BREAK
- 11:00 a.m. FUND PERFORMANCE (Information)  
Greg Allen & Steve Center, Callan LLC
- 12:15 p.m. PEOPLE AK: EXECUTIVE DIRECTOR RECRUITMENT UPDATE (Information)  
Stephanie Buchanan, Senior Consultant & Business Development Director
- 12:45 p.m. LUNCH
- 1:15 p.m. ASSET CLASS OVERVIEW: ABSOLUTE RETURN (Information)  
Youlian Ninkov, Senior Portfolio Manager
- 2:00 p.m. HEDGE FUND OVERVIEW & INDUSTRY UPDATE – ALBOURNE AMERICA LLC (Information)  
Spencer Edge, Partner & Senior Portfolio Analyst
- 2:45 p.m. BREAK
- 3:00 p.m. REPORT OF ANNUAL AUDIT (Action)  
Beth Stuart, Engagement Partner, KPMG  
Melissa Beedle, Engagement Manager, KPMG  
Valerie Mertz, Chief Financial Officer
- 4:00 p.m. RECESS FOR THE DAY

THURSDAY, SEPTEMBER 22, 2022
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- 8:30 a.m. MEETING RECONVENES
- 8:35 a.m. INVESTMENT ADVISOR PRESENTATION (Information)  
John Skjervem, Topic: Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges
- 9:15 a.m. FIDUCIARY TRAINING (Information)  
Chris Poag, General Counsel  
Richard Ashley III, Partner, DLA Piper
- 10:15 a.m. BREAK
- 10:30 a.m. FY24 BUDGET APPROVAL (Action)  
Val Mertz, Acting Executive Director of
- 11:30 a.m. BUSINESS CONTINUITY & DISASTER RECOVERY (BCDR) REVIEW (Information)  
Scott Balovich, Director of Information Technology
- 12:30 p.m. LUNCH
- 1:00 p.m. ADVISOR COMMENTS (Information)  
Ken Frier  
John Skjervem  
George Zinn

- 1:30 p.m. INCENTIVE COMPENSATION POLICY (Information)  
Marcus Frampton, Chief Investment Officer  
Maureen Reilly, McLagan  
Mike Oak, McLagan
- 2:30 p.m. EXECUTIVE SESSION (Action)  
Legislative Budget & Audit (LB&A) Legal Advice
- 3:30 p.m. BREAK
- 3:45 p.m. ELECTION OF CORPORATE OFFICERS (Action)
- 4:00 p.m. APPOINTMENT OF COMMITTEE ASSIGNMENTS
- 4:15 p.m. OTHER MATTERS (Action)  
2023 and 2024 Calendar of Board Meetings (Options A or B)  
Val Mertz, Acting Chief Executive Officer
- 4:30 p.m. TRUSTEE COMMENTS  
FUTURE AGENDA ITEMS
- 4:45 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 21, 2022

INFORMATION:

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**BACKGROUND:**

Staff reviewed the following Board of Trustees meeting summary minutes, draft copies are attached for your approval.

- May 18-19, 2022                      Quarterly Meeting
- July 12, 2022                         Special Meeting
- July 28, 2022                         Special Meeting

**RECOMMENDATION:**

Approval of the summary minutes of the Board of Trustees meetings listed above.

**ALASKA PERMANENT FUND CORPORATION  
QUARTERLY MEETING OF THE BOARD OF TRUSTEES**

**WEBEX/TELECONFERENCE**

May 18 and 19, 2022

8:15 a.m.

Originating at:

Ted Ferry Civic Center  
888 Venetia Avenue  
Ketchikan, Alaska 99901

Trustees Present:

Craig Richards, Chair  
Lucinda Mahoney  
Steve Rieger

William Moran  
Corri Feige  
Ethan Schutt

APFC Staff Present:

Val Mertz, Acting CEO/CFO  
Chris Poag, General Counsel  
Valeria Martinez  
Sebastian Vadakumcherry  
Tim Andreyka  
Chad Brown  
Jennifer Thorsteinson  
Masha Skuratovskaya  
Nellie Metcalfe  
Julia Mesdag  
Fawad Razzaque  
Chirag Shah  
Rachel Price  
Steve Adams  
Sarah Struble  
James Wilkey  
Ross Alexander  
Rafa Ramirez  
Ed Rime  
Rachel Zepp  
Jacki Mallinger

Marcus Frampton, CIO  
Steve Moseley  
Jim Parise  
Sara Race  
Tom O'Day  
Ely Cook  
Paulyn Swanson  
Alex Smith  
Larissa Murray  
Valeria Buschfort  
Scott Balovich  
Sang Won Song  
Chris LaVallee  
Norix Mangual  
Joe Shinn  
Clifton Sperry  
Jon Strickler  
Matt Olmsted  
Youlian Ninkov  
Adam Kane

Investment Advisers:

John Skjervem

Kenneth Frier

Other Participants:

Greg Allen, Callan  
Jim Simard, Public Testimony  
John Hudson, Public Testimony

Steve Center, Callan  
Michael Tobin, Public Testimony  
Doug Woodby, Public Testimony

## PROCEEDINGS

### CALL TO ORDER

CHAIR RICHARDS called the meeting to order and asked for a roll call.

MS. THORSTEINSON stated that there was a quorum.

CHAIR RICHARDS stated, for the record, that Trustee Schutt had some other obligations and would be in and out of the call during the course of the meeting. He moved to the approval of the agenda. He asked for any comments. There being none, and with no vote needed, the agenda was approved. He moved to the minutes and added that a vote was not needed. He stated that there were amended minutes circulated that included Advisor Ken Frier's comments. He continued that those would be the new minutes considered and approved. He asked for any comments or statements on the amended meeting minutes.

MR. SKJERVEM stated that, in his remarks, there was a reference to hedge fund of funds. In the minutes it says hedge fund to funds. The "to" should be an "of."

MS. MERTZ asked that an amendment be made.

CHAIR RICHARDS asked for any other comments or objections. Hearing none, the minutes were approved. He stated that next on the agenda was public testimony. He had a list of four people to testify.

MS. THORSTEINSON noted that Trustee Schutt was online.

### PUBLIC TESTIMONY

CHAIR RICHARDS stated the Permanent Fund rules provided for three minutes of testimony, and he recognized Mr. Hudson.

MR. HUDSON stated that he was John Hudson and a member of 350Juneau. He continued that Seeking Alpha is an online investment resource offering investors independent stock research and analysis tools. Seeking Alpha published a research article titled Fossil Fuel ETFs versus Green Energy ETFs. He explained that the article compared short- and long-term performance of two energy market leading exchange-traded funds with very different portfolios. One of the companies was a fossil-fuel-dominated fund, and the other was a clean-energy fund invested in companies producing biofuels and generating electricity with solar energy, wind and hydropower. He explained that the fossil-fuel fund outperformed the clean-energy fund during the last year, but the clean-energy fund achieved considerably greater long-term performance over a ten-year period. He went through some other results in more detail and encouraged the Board to move to fossil-fuel-based energy. He thanked all for the opportunity to testify.

CHAIR RICHARDS thanked Mr. Hudson and recognized Doug Woodby.

MR. WOODBY stated that he was Doug Woodby, lived in Juneau and was with 350Juneau. He thanked all for the opportunity to provide comments and thanked the Permanent Fund staff for all they do to grow the Fund. He talked about the disturbing major market upheavals this year; the impacts of the war in Ukraine on the value of the Permanent Fund's investments in Russian fossil fuel companies. The Russian energy sector dealt a major blow to the value and reputation

of Russia and its energy companies. He talked about the carbon-bomb projects that the major oil companies are developing and spending millions on by exploiting new fields of oil and gas. He talked about the reality of the climate crisis and suggested that the Permanent Fund consider selling high. He thanked all.

CHAIR RICHARDS thanked Mr. Woodby and recognized Mr. Simard.

MR. SIMARD stated that he was James Simard, in Juneau and was with 350Juneau. He continued that they had, in the past, reported that dozens of cities in the United States and elsewhere were suing oil companies seeking reparations for major damages caused by changes in the climate. The claims are premised on energy companies' past activities. Many of the suits were modeled after the successful tobacco industry litigation and pose a risk to any investments in fossil-fuel companies. He then moved to the effects of those products on the climate and read an excerpt from an unpublished 1982 Exxon Research report that was circulated exclusively among select Exxon executives. He continued that the report was titled "CO<sub>2</sub> Greenhouse Effect." A number of environmental groups are calling for action now to prevent an undesirable situation from developing. Mitigation of the greenhouse effect would require major reductions in fossil-fuel combustion. He encouraged the board, as investment risks are assessed, to consider the legal actions against the oil and gas companies. He thanked all for the attention and good work.

CHAIR RICHARDS thanked Mr. Simard and recognized Michael Tobin.

MR. TOBIN stated that he was Mike Tobin and lived in Juneau. He thanked all for the opportunity to testify. He continued that 350Juneau members have testified before the APFC trustees for the past four years regarding divesting from fossil fuels on fiduciary grounds. The Fund trustees have been urged to develop risk assessment tools to evaluate investments in the high-risk fossil-fuel sector and in other sectors of the economy, particularly sensitive to climate change, like coastal real estate. He talked about the response to Russia's invasion and the effect on the Russian assets. He stated that Chairman Craig Richards noted that the Permanent Fund has no environment, social and governance policy and should, therefore, get direction from the Legislature and the Governor in order to divest. He continued that the trustees needed to establish risk assessment policies and procedures that address climate-related issues. The recent rapid divestment of many funds from Russian assets pointed the way. He thanked all.

CHAIR RICHARDS thanked Mr. Tobin and asked for any comments or questions. He concluded public testimony and thanked all for taking the time and interest. He stated that the Chief Executive Officer's report was next on the agenda, and he recognized Val Mertz.

### **CHIEF EXECUTIVE OFFICER'S REPORTS**

MS. MERTZ stated that it was great to be in Ketchikan and it had been a while. She continued that there was a full agenda and explained that the May meeting is when a lot of regular business that was required by the governance manuals would be done. She highlighted a few things and began with the pending board matters. She talked about the review of the active resolutions on the books and the conversation around Resolution 1990-24.

CHAIR RICHARDS stated that the recommendation is that it is still useful to have on the books.

TRUSTEE FEIGE explained that there was a great discussion, and the intent of 1990-24 was to

allow for collaboration, attract business and opportunities. It established the intent that networking and cross-communication among agencies of the state and the APFC are still valid, and it could stay on the books.

MS. MERTZ went through the travel, training and diligence summary report, which was a great indicator of all the good work that continued to go on at the Fund to protect and manage during the course of the last quarter. She continued through the travel summary and then directed all to Human Resources, which continued to be super busy. She acknowledged that this would be Steve Moseley's last meeting with APFC, and he will be missed. She added that recruitment continued to be a challenge across the organization. In the communications update, the report highlighted the outreach that happened during the quarter to the public and talked about the meeting with the Consul General of Kazakhstan. A lot of information was exchanged. She made a quick update related to the executive search. An RFP was issued in March for a search firm to assist in recruiting and hiring a new executive director. The scores were finalized by the scoring committee and compiled by the acting procurement officer, Sara Race. A notice of intent to award was issued to People AK, a firm based in Anchorage that does this type of recruitment. She then shared the timeline. She stated that she was not involved in the scoring and would get back on the details. She concluded her CEO report.

CHAIR RICHARDS stated that, even with the year with the negative total return, there would still be a pretty positive statutory net income. He asked for that to be addressed.

MS. MERTZ reported that the March statutory net income was \$4.5 billion, which was a great point. She stated that the models had shown that it was the multiple consecutive years of down markets that caused the problem.

## **CIO REPORT**

CHAIR RICHARDS asked Mr. Frampton for a follow-up on Kazakhstan and the International Sovereign Wealth Forum.

CIO FRAMPTON gave a brief description of the forum. He noted that he is on the board and added that there will be an annual event in November in Baku. He stated that it was a good organization, and that it was good to get a bit more involved.

TRUSTEE MAHONEY asked about their overall mission and their goals and objectives.

CIO FRAMPTON replied that one of the main policy items is called the Santiago CTI Principles, which is about transparency in sovereign wealth funds. The organization came together to put together some principles about how to be a transparent sovereign wealth fund, how to have good governance, how to run things with best practices. As those funds pursued international investments, it makes it easier to do because these standards are followed. He continued that another element is just having dialogue with peers all around the world that are managing money with the same mission.

CHAIR RICHARDS added that a lot of the language and ideas for our own resolutions came out of the Santiago Principles.

CIO FRAMPTON began his report discussing personnel and the difficulty of recruiting. He moved to performance and positioning and stated that the public markets were down a further 12

percent from the numbers reported. He continued that the view on subsequent performance in the privates was down, but the publics stayed strong. He stated that the tough retail assets that got ridden down hard are coming back. The industrial and apartment assets have been performing well, and it is the open-ended funds and the direct assets. Things are running really well in real estate right now. He explained that when the market was going up, liquidity was abundant and reversed when stocks went down. He talked about EM debt and high yield, which were the most volatile components of the fixed-income benchmark. They were the highest risk, and this move makes the fixed-income portfolio more liquid, and the fee savings were substantial. He talked about going through pacing which was an important discipline to do every year, and we will have a full presentation on them.

MR. ALLEN commented on the concept of rebalancing and private markets. Private market valuations lag public market valuations considerably, not just by a quarter, and it takes a long time for public market volatility to find its way in.

CIO FRAMPTON concluded his report.

CHAIR RICHARDS moved to the Risk Overview and recognized Mr. Vadakumcherry

### **RISK OVERVIEW**

MR. VADAKUMCHERRY stated that the risk overview has two parts. The second part is the quarterly risk metrics for the fund as of the end of March, 2022. The first section looked at equity risk for the Fund and some stats on equity markets, in general. He proceeded to the breakdown of the total risk for the Fund and then moved to the equity markets and where the valuations stand. He went through his presentation, explaining and discussing as he moved through the slides. He talked about the bear market stats, the public markets and the private markets. He tried to show the dynamics of the market as a whole and added that the managers would be impacted in a downturn in the market. He concluded his presentation.

CHAIR RICHARDS thought the report was very interesting. He called a break.

(Break.)

CHAIR RICHARDS called the meeting back in session and recognized Ken Frier.

### **INVESTMENT ADVISOR COMMENTS**

MR. FRIER stated that he had an exhibit for his remarks; a book called “Investing Amid Low Expected Returns” by Antii Ilmanen. This book is about a topic that keeps recurring in the meetings, about investing amid low expected returns. There are two main things that the author is trying to convey or advocate for. One is an appreciation of how we got here and what it means for the future; the future implications of the windfall gains that investors obtained through 2021. Secondly, Mr. Ilmanen also advocates for appreciating the realistic spending power of a fund, and then thinking about portfolio construction in new ways. In the book the author identifies nine different ways to take investment risks that have expected returns, and he advocates for more balance among these risks in portfolio construction. The author had been a big advocate for style premia for these long/short strategies since he wrote his first book, and the performance was not that good for people who attempted to do that, including his own firm, AQR, but has been strong

in 2022 so far. In the book the author said that groups like the Fund should expect either short-term pain or long-term pain. The long-term pain is that realized returns will consistently fall short of the hoped-for 7-percent-a-year; short-term pain is that markets reset to more normal valuations relatively quickly. A lot is lost, but then from that point normal market returns are expected. He continued that the current investment risk is that the economic data will continue to soften, and that the equity market would go down with that. He added that it is a terrific book and he suggested reading it.

CHAIR RICHARDS thanked Mr. Frier and recognized John Skjervem.

MR. SKJERVEM stated that he also was going to use Mr. Ilmanen's book as a prop, but was going to use his first book that was considered the Investment Bible. It is the ultimate source of knowledge for what we do. He addressed Chair Richard's question about changing behavior and stated that the reconstitution of the fixed income portfolio is very important and it resonated strongly with him. He applauded and supported the reconstitution and stated it was very important. It is a major philosophical change. APFC is uniquely positioned to make the transition and take advantage of that reconstitution because the organization has the talent in Jim and his team, and they have the systems. He continued that the trifecta was refocusing that strategy to top-rate the quality of the portfolio, improve the diversification profile, but retaining in terms of credit that double B tranche called the fallen angels. Mr. Ilmanen documented rigorously and empirically, which is one of the consistent sources of risk premia. When asked to share his reading list, Mr. Skjervem stated, "The Investment Answer," "A Random Walk Down Wall Street," "Winning the Loser's Game," and "Pioneering Investment Management." He stated that his shtick is to have a firm grounded in the science to be an accomplished artist, and the way to get to the science is to understand the principles of Mr. Ilmanen's book.

CHAIR RICHARDS thanked Mr. Skjervem and moved to the capital markets overview.

## **CAPITAL MARKETS OVERVIEW & FUND PERFORMANCE**

MR. ALLEN briefly paid tribute to Michael J. O'Leary, one of his personal heroes and mentors, who passed on April 11<sup>th</sup> after a long battle. He had served as the consultant to the Permanent Fund until he retired in 2015. He was a risk-averse guy and basically cornered the Alaska consulting market by working for the Permanent Fund, for the RMB, City of Anchorage, Alaska Mental Health, AIDEA, Alyeska, City of Valdez, the Alaska 529 Plan. Michael did a lot of good for the state of Alaska. He recognized Steve Center, who would go through the markets.

MR. CENTER thanked the Chair and the Alaska Permanent Fund Board of Trustees and began his presentation with the overall market performance for the last quarter of the trailing year, year-to-date, and the performance of the Permanent Fund and the various asset classes therein. He continued through his presentation describing and answering questions as he went along. He talked about the volatility in the markets driven by Russia invading Ukraine, and the continued uncertainty around the expansion of the Omicron variant of COVID-19. He talked a bit about inflation and updated the negative numbers for the one quarter, and mentioned the bond market being down by 10 percent. He stated that the Fed is struggling with the tick-up in inflation, and the Consumer Price Index. The Fed's aim is to achieve a long-term goal of 2 percent inflation. Currently, inflation is well above that 2 percent target. He concluded his remarks on the market, and moved through the numbers on the Total Fund. On the longer-term performance, the Total

Fund is ahead of the benchmarks, and included the CPI-plus benchmark over all time periods shown. He noted that CIO Frampton and his team have done a very good job.

MR. ALLEN pointed out that the private equity portfolio actually outperformed its target over this period, but the special ops component dragged it down.

MR. CENTER continued that they looked at attribution for the last fiscal year to date, and overall, the Total Fund outperformed the benchmark by 40 basis points; a strong performance from public equity and absolute return. He moved ahead at performance for the Permanent Fund relative to two different peer groups, starting with the public fund peer group. Overall, a very strong performance for the Permanent Fund relative to public retirement plans. He reminded all that the Permanent Fund is slightly different from an asset allocation standpoint relative to public retirement plans, a little more allocated to alternatives than most public retirement plans. He finished up the plan performance and continued to the performance of the asset classes within the Permanent Fund, and looked at U.S. equity performance for the quarter. He explained the sector performance bar chart. He concluded his presentation and reminded the trustees about some of the things being done at Callan, and pointed out the calendar of events.

CHAIR RICHARDS thanked Callan for the presentation and information. He stated that he had attended the annual shindig and found it interesting and enjoyable. He had the opportunity to meet some folks with a lot of experience in Alaska. It was very good. He called for a lunch break.

(Lunch break.)

CHAIR RICHARDS called the meeting back on the record. He moved to the fixed income team presentation.

#### **FIXED INCOME – ASSET CLASS UPDATE**

MR. PARISE stated that with him were Masha Skuratovskaya and Matt Olmstead, both senior portfolio managers for high yield. Matt does high yield, and Masha does global rates, domestic rates and TIPS. He began his presentation going through the excess returns and then moved to the fixed income initiative they would like to do. As a group, it was talked about and it does make sense as something that can be done, and it makes sense for the Fund in total and within fixed income. He continued that they would like to terminate all of the eight existing external managers: a global rates; five emerging market managers; and two high-yield managers. He added that they would like to bring all those assets in-house, which is about \$2.5 billion, and then change the custom benchmark to reflect that there would no longer be emerging markets in there. Emerging markets is only for 5 percent of the benchmark. That 5 percent will go to global rates. He stated that this is not an action item; the action item comes in the investment policy, which will reflect the change in the benchmark. It will all be internally managed with the thought of making it better. The analyst will make it better, more effective, more than just being up to speed, and this will be done by hiring analysts to improve the process. He added that there will be increased transparency and accountability for performance attribution.

CHAIR RICHARDS asked about the cost of doing that kind of currency hedging.

MS. SKURATOVSKAYA replied that it depended on the currency; it either reduces the yields or enhances the yields.

MR. PARISE stated that the final point was to bring fixed income back to the bedrock of the overall portfolio. He clarified the initiative.

TRUSTEE FEIGE talked about the thought that went into this and how it improves the performance of the Fund. She asked about hiring eight additional people after talking about the difficulty with recruitment and retention.

MR. PARISE replied that the plan was to hire two more analysts and then put another analyst or so in the next budget cycle. He stated that there were resources already available.

MS. SKURATOVSKAYA noted the diversification, liquidity, extra spread and extra yield.

MR. OLMSTED went over some of the transitions and thoughts about the high-yield transition. He stated that there would be a transition that occurs in June and into July that will be a challenge. But ultimately, what comes out is a simpler portfolio rather than something that is more complex or harder to manage once it is up and running.

MR. PARISE stated that this was to inform all of the thoughts behind what will be done.

CHAIR RICHARDS commented on his observations about the Fund. The fixed income had been exceptional in how it moved over the multi-decades in-house. It was done in a way that outperformed and saved a lot of costs.

MR. FRIER joined Chair Richards on commending the team. Their performance was awesome, and was probably better than most of the managers that could be hired. He continued that this was a bad time to take a credit risk and asked the fixed income team to comment on that as to the timing.

MR. PARISE replied that they do time credit, which has done pretty well over time.

CHAIR RICHARDS thanked them.

(Break.)

CHAIR RICHARDS called the meeting back on the record for the Legislative update, and recognized Pauly Swanson.

### **LEGISLATIVE UPDATE**

MS. SWANSON stated that she is the director of communications for the Alaska Permanent Fund Corporation, and said that it was a pleasure to be in Ketchikan. She continued that May 18<sup>th</sup> was the constitutional end date of session, and they seemed to be on track to adjourn by midnight. This was the second session of the Legislature, and upon adjournment, all bills will sine die. The new Legislature will be convening and sworn in in January of 2023. There was much focus on the corporation and the Fund this session, and she was grateful for the legislative support that was accorded to staff throughout. She thanked the members of the team for stepping up when called upon. She also thanked the Board for always being there, being responsive and providing input throughout. She stated that the primary focus of this presentation were appropriations and legislation. She reported that the Conference Committee passed a full budget

for the Alaska Permanent Fund Corporation. It is waiting for adoption by both the House and the Senate. She talked about a bill called HB 226, which has to do with increases for state attorneys and their salaries. Amended into that bill is a 5 percent salary adjustment for exempt employees. She explained the House Joint Resolution 1, which was a constitutional amendment that has picked up some momentum the past few days. It called for a 5 percent annual POMV, and constitutionalizes the dividend. She asked for direction on that.

CHAIR RICHARDS began a discussion on the constitutional amendment and asked if this could move before the end of this session.

MS SWANSON replied that it probably would not happen, but it was important to recognize that in addition to the constitutional amendment, we need to watch the statutory provisions that would be affected.

CHAIR RICHARDS asked Trustee Rieger to present his idea.

TRUSTEE RIEGER stated that he brought six ideas to the Governance Committee, and the concept here is that in Alaska statutes there is a requirement to invest according to prudent investment principles. He continued that the only way to make that better was to have a constitutional requirement rather than a statutory requirement, because it would further solidify it, strengthening the status quo. If the Legislature is planning a constitutional amendment regarding the Permanent Fund, it should incorporate the reference to the investments according to prudent investor principles.

MR. POAG noted the history of the Fund for context purposes. He continued that this was a legislative decision, and it would be a recommendation from the Board if the Legislature chooses to memorialize this in the Constitution. He was cautious about who got to make the decision. He added that Alaskans made the decision to create the Fund; the Legislature made the decision to make it an investment trust; and then the Board gets to make the decision on how to invest the trust. He continued that it would be appropriate to offer input from the institutional expertise, not from the decision-maker process.

CHAIR RICHARDS stated intrigue and that he would be interested in having an additional dialogue at the next meeting.

MS. SWANSON stated that she had trustee resolutions to give the legislative direction when talking about the policy directives or what the recommendation may be with regard to them. She noted that there was an intense public and legislative outcry for divestment a few months ago. The Legislature did not advance these bills and did not pass any policy directive with regard to divestment with regard to the investment in the Fund. She moved to legislation related to the board of trustees; nothing was passed this legislative session, but there was a lot of dialogue with regard to the appointment and confirmation process. She continued to Senate Bill 25, Senator Bill Wielechowski's update to the Alaska Online Checkbook Act. It passed the House and Senate, and is waiting transmittal to the Governor. The intention was to bring forth greater transparency with regard to the State's revenues and expenditures. So, there are disclosures with regard to an online database with regard to all state agencies having to give information to it. All state agencies and public corporations are included.

CHAIR RICHARDS asked about the impact to the Fund.

MS. SWANSON replied that the Fund would have to provide monthly and annual reporting. She continued that a lot of this information is public, and will be another reporting mechanism, and another depository for the public. She moved to the appropriations of the operating budget for the corporation and highlighted some of them that affected the Fund, particularly the appropriations to principal. She continued that the FY23 annual inflation-proofing was appropriated; a \$3.3 billion estimate. She moved to a looking-forward slide that reaffirmed the Fund's ability to provide a stable, predictable revenue stream. She looked forward to working with all on the 33<sup>rd</sup> legislative priorities.

TRUSTEE MAHONEY gave her full compliments to Ms. Swanson and everyone in the organization. This was a really hard year in terms of working with all the different legislative potentials and proposals. She added that they did a really good job.

CHAIR RICHARDS asked for a motion to move into Executive Session.

**MOTION:** In accordance with Alaska's Open Meeting Act, a motion that the Board of Trustees convene in Executive Session to receive an update on APFC's Network Penetration Testing Results. This topic is appropriate for Executive Session because the immediate knowledge of this information could thwart the efficacy of this system, and, in turn, negatively impact the value of the Permanent Fund was made by TRUSTEE MORAN; seconded by TRUSTEE FEIGE.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Rieger, yes; Trustee Feige, yes; Trustee Mahoney, yes; Trustee Moran, yes; Chair Richards, yes.)*

(Executive Session from 2:14 p.m. until 3:37 p.m.)

CHAIR RICHARDS called the session back on the record. While in Executive Session, the trustees considered only the matters mentioned in the motion and took no action. He continued that next on the agenda was an Executive Session related to LB&A matters. He asked for a motion.

**MOTION:** In accordance with Alaska's Open Meeting Act, a motion that the Board of Trustees convene in Executive Session for the purpose of receiving legal advice regarding the pending LB&A investigation. This topic is appropriate for Executive Session to allow board members to receive confidential legal advice on how to respond to this pending investigation by LB&A, including requests for interviews and production of documents was made by TRUSTEE MORAN; seconded by TRUSTEE MAHONEY.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Rieger, yes; Trustee Feige, yes; Trustee Mahoney, yes; Trustee Moran, yes; Chair Richards, yes.)*

CHAIR RICHARDS stated they would reconvene into Executive Session and come back into public session to close the business for the day.

(Executive Session from 3:39 p.m. until 4:20 p.m.)

CHAIR RICHARDS called the session back on the record. He stated that, while in Executive Session, the trustees considered only the matters mentioned in the motion and took no action other than to provide direction to legal counsel. He asked for any further comments or issues. Hearing none, he recessed the meeting.

(Alaska Permanent Fund Corporation Full Board of Trustees meeting recessed at 4:22 p.m.)

**May 19, 2022**

### **CALL TO ORDER**

CHAIR RICHARDS stated that they were back on the record for the continuation of the Permanent Fund Board Meeting.

MS. THORSTEINSON stated that Trustee Rieger was ready to give the Audit Committee report.

### **AUDIT COMMITTEE REPORT**

TRUSTEE RIEGER reported that the Audit Committee met that morning, and there were no action items. This constituted the launch of the audit process for the year, with a teleconference with KPMG. Also discussed was a year-to-date financial review in more detail. The royalty forecast for the year to the Fund was going to be \$545 million, which was a lot higher than what the graphs showed the last few years. A review of the Audit Committee Self-Assessment was done, with a plan for a discussion in the committee at a future meeting on the finance staff side of the corporation's succession planning. Also observed was a priority for the entire corporation, in all departments. He continued that last discussed was the whole question of risk and wanting to raise the antenna to make sure that the greatest risks facing the corporation in any dimension are being addressed and assigned to a special committee to make sure that they are addressed. He concluded his report.

CHAIR RICHARDS thanked Trustee Rieger and moved to the General Consultant Contract.

### **GENERAL CONSULTANT CONTRACT**

MS. RACE stated that she was the director of business operations. She put on her procurement officer hat and looked at the general investment consultation and stated that, currently, they were contracted with Callan. In July 2017, a five-year contract was signed that was for three years, with two one-year renewals. Both of those renewals had been done. In preparation for the contract expiring in July, a request for a proposal, which is a formal solicitation process for procurement, was issued in February of this year. She walked through the general RFP process. She continued that the proposal was issued and the notice of intent to award was sent, and we would be requesting the Board's approval to move forward with contract negotiations. A total of three proposals were received, which were evaluated by the PEC members. Those PEC members were Trustee Mahoney, Trustee Moran, Valerie Mertz, Marcus Frampton and Sebastian Vadakumcherry. They all sat on the PEC as members and evaluated each of those proposals. She pointed out the qualification criteria that was provided, and with the PEC's scores combined with those costs, Callan was awarded with the most points. A Notice of Intent to Award was issued on May 4<sup>th</sup>. The 10-day protest period ended on the 13<sup>th</sup> with no protests received. She stated that she would be asking for the Board's approval to move forward with entering into a contract with Callan.

**MOTION:** A motion to approve the appointment of Callan and enter into a contract was made by TRUSTEE FEIGE; seconded by TRUSTEE RIEGER.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Feige, yes; Trustee Moran, yes; Trustee Schutt, yes; Trustee Rieger, yes; Trustee Mahoney, yes; Chair Richards, yes.)*

CHAIR RICHARDS moved to the Investment Policy Review and Adoption and recognized Mr. Vadakumcherry.

### **INVESTMENT POLICY REVIEW AND ADOPTION**

CIO FRAMPTON stated that he and Mr. Vadakumcherry would review some proposed changes to the investment policy. He began with a brief background. He progressed through the revised policy and continued through the minor changes.

TRUSTEE FEIGE asked for AUM to be defined.

CIO FRAMPTON replied that it is assets under management. He stated that with the fixed income changes discussed there was a strategy in private income where double B high-yield bonds were traded. This program is being discontinued with those guidelines being deleted. That program will continue under Jim's fixed income portfolio, not private income. The last change was to two internally managed public equity strategies that started in January. There is a provision in the policy where periodically there are new internal strategies added to the guidelines. Guidelines for those strategies that were previously approved at the executive level will be added. He clarified and addressed investment delegation in some detail. Going forward, the intent is for it to be tactical and for the public equity team to move it up and down as conditions merit.

MR. VADAKUMCHERRY moved to the last page and stated that it captured the changes to the benchmark in totality. The hedge fund portfolio has two benchmarks instead of one with a 50/50 percent split. He went through the tweaks.

MR. ALLEN stated that Callan was asked to review the changes and was in favor of them all. The benchmarking is better aligned with the way the portfolio is being implemented.

MR. VADAKUMCHERRY concluded the proposed changes to the investment policy, and noted that it is an action item.

CHAIR RICHARDS asked for a motion to adopt the investment guidelines with the only amendment being the CIO report to this committee as the change.

**MOTION:** A motion that the investment policy that had been discussed and included in the packet was moved for approval with the exception of the item that was noted there by the Chair was made by TRUSTEE MAHONEY; seconded by TRUSTEE FEIGE.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Feige, yes; Trustee Moran, yes; Trustee Schutt, yes; Trustee Rieger, yes; Trustee Mahoney, yes; Chair Richards, yes.)*

## **GOVERNANCE COMMITTEE**

CHAIR RICHARDS turned the meeting over to Trustee Mahoney, chair of the Governance Committee and the adoption of the potential changes to the Governance Manual on the Code of Conduct.

TRUSTEE MAHONEY stated that the Governance Committee met on May 2<sup>nd</sup> to discuss the possible changes to the Board of Trustees' charter and governance policies. As a result of that meeting, some changes to the Trustee Education Policy were proposed, and in addition it is titled Code of Conduct to the Board Standards Policy. She continued that the Governance Committee had discussed some policies that would end up resulting in legislative action. This resulted in a discussion of whether the Board should evaluate each of these separate points raised by Trustee Rieger and to determine if a resolution should be written and submitted to the Legislature. The first item related to establishing annual fiduciary training, which would be incorporated in the annual September board meeting. Proposed is to have an annual refresher of the fiduciary duties that would be a requirement for the trustees. She stated that the second item related to the establishment of a new Code of Conduct for trustees. There were six additional governance items discussed in committee, and those were the ones that would require legislative actions.

CHAIR RICHARDS stated that everyone in the governance meeting liked the Code of Conduct. He requested to move it to the next meeting. He did not have the ability to go through it to make sure that everything was good. He wanted the opportunity to read it more thoroughly.

TRUSTEE MAHONEY stated that it was a very important policy and all trustees needed to be thoughtful and to make sure it represents the intent of the trustees.

CHAIR RICHARDS stated to proceed, in terms of annual fiduciary training.

TRUSTEE MAHONEY asked Trustee Rieger to go through the points so all trustees could understand what they are and how to continue working on those moving forward.

TRUSTEE RIEGER fleshed out what was listed in those six points. He stated that it would be helpful to look at measures that would preserve more institutional knowledge, and would preserve more continuity in the Fund. He talked about deepening the capabilities of the Board by expanding it from six members to seven, to deepen the experience that the collective board can bring by designating two of those board seats as ones that would look for extensive professional institutional investment management experience and still have responsibility for taking care of the beneficiaries. He continued explaining and pointing out the highlights.

CHAIR RICHARDS shared his thoughts stating that he liked two, did not like two, and was on the fence on two. He was not a fan of two public members with national, significant institutional investing experience. This is an Alaskan board and should be run by Alaskans. The strength of this Board is that it is not made up of institutional investors. He stated that the greatest strength as a Board is not getting involved in individual investment decisions. He continued and thanked Trustee Rieger for bringing them forward.

TRUSTEE MAHONEY asked if any of the investment advisors had any comments.

MR. SKJERVEM stated, from his perspective, the reservations expressed were well founded. He continued that the best boards are people with lots of experience, high levels of general business acumen and judgment.

MR. ALLEN agreed and explained that some of their most difficult boards were made up of a bunch of investment professionals who usually had no real understanding of how public entities were managed, and they think with their hedge fund hats.

MR. FRIER stated that he did not have a strong position about where it would come. He experienced it both ways, and a wealth of expertise was brought to the Board. He shared some of his different experiences.

TRUSTEE MAHONEY suggested scheduling another Governance Committee meeting where these points could be discussed and taken into consideration, noting the current comments. The five points could be addressed as a part of any resolution that is agreed on.

CHAIR RICHARDS agreed, and asked staff if the annual fiduciary training was an action item. It was noted that it was not, and he called a five-minute break.

(Break.)

MR. ANDREYKA stated that he was the director of real estate with the APFC. He went through the pacing plan for the private markets and began with real estate. He continued that real estate plays an important role in the overall portfolio with characteristics of both debt and equity, with steady income and appreciation as properties get marked to market. He talked about the history of the investments and added that staff had been working hard to get back to where they are now. He noted that real estate is a long-term asset, requiring planning, and the pacing model reflected an incremental 700 million target for each year.

MR. MOSELEY stated that he was head of alternatives at the Permanent Fund. He continued that these pacing guidelines were pacing guidelines. He stated that the purpose of this reflects the fact that a lot of the capital deployed historically was about 75 percent in private equity, and private income is through funds. The rest of that is directed into operating companies alongside sponsors; sometimes just directed into operating companies. One of the key assumptions feeding the analysis is return assumptions and looking at backwards returns that had been particularly strong in private equity. The conclusion at the end and the proposal for consideration is a targeted pacing of \$1.1 billion for private income, and \$1.2 billion which reflects about a 25 percent reduction, a \$1.2 billion target for private equity. He asked Rafa Ramirez to continue.

MR. RAMIREZ emphasized that pacing is a bit more an art than a science, because there are simply too many variables that come into play. He then summarized the model's key assumptions. He added that it is important to get to know the managers very well, refresh the valuations and revisit the assumptions regularly so that the ship could be steered and could make any needed course corrections.

CHAIR RICHARDS called a lunch break.

(Break.)

CHAIR RICHARDS asked Mr. Moseley to continue.

MR. MOSELEY moved to the analysis behind the conclusion to deploy \$1.1 billion in private income, and/or target \$1.2 billion for private equity.

MR. RAMIREZ talked about the growth of the Portfolio's NAV over the years on a dollar and on a relative basis. NAV drastically increased by fiscal year-end 2021. He stated that the supply of opportunities far exceeds what is actually being invested, which is a healthy tension.

MR. MOSELY clarified that the supply of opportunities exceeds the ability to invest, which is healthy, and the CIO makes decisions about whether to put more money in this or that category. It is the nature of this business.

**MOTION:** A motion to approve the proposal as laid out by staff for the pacing of all three categories was made by TRUSTEE RIEGER; seconded by TRUSTEE MORAN.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Feige, yes; Trustee Moran, yes; Trustee Schutt, yes; Trustee Rieger, yes; Trustee Mahoney, yes; Chair Richards, yes.)*

CHAIR RICHARDS moved to the budget, and recognized Ms. Race.

## **BUDGET**

MS. RACE noted that her presentation was in two sections: The first was for information on the current budget; the second would require action for the FY23 budget. She continued that the budget was presented in the executive reports and provided a high overview of both of the allocations in the actuals and projected column, included the expenditures through April 30<sup>th</sup>, and then the projected expenditures from May through the end of the fiscal year, June 30<sup>th</sup>.

TRUSTEE FEIGE thanked Ms. Race and stated that it was incredibly important to show the folks of Alaska exactly how the money is being spent. It adds that layer of transparency, and she appreciated seeing this kind of a roll-up.

MS. RACE moved to the required action. She explained that the Board approved an FY23 budget of \$218.3 million. The request included an increase of \$2.4 million in operating allocation, and an increase of \$2.8 million in the investment management allocation, for a total increase of \$5.2 million.

CHAIR RICHARDS asked for a motion.

**MOTION:** A motion that the Board moved to authorize the Acting Chief Executive Officer to expend the APFC budget authorization as appropriated by the Legislature and enacted into law. If final budget negotiations produce a different outcome than what was presented, the Board authorizes the Acting CEO to expend the legislative authorizations in the bill signed by the Governor was made by TRUSTEE MORAN; seconded by TRUSTEE RIEGER.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Feige, yes;*

*Trustee Moran, yes; Trustee Schutt, yes; Trustee Rieger, yes; Trustee Mahoney, yes; Chair Richards, yes.)*

## **INVESTOR ADVISOR COMMENTS**

MR. FRIER stated that this was his eighth meeting since being selected, and he had completed two entire cycles. He continued that it was a privilege to be their advisor, and he wanted to do it well. He asked for any input so he could serve better. He stated that he was impressed with the organization and added that, in part, it reflected Mr. Moran's service on the Board for so many years. He added that it was a pleasure just meeting everyone. It is a solid organization, and the staff and Board are excellent. He continued that one of the differences on the discussion at the Board level is that problem-solving at the portfolio level was more of a front-and-center conversation at other Boards he has observed. Staff does a good job with bringing relevant problems to the Board's attention and at almost every meeting there had been discussions about what to worry about. These discussions have included concerns about the potential impact of rising inflation and about rich valuations across asset classes. He added that even though the Board are not directing investment strategy, they are in a position to make judgments about how the investment organization solves important problems. He suggested that presentations to the Board regarding important investment problems ought to lead to projects regarding how to address the problems and then a proposed course of action. He was hesitant to talk about Marcus and his resources to do the kind of problem-solving he was talking about. Marcus is really smart and has good investment management judgment, but he was worried about how much is on Marcus' plate. He would like to see Marcus have at least as much in resources and bandwidth to address portfolio-level questions as the asset class heads have to address the questions that arise in their arenas.

CHAIR RICHARDS thanked Mr. Frier and noted that Mr. Skjervem was not available. He asked Ms. Mertz for any other matters.

MS. MERTZ replied that she had a list of takeaways from this meeting, and all would be hearing from her on a variety of issues. She thanked staff for their continued support of her in this role, and for all the work that went into putting together this meeting. She congratulated Trustee Moran on behalf of the staff, wished him well, and added that he would be missed.

CHAIR RICHARDS thanked staff for the meeting, and particularly the organization in Ketchikan was excellent. Ketchikan was great and pretty, and he had never been before. Everyone was wonderful and he thanked the community. He stated that on real estate it felt like the point where it no longer needs to be a special problem case has been reached. The Board worked with all to figure out and solve the problem. The plan was implemented and executed, and it was done intelligently. He expressed to Steve Moseley that he was sorry to see him go. He will be missed, and the hope is to find someone as smart. He wished him good luck on his next endeavors. He added that Mr. Moseley would be working with a group that does have some connections with the Permanent Fund. He thanked Trustee Moran and stated that he was an excellent trustee, and is one of the ones that people would remember.

TRUSTEE FEIGE gave staff a huge thank you for putting these meetings together. She appreciated the beginning of more robust exchanges of ideas and conversation at the Board level, and she felt that the Fund is in a better place because of it. She extended her congratulations and bon voyage to Mr. Moseley, and told Trustee Moran that it was an absolute pleasure.

TRUSTEE MAHONEY stated appreciation to all the work staff did to put together the presentations. They were very educational, and she always learns something new. She called out to the fixed-income group, and liked the direction they were going in. She particularly liked the removal of the emerging markets to reduce the volatility of that asset class. She appreciated Sebastian's presentation, and liked the understanding at the high level and then understanding how that affects the portfolio. She talked about her concern with the interest drop rates and hoped to learn about actions that have been taken in regard to being more defensive and protecting the Fund. She thanked Steve Moseley, and added that she was going to miss him. She gave a very warm thank you and warm good bye to Bill Moran. She so thoroughly enjoyed getting to know him, work with him, and learn from him. He has fabulous little quotes, and she was delighted to see those quotes last night during the event.

TRUSTEE RIEGER stated that almost everything he wanted to talk about was said. The robust discussions that had been developing over the last few meetings are really healthy and refreshing. It extends not just to the board members, but also encourages Callan to be more hard-hitting when they talk about the performance. He stated that he would miss Bill Moran and thanked him. He also thanked Mr. Moseley for the fantastic job he did. He talked about the different perspectives in looking at the risk function and its restraint. He talked about the good things, but noted that we are not there yet. When all of those green zones were established, it was not about being too safe; it was more about being too aggressive. This was a new thing that came up for him at this meeting.

TRUSTEE SCHUTT stated that he was glad he was able to attend remotely and appreciated the diligence of the staff for all the preparation for the meeting, and the execution of the meeting. It was very well done. He stated appreciation for Bill Moran and the time they spent together on the Board. He wished him well, and thanked everyone.

TRUSTEE MORAN stated how much he enjoyed every minute of his association with this organization. It was always a privilege, and it was fun being associated with a winning team, and this one was consistently a winning team. He was privileged to be a part of it. He thanked everyone for the send-off last night. It was a lot of fun and far more than expected. He thanked staff for another great meeting, and hoped to see all in the future.

CHAIR RICHARDS thanked all and adjourned the meeting.

(APFC Full Board quarterly meeting adjourned at 1:00 p.m.)

**ALASKA PERMANENT FUND CORPORATION  
SPECIAL MEETING OF THE BOARD OF TRUSTEES**

**WEBEX/TELECONFERENCE**

July 12, 2022

9:00 a.m.

Originating at:

BP Energy Center-Birch Room

1041 Center Court

Anchorage, Alaska 99508

Trustees Present:

Craig Richards, Chair

Lucinda Mahoney

Steve Rieger

Ellie Rubenstein

Jason Brune

Ethan Schutt

APFC Staff Present:

Val Mertz, Acting CEO/CFO

Chad Brown

Jennifer Loesch

Rachel Price

Joe Shinn

Sharon Barton

Alexander Ross

Tom O'Day

Kelly Keira

Rafael Ramirez

Adam Kane

Tim Andreyka

Lara Pollock

Valeria Martinez

Sang Won Song

James Wilkey

Marcus Frampton, CIO

Jim Parise

Paulyn Swanson

Catherine Hatch

Scott Balovich

Stephen Adams

Rachell Zepp

Jacki Malihger

Shawn Calhoon

Norix Mangual

Logan Rahn

Sara Race

Andrew Gallagher

Chirag Shad

Valeria Buschfort

Ellie Knapp

Other Participants:

Larissa Murray

Michael Oak, McLagan

Mike Barton

Sarah Rundell, Top 1000 Funds

Lauren Albanese, Fin-News

Sharon Barton

Sean Maguire, KTUU

Maureen Reilly, McLagan

Jonathan Butzke, Talking Circle Media

James Brooks, Alaska Beacon

Anne Rittgers, Alaska Legislature

Brian Fechter

Lorilyn Swanson

## PROCEEDINGS

### CALL TO ORDER

CHAIR RICHARDS called the special meeting on the record, and asked a roll call.

MS. LOESCH called the roll and stated that there was a quorum.

CHAIR RICHARDS asked for any amendments or issues with the agenda. There being none, the agenda was chosen as a consent item and approved. He began with employee compensation and recognized Ms. Mertz.

MS. MERTZ stated that when this conversation began, the plan was to talk about compensation; but recruitment and retention has bubbled up as an issue. She briefed the board on recent developments in order to frame the discussion for compensation. She talked about the high level of staff leaving the corporation, which leaves the remaining staff, who are already spread thin, to cover pretty significant areas of responsibility. She continued that every case of why people left was different, but compensation, more often than not, is part of the reason stated during their exit interviews when leaving. She explained that when people come to APFC, they are trained, acquire highly marketable skills; and then are snatched away for significantly higher pay, in some cases, 50 percent. There is one person leaving that is getting an increase of more than 200 percent. She added that recruitment has also been difficult to backfill the positions. There are dramatically fewer applications than have been historically seen; and in most cases, minimum qualifications are not met. She asked Chad Brown to continue.

CHAIR RICHARDS explained, for the new trustees, that this meeting is to try to figure out how to benchmark staff salary increases and base salary compensation on both the investment and the operational sides going forward.

MR. BROWN discussed the staff departures and the effect of all the losses.

MS. MERTZ talked about the three members of the trade operation team that were going to positions with significantly higher pay which gave a better sense of the impact of the departures. She moved to the middle office functions and the suggestion to look closely and develop relationships at the universities. She added that UAF has a robust investment master's degree program. The firm that she talked with recruits heavily out of that master's program. Finding people with experience is difficult in Alaska, but focusing on bringing them in as interns, and getting them to embrace the work that would be done for the benefit of the State is often successful. She stated that she could create a career path and a potential offering of jobs to folks prior to receiving their diplomas, getting them committed to and excited about the Permanent Fund, and the contributions that the Permanent Fund makes to the State.

MR. BROWN noted that he had relationships with the dean of the business school at UAA, Professor Nofsinger, and Kimberly McGinnis, who oversees the student investment fund at UAF. He continued that he was working on a slow-moving project of reaching out to the 338 former interns to develop a community. He moved to peer groups and stated that it would be beneficial to take a brief high-level overview of where the people went. He added that the data clearly stated that there is a combination of losing people to the public sector, losing people to

the State, and losing people to the private sector. It is across the board, and primarily moving out of Alaska.

MS. MERTZ stated that the evolution of the Fund and the Corporation had been pretty remarkable over the last 40-plus years. The Fund has grown tremendously with new asset classes, more complex systems, increasing compliance requirements, which all require resources behind them. The rate of change is increasing, and that is expected to continue over the next 20 years. She moved to operations and stated that the business model for the Fund and the resources behind it have to be aligned without operational risk. It is critical to find the right balance between budgetary resources and where to take the portfolio. The key would be to define the desired business model and then resourcing it appropriately.

MR. BROWN stated there is a flexible work policy that does allow for remote. The managers have been given discretion to approve that because they know the work and what needs to be done, and whether that job could be done successfully onsite or offsite.

CHAIR RICHARDS stated that a huge part of the conversation and follow-up conversation is on recruitment and retention. He continued that a long-term question would be if the remote work was a viable substitute for other things, such as different offices.

MS. MERTZ summarized that it was in the best interest of the Fund and the State of Alaska to attract and retain the very best people possible. Having a competitive compensation structure across the whole corporation is critical to the success of the Fund; and defining the right peer group is a foundational piece of developing that compensation structure. She talked about the need to reward people for sticking around because the churn of every two years is costly to the corporation, is inefficient, and is hard on the staff that stays. It would be a win-win to get a compensation structure and the budgetary support to implement it. She moved to McLagan and how their data was updated in 2020; but nothing was structurally reviewed by McLagan. She recommended going through that process again and looking at redefining the peer group as part of that process. She continued that the recommendation would be to put together a group that involves a couple of board members and some staff to work with the consultant.

CHAIR RICHARDS moved to the next presentation from McLagan. He talked about the need to resolve some of this and the need for another work session leading up to the September meeting. The data needs to be updated, the peer groups need to be reviewed the midpoints and the bands. He proposed listening to the consultants and then having a roundtable discussion with staff afterwards to get a plan in place.

TRUSTEE MAHONEY stated that her concern was that using the consultant would put us beyond the budget cycle. She continued that she would like to see the adjustments incorporated in the budget cycle with the need to accomplish some of the tasks, assuming the data points are received.

CHAIR RICHARDS called a break.

(Break.)

CHAIR RICHARDS stated that the meeting was back on the record, and asked staff to introduce the consultants.

MR. BROWN stated that online were Maureen Reilly and Mike Oak, two consultants that will review the work they did with the Corporation back in 2018

MS. REILLY stated that she was Maureen Reilly, and Mike Oak was on, as well. She continued that Mr. Oak was in Virginia where there are some bad storms, and he may have some connectivity issues. She began and focused on the peer groups that were developed in 2018.

MR. OAK stated that the overall objective in 2018 was to identify the market that the Fund was competing with, from where the hiring was, and from where the talent is lost. Overall, the idea was to design a compensation plan that allowed attraction of the right people, keeping them in their seats, and to get the best long-term performance possible. Based on the specific peer groups, the recommendation of 75/25 was used. The peer group looked at is more robust and refined in terms of being realistic and mindful about answering questions. He discussed incentives and eligibility.

CHAIR RICHARDS asked what percentage of the public funds in the U.S. provide incentive compensation at some level to investment staff.

MR. OAK replied that across the entire sample of 60-plus funds, it was about half and half. He continued through the structure, the components, and setting the standards for performance. He stated that, all things considered, the incentives should be based on longer-term results. Incentives being based on the short-term are not good in the environment for long-term investors.

CHAIR RICHARDS thanked both for the very informative presentation. He turned the discussion back to staff.

MS. MERTZ stated that FY22 was the first year that the incentive comp was funded in the budgets, which was awarded based on FY21 performance. She continued that one year of full implementation was acquired, and we are gearing up to do the calculation for this year based on year-end results. She gave a quick overview of the policy that is in place.

CHAIR RICHARDS noted that this conversation has been going on for a long time. If money is to be paid out, the most value should be gotten while still meeting the incentive goals as the board and the political requirements of the governmental branches.

CIO FRAMPTON stated that the policy goes back four or five years, and there are a few things that need to be cleaned up because of changes. The general view is that it is a smaller and more contingent plan.

MS. MERTZ asked Pauly Swanson to talk about the Legislature.

MS. SWANSON stated that it is important to have that team organizational mentality, and we have worked incredibly hard over the past five years educating the Legislature and helping them

understand the pieces. During this last session, more time was spent helping them understand the nuances of a very complex policy. She continued that the Legislature is very supportive and understands it from the perspective of the current policy, and incentivizing the investment team as it was determined in the policy. She thought that it will be a part of the overall mission and vision of the Corporation.

CHAIR RICHARDS suggested starting the roundtable discussion with the wage component, and then handling the incentive component as a separate discussion.

TRUSTEE MAHONEY suggested doing a complete reset on the base salary as a starting point. Secondly, there was a need to reevaluate the incentive comp plan and to tweak it.

CHAIR RICHARDS stated that there is some momentum for the first time in years. He moved on to the procedural side for incentive comp. He continued that the next meeting was on July 28<sup>th</sup> to continue the plan.

MS. MERTZ stated that staff would work on procuring a consultant and then will provide an update for the next meeting. She continued that a draft on the incentive comp piece would be available at that meeting.

CHAIR RICHARDS moved to closing comments.

TRUSTEE RIEGER stated that he saw a lot of problems in introducing qualitative elements to the incentive plan. He suggested sticking with quantitative.

MR. BROWN thanked the board for taking this on. It is a big project and meaningful to the State. He appreciated the dialogue of being able to speak openly and frankly about the challenges the Corporation is facing. He thanked them for the support.

CHAIR RICHARDS adjourned the meeting.

(Special Full Board meeting adjourned at 4:23 p.m.)

**ALASKA PERMANENT FUND CORPORATION  
SPECIAL MEETING OF THE BOARD OF TRUSTEES**

**WEBEX/TELECONFERENCE**

July 28, 2022

9:00 a.m.

Originating at:

Alaska Permanent Fund Corporation  
801 West 10<sup>th</sup> Street  
Juneau, Alaska 99801

Trustees Present:

Craig Richards, Chair  
Steve Rieger  
Jason Brune

Lucinda Mahoney, Vice Chair  
Ellie Rubenstein  
Ethan Schutt

APFC Staff Present:

Val Mertz, Acting CEO/CFO  
Chris Poag  
Chad Brown  
Paulyn Swanson  
Valeria Buschfort  
Colton Scudder  
Chris LaVallee  
Tim Andreyka  
Fawad Razzaque  
Scott Balovich  
Keira Kelly  
Lara Pollock  
Catherine Hatch  
James Wilkey  
Julia Mesdag  
Ross Alexander  
Masha Skuratovskaya  
Chirag Shad

Marcus Frampton, CIO  
Larissa Murray  
Sebastian Vadakumcherry  
Jennifer Loesch  
Jacki Mallinger  
Sang Won Song  
Shawn Calhoon  
Brittney Ortgea  
Andrew Gallagher  
Logan Rahn  
Jon Strickler  
Joe Shinn  
Norix Mangual  
Nellie Metcalfe  
Jim Parise  
Ed Rime  
Rafa Ramirez  
Tom O'Day

Other Participants:

Kevin Gullufsen  
William Bittner  
Linda Hersey

Steve Moseley  
Bart LeBon  
A. Smith

## PROCEEDINGS

### CALL TO ORDER

CHAIR RICHARDS called the special meeting of the Board of Trustees to order to discuss compensation matters, and asked for a roll call.

MS. LOESCH called the roll and stated that there was a quorum.

CHAIR RICHARDS stated that there was a circulated agenda and asked for any comments or amendments. Hearing none, it was approved by consent. He continued that, following up on the last meeting, the understanding was to have a plan for base compensation and the incentive compensation policy. All of the decisions have not been made, but the plan is that all the work flows are in order, and the timelines are identified. He added that there will be an interim plan for September, and then we will work on the long-term plan. He recognized Val Mertz.

MS. MERTZ stated that this was a continuation of the conversation started on July 12<sup>th</sup> regarding some issues around recruitment and retention. People are our most valuable resource, and they are relied on for their knowledge, skills and experience, which is crucial to the success of the Corporation and the Fund. She continued that staff is appreciative of the board's focus on this issue, and their efforts to develop some solutions, both in the short-term and in the long-term. She stated that in the short-term staff is working to identify some solutions that could be implemented within the FY23 budget allocation to partially close the gaps that had been identified. Communication is the key. On a more strategic, long-term basis, the plan is to engage an in-clinic consultant to update both the compensation structure and the data that is the foundation for that structure. She continued that a mechanism for periodic review of the structure will be instituted to ensure that it remains competitive. She added that the board and staff will need to work together to take steps to strengthen and improve the corporate culture.

TRUSTEE MAHONEY followed up with regard to the tactical options. One option discussed was the use of the appeal process to make a change in compensation, and that option is not available to us. That option is specifically set aside for receipt of revenues that had not been anticipated at the time the budget was approved.

MR. BROWN gave an update of the specific takeaways from the last meeting. He then took some time to ensure that the need and commitment for the culture strategy and communication was understood to be able to be prepared for the September board meeting.

MS. MERTZ asked Mr. Frampton to discuss his plan for the revision of the policy.

CIO FRAMPTON stated that the plan was, in the month of August, to work on a project to redline the existing policy to make new policy around some of the topics that have been discussed. The concept of broadening it to all staff would be the topic. He continued that there will definitely be something in draft form for the September board meeting.

CHAIR RICHARDS called a break.

(Break.)

CHAIR RICHARDS called the meeting back to order and stated that, for incentive comp on the operations side, the committee will come up with a proposal of formulation methodology. It will be a different pool than the existing incentive comp for the investment staff. He moved the conversation to base compensation.

MS. MERTZ noted that the FY23 management plan was submitted to Revenue, and then it will go over to OMB. Per instructions from OMB, that management plan included a 5 percent COLA adjustment for all staff. That legislation will become effective 90 days after that date, if it is enacted. That was included as an adjustment for all staff. The board additionally authorized a 3 percent and 4 percent merit adjustment for staff in the budget authorization. Those amounts will go into a merit pool. Normally, those merit adjustments are done on January 1<sup>st</sup>, but the proposal is to do those earlier.

CHAIR RICHARDS stated that he preferred to pick a number like last time, 5 percent, and then let staff have the discretion to allocate like they always do. He continued to focus on getting the right formulating process in place for the following year, '25. He added that, in the end, this has to clear OMB.

TRUSTEE MAHONEY asked to talk about the flexible work policy to make sure the employees, managers of the Permanent Fund operate a flexible environment, and that remote work is allowed where appropriate, as determined and managed by the supervisor.

MR. BROWN replied that the policy was designed to put the primary responsibility of approval of remote work for the immediate supervisor in conjunction with and up to their divisional chief. He continued that the reason behind that was that trying to create a blanket policy was very difficult. He added that, currently, there are several staff working remotely on a permanent basis. It gives the ability and flexibility to work on an ad hoc basis, and is a very effective means of retaining employees and keeping them happy.

MS. MERTZ stated that communication is the obvious key in all of this, and she asked Pauly Swanson to continue.

MS. SWANSON stated that communications has been front and center with regard to compensation, particularly with regard to the Legislature. It will be helpful moving forward to have clear direction from the board on what is being looked for and what will be adopted with regard to policies and moving forward. Understanding the context will help in developing the effective messaging. She continued that the communications will be getting others to understand the issues of recruitment and retention, of compensation, of incentive compensation, and taking appropriate action as recommended by the board. She looked forward to working together in developing an effective communications plan to be able to relay the direction to take.

CHAIR RICHARDS thanked Ms. Swanson and moved to trustee comments. His thoughts were on communications. First, he really liked the language used today with trustees and staff being one team. It is a great way to explain some of the changes being brought forward to the Legislature in terms of incentive comp for operations staff going forward. He thanked everyone for the conversations that were frank and real.

TRUSTEE RUBENSTEIN stated appreciation for the staff and all the board members for all the time they put into the new trustees. She continued that she was proud to be part of a board that is progressive in where the governance aligns with both the staff, the culture, and the board; and with no infighting within the board. There is a strong board governance with diversity, and diversity in the leadership, making a really unified team.

TRUSTEE MAHONEY stated that the discussion was great and we are moving in the right direction. She noted interest in the results for the next meeting.

TRUSTEE RIEGER thanked the staff that stepped up and hung in there through a rough year with a very high vacancy. The people who stepped up are doing more than they usually do, so thank you.

TRUSTEE BRUNE stated appreciation for the dialogue, and noted that we have major issues to resolve. This is an incredibly important organization, and recruitment and retention of staff makes it what it is.

TRUSTEE SCHUTT stated appreciation for all the hard work by staff. He knows the extra burden because of the departures and vacant positions. He reiterated his own support and encouragement as a team to work toward this one-team language and concept to try to heal the divide between the operational staff and the investment staff, and in moving forward on the tough issues.

CHAIR RICHARDS thanked all and adjourned the meeting.

(Special Board of Trustees meeting adjourned at 10:31 a.m.)

SUBJECT: Executive Director's Report

ACTION: \_\_\_\_\_

DATE: September 21, 2022

INFORMATION:   X  

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**BACKGROUND:**

The Executive Director's report provides reports detailing Board matters, disclosures, staffing and budget updates, and financial reports.

**STATUS:**

Valerie Mertz, Acting ED, will present highlights from the following reports:

- Pending Board Matters
- Trustee Education Report
- Disclosure Report
- Staff Summary Report
- APFC Staff Education Training Report
- HR Summary Report
- Communications Report
- Legislative Update
- Securities Litigation Update
- Financial Report
- APFC Transfers
- APFC History and Projections
- Investment Management Fee Report
- FY22 Budget Update

SUBJECT: Pending Board Matters

ACTION:

DATE: September 21, 2022

INFORMATION:   X  

BY	TASK	CAPTURED	TARGET	COMPLETED
Frampton/Razzaque/ Parise/Moseley/ Andreyka	Asset Class Staffing/Business Plans	02/21	05/22	
Frampton/Brown/ Mertz	Incentive Compensation Policy Revisions	7/22	12/22	
Brown/Mertz	Peer Group Definition	7/22	12/22	

SUBJECT: Trustee Education

ACTION: \_\_\_\_\_

DATE: September 21, 2022

INFORMATION:     X    

**BACKGROUND:**

The Board of Trustees of the APFC has established a Trustee Education Policy with the following objectives:

- To ensure that the members of the Board have access to the knowledge and information necessary for them to fulfill their fiduciary duties as trustees of the Alaska Permanent Fund; and
- To assist them in becoming well informed in all matters pertaining generally to the management of a large institutional fund, both public and private, and more specifically to the management and investments of the APFC.

In accordance with the Trustee Education Policy, the following is a list of conferences and seminars that Trustees may wish to attend.

TRAINING OPPORTUNITY	TOPIC	LOCATION	DATES
Callan	“Callan College” for Investment Managers	Boston	October 12, 2022
	October Workshop	Denver	October 18, 2022
	October Workshop	San Francisco	October 20, 2022
	2023 National Conference	Scottsdale	April 2, 2023
Pacific Pension & Investments Institute (PPI)	Asia Pacific Roundtable	Singapore	October 19-21, 2022

# Memo

To: Governance Committee

Through: Valerie Mertz  
Acting Executive Director

From: Chad Brown  
Director of Human Resources

Date: September 21, 2022

Re: APFC Financial Disclosures

As required by AS 37.13.110(b) and Alaska Permanent Fund Corporation policy relating to personal investments conduct and reporting, trustees and staff must disclose certain financial interests. Below is a list of disclosures for transactions made by trustees and staff, covering a period of April 1, 2022 – June 30, 2022

Annual Comprehensive Disclosures			
Name	Position Title	Disclosure Type	Received
Craig Richards	Trustee	Quarterly	04/15/2022
Steve Rieger	Trustee	Annual	04/22/2022
Steve Adams	Investment Officer	Annual	04/27/2022
Ross Alexander	Investment Officer	Annual	04/26/2022
Valeria Buschfort	Senior Accountant	Annual	04/29/2022
Chris Cummins	Investment Officer	Annual	04/13/2022
Cody Graves	IT Specialist	Initial	05/31/2022
Adam Kane	Communications Specialist	Quarterly	05/02/2022
Chris LaVallee	Senior Accountant	Quarterly	05/09/2022
Jacki Mallinger	Senior Accountant	Annual	04/25/2022
Valeria Martinez	Investment Officer	Annual	04/13/2022
Valerie Mertz	Chief Financial Officer	Annual	04/22/2022
Tom O'Day	Investment Officer	Annual	04/22/2022
Matthew Olmsted	Investment Officer	Annual	04/26/2022
Chris Poag	General Counsel	Annual	04/22/2022
Logan Rahn	Associate	Annual	05/02/2022
Sang Song	Investment Officer	Annual	04/13/2022
Sang Song	Investment Officer	Quarterly	04/28/2022
Sarah Struble	Accounting Tech	Annual	04/14/2022
Pauly Swanson	Director of Communications	Annual	04/22/2022

Sebastian Vadakumcherry	Chief Risk & Compliance Officer	Annual	04/20/2022
Rachel Zepp	Administrative Specialist	Annual	04/19/2022

All disclosures have been reviewed by the myself or the Acting Executive Director, in our capacity as compliance officers. All disclosures follow policy requirements. Disclosures will be filed in the appropriate personnel file and copies will be placed behind the corporate minutes of the next meeting.

If you have any questions, please call me at 796-1541.

# Memo

To: Board of Trustees  
 From: Valerie Mertz  
 Acting Executive Director  
 Date: September 21, 2022  
 Re: Travel, Training, and Diligence Summary Report

**Background:**

This report includes APFC staff completed travel for the period April 1-June 30, 2022. The travel report is presented to the Board of Trustees for review at each board meeting as required by APFC Resolution 04-10.

**Due Diligence Summary:**

Department	Number of Meetings Held	
	In Person	Telephonic/Virtual
Executives	5	49
Fixed Income	34	22
Public Equity	5	34
Infrastructure & Private Credit	57	117
Real Estate	35	170
Private Equity & Special Opportunities	102	110
Risk Parity	0	11

**Travel Summary:**

Budget-to-Actual Report: July 1, 2021 through June 30, 2022

\*The following can be found in full in the FY22 Budget Report\*

CORPORATE OPERATIONS	BOARD-AUTHORIZED BUDGET	EXPENDITURES	BUDGET REMAINING
Travel	\$800,000	\$526,334	\$273,666
Staff	\$602,000	\$427,483	\$174,517
Trustees	\$18,000	\$25,953	\$ (7953)
Moving/Non-Employee	\$180,000	\$72,898	\$107,102

**Trip Summary – 4<sup>th</sup> Quarter – April 1 through June 30, 2022**

TRAVELER	PURPOSE	DATES OF TRAVEL		LOCATION
Moseley	AGM/Manager Meetings	4/2/22	4/9/22	London, England
Andreyka	Manager Meetings	4/3/22	4/9/22	Fort Lauderdale, FL
Shah	Manager Meetings	4/3/22	4/9/22	New York City
Alexander	Conference	4/4/22	4/8/22	Los Angeles, CA
Rahn	Investment Opportunity	4/5/22	4/5/22	Culver City
O'Day	Manager Meetings	4/6/22	4/15/22	San Francisco/New York City
Swanson	Communications Training	4/13/22	4/13/22	Anchorage

Pollock	Conference	4/16/22	4/26/22	Austin, TX
Skuratovskaya	Conference	4/16/22	4/20/22	San Francisco
Hatch	Manager Meetings	4/18/22	4/22/22	Austin, TX
Moseley	Manager Meetings/AGM/LPAC	4/18/22	4/29/22	Austin, NYC, Hilton Head
Balovich	Conference	4/20/22	4/22/22	Chicago
Andreyka	Conference & Manager Meetings	4/24/22	4/29/22	Austin, TX & New York City
Rahn	AGM	4/25/22	4/26/22	Dallas/Fort Worth
Ramirez	AGM/LPAC	4/25/22	4/26/22	Toronto, Canada
Richards	Callan Conference	4/25/22	4/27/22	San Francisco
Price	Conference	4/26/22	4/30/22	Newark, NJ
Skuratovskaya	Conference	4/26/22	4/27/22	Seattle
Shah	AGM, LPAC, Quarterly Visit to Juneau	4/27/22	5/14/22	San Francisco, Los Angeles, Juneau
Cook	Internship	4/30/22		Juneau
Parise	Conference	4/30/22	5/4/22	Los Angeles, CA
Andreyka	Conference & Manager Meetings	5/1/22	5/9/22	Charleston, NC/Dallas/Fort Worth, TX
Rahn	Manager Meetings	5/1/22	5/3/22	Malibu & Beverly Hills, CA
Ramirez	AGM	5/1/22	5/4/22	Savannah, GA
Alexander	AGM	5/4/22	5/6/22	Portland, OR
Pollock	Conference	5/4/22	5/8/22	San Francisco
Martinez	Risk Parity & Cash Due Diligence	5/9/22	5/15/22	Boston, MA
Rime	Manager Meetings/Site Visit	5/9/22	5/13/22	Orange County, CA
Kane	Communications	5/10/22	5/11/22	Anchorage
Swanson	Communications	5/10/22	5/11/22	Anchorage
Brown	LB&A Interview	5/12/22	5/13/22	Anchorage
Forbes	Candidate Interview	5/13/22	5/17/22	Juneau
Pollock	Conference	5/14/22	5/24/22	San Francisco, CA
Alexander	AGM/LPAC Meetings	5/15/22	5/20/22	New York City
Ramirez	APFC BOT Meeting/Quarterly Visit	5/15/22	5/20/22	Juneau & Ketchikan, AK
Hatch	Training	5/16/22	5/20/22	San Francisco
Andreyka	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Balovich	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Feige	APFC BOT Meeting	5/17/22	5/20/22	Ketchikan, AK
Frampton	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Frier	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Loesch	APFC BOT Meeting	5/17/22	5/22/22	Ketchikan, AK
Kane	APFC BOT Meeting	5/17/22	5/20/22	Ketchikan, AK
Mahoney	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Mertz	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Metcalfe	APFC BOT Meeting	5/17/22	5/20/22	Ketchikan, AK
Moseley	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Olmsted	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Parise	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK

Race	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Richards	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Rieger	APFC BOT Meeting	5/17/22	5/20/22	Ketchikan, AK
Swanson	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Vadakumcherry	APFC BOT Meeting	5/17/22	5/19/22	Ketchikan, AK
Cummins	Manager Meeting	5/18/22	5/31/22	New York/Boston
Mallinger	APFC BOT Meeting	5/18/22	5/20/22	Ketchikan, AK
Martinez	APFC BOT Meeting	5/18/22	5/20/22	Ketchikan, AK
Poag	APFC BOT Meeting	5/18/22	5/19/22	Ketchikan, AK
Skuratovskaya	APFC BOT Meeting	5/18/22	5/18/22	Ketchikan, AK
Rahn	Conference	5/19/22	5/19/22	Beverly Hills, CA
Rahn	AGM	5/20/22	5/31/22	London, England
Scudder	Relocation	5/22/22		Juneau
Ramirez	AGM	5/24/22	5/24/22	Greenwich, CT
Frampton	Conference	5/27/22	6/9/22	Chicago
Hatch	Conference	5/28/22	6/12/22	New York/Chicago
Adams	Manager Meetings	5/31/22	6/1/22	San Diego, CA
Elie	Candidate Interview	5/31/22	6/1/22	Juneau
Parise	Manager Meetings	6/5/22	6/11/22	New York City
Shah	AGM	6/5/22	6/23/22	London, England
Pollock	Conference/Training	6/6/22	6/10/22	Chicago
Ramirez	Conference	6/6/22	6/14/22	San Francisco
Rahn	Conference	6/7/22	6/9/22	Chicago
Adams	Manager Meetings	6/8/22	6/8/22	Santa Ana/Irvine, CA
Calhoon	Conference	6/11/22	6/17/22	Las Vegas
Prebeg	Conference / Personal Deviation	6/11/22		Las Vegas
Swanson	Conference	6/14/22	6/20/22	Nashville
Frampton	AGM	6/17/22	7/4/22	Stockholm, Sweden
Rahn	Quarterly Visit	6/20/22	6/24/22	Juneau
Swanson	LB&A Interview	6/22/22	6/23/22	Anchorage
Mertz	LB&A Interview	6/24/22	6/24/22	Anchorage
Alexander	Conference	6/26/22	6/29/22	Los Angeles, CA
Mangual	Quarterly Visit & Audit	6/26/22	7/9/22	Juneau
Rahn	AGM	6/27/22	6/29/22	Rancho Palos Verde
Razzaque	Due Diligence Meetings	6/27/22	7/5/22	Newark, NJ



**ALASKA PERMANENT  
FUND CORPORATION**

	EMPLOYEE	DEPT	TRAINING TYPE*	VENDOR	COURSE TITLE	CLASS HOURS	CITY	ST
1	Lara Pollock	PM	CS	Arctic Encounter	Arctic Encounter Symposium	16.0	Anchorage	AK
2	Lara Pollock	PM	OTT	ILPA	Investment Due Diligence, Portfolio Construction, Secondary Modeling	40.0	San Francisco	CA
3	Catherine Hatch	PM	OTT	ILPA	Investment Due Diligence, Portfolio Construction, Secondary Modeling	40.0	San Francisco	CA
4	Lara Pollock	PM	OTT	ILPA	Private Credit for the Limited Partner	8.0	Chicago	IL
5	Cody Graves	IT	OL	Cisco	Implementing and Administering Cisco Solutions		Juneau	AK
6	Logan Rahn	PM	CS	ILPA	Annual Members Conference		Chicago	IL
7	Catherine Hatch	PM	CS	ILPA	Annual Members Conference		Chicago	IL
8	Lara Pollock	PM	CS	ILPA	Annual Members Conference		Chicago	IL
9	Paulyn Swanson	CS	OL	PRSA	Adv. Crisis Communications Certificate	12.0	online	
10	Paulyn Swanson	CS	CS	PRSA	Corporate Communications Conference		Nashville	TN
11								
12								

CS	- Conferences & Seminars
LT	- Local Training
OTT	- Out of Town Training
OL	- Online

# Memo

To: Board of Trustees

From: Chad A. Brown  
Human Resources Manager

Date: September 21, 2022

Human Resources – FY 22

## Welcome

- Lacey Sanders 9/19/2022 – Director of Administrative Operations
- Jordyn Ellie 9/14/2022 – Portfolio Accountant

## Highlights

- HBS Certification for Alternative Investments to better support and understand the needs of the Alternatives team
- Won Best Places to Work in Money Management – Pensions and Investments
- Forbes Publications (3) – One (1) Article, Two (2) Expert Panels

## Challenges

- Niche advertising is not yielding the quantity or quality of candidates, requiring an increased proactive effort which was difficult given the quantity of resignations and being a one-person department for almost ½ the year
- 50% understaffed for ½ of FY22

## Opportunities

- Evaluate and enhance Employee Value Proposition
- Continue to build upon One Team framework
- Streamline recruiting process and expansion of College Recruiting efforts

**Vacant Positions as 9/12/2022**

Title	Division	Department	Status
Director of Private Equity	Investments	Private Equity	Advanced Stages of Interviewing, Anticipate successful completion soon.
Investment Officer Credit Analyst	Investments	Fixed Income	Interviewing
Investment Officer TBD	Investments	TBD	Hold - TBD
Investment Officer TBD	Investments	TBD	Hold - TBD
Investment Associate Analyst/Sr Analyst	Investments	Private Income	Hold

Investment Associate Analyst/Sr Analyst	Investments	Real Estate	8+ Month Active Recruitment – Hold Refreshing Posting
Investment Officer Analyst/Sr Analyst	Investments	Real Estate	Hold
Investment Officer Asset Manager	Investments	Real Estate	Hold
Admin Specialist	Operations	Admin	Hold - Pending Director Administrative Operations
Admin Specialist	Operations	Admin	Hold - Pending Director Administrative Operations
Procurement Specialist / Officer	Operations	Administration	Hold - Pending Director Administrative Operations
Project Manager	Operations	Biz Ops	Hold - Pending Director Administrative Operations
CEO	Operations	Executive	Interviewing – Recruitment Committee
COO	Operations	Executive	Hold - Pending Executive Director
Info Security Analyst	Operations	IT	Final Candidates – Pending Offer
Investment Operations Analyst	Operations	Trade Ops	Hold - Pending Restructuring/Outsourcing
Investment Operations Analyst	Operations	Trade Ops	Hold - Pending Restructuring/Outsourcing
Sr. Investment Operations Analyst	Operations	Trade Ops	Hold - Pending Restructuring/Outsourcing

**STATUS OF FY 23 APPROVED POSITIONS (7)**

Title	Division	Department	Status
Investment Officer	Investments	TBD	Hold Pending Director of PE
Investment Officer	Investments	TBD	Hold Pending Director of PE
Investment Officer RE Analyst	Investments	Real Estate	Hold
Investment Officer Credit Analyst Fixed Income	Investments	Fixed Income	Interviewing
Investment Officer PM Private Credit	Investments	Private Credit	Filled
IT Security Officer	Operations	IT	Offer Pending
Project Manager	Operations	Business Operations	Hold Pending Director of Admin

**HEADCOUNT & VACANCIES AS OF 9/12/2022**

Division	FILLED FTE	VACANT FTE
Investments	24	8
Operations	25	10**
	49	18

\*\*3 Pending Restructuring/Outsourcing, 4 Pending Supervisor, 1 Search firm

SUBJECT: Communications Update

ACTION:

DATE: 9/21/2022

INFORMATION: X

**Communications to Educate and Inform**

APFC's 5-year strategic plan focuses on delivering reliable, consistent, accurate information and fulfilling statutory obligations.

**APFC STRATEGIC COMMUNICATIONS GOALS: FY2022-2027**

1. APFC achieves and maintains necessary support and resources to optimize its ability to protect and grow the Fund.
2. APFC maintains and builds upon domestic and international brand recognition, ensuring high regard among global peers and potential partners.
3. Alaskans understand APFC's role as investment manager of the State's most valuable renewable financial asset.
4. APFC reestablishes youth education outreach and involvement efforts to engage and inform Alaska's future leaders.

APFC is committed to providing reliable and objective information to the Legislature, the Executive Branch, Alaskan stakeholders, and our global audience.

Outreach efforts continue with our collaborative educational program, a new social media strategy, and the production of the Annual Report and Alaska Elections Pamphlet.

**Outreach Projects****AK Youth Investment Program**

Progress is being made towards the launch of **The Permanent Fund: Alaska's Renewable Revenue**, APFC's Alaska youth education project developed in collaboration with Alaska Resource Education (ARE). The project is intended to be piloted in several high schools as part of the "Our Alaska" module during the current school year. The new curriculum includes a web portal, a workbook, two short videos, and a facilitated classroom experience with hands-on activities. Content will cover the establishment of the Fund, the Corporation, and basic economic and investment concepts.

**Presentations, June – September 2022**

- Juneau Douglas High School, Presentation and walkthrough at APFC
- Marshall Memorial Fellows, Chair Richards

- **APFC.ORG Website**

As a trusted and reliable source of timely information from the Corporation, the website continues to receive regular updates and maintenance, including increased security through implementing an advanced Content Delivery Network.

- **Enhancing Digital Communications and Social Media Presence**

After receiving feedback and reviewing analytics, it was assessed that APFC's social media, particularly LinkedIn, is a valuable platform to inform the public about the Corporation's work and recruitment efforts. Posts are developed to ensure consistent and relevant messaging about the Fund, APFC, and Alaskans working for Alaska.

### **Media and Public Records Requests**

The Communications team has been developing a formal policy to guide our process in adhering to statute and the administrative code. This includes a standardized request form and fee collection similar to State agencies' practices. APFC has received and responded to 35 requests for records and associated information thus far this calendar year. In recent months, the request volume has decreased, enabling Communications staff to allocate more time to other projects. The Corporation relies on state statutes in responding to public records requests.

### **Crisis Communications and Planning**

It is necessary to address reputational risks to the Corporation. Short-term and long-term strategies are essential and developed to bolster understanding, credibility, and longevity of the organization. Affirming the governance structure that sets the foundation of APFC's corporate policy, mission, and values for the management and investment of the Permanent Fund is an important element.

### **Legislative Initiatives**

- **Legislative Line**

Every month, APFC provides the Legislature and the media with an email update on the Fund's value, including the Principal and ERA accounts and the Statutory Net Income to date. Additional email alerts are also sent in advance of quarterly and the annual Board meeting, including links to the agenda and packet. Given the success of this informational, plans are underway to broaden the distribution.

### **Publications**

- **FY22 Annual Report**

APFC's Annual Report was produced in accordance with Alaska Statutes, Section 37.13.170. Reports and publications. This annual statutory disclosure is published in print and digital forms to ensure widespread access to the information on the performance of the Permanent Fund and APFC's investment management role.

- **2022 General Election Pamphlet**

This document was submitted to the Division of Elections for publication in the November 2022 General Election pamphlet per Alaska Statutes, Section 37.13.170 Reports and publications. This pamphlet includes the Fund's income statement and balance sheet for FY22 and FY21. Content on the history, structure and use of the Fund is also included to enhance Alaskan's understanding of the Fund.

### **Internal Communications**

- **Brand Ambassadors**

It is a recognized opportunity to bolster internal communications, and work remains to be done to achieve this strategic goal. Appreciation for APFC's Human Resources in continuing to lead the effort in preparing and distributing a monthly internal newsletter to those staff who contribute their insights, recipes, and photos!

SUBJECT: Legislative Update

ACTION:

DATE: 9/21/2022

INFORMATION: X

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The 32<sup>nd</sup> Alaska State Legislature adjourned Sine Die on May 18, 2022.

The 33<sup>rd</sup> Alaska State Legislature will convene on January 17, 2023.

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In addition to the appropriations provided in the FY23 Operating Budget and related COLA adjustment, a bill of substantive law was enacted that pertains to state government finances and includes a reporting provision for APFC.

SB 25 - CHAPTER 68 SLA 22, Effective Date: December 1, 2022

- The Alaska Online Checkbook Act intends to provide Alaskans with data to identify and discover state revenues and expenditures through a searchable website maintained by the Department of Administration.
- Included as a resource is the balance of the ERA and the amounts deposited into the Permanent Fund.
- The bill states, *"The Internet website established under AS 37.05.215, added by sec. 4 of this Act, shall be available to the public on or before October 1, 2023."*

This Act will be implemented through the Department of Administration (DOA). APFC will work with DOA to provide a streamlined approach to incorporate publicly available data from financial statements and meet the reporting requirement.

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In looking forward to the upcoming session in January of 2023, initial preparations are underway to ensure that resource and education objectives are fulfilled.

It is anticipated that a legislative initiatives discussion will be part of the December quarterly meeting of the Board.

# MEMORANDUM

## State of Alaska Department of Law

TO: Chris Poag  
General Counsel, APFC

DATE: September 13, 2022

FILE NO.: 2020101022

FROM: Benjamin J. Hofmeister  
Assistant Attorney General  
Public Corporations and Gov. Services

TEL. NO.: (907) 465-3600

SUBJECT: Securities Litigation Update

### SECURITIES LITIGATION UPDATE

This memorandum serves as a summary of securities cases that the Alaska Permanent Fund Corporation (“APFC”) is actively litigating or involved with on behalf of the Alaska Permanent Fund. According to a memorandum of understanding between APFC and the Department of Law – the administrator of state legal services – “‘actively litigate’ or ‘actively involved’ means: (1) seeking lead plaintiff status in a pending class action; (2) opting-out of a pending class action to file a direct claim; or (3) in a case or jurisdiction (including jurisdictions outside of the United States) where the Fund will not be able to recover damages as a passive member in a class action claim, filing a direct claim or opting into a pending claim seeking recovery of Fund losses.”

### DOMESTIC LITIGATION

1. *State of Alaska Department of Revenue, Treasury Division, et al. v. Teva Pharm. Ind. Ltd., et al.*, No. 3:18-cv-1721 (D. Conn.)

Teva Pharmaceuticals Industries Limited (“Teva”) is a company that develops and distributes generic and specialty medicines worldwide. Teva is alleged to have made false statements in regards to its compliance with antitrust laws. Teva, however, was illegally conspiring with other pharmaceutical companies to artificially fix the prices of certain generic drugs. This conduct led to the start of federal and state investigations in 2015 and 2016 – and ultimately a criminal prosecution against the company filed by the Department of Justice in 2020. The revelation of the investigations led to significant drops in shares of Teva. Both APFC and the Department of Revenue owned shares in Teva and ultimately filed a joint opt-out action against Teva in 2018. The parties in the class action matter recently reached a settlement that was preliminarily approved by the federal district court. The parties are now awaiting the trial court’s decision on a pending motion to dismiss. The law firm of Kessler, Topaz, Meltzer and Check (“KTMC”) represents APFC in this matter.

2. *State of Alaska, et al. v. Ryder Systems Inc., et al.*, No. 1:20-cv-22109 (S.D. Fla.)

Ryder Systems Incorporated is a transportation and supply chain management company. Ryder is alleged to have overstated the value of its residual trucking fleet, which allowed it to record smaller depreciation expenses on those assets, and thus artificially inflating Ryder's earnings. A class action lawsuit was filed and APFC sought lead plaintiff status in the matter. The federal district court certified the class and appointed APFC along with two other pension funds as lead plaintiffs. On May 12, 2022, the district court denied defendants' motion to dismiss the action. The district court entered a scheduling order setting deadlines for the case, including a trial date of June 17, 2024. Document collection and discovery practice has begun for the parties. Discovery does not close until October 13, 2023. The law firm of Bernstein, Litowitz, Berger and Grossman represents APFC in this matter.

3. *AllianzGI Structured Alpha Fund*

Allianz is a global financial services provider that managed a set of investment vehicles – the “Structured Alpha Funds” – utilizing an options strategy in order to achieve a specific benchmark. The strategy was marketed as an investment strategy that would remain stable against downturns in the market. This strategy worked well for Allianz and its clients for years. That performance changed in March 2020 with the onset of market volatility related to the Covid-19 pandemic. As a result, the Structured Alpha Funds started experiencing large-scale losses at a rapid clip. Investors instituted litigation shortly thereafter, including the initial filing of a class action case. In April 2022, Allianz began settling claims with individual investors – including those involved in the class action matter. Within a few weeks, the class action case collapsed and Allianz sought to settle all potential claims related to the Structured Alpha Funds. The Permanent Fund was invested in one of those products at the time of the collapse – the Structured Alpha 250 Fund. APFC was contacted by Bernstein, Litowitz, Berger and Grossmann, about filing a direct claim with Allianz. BLBG's negotiations led to a gross settlement of just over \$25 million for the Permanent Fund.

## **FOREIGN LITIGATION**

1. *Petrobras (Brazil)*

Petrobras is a Brazilian state-run energy company. The company was implicated in a massive corruption scandal involving collusion between company executives, contractors and members of the predominant political party between 2004 and 2012. Allegations involved Petrobras executives falsely inflated the value of projects for their own profit and paid bribes to politicians in the process. The scandal led to law enforcement investigations and arrests of Petrobras executives, contractors and politicians. This resulted in a corresponding decline in Petrobras's securities prices and massive investor

losses. Multiple actions were filed in Brazil related to these losses. The law firm of KTMC represents APFC in this matter.

## 2. *Daimler/Porsche/Volkswagen (Germany)*

Daimler, Porsche and Volkswagen are all multinational automotive companies based in Germany. In 2015, revelations of the German automobile industry's involvement in a long-running fraud related to manipulation of emission standards on diesel engines began to take form. This practice – which came to be known as “Dieselgate” – first came to light with an acknowledgement by Volkswagen of the use of “defeat devices” to conform to government emission standards. By 2017, antitrust investigations into illegal cooperation among German automotive manufacturers were publicized, revealing a potential illegal conspiracy in operation since 1996, encompassing everything from the development of vehicles and engines, to technology, costs, and the market distribution among suppliers. The government investigations and general disclosures of the Dieselgate conspiracy led to multiple securities actions in German courts. Germany utilizes an “opt-in” system for securities litigation known as the Capital Market Model Proceedings Act – or “KapMuG.” Only claimants who file suit in their own name may recover damages. APFC filed claims in all three KapMuG proceedings involve each of the companies.

On December 22, 2021, claims related to the Daimler matter were registered in the Higher Regional Court of Stuttgart. In response, the Court issues a standard order to structure the KapMuG, provided the declaratory objectives for the KapMuG, and set a deadline of May 31, 2022, for the parties to submit initial comments on the declaratory objectives. That deadline was extended by the court until July 31, 2022. Replies by the parties will be filed, but no deadline has been set by the court yet. Declaratory objectives are the basis for the declaratory judgments that will be sought through the KapMuG process that will be applicable to all claimants. The parties' comments consist of legal and factual arguments on those issues.

In November 2021, the Higher Regional Court of Stuttgart requested the model claimant in the Porsche matter to submit an edited version of certain declaratory objectives. The model claimant filed that version on February 7, 2022, and the Court was initially set to review those at hearing on June 13, 2022. However, motions for an extension for the filing of declaratory objectives prior to that date and the hearing was continued until July 13, 2022. At the hearing, the Court gave the Model Claimant until July 20, 2022, to supplement the motions for an extension. Comments on these motions may be submitted by all parties until August 19, 2022. The Court has indicated that it intends to decide the Model Claimant's request on September 28, 2022.

The Higher Regional Court of Braunschweig has ordered the filing of responses and evidence regarding Volkswagen's Board of Management's knowledge of the defeat devices. The next hearing in the Volkswagen matter is set for October 25-26, 2022.

The law firms of Robbins, Geller, Rudman, and Dowd and Nieding + Barth – the German litigation firm prosecuting the cases – represents APFC in these matters.

### 3. *Wirecard (Germany)*

Wirecard is a German firm that provided electronic payment applications worldwide. Its business included authorizing and processing payments for merchants, issuing credit and prepaid cards, and providing technology for contactless smartphone payments. Wirecard has been suspected of engaging in questionable accounting practices. Despite constant denials, allegations of fraud persisted. As a result, Wirecard solicited the accounting firm of KPMG to conduct an external audit in order to restore confidence in its financial position. KPMG's report revealed multiple gaps in Wirecard's accounting and reporting. As a result, Wirecard stock prices fell drastically and the company eventually filed for insolvency. Given the insolvency proceedings, investors initiated KaPMuG proceedings against Ernst and Young – Wirecard's auditor responsible for monitoring its accounting practices in the decade before the KPMG report was issued. The law firms of KTMC and TILP Litigation Rechtsanwaltsgesellschaft mbH – the German litigation firm prosecuting the case – represents APFC in this matter.

### 4. *Credit Suisse Group AG (Switzerland)*

Credit Suisse Group AG (“CS”) is a multinational investment bank and financial services company that is founded and headquartered in Switzerland. In 2015, CS shareholders authorized a two-phase capital increase. CS issued a prospectus for the capital increase, which allegedly contained all relevant information about the business of CS. Overall market sentiment regarding CS was based on the prospectus, which shareholders relied upon in making their investment decisions. In 2016, CS announced that it would be taking a multibillion-dollar loss for the fourth quarter of 2015. This loss took place in the same quarter that the capital increase was conducted. In response to the news of the losses, CS share prices declined. Evidence would surface shortly after the announcement that CS management was aware of the losses and did not reveal the information to investors in the prospectus. The law firm of KTMC represents APFC in this matter and has facilitated an assignment of claims to the firm of Astraea Limited. The Swiss law firm Schwärzler Rechtsanwälte is the lead law firm pursuing claims against CS.

SUBJECT: FY22 Year-to-Date Financial Update ACTION: \_\_\_\_\_

DATE: September 21, 2022 INFORMATION:  X

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KEY TAKEAWAYS:

- Total return for the fourth quarter of FY22 of -6.06%, bringing the return for the year into negative territory at -1.32%. Total fund outperformed the performance benchmark by 192 basis points and the passive benchmark by an amazing 1,332 basis points.
- Accounting net income year-to-date of -\$3.0 billion, a loss of \$5.3 billion for the fourth quarter
- Realized (statutory) net income year-to-date of \$4.5 billion, \$24 million for the fourth quarter
- Total market value as of June 30th of \$81.4 billion, a decrease of \$509 million for the year
- \$3.1 billion transferred to the General Fund during the year in accordance with SB26; \$1.1 billion transferred in the fourth quarter
- \$549 million of mineral deposits transferred in during the fiscal year
- Committed Earnings Reserve balance of \$3.4 billion for FY23 General Fund transfers

Financial results for the fourth quarter of FY22 reflected the dramatic drawdown in public markets, particularly public equities which lost 14.1% for the quarter. Overall, the portfolio lost \$5.7 billion in value between the end of March and the end of June. The largest decrease by far was experienced in the public equity portfolio which lost \$4.3 billion during the quarter. Fixed income lost \$1.2 billion during this time with modest gains experienced in other asset classes.

Net assets decreased by \$5.6 billion year-to-date through June. This is a result of the net loss of \$3.0 billion and the FY22 POMV transfer to the General Fund in the amount of \$3.1 billion offset by \$549 million received in mineral royalty deposits. Corporate operating expenses and other appropriations for the year totaled \$152 million.

One transfer of \$1.1 billion was made to the General Fund during the fourth quarter of FY22. This brings the total transfers for the year to \$3.1 billion. Staff is in communication with the cash managers at the Department of Revenue to ensure that amounts designated for the General Fund remain invested in the Fund as long as possible, while being available to meet the liquidity needs of the State.



**Financial Report  
June 30, 2022**

**Fiscal Year 2022 Net Assets**

Balances through June 30, 2022

(in millions)

Total assets	\$ 77,677.3
Less liabilities	(1,340.1)
Net assets	<u>76,337.2</u>
Fund Balances:	
Non-spendable	
Permanent Fund corpus—contributions and appropriations	51,487.3
Not in spendable form—unrealized appreciation on invested assets	8,700.3
Total non-spendable fund balance	<u>60,187.6</u>
Committed	
General Fund Commitment	3,360.6
Current FY AK Capital Income Fund	-
Committed fund balance	<u>3,360.6</u>
Assigned for future appropriations	
Realized earnings	10,454.5
Unrealized appreciation on invested assets	2,334.5
Total assigned fund balance	<u>12,789.0</u>
Total fund balances	<u>\$ 76,337.2</u>

**Fiscal Year 2022 Income**

For the twelve months ending June 30, 2022

(in millions)

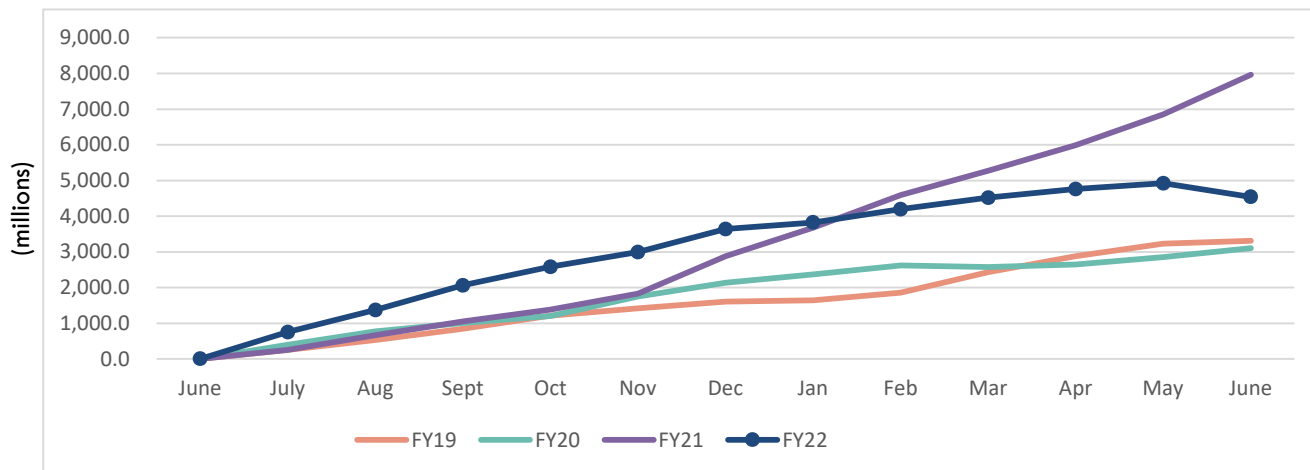
**Statutory (Realized) Net Income**

Interest, dividends, real estate, and other income	\$ 1,684.1
Realized gains on the sale of invested assets	3,035.0
Less operating expenses/legislative appropriations	(151.5)
Less Alaska Capital Income Fund committed realized earnings	(24.0)
Statutory net income	<u>4,543.6</u>

**GAAP (Accounting) Net Income**

Statutory net income	4,543.6
Unrealized loss on invested assets	(7,582.8)
Alaska Capital Income Fund committed realized earnings	24.0
Accounting net income	<u>\$ (3,015.2)</u>

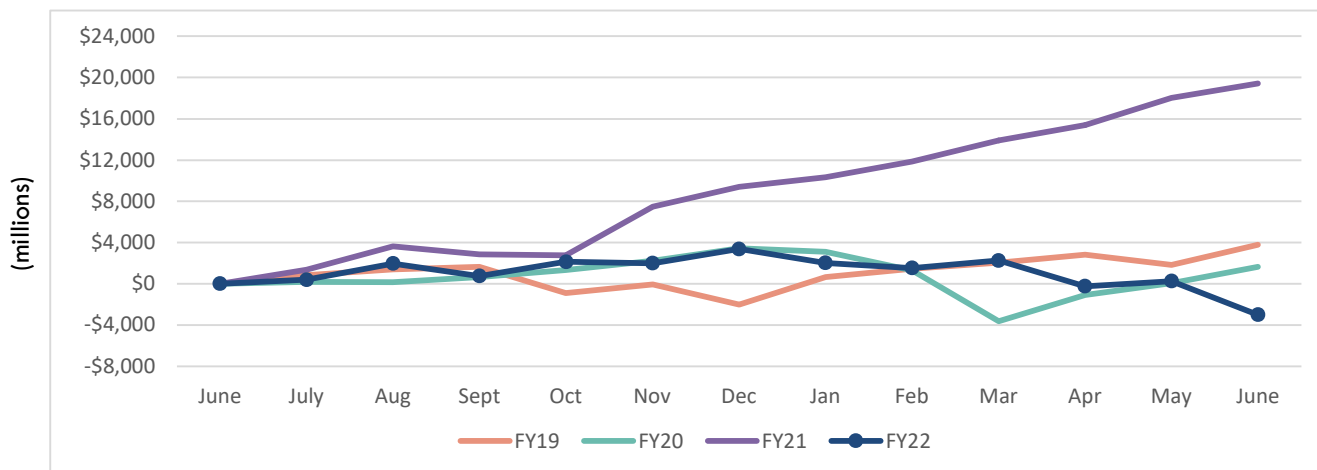
## Statutory Net Income, Fiscal Years 2019 - 2022



- Comprised of receipts from interest on fixed income, real estate rentals, stock dividends, and all realized gains and losses on the sales of invested assets, less AK Capital Income Fund committed amounts and operating expenses.

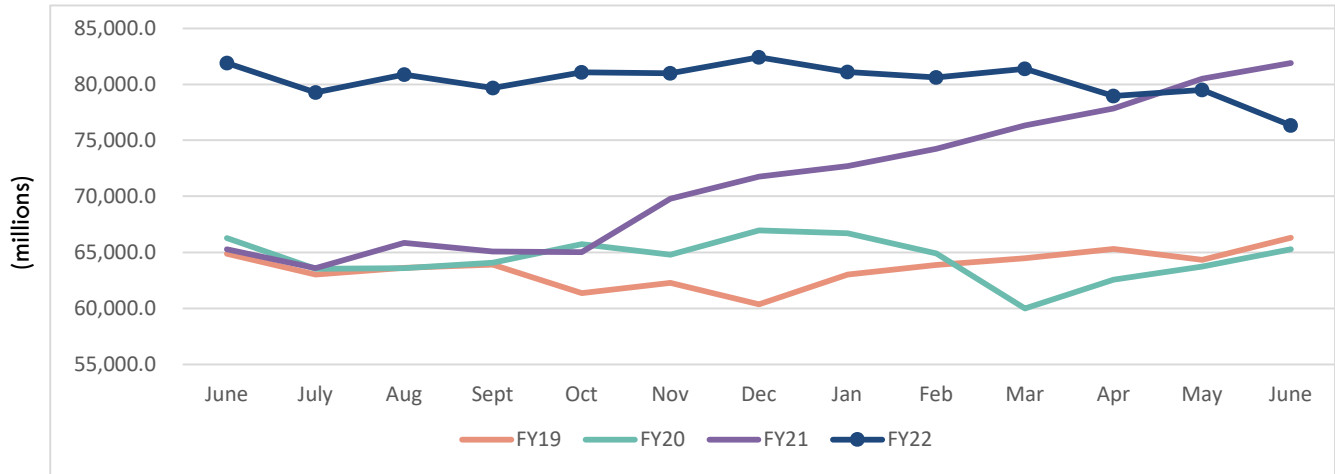
- FY19 statutory net income was \$3,305.1 million.
- FY20 statutory net income was \$3,106.0 million.
- FY21 statutory net income was \$7,962.4 million.
- FY22 statutory net income was \$4,543.6 million.

## GAAP Accounting Net Income, Fiscal Years 2019 - 2022



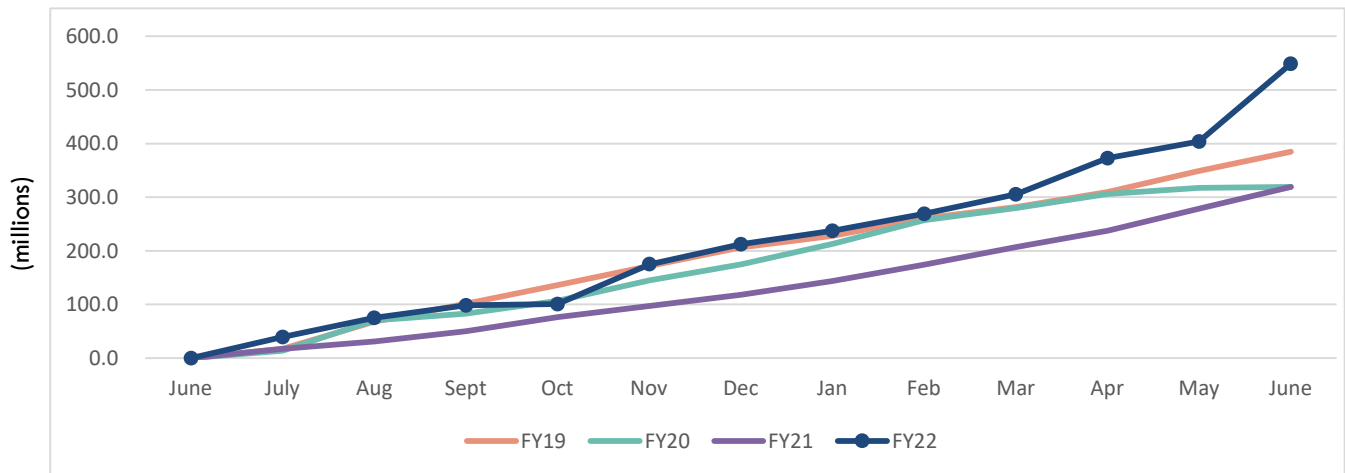
- Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.
- Accounting net income for FY19 was \$3,765.8 million.
- Accounting net income for FY20 was \$1,636.5 million.
- Accounting net income for FY21 was \$19,416.6 million.
- Accounting net income for FY22 was (\$3,015.2) million.

## Market Value of Fund Net Assets, Fiscal Years 2019 - 2022



- FY19 net assets as of June 2019 were \$66.3 billion, an increase of \$1.4 billion over the FY18 ending balance.
- FY20 net assets as of June 2020 were \$65.3 billion, a decrease of \$1.0 billion over the FY19 ending balance.
- FY21 net assets as of June 2021 were \$81.9 billion, an increase of \$16.6 billion from the FY20 ending balance.
- FY22 net assets as of June 2022 were \$76.3 billion, a decrease of \$5.6 billion from the FY21 ending balance.

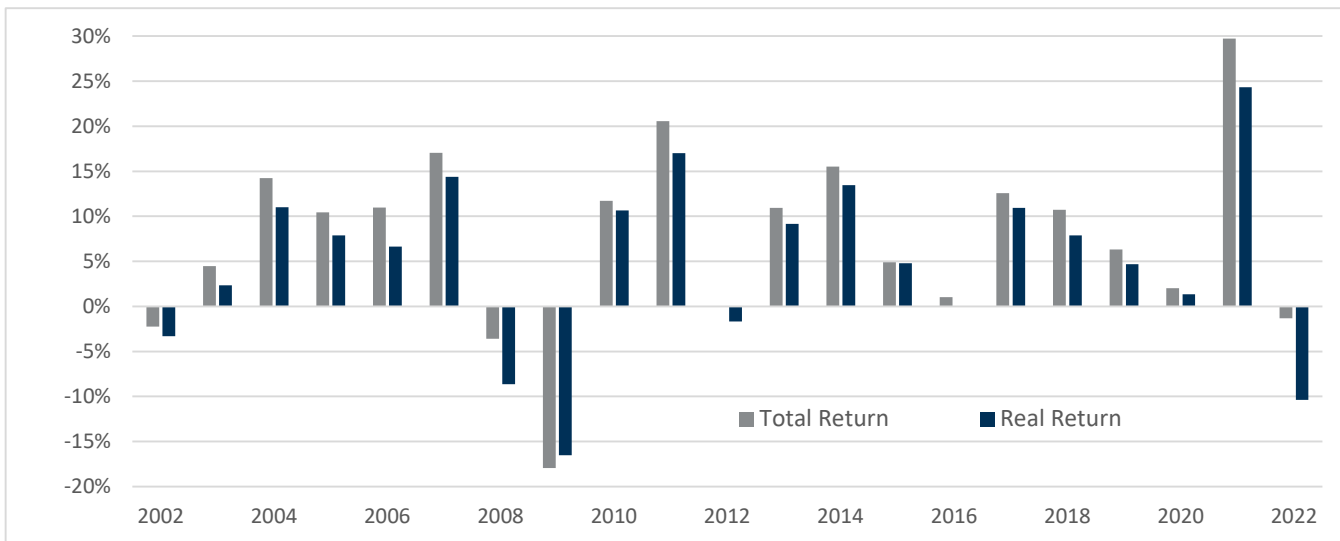
## Dedicated Mineral Revenues, Fiscal Years 2019 - 2022



- FY19 mineral revenue was \$385.2 million.
- FY20 mineral revenue was \$319.0 million.
- FY21 mineral revenue was \$319.6 million.
- FY22 mineral revenue was \$548.9 million.

## Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022

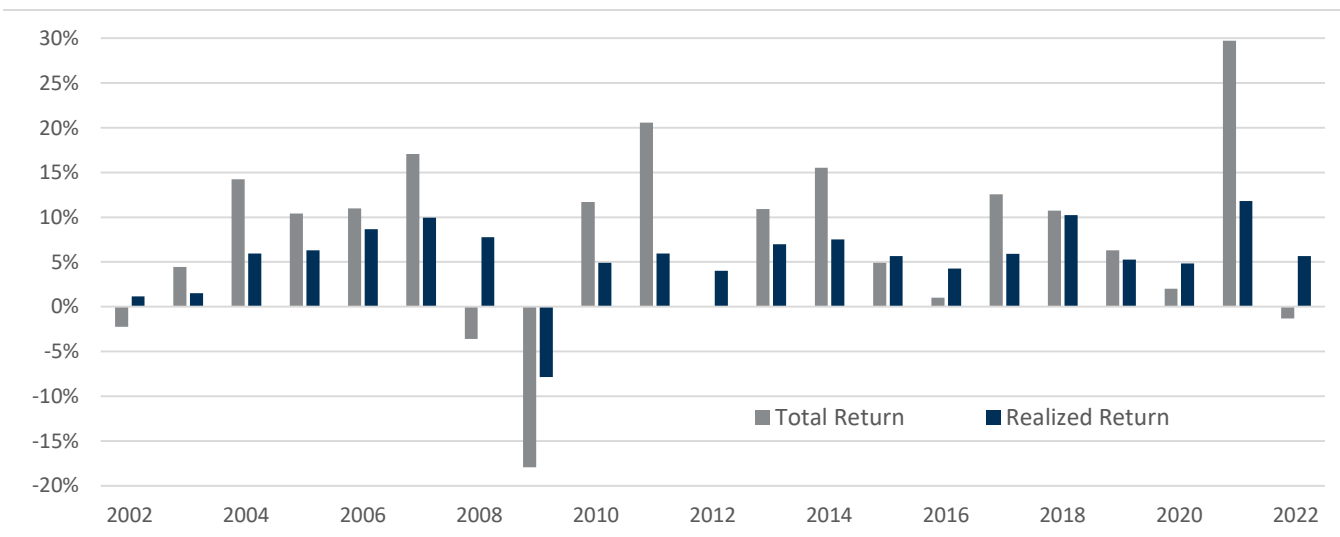
**Total return minus inflation equals real return**



- Total return annualized over 38 years is 8.91%
- Real return annualized over 38 years is 6.11%

## Alaska Permanent Fund Historical Returns, Fiscal Years 2002 - 2022

**Total return minus unrealized gains/losses equals realized return**



- Total return annualized over 38 years is 8.91%
- Realized return annualized over 38 years is 7.5%

## Board of Trustees - APFC Transfers - April 1 through June 30, 2022

<u>Type of Transfer</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
<b>Public Equities</b>	(1,233,705)	(301,084,248)	(1,103,595)	(303,421,549)
<b>Fixed Income</b>	3,874,187	(17,867,541)	690,858,409	676,865,055
<b>Private Equity &amp; Special Opportunities</b>	(36,424,805)	47,820,935	(16,332,259)	(4,936,130)
<b>Real Estate</b>	(11,491,556)	17,190,798	(271,036,704)	(265,337,463)
<b>Private Income</b>	62,964,357	(32,165,551)	(720,564,073)	(689,765,267)
<b>Absolute Return</b>	19,393,393	-	(748,500)	18,644,893
<b>Risk Parity</b>	-	-	(300,000,000)	(300,000,000)
<b>Total Fund Cash</b>	2,206,347	355,185,560	(486,920,221)	(129,528,314)
<b>Net Transfers</b>	<b>39,288,216</b>	<b>69,079,954</b>	<b>(1,105,846,944)</b>	<b>(997,478,774)</b>



**Board of Trustees - APFC Transfers - April 2022**

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Absolute Return	Net
<b>State of Alaska &amp; Administrative</b>								
Mineral revenue	46,865,756							46,865,756
AIM STIF interest	26,515							26,515
Commission recapture proceeds	13,827							13,827
Securities Lending income	8,397							8,397
Class action proceeds	316							316
AMHT Transfer to APF	1,321,438							1,321,438
Corporate expenses	(8,948,033)							(8,948,033)
<b>Public Equities</b>								
APF EM Markets EQ	184	(184)						-
Public EQ Sec Lend	1,233,522	(1,233,522)						-
<b>Fixed Income</b>								
APF FI Overlay	(684,000)		684,000					-
APF TBA Collateral	(3,893,536)		3,893,536					-
APF Fixed Income Cash	684,000		(684,000)					-
Fixed Income Sec. Lending	19,349		(19,349)					-
<b>Private Equity &amp; Special Opportunities</b>								
Private Equity distributions	150,457,393			(150,457,393)				-
Private Equity capital calls	(112,378,516)			112,378,516				-
Special Opportunities distributions	17,946,453			(17,946,453)				-
Special Opportunities capital calls	(19,600,525)			19,600,525				-
<b>Real Estate</b>								
Direct Real Estate distributions	7,115,551				(7,115,551)			-
Direct Real Estate capital calls	(2,863,435)				2,863,435			-
Real Estate Funds distributions	8,670,568				(8,670,568)			-
Real Estate Funds capital calls	(1,431,127)				1,431,127			-
<b>Private Income</b>								
Infrastructure distributions	22,531,475					(22,531,475)		-
Infrastructure capital calls	(77,258,657)					77,258,657		-
Private Credit distributions	21,548,824					(21,548,824)		-
Private Credit capital calls	(32,381,722)					32,381,722		-
Private Income distributions	6,517,977					(6,517,977)		-
Private Income capital calls	(3,987,384)					3,987,384		-
SSGA Listed Infrastructure	65,128					(65,128)		-
<b>Absolute Return</b>								
Absolute Return distributions	8,240,453						(8,240,453)	-
Absolute Return capital calls	(27,633,846)						27,633,846	-
<b>Net Transfers</b>	<b>2,206,347</b>	<b>(1,233,705)</b>	<b>3,874,187</b>	<b>(36,424,805)</b>	<b>(11,491,556)</b>	<b>62,964,357</b>	<b>19,393,393</b>	<b>39,288,216</b>



Board of Trustees - APFC Transfers - May 2022

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Net
<b>State of Alaska &amp; Administrative</b>							
Mineral revenue	60,415,000						60,415,000
AIM STIF interest	56,643						56,643
Commission recapture proceeds	7,819						7,819
Securities Lending income	10,693						10,693
Class action proceeds	21,519,635						21,519,635
Corporate expenses	(12,929,836)						(12,929,836)
<b>Public Equities</b>							
APF SPDR Yield	3,139,795	(3,139,795)					-
APF SPDR Momentum	888,359	(888,359)					-
APF SPDR Low Vol	1,513,533	(1,513,533)					-
APF US Tactical Tilt	19,458,313	(19,458,313)					-
APF Tactical Tilts	273,783,714	(273,783,714)					-
APF Tac Tilts Cash	1,216,286	(1,216,286)					-
APF EM Markets EQ	294	(294)					-
Public EQ Sec Lend	1,083,954	(1,083,954)					-
<b>Fixed Income</b>							
APF FI Overlay	(180,868)		180,868				-
Rogge Global Partners	228,774,248		(228,774,248)				-
Rogge Global Partners CNY	37,769,477		(37,769,477)				-
APF Global Fixed Income Cash	5,000,000		(5,000,000)				-
APF Global Fixed Income	(272,043,725)		272,043,725				-
APF TBA Collateral	17,851,834		(17,851,834)				-
APF Fixed Income Cash	680,868		(680,868)				-
Fixed Income Sec. Lending	15,707		(15,707)				-
<b>Private Equity &amp; Special Opportunities</b>							
Private Equity distributions	55,728,289			(55,728,289)			-
Private Equity capital calls	(103,518,024)			103,518,024			-
Special Opportunities distributions	19,562,242			(19,562,242)			-
Special Opportunities capital calls	(19,593,442)			19,593,442			-
<b>Real Estate</b>							
Direct Real Estate distributions	8,994,804				(8,994,804)		-
Direct Real Estate capital calls	(26,930,515)				26,930,515		-
Real Estate Funds distributions	2,594,996				(2,594,996)		-
Real Estate Funds capital calls	(1,850,084)				1,850,084		-
<b>Private Income</b>							
Infrastructure distributions	32,063,005					(32,063,005)	-
Infrastructure capital calls	(9,995,548)					9,995,548	-
Private Credit distributions	28,409,623					(28,409,623)	-
Private Credit capital calls	(29,527,592)					29,527,592	-
Private Income distributions	36,158,168					(36,158,168)	-
Private Income capital calls	(24,942,105)					24,942,105	-
<b>Net Transfers</b>	<b>355,185,560</b>	<b>(301,084,248)</b>	<b>(17,867,541)</b>	<b>47,820,935</b>	<b>17,190,798</b>	<b>(32,165,551)</b>	<b>69,079,954</b>

**Board of Trustees - APFC Transfers - June 2022**

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Absolute Return	Risk Parity	Net
<b>State of Alaska &amp; Administrative</b>									
Mineral revenue	49,098,592								49,098,592
AIM STIF interest	168,999								168,999
Commission recapture proceeds	26,304								26,304
Securities Lending income	8,578								8,578
Appropriation to SOA GF from ERA	(1,149,296,016)								(1,149,296,016)
AMHT Transfer to APF	1,550,260								1,550,260
Corporate expenses	(7,403,662)								(7,403,662)
<b>Public Equities</b>									
Mellon S&P 500	600,000,000	(600,000,000)							-
APF US Tactical Tilt	(100,000,000)	100,000,000							-
APF R1000 Low Vol.	(200,000,000)	200,000,000							-
APF R1000V Low Vol.	(200,000,000)	200,000,000							-
Mellon FTSE RAFI US Large	400,000,000	(400,000,000)							-
Eagle Asset Management, Inc.	(100,000,000)	100,000,000							-
State Street Russell Fundamental LC	400,000,000	(400,000,000)							-
APF Tactical Tilts	(378,921,153)	378,921,153							-
APF Tac Tilts Cash	(21,078,847)	21,078,847							-
APF EM Markets EQ	263	(263)							-
Public EQ Sec Lend	1,103,332	(1,103,332)							-
Mellon R3000	(300,000,000)	300,000,000							-
Mellon R1000V	(100,000,000)	100,000,000							-
<b>Fixed Income</b>									
APF Fixed Income Plus Holding	63,104		(63,104)						-
Cap Guardian High Yield Fixed Income	202,000,000		(202,000,000)						-
Oaktree High Yield Fixed Income	485,000,000		(485,000,000)						-
APF High Yield	419,662,003		(419,662,003)						-
APF Domestic Structured	(50,000,000)		50,000,000						-
APF FI Overlay	(269,391)		269,391						-
Rogge Global Partners	18,500,000		(18,500,000)						-
APF Global Fixed Income	(295,942,758)		295,942,758						-
APF China Bond Market	(32,517,930)		32,517,930						-
APF TBA Collateral	(1,642,927)		1,642,927						-
Ninety One EMD BL	151,285,098		(151,285,098)						-
Ninety One EMD BL CNY	18,006,268		(18,006,268)						-
PGIM EMD BL	248,530,744		(248,530,744)						-
Payden EMD HC	157,668,571		(157,668,571)						-
Colchester EMD LC	146,115,017		(146,115,017)						-
Colchester EMD LC CNY	77,795		(77,795)						-
APF Emerging Market Debt	(420,129,993)		420,129,993						-
APF Fixed Income Cash	52,869,391		(52,869,391)						-
Fixed Income Sec. Lending	19,280		(19,280)						-
APF HY Corporate	(1,790,152,681)		1,790,152,681						-
<b>Private Equity &amp; Special Opportunities</b>									
Private Equity distributions	126,365,903			(126,365,903)					-
Private Equity capital calls	(118,477,023)			118,477,023					-
Special Opportunities distributions	21,108,577			(21,108,577)					-
Special Opportunities capital calls	(12,665,197)			12,665,197					-
<b>Real Estate</b>									
Direct Real Estate distributions	267,918,100				(267,918,100)				-
Direct Real Estate capital calls	(1,280,379)				1,280,379				-
Real Estate Funds distributions	6,978,483				(6,978,483)				-
Real Estate Funds capital calls	(2,579,500)				2,579,500				-
<b>Private Income</b>									
Infrastructure distributions	65,720,616					(65,720,616)			-
Infrastructure capital calls	(27,859,292)					27,859,292			-
Private Credit distributions	37,609,423					(37,609,423)			-
Private Credit capital calls	(38,451,292)					38,451,292			-
Private Income distributions	690,262,445					(690,262,445)			-
Private Income capital calls	(6,717,827)					6,717,827			-
<b>Absolute Return</b>									
Absolute Return distributions	748,500						(748,500)		-
<b>Risk Parity</b>									
Bridgewater All Weather	150,000,000							(150,000,000)	-
PanAgora	150,000,000							(150,000,000)	-
<b>Net Transfers</b>	<b>(486,920,221)</b>	<b>(1,103,595)</b>	<b>690,858,409</b>	<b>(16,332,259)</b>	<b>(271,036,704)</b>	<b>(720,564,073)</b>	<b>(748,500)</b>	<b>(300,000,000)</b>	<b>(1,105,846,944)</b>



# ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of June 30, 2022

Projections extend ten years, and are based on best available information (\$ in millions)

Nonspendable Fund Balance - Principal								Assigned Fund Balance - Earnings Reserve							TOTAL FUND FY-End Balance		
FY	FY-Begin Contrib. Balance	Dedicated (1) State Revenues	Inflation Proofing & Special Approp.	FY-End Balance Contributions	Unrealized Gain (Loss) FY-End Balance	FY-End Non- spendable Balance	Acct. Net Income (2)	Distributions			FY-End Balance Realized	Unrealized Gain (Loss) FY-End Balance	FY-End Assigned Balance	FY			
								Statutory Net Income (3)	Div/POMV Transfer (9)	Inflation Prfg & Spec Approp.						ACIF	
77-12	0	13,670	21,362	35,032	3,220	38,252	41,559	40,348	19,791	18,064	451	1,905	175	2,081		77-12	40,333
13	35,032	840	743	36,615	4,184	40,800	4,314	2,928	604	743	30	3,486	567	4,054	13	44,854	
14	36,615	779	546	37,941	7,062	45,002	6,848	3,531	1,235	546	32	5,236	975	6,212	14	51,214	
15	37,941	600	624	39,165	6,473	45,638	2,384	2,907	1,373	624	24	6,147	1,016	7,163	15	52,801	
16	39,165	284	0 (6)	39,449	4,750	44,199	398	2,198	696 (5)	0 (6)	18	7,649	921	8,571	16	52,770	
17	39,449	365	0 (6)	39,814	7,155	46,969	6,676	3,214	0	0 (6)	25	10,862	1,952	12,816	17	59,785	
18	39,814	353	0 (6)	40,167	5,863	46,030	5,526	6,324	726	0 (6)	43	16,460	2,403	18,864	18	64,894	
19	40,167	385	989	41,542	6,278	47,821	3,766	3,305	2,723	989	22	16,052	2,426	18,481	19	66,301	
20	41,542	319	4,758 (8)	46,619	5,789	52,408	1,637	3,106	2,933	4,758 (8)	21	11,469	1,424	12,894	20	65,302	
21	46,619	320	0	46,939	13,810	60,749	19,417	7,962	3,091	0 (6)	50	16,341	4,807	21,148	21	81,897	
22	46,939	549	4,000 (6)	51,488	8,700	60,188	(3,015)	4,544	3,069	4,000 (6)	24	13,816	2,334	16,149	22	76,337	
23	51,488	631	1,042	53,162	8,531	61,693	4,492	4,705	3,361	1,042	28	14,117	2,266	16,383	23	78,075	
24	53,162	584	1,075	54,820	8,366	63,186	4,589	4,807	3,526	1,075	28	14,323	2,186	16,509	24	79,695	
25	54,820	550	1,107	56,478	8,202	64,680	4,680	4,902	3,658	1,107	28	14,460	2,100	16,560	25	81,240	
26	56,478	511	1,140	58,129	8,039	66,168	4,766	4,993	3,792	1,140	28	14,522	2,008	16,529	26	82,697	
27	58,129	516	1,173	59,818	7,881	67,699	4,847	5,078	3,951	1,173	28	14,475	1,907	16,382	27	84,081	
28	59,818	537	1,207	61,562	7,711	69,273	4,928	5,164	3,959	1,207	28	14,473	1,813	16,286	28	85,559	
29	61,562	544	1,242	63,348	7,537	70,885	5,012	5,253	4,037	1,242	28	14,447	1,719	16,165	29	87,050	
30	63,348	588	1,279	65,215	7,358	72,573	5,098	5,344	4,111	1,279	28	14,400	1,625	16,025	30	88,598	
31	65,215	692	1,318	67,225	7,175	74,400	5,190	5,440	4,185	1,318	28	14,337	1,530	15,867	31	90,267	
Cumulative Totals																	
Proj. for FY21-FY30							54,815	52,751	36,555	13,265	295						

Assumptions:	Total Return - Inflation = Total Real Return			Statutory Return
FY22 (3)	-1.32%	4.70%	-6.02%	5.66%
FY23-FY31 (4)	6.20%	2.00%	4.20%	6.52%

**Notes related to financial history and projections:**

(1) Dedicated State Revenues in current and future fiscal years are based on the Spring 2022 Department of Revenue forecast.

(2) Accounting net income is based on United States Generally Accepted Accounting Principles (GAAP).

(3) Current year returns reflect actual results.

(4) Future returns are based on 2021 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.

(5) The dividend transfer reported for FY16 was paid out in dividends during FY17.

(6) There was no appropriation for inflation proofing in FY16, FY17, FY18, FY21 and FY22.

(7) Per AS 37.13.140, beginning in FY19, transfers are based on a percent of market value (POMV) calculation and are to the General Fund. In previous years, transfers were based on an earnings calculation and were to the Dividend Fund.

(8) In FY20 and FY22, an additional \$4 billion was appropriated from the ERA to principal.

(9) All transfers out of the Earnings Reserve are subject to Legislative appropriation.

FY22 POMV Distribution (actual) (9)		FY22 Statutory Dividend Transfer (actual) (9)	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY20	\$ 64,877.6	FY21	\$ 7,962.3
FY19	65,876.8	FY20	3,106.0
FY18	64,470.0	FY19	3,305.0
FY17	59,360.9	FY18	6,324.4
FY16	52,345.3	FY17	3,214.2
Average Value \$ 61,386.1		Avail for	
Statutory Distribution \$ 3,069.3		Dist (21%)	\$ 5,021.5
		Statutory Trnsfr Amt	\$ 2,510.7

FY23 POMV Distribution (actual) (9)		FY23 Statutory Dividend Transfer (actual) (9)	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY21	\$ 81,472.9	FY22	\$ 4,544.0
FY20	64,877.6	FY21	7,962.3
FY19	65,876.8	FY20	3,106.0
FY18	64,470.0	FY19	3,305.0
FY17	59,360.9	FY18	6,324.4
Average Value \$ 67,211.6		Avail for	
Statutory Distribution \$ 3,360.6		Dist (21%)	\$ 5,300.8
		Statutory Trnsfr Amt	\$ 2,650.4

**Income Year-to-Date as of June 30, 2022**

FY22 YTD Statutory Net Income	
Interest, dividends, real estate & other income	\$ 1,684.1
Realized gains (losses) on the sale of assets	3,035.0
Less operating expenses	(151.5)
Less AK Capital Inc. Fund realized earnings	(24.0)
	\$ 4,543.6

FY22 YTD Accounting (GAAP) Net Income	
Statutory net income (loss)	\$ 4,543.6
Unrealized gains (losses) on invested assets	(7,582.8)
AK Capital Income Fund realized earnings	24.0
Accounting (GAAP) net income (loss)	\$ (3,015.2)
59 of 435	

**FYTD 2022 Fees & Expenses by Funding Source\***

Report Date	June 30, 2022
Total Fund Balance	77,022,045,000
FYTD Change in Total Fund Balance (Net of Transfers)	(3,042,242,000)

***Investment Management Fees***

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	2,052,000	57,694,000	2,105,000	61,851,000
Fixed Income	270,000	10,412,000	5,382,000	16,064,000
Absolute Return	64,293,000	274,000	396,000	64,963,000
Risk Parity	2,781,000	63,000	99,000	2,943,000
Total Fund Cash	0	190,000	297,000	487,000
Private Equity & Special Opps	145,939,000	26,147,000	3,614,000	175,700,000
Infrastructure & Private Income	76,044,000	2,829,000	1,661,000	80,534,000
Real Estate	35,721,000	6,005,000	3,947,000	45,673,000
<b>Total Mgmt Fees by Source</b>	<b>327,100,000</b>	<b>103,614,000</b>	<b>17,501,000</b>	<b>448,215,000</b>
<b>Basis Points</b>	<b>42</b>	<b>13</b>	<b>2</b>	<b>57</b>

***Profit Sharing/Performance***

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	0	22,340,000	0	22,340,000
Absolute Return	76,265,000	0	0	76,265,000
Private Equity & Special Opps	345,264,000	0	0	345,264,000
Infrastructure & Private Income	44,743,000	0	0	44,743,000
Real Estate	113,000	0	0	113,000
	466,385,000	22,340,000	0	488,725,000

\* All amounts presented, including fund balance and change net of transfers, consist of both APF and AMHT combined.



**Budget-to-Actuals and Projected Expenditures: July 1, 2021 through June 30, 2022**

<b>Corporate Operations</b>	<b>Board-authorized Budget</b>	<b>Actuals and Projected Expenditures</b>	<b>Projected Remaining Budget</b>
Personal Services	\$ 14,771,300	\$ 13,282,969	\$ 1,488,331
Staff	14,750,646	13,258,871	1,491,775
Board: Honoraria	20,654	24,098	(3,444)
Travel	800,000	526,334	273,666
Staff	602,000	427,483	174,517
Trustees	18,000	25,953	(7,953)
Moving and Non-Employee	180,000	72,898	107,102
Contractual Services	3,213,600	2,825,734	387,866
Audit, Legal, Consulting	625,475	541,101	84,374
Public Communications	283,150	233,565	49,585
Board Support and Meetings	71,800	73,878	(2,078)
Information Technology	1,147,500	1,156,380	(8,880)
HR and Recruitment	63,710	23,778	39,932
Training and Education	199,600	53,770	145,830
Office Support	822,365	743,262	79,103
Commodities	201,100	183,150	17,950
Equipment	550,000	538,051	11,949
<b>Corporate Operations Total</b>	<b>\$ 19,536,000</b>	<b>\$ 17,356,238</b>	<b>\$ 2,179,762</b>
<b>Investment Management</b>			
Investment Systems	\$ 8,080,900	\$ 6,865,883	1,215,017
Investment Due Diligence	6,136,700	2,987,954	3,148,746
Custody Fees	1,600,000	1,204,812	395,188
Investment Manager Fees	177,221,500	115,087,845	62,133,655
Public Equities	131,895,672	78,833,021	53,062,651
Fixed Income	9,755,847	6,992,671	2,763,176
Alternative Assets <sup>1</sup>	32,455,594	29,262,153	3,193,441
<b>Investment Management Total</b>	<b>\$ 193,039,100</b>	<b>\$ 126,146,494</b>	<b>\$ 66,860,663</b>
<b>Legislative Appropriation</b>	<b>\$ 9,280,500</b>	<b>\$ 9,280,500</b>	<b>\$ -</b>
<b>Total Appropriation</b>	<b>\$ 221,855,600</b>	<b>\$ 152,783,232</b>	<b>\$ 69,040,425</b>

<sup>1</sup> includes Real Estate Fees

SUBJECT: Chief Investment Officer’s Report

ACTION: \_\_\_\_\_

DATE: September 21, 2022

INFORMATION:  X

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BACKGROUND:

The Chief Investment Officer’s report provides an overview of Fund positioning, performance, investment actions taken during the quarter, and other current topics in the Investment Department.

STATUS:

Marcus Frampton, CIO, will present Fund positioning, asset class performance and strategies, and investment actions taken during the quarter from April 1 to June 30, 2022.



ALASKA PERMANENT  
FUND CORPORATION

CIO Report  
*Marcus Frampton, Chief Investment Officer*  
September 21, 2022

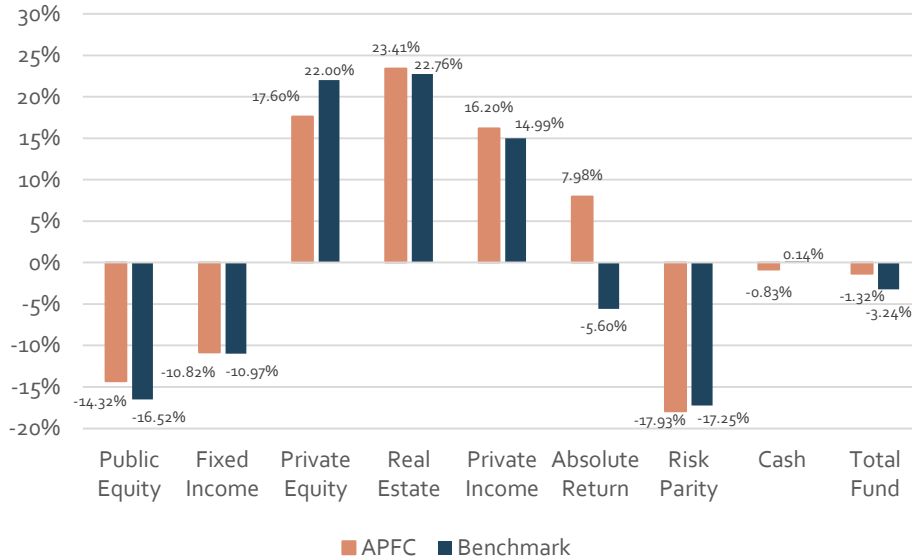
# Investment Department Current Topics

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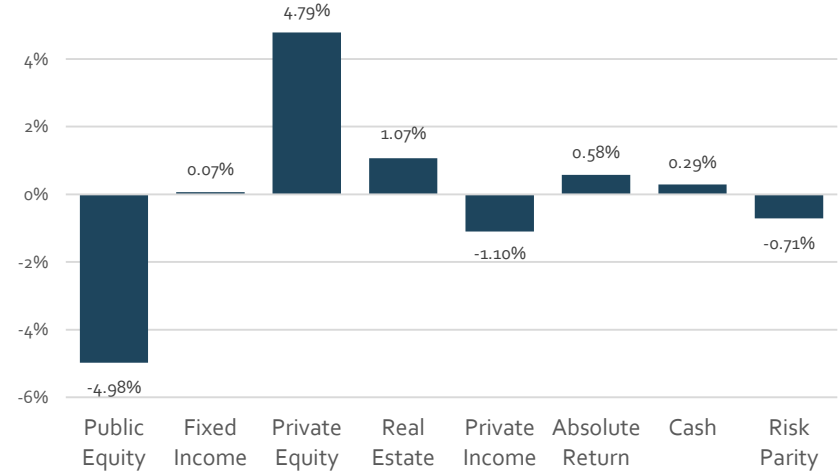
- Personnel
- Performance
- Positioning
- Investment actions taken during the quarter

# Total Fund Positioning and Performance

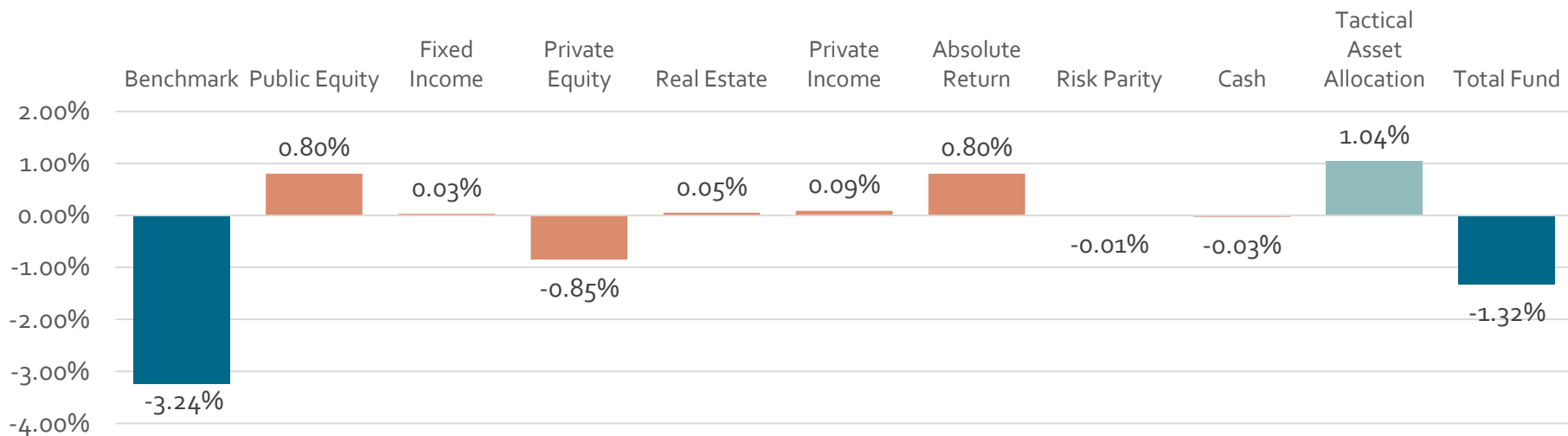
## FY' 22 Performance as of 6/30/22 <sup>(1)</sup>



## Positioning as of 6/30/22 <sup>(1)</sup>



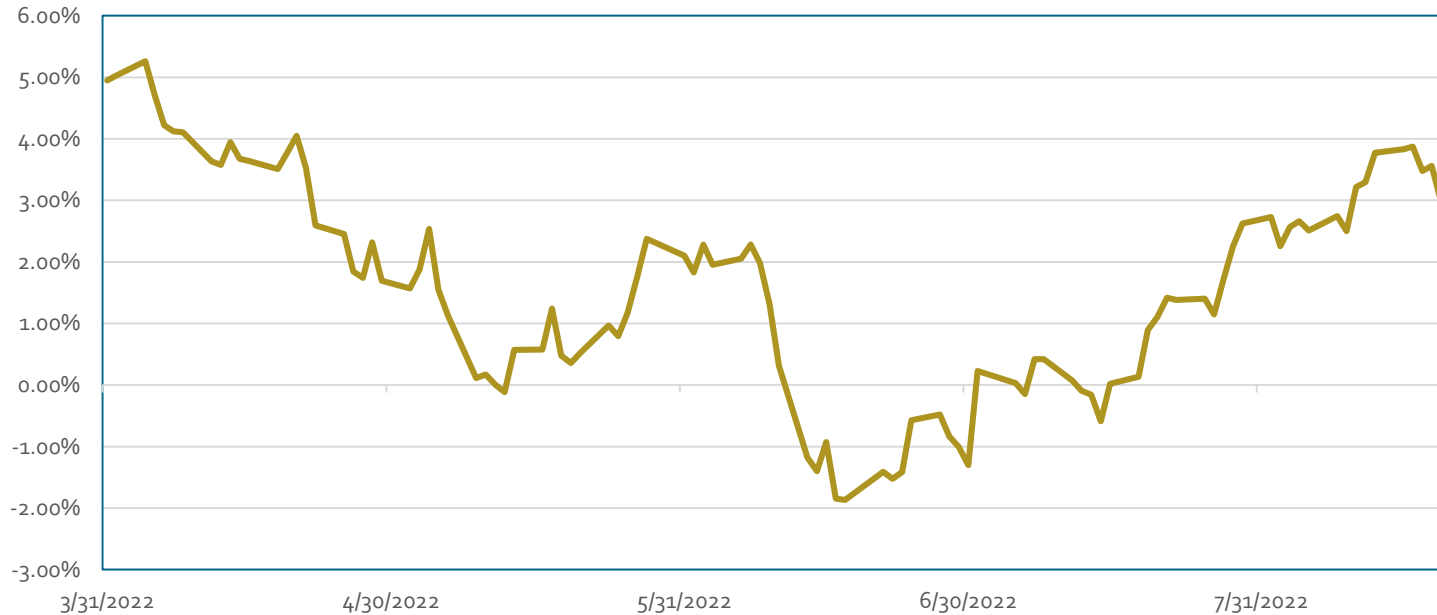
# Portfolio Performance Attribution



Benchmark + Asset Class Contributions + Tactical Asset Allocation = Total Fund Performance

# Fund performance during FY Q4 to present

Daily Fund FYTD Performance – March 31, 2022 to August 19, 2022



# Absolute Return Expectations

	Callan's Expectations (10-year projections)	APFC Actual (Since inception July 2016)
Returns <sup>(1)</sup>	4.1%	6.8%
Volatility	8.2%	3.4%
Correlation <sup>(2)</sup>	0.79	0.38
Beta <sup>(2)</sup>	0.4	0.09

(1) APFC performance value is net of fees

(2) Correlation and beta are measured relative to the S&P500



# Report on Investment Actions for Quarter Ending June 30, 2022

# Investment Actions

## *Quarter Ending June 30, 2022*

### Public Equity

- During the quarter, the following transfers occurred between the Total Fund Cash account and Public Equities:

May 11 <sup>th</sup> – 13 <sup>th</sup>	Transfer from Tactical Tilts to Cash	\$300 mm
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- During the quarter, Staff moved **\$1.4 billion** across internal and external Public Equities accounts. Details are below:

#### Redemptions from:

- MCM S&P 500	\$600 mm
- Mellon FTSE RAFI	\$400 mm
- SSGA Russell Fundamental	\$400 mm

#### Contributions to:

- Mellon R3000	\$300 mm
- Mellon R1000 Low Vol	\$200 mm
- Mellon R1000 Value Low Vol	\$200 mm
- Mellon R1000 Value	\$100 mm
- Eagle US Small Cap Growth	\$100 mm
- APFC Tactical Tilts	\$400 mm
- APFC US Tactical Tilts	\$100 mm

# Investment Actions (continued)

## Quarter Ending June 30, 2022

### Private Income & Infrastructure

#### Fund commitments closed in Fiscal Q4:

- \$75.2 million to Kreos Capital VII
  - \$100.0 million to HCP Studio Fund
- \$175.2 million

#### Co-investments commitments closed in Fiscal Q4:

- \$25.0 million to ION Intermediate Holdings
  - \$26.3 million to co-investment with KKR
- \$51.3 million

### Private Equity

#### Fund commitments closed in Fiscal Q4:

- \$40.0 million to H.I.G. Advantage Buyout Fund II
  - \$50.0 million to L Catterton Growth V
  - \$25.0 million to L Catterton X
  - \$10.0 million Fortissimo Capital Fund VI
  - \$40.0 million to Charlesbank COF III
  - \$31.4 million to Bain Capital Europe VI
- \$196.4 million

### Real Estate

During FY '22 Q4, Staff took the following investment actions:

- Committed \$100 mm to a multifamily JV development alongside Greystar
- Committed \$300 mm to CBRE US Logistics Partners open-end industrial fund
- Rebalanced the REIT portfolio from 70/30 multifamily/industrial to 40/60 multifamily/industrial

# Investment Actions (continued)

## *Quarter Ending June 30, 2022*

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### Total Fund Cash

- During FY '22 Q4, Total Fund Cash had a net inflow of ~\$100 million. Activity in the Total Fund Cash included funding of alternative investments, funding to the State's General Fund and other department appropriations, and various distributions and sale proceeds from the private markets. The net inflow for the quarter resulted from placing loans on various Real Estate properties.
- \$300 million was received into Total Fund Cash from a rebalance out of Public Equity.
- During FY '22 Q4, Total Fund Cash had a net outflow of \$102 mm from private markets. Outflows were the result of capital calls in the Infrastructure and Private Equity portfolios, hedge fund subscriptions, and the purchase of various Real Estate properties.
- The remainder of the FY '22 appropriation, \$1,149 million, was transferred to the State General Fund during the quarter.
- \$156 million was received in DNR proceeds during FY '22 Q4.
- APFC paid \$18 mm in management fees during the quarter.

SUBJECT: Risk Overview

ACTION: \_\_\_\_\_

DATE: September 21, 2022

INFORMATION:   X  

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**BACKGROUND:**

The Risk Report provides an overview of historical and forward-looking measures of risk for the Total Fund and its underlying asset classes.

**STATUS:**

The 'Risk Overview' has the following parts:

- **Part-1 [Information]:** is a review of the Fund's risk level relative to its benchmark and compared to approved risk appetite. Also included is a brief analysis of the private equity portfolio, in terms of portfolio weightings, marking-to-market and potential headwinds.
- **Part-2 [Information]:** covers the main measures of risk for the Fund. Aggregate fund risk compared to approved risk appetite is a key strategic metric. Others include Value at Risk (VaR) on a standalone and relative-to-benchmark basis, tracking error, statistics that measure realized volatility and Sharpe ratios, asset class and factor contributions to risk and risk scenarios. It also covers Geographic, Currency, and Liquidity risks for the Total Fund.



APFC

ALASKA PERMANENT  
FUND CORPORATION

# Risk Overview

September 21, 2022

The background of the slide is a solid teal color with a faint, out-of-focus image of pine needles and cones. The text is overlaid on this background.

## Part 1:

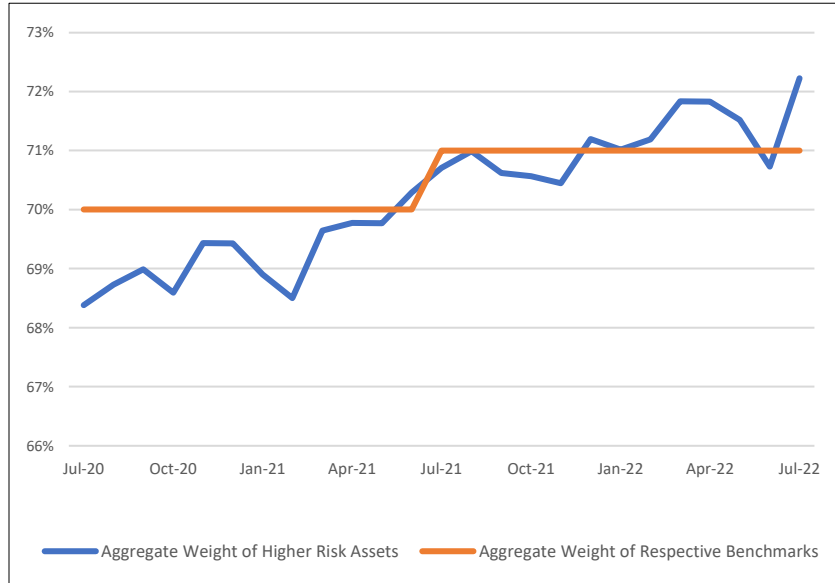
- Total Fund risk level
- Private Equity portfolio

# Topics covered

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- Over the last two years, there has been a steady increase in the overall risk level of the Fund, in terms of Value at Risk (VaR). Risk levels are, however, within approved policy thresholds. The next 3 pages of this section summarize the current risk level of the Fund, compared to its benchmark and relative to the Board-approved risk appetite.
- Thereafter, the focus is on the private equity asset class. The points covered include the portfolio's relative overweight, the publicly listed holdings within (impact and what they indicate), the strategy breakdowns, and potential headwinds for the asset class.

# Asset Allocation: increasing weight to riskier assets



## \* Relative Riskiness

Higher Risk Assets:

Lower Risk Assets:

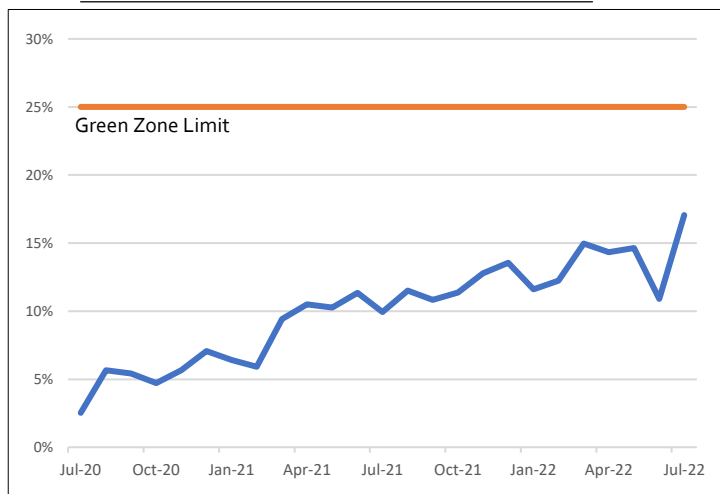
Private Equity, Private Infra & Credit, Real Estate, Public Equities

Cash, Fixed Income, Absolute Return, Risk Parity

- During the last two years the proportion of riskier assets\* has increased, going from relatively underweight (compared to benchmark) to currently overweight.
- The larger-than-usual cash transfer to the State during Jun-Jul 2022 contributed to most of this overweight to riskier assets – since the transfer was sourced from the low-risk cash bucket.
- This risk-overweight relative to the benchmark has resulted in higher relative risk measures, which is profiled on the next page.

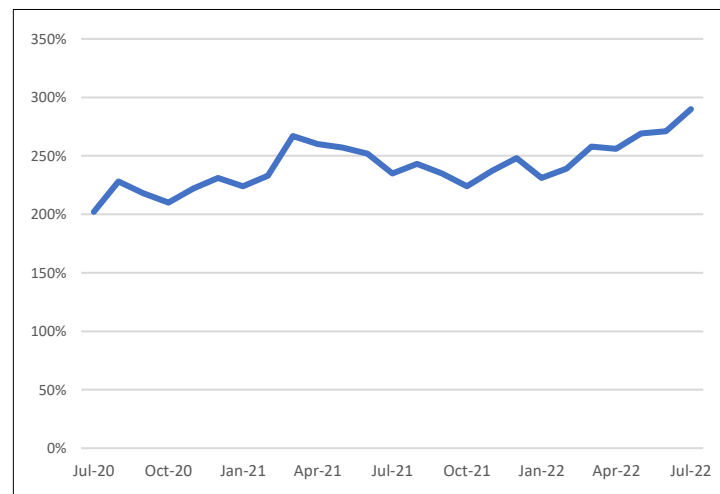
# Relative Risk Measures: increasing, albeit within IPS limits

Relative Value at Risk (RVaR)  
% Delta of Portfolio VaR relative to Benchmark VaR



- In Jul 2020, the portfolio and benchmark had approximately the same risk level (RVaR = 2%). As of Jul 2022, the portfolio was 17% riskier than the benchmark (RVaR = 17%).

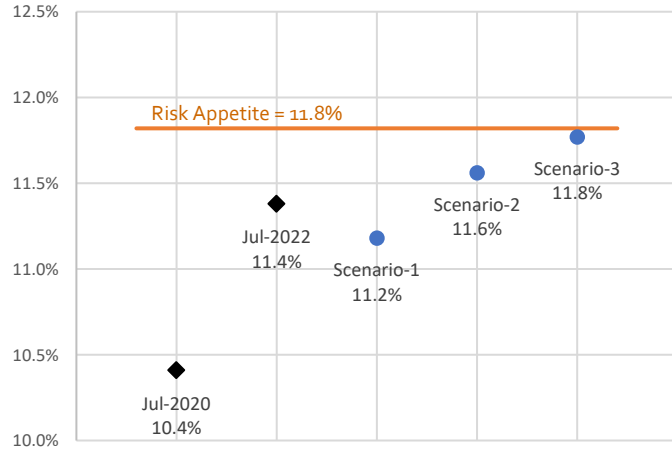
Tracking Error (TE) or Active Risk



- Tracking Error (active risk), while not an estimate of value decline like VaR, reflects the expected deviation from benchmark. TE has also increased over the last two years, albeit being within limits.

# Strategic Risk Appetite: current risk levels are within appetite

Risk levels (vs.) Strategic Risk Appetite threshold

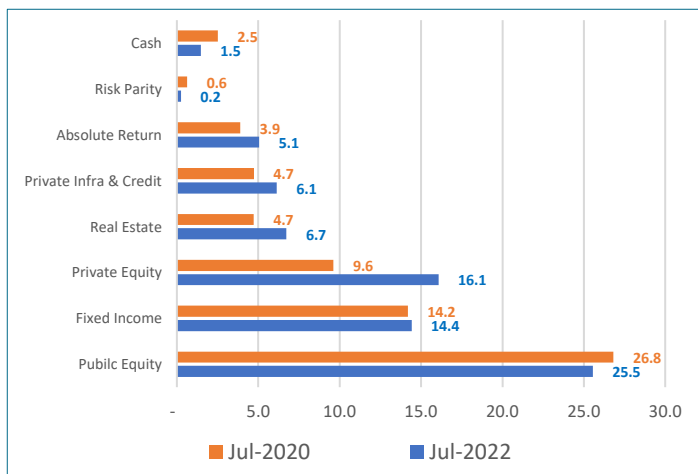


Assumed Stresses	Public Equity	Private Equity	Total Cash
Scenario-1	-20% ↓	-	-
Scenario-2	+20% ↑	-	-
Scenario-3	+15% ↑	+15% ↑	-50% ↓

- Current risk levels, as defined by the risk appetite policy, are within the approved risk appetite.
- Moderate levels of stress, in terms of asset allocation weights, is unlikely to result in a breach of risk appetite (*definition of 'moderate' is subjective*).
  - ✓ The chart on the left plots the Fund's risk level in Jul 2020 and Jul 2022: while there is an increase in overall risk level, it is within the threshold.
  - ✓ Also plotted are the risk levels for 3 hypothetical stress scenarios – the table quantifies the stresses for each scenario.
- Cash and Absolute Return portfolios have contributed to lowering aggregate risk levels, offsetting the asset allocation overweight to private equity.

# Private Equity: has the largest overweight

Asset Allocation in \$: 2020 Vs 2022



- The private equity portfolio grew by \$6.5bn or 68% during the last two years, the largest asset class change in terms of \$ and %.

Private Equity Allocation %s & Policy Ranges :

based on assumed changes in 'PESO' and 'Fund ex-PESO' portfolio valuations

		Total Fund ex-PESO								
Assumed Change		(30%)	(25%)	(20%)	(15%)	(10%)	(5%)	0%	5%	
	Residual MV (\$million)	43,174	46,258	49,342	52,425	55,509	58,593	61,677	64,761	
PESO portfolio	(20%)	12,847	22.9%	21.7%	20.7%	19.7%	18.8%	18.0%	17.2%	16.6%
	(15%)	13,650	24.0%	22.8%	21.7%	20.7%	19.7%	18.9%	18.1%	17.4%
	(10%)	14,453	25.1%	23.8%	22.7%	21.6%	20.7%	19.8%	19.0%	18.2%
	(5%)	15,256	26.1%	24.8%	23.6%	22.5%	21.6%	20.7%	19.8%	19.1%
	0%	16,059	27.1%	25.8%	24.6%	23.4%	22.4%	21.5%	20.7%	19.9%
	5%	16,862	28.1%	26.7%	25.5%	24.3%	23.3%	22.3%	21.5%	20.7%
	10%	17,665	29.0%	27.6%	26.4%	25.2%	24.1%	23.2%	22.3%	21.4%
	15%	18,468	30.0%	28.5%	27.2%	26.1%	25.0%	24.0%	23.0%	22.2%
	20%	19,271	30.9%	29.4%	28.1%	26.9%	25.8%	24.7%	23.8%	22.9%
	25%	20,074	31.7%	30.3%	28.9%	27.7%	26.6%	25.5%	24.6%	23.7%
30%	20,877	32.6%	31.1%	29.7%	28.5%	27.3%	26.3%	25.3%	24.4%	

- Currently (Jul 2022), private equity constitutes 20.7% of Fund compared to the 17% target weight: a 3.7% overweight, still within the green zone.
- The matrix above provides a schema for possible private equity weights, based on assumed changes in total fund value and private equity portfolio weight.

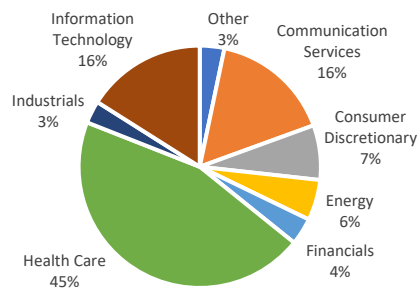
# Private Equity: is not all private

*As discussed previously, publicly listed stocks constitute a material portion of APFC's private equity portfolio: ~27% at June-2021 and ~11% at June-2022 (approximate).*

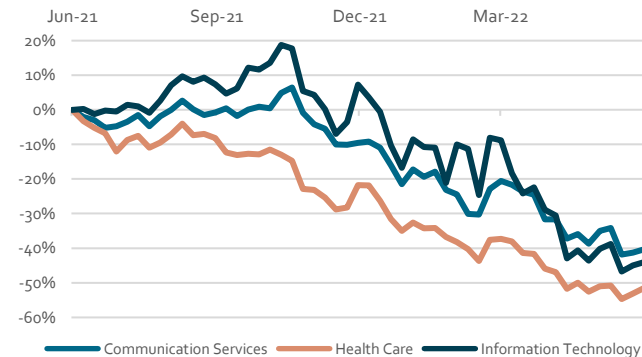
Average Change in Value of Listed Holdings within Private Equity Portfolio: Jun/21 to Jun/22



Sector breakdown of Listed Holdings within Private Equity



Average Change in Value for Key Sectors Jun/21 to Jun/22



- On average, the value (price) of the listed holdings within the private equity portfolio declined by almost 42% during the 12-month period.

- While healthcare, the chunkiest sector within the listed portion, declined the most (52%), most key sectors declined materially.
- Energy was the only sector that appreciated (by 41%, not graphed above).

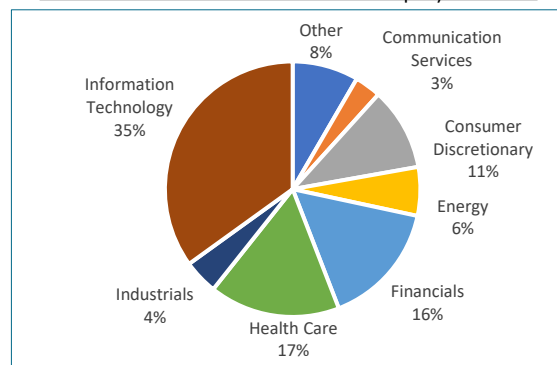
# Private Equity: mark-to-myth (vs.) mark-to-market

- Valuation of non-public holdings within private equity tend to be overstated, particularly in a deteriorating market environment. Such valuations are prone to inaccuracies stemming from deficiencies in timeliness, methodology, standardization / regulatory oversight, vested interests, etc.
- Listed holdings within the portfolio could be a good proxy for valuing non-public holdings. Given that listed holdings reflect companies that have moved along the lifecycle and are relatively more mature (in most cases), it probably is a conservative proxy as well.
- Applying the % changes in the listed portion to the sector weights of the total Private Equity portfolio, the approximate change in value for the total portfolio is an incremental minus -26%**

Sector-wise Decline in Value of Listed holdings (12 months to June 30, 2022)	
Communication Services	(40%)
Consumer Discretionary	(30%)
Energy	41%
Financials	(48%)
Healthcare	(52%)
Industrials	(51%)
Information Technology	(44%)

✕  
(with adjustments)

Sector breakdown of Total Private Equity Portfolio

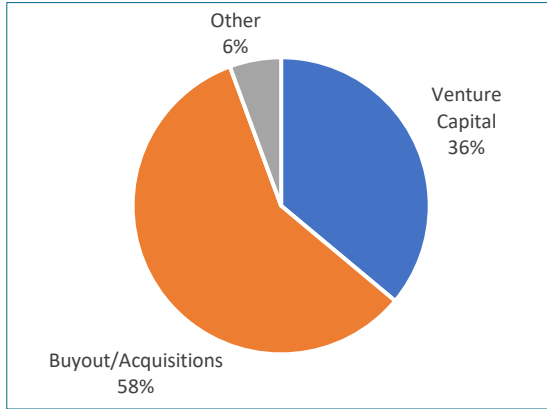


= (26%)

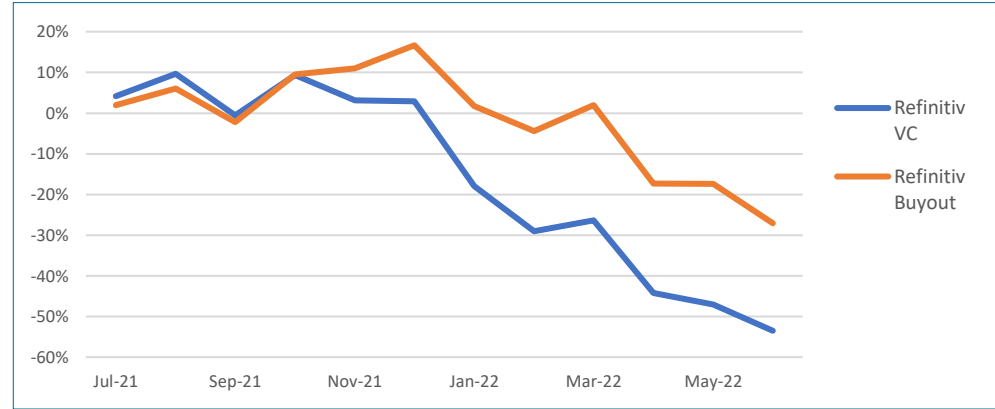
- Besides this being a proxy method (i.e., quality and nature of the underlying companies may be materially different from aggregate sector proxies), several other simplifying assumptions have been made in terms of transactions during the period, date sync., etc., in computing the -26%. Nevertheless, it still is a good indicator of direction and approximate magnitude when marking to market.

# Venture Capital: higher return – higher risk

Strategy breakdown of Total Private Equity Portfolio



Refinitiv (Thomson Reuters) Private Market Indices  
Cumulative returns: 12 months to June 2022



- The chunkiness of Venture Capital (VC) within APFC’s private equity portfolio is, to an extent, the result of some large successes in the past.
- Looking ahead, the VC component with concentrations in healthcare and information technology poses material downside risks as well.
- While most Public Market Equivalent (PME) indexes pertaining to private equity have had deep drawdowns over the last 12 months (the Refinitiv Indexes graphed above), the drawdown of the VC index (-54%) was double that of the Buyout index (-27%).

# Private Equity: potential headwinds

---

- **Regulation**

- ✓ Regulatory bodies, domestic and international, have significantly increased scrutiny of the private funds sector.
- ✓ In Q1 2022 the SEC issued a Risk Alert detailing the following observations: (A) failure to act consistently with disclosures; (B) use of misleading disclosures regarding performance and marketing; (C) due diligence failures relating to investments or service providers; and (D) use of potentially misleading 'hedge clauses'.
- ✓ While regulation could have positive effects, especially for LPs like APFC, the unprecedented degree of potential new regulation is likely to adversely impact the sector, at least initially.

- **Inflation / Changed (higher) interest rate environment**

- ✓ The rising cost of most inputs (labor, goods, energy, etc.) is likely to put pressure on margins across almost all sectors and industries. Likewise, a higher interest rate level (compared to past decades) may reverse the cycle of increasing valuations and expanding multiples.

- **Supply chain issues, de-globalization and geopolitics**

- ✓ The disruption in supply chains, that may not be temporary given de-globalization trends, could adversely impact companies and sectors that relied on them. Prevailing geopolitics and protectionism seem to only exacerbate the problem.

- **Most asset owners are overweight the asset class**

- ✓ With institutional investors looking to maintain or shrink private equity proportions in terms of portfolio asset allocation, the demand dynamic is likely to reverse.



Part 2:  
Key Risk Metrics  
As of June 30, 2022

# Fund Risk: level relative to appetite

Risk Appetite reflects the Risk Tolerance Portfolio (RTP)

Value at Risk (VaR): Max			
As of Date	Total Fund	Risk Appetite	
3/31/2022	10.02%	11.32%	✓
6/30/2022	11.04%	11.59%	✓

- 1 Year, 1 SD
- 10-year historical monthly data, constant weighted

Drawdown Stress PnL: Max			
As of Date	Total Fund	Risk Appetite	
3/31/2022	(42.84%)	(48.92%)	✓
6/30/2022	(45.64%)	(48.64%)	✓

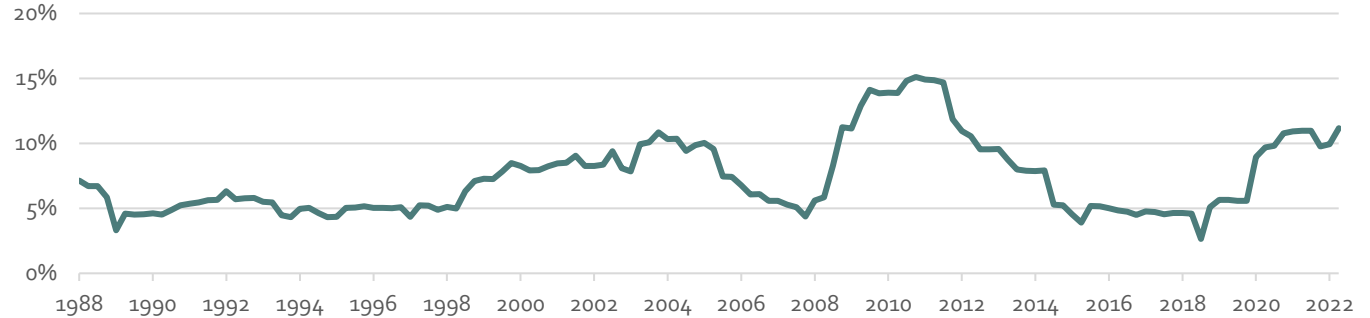
- Historical stress scenario simulating the GFC – Dec 2007 to Mar 2009

Liquidity Level: Min			
As of Date	Total Fund	Risk Appetite	
3/31/2022	58%	40%	✓
6/30/2022	56%	40%	✓

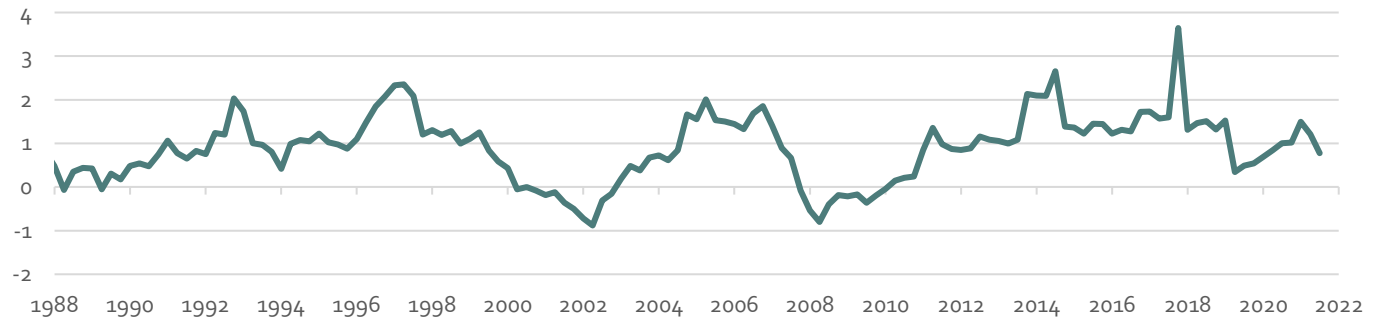
- Liquidity level is the combined allocation, to Public Equities, Fixed Income and Cash, as a % of total fund

# Total Fund: Realized Volatility & Sharpe Ratio

Realized Fund Volatility



Realized Fund Sharpe Ratio

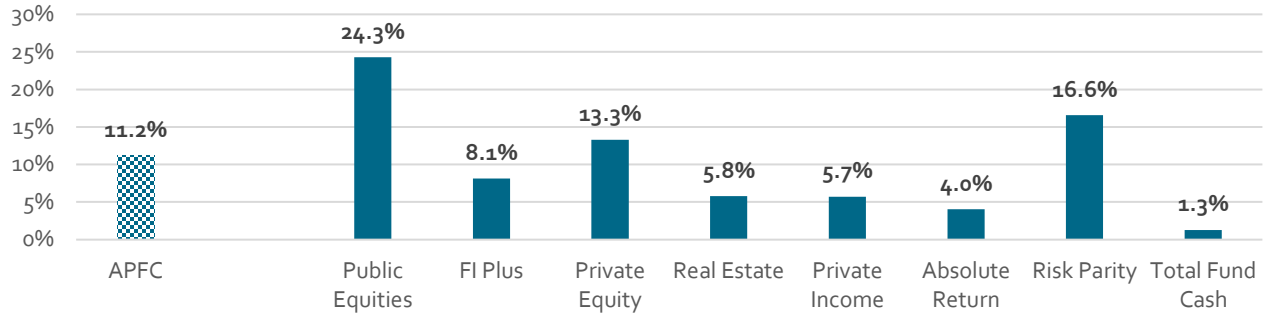


Volatility (standard deviation) and Sharpe ratio have been computed based on rolling 3 year quarterly returns for the Total Fund

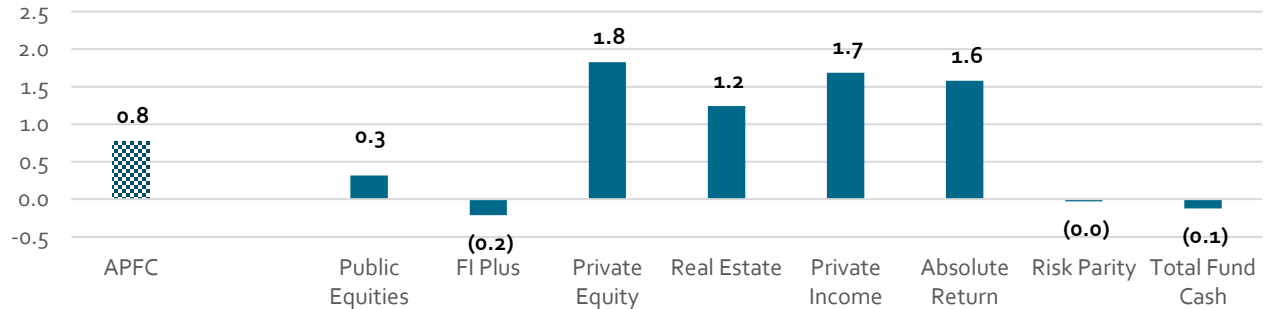
87 of 135

# Fund & Constituents: Volatility and Sharpe Ratio as of June 30, 2022

## Volatility

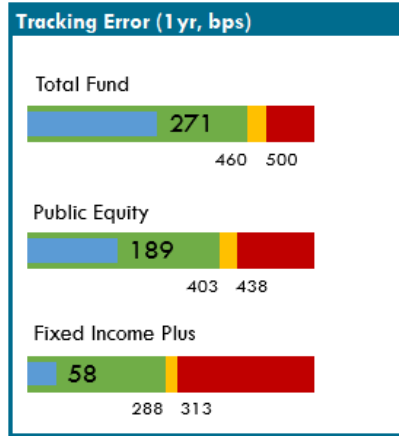


## Sharpe Ratio

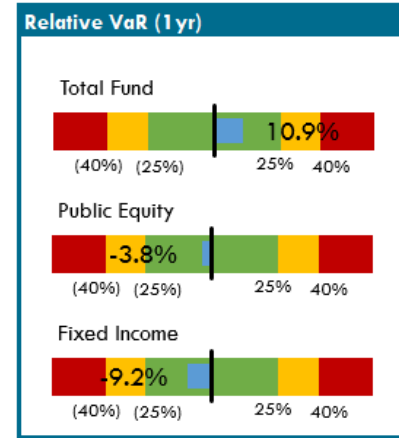


Volatility (standard deviation) and Sharpe ratio have been computed based on historical 3 year quarterly returns, as of June 30, 2022

# Tracking Error and VaR: (Vs) Limits



- Tracking error is an indicator of performance relative to benchmark
- It represents the deviation of portfolio returns from benchmark returns
- It is directionally agnostic and does not indicate over or underperformance



- VaR is an estimate of value decline, based on a 97.5% confidence level and 1 year holding period
- The above chart reflects the Relative VaR of the portfolio versus respective benchmark

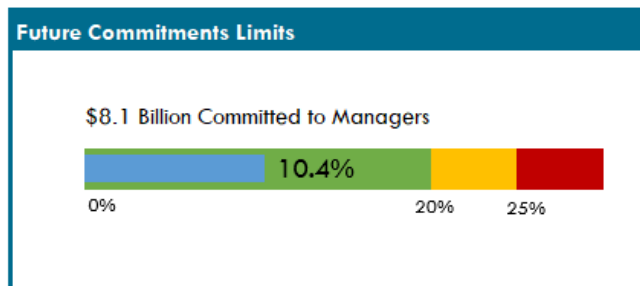
# Liquidity Limits: Private Assets

## Private Assets: Investments Vs Targets

	\$ Billion	% of Total Fund		
		Actual	Target	Actual (Vs) Target
Private Equity	16.2	20.9%	16.0%	4.9%
Private Income	6.0	7.8%	9.0%	-1.2%
Real Estate	7.0	9.0%	8.0%	1.0%
<b>Total</b>	<b>29.1</b>	<b>37.7%</b>	<b>33.0%</b>	

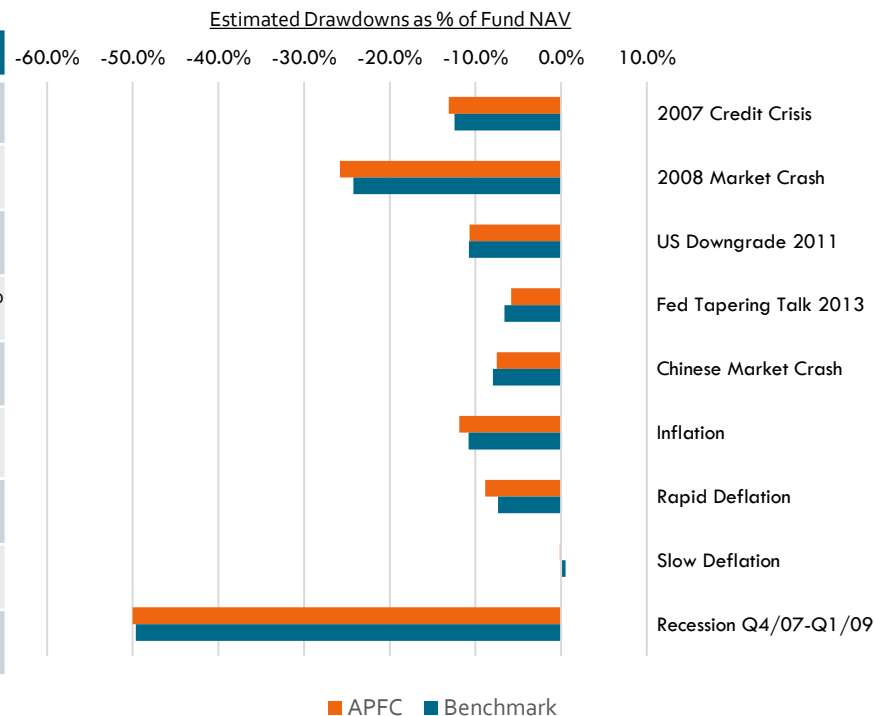
## Private Assets: Future Commitments Vs Targets

	\$ Billion	% of Total Fund		
		Actual	Target	Actual (Vs) Target
Private Equity	4.4	5.6%	10.0%	-4.4%
Private Income	3.1	4.1%	5.0%	-0.9%
Real Estate	0.6	0.7%	3.0%	-2.3%
<b>Total</b>	<b>8.1</b>	<b>10.4%</b>	<b>18.0%</b>	



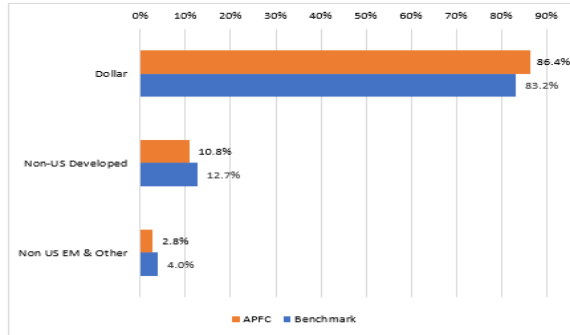
# Tail Risk: Current portfolio during extreme events

Scenario	Definition
2007 Credit Crisis	Credit & liquidity crisis stemming from a severe slowdown in the housing market causing significant widening of credit spreads, higher implied volatility.
2008 Market Crash	S&P 500 down 20% (2000 bps).
US Downgrade 2011	The period starts with 50% chance US downgrade indication from S&P standards and ends with Operational Twist announcement from the Fed
Fed Tapering Talk 2013	Equity & bond markets sold off. EM suffered badly due to hot money flight back to U.S.
Chinese Market Crash	Chinese stock market crash beginning with the popping of the stock market bubble on June 12, 2015.
Inflation Overshoot	Economic recovery, pent-up demand, supply chain bottlenecks, and fiscal stimulus cause a surge in inflation, prompting higher interest rates in a taper tantrum-style sell-off.
Rapid Deflation	Oil down 60% (6000 bps); ST Inflation down 350 bps; Mortgage spreads tighten 25 bps.
Slow Deflation	LT deflation down 200 bps; LT Treasury Rates down 100 bps; Mortgage spreads tighten 25 bps.
Recession Q4/07-Q1/09	Recent recessionary period starting Dec3, 2007 and ending March9, 2009



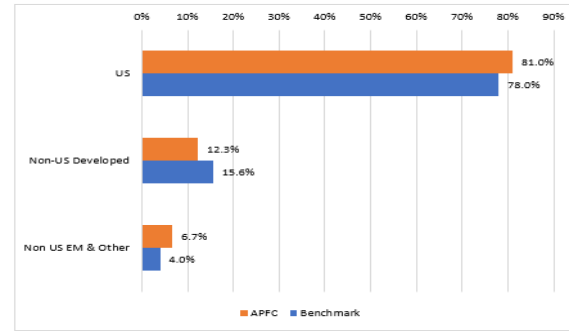
# Currency & Geography: breakdowns

## Currency breakdown



Currency Name	Exposure (\$, millions)
Euro	3,447
Japanese Yen	1,183
Hong Kong Dollar	989
British Pound	897
Canadian Dollar	618
Australian Dollar	479
<b>Sub-Total</b>	<b>7,613 (9.9% of NAV)</b>
<b>Total Non-US DM Exposure</b>	<b>8,800 (10.8% of NAV)</b>

## Country breakdown

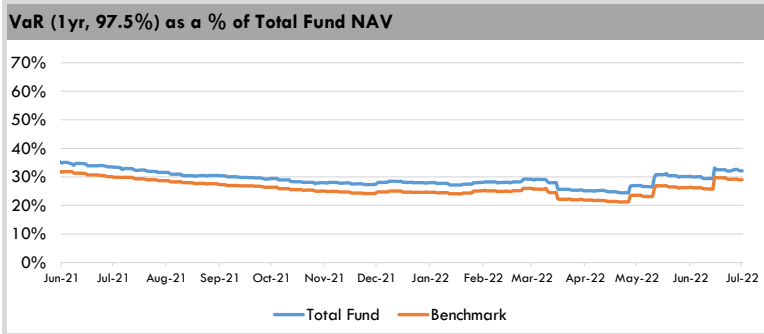
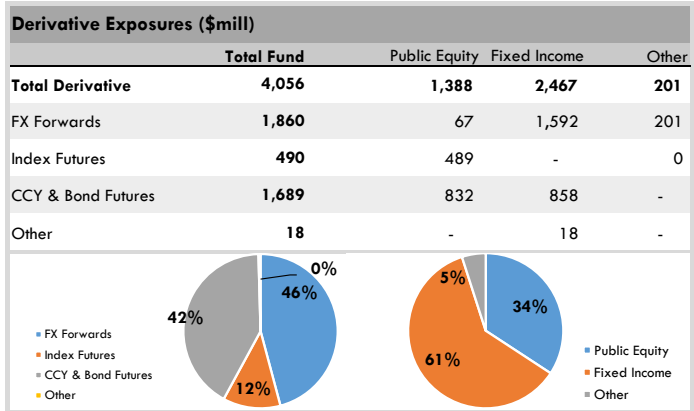
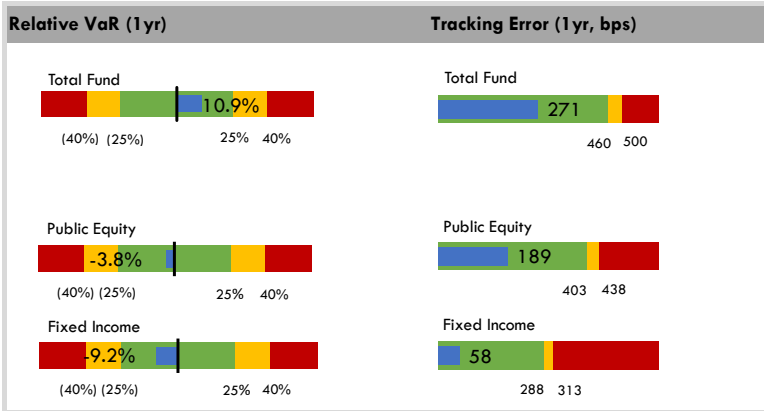


Country Name	Exposure (\$, millions)
China	1,329
Taiwan	471
Korea (South)	448
India	386
Brazil	170
Indonesia	131
<b>Sub-Total</b>	<b>2,937 (3.8% of NAV)</b>
<b>Total EM Exposure</b>	<b>5,178 (6.7% of NAV)</b>

**Daily Dashboard - June 30, 2022**

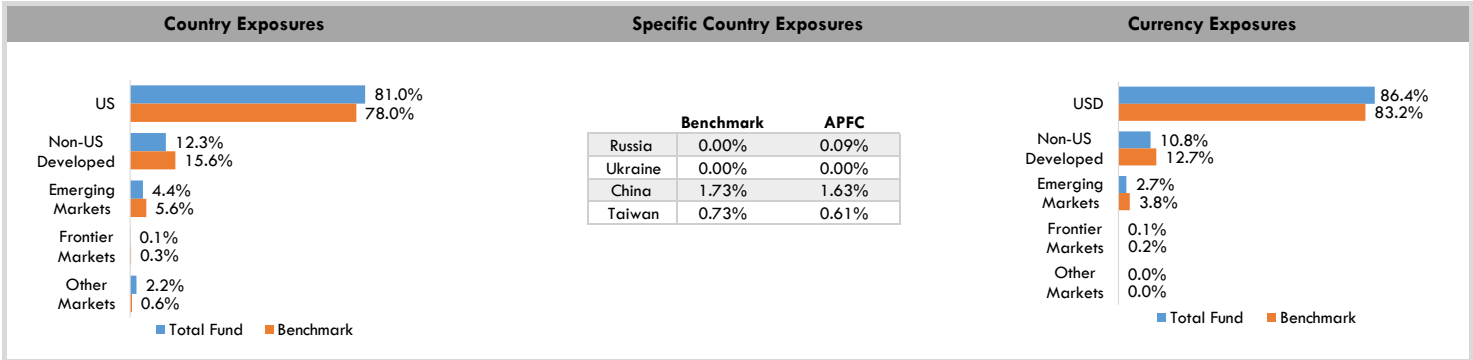
NAV : \$ **77,339,295,999**

Risk	Performance (%)							Asset Allocation				
	1 SD	Rel VaR	TE	MTD	FYTD	CYTD	1 Year	NAV (\$mill)	NAV	Target	Compliance	Under/Over
<b>Total Fund</b>	<b>16%</b>	<b>10.9%</b>	<b>2.7%</b>	<b>-3.6</b>	<b>-2.2</b>	<b>-7.1</b>	<b>-2.2</b>	<b>77,339</b>				
Public Equity	19%	-3.8%	1.9%	-8.6	-14.3	-17.7	-14.3	25,540	33.0%	38%		-5.0%
Fixed Income	4%	-9.2%	0.6%	-2.5	-10.6	-10.9	-10.6	15,525	20.1%	20%		0.1%
PE & Special Opps	34%	21.0%	8.8%	-0.5	15.7	1.1	15.7	16,157	20.9%	16%		4.9%
Real Estate	16%	5.0%	7.0%	0.4	17.1	8.3	17.1	6,950	9.0%	8%		1.0%
Inf. & Private Income	19%	72.8%	10.3%	-0.8	11.7	6.1	11.7	6,066	7.8%	9%		-1.2%
Absolute Return	4%	-39.3%	5.2%	-0.1	7.8	6.0	7.8	5,073	6.6%	6%		0.6%
Risk Parity	14%	57.5%	10.7%	0.0	-8.7	-10.7	-8.7	258	0.3%	1%		-0.7%
Total Fund Cash	4%	2222.4%	3.7%	0.5	0.1	0.0	0.1	1,770	2.3%	2%		0.8%



**Economic Indicators**

	6/30/22	6/29/22	% Change
VIX	28.71	28.16	2.0%
U.S. Dollar/Euro	1.05	1.04	0.4%
Credit Index OAS	1.43	1.41	1.4%
Crude Oil (WTI) (\$)	105.76	109.78	-3.7%
10-Year Treasury Yield	3.01	3.09	-2.5%
30-Year Treasury Yield	3.18	3.22	-1.1%
S&P 500	3,785.38	3,818.83	-0.9%
MSCI ACWI	2,029.80	2,052.53	-1.1%



SUBJECT: Fund Performance Overview                      ACTION: \_\_\_\_\_  
Callan, CEO & Chief Research Officer – Greg Allen  
Callan, Senior VP – Steve Center

DATE: September 21, 2022                                      INFORMATION: \_\_\_\_\_X\_\_\_\_\_

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**BACKGROUND:**

Callan Associates, Inc. is currently under contract to perform APFC’s core general consulting services of 1) Investment policies and procedures review; 2) annual preparation of an asset allocation plan; 3) performance reporting and analysis; 4) risk analysis; 5) statistical modeling, manager searches, selection, and oversight; and 6) other special consulting services as needed.

**STATUS:**

At every quarterly board meeting or as requested, Callan Associated, Inc. provides an extensive review of the Fund’s performance as well as updates on market conditions. Chief Executive Officer and Chief Research Officer, Greg Allen, and Senior Vice President, Steven Center will be the presenters at this meeting.

September 21, 2022



**Alaska Permanent Fund Corporation**

2<sup>nd</sup> Quarter 2022

Capital Markets and  
Performance Review

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**Greg Allen**

CEO and Chief Research Officer

**Steven Center, CFA**

Senior Vice President

**Chris Park, CFA**

Vice President

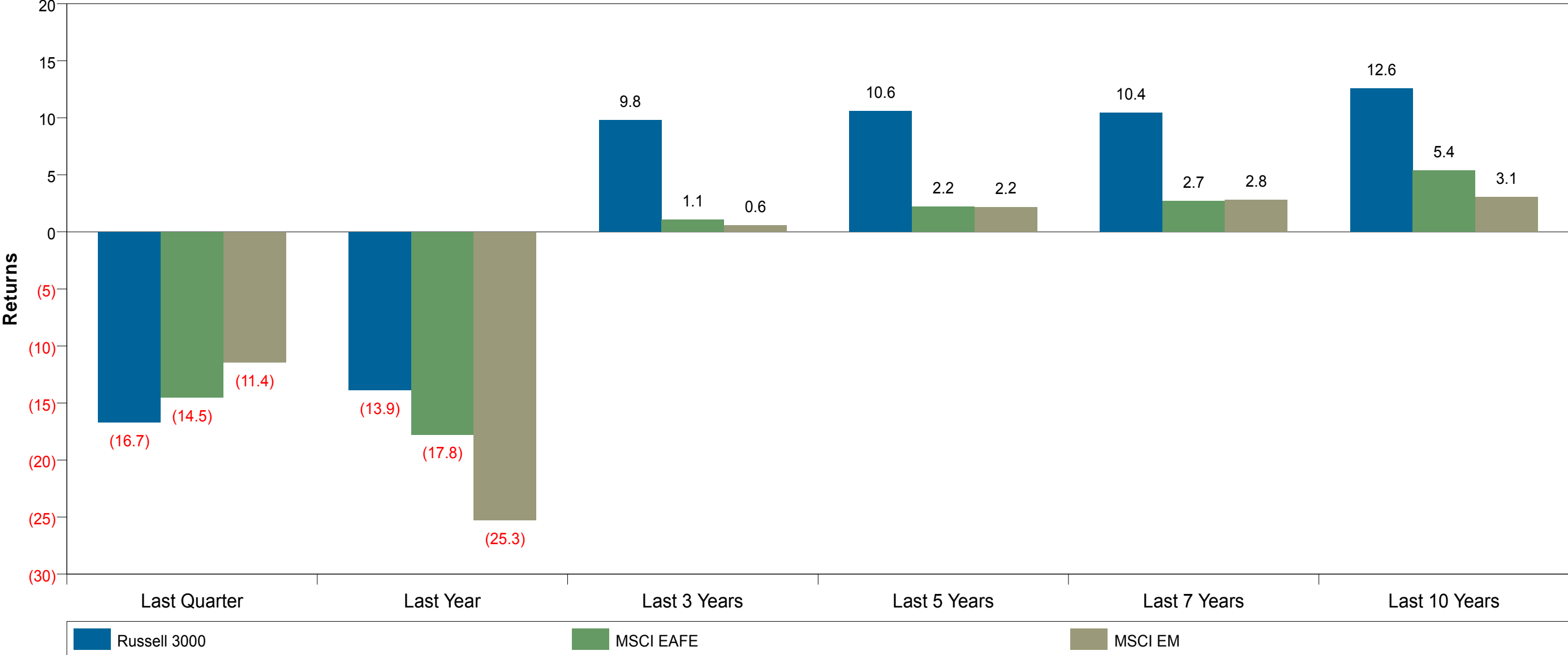
# Broad Capital Market Performance

Periods Ended June 30, 2022



# Public Equity Capital Market Performance

Periods Ended June 30, 2022



# Callan Periodic Table of Investment Returns

## Returns for Key Indices

2013	2014	2015	2016	2017	2018	2019	2020	2021	2 Qtrs. 2022
Russell 2000 38.82%	S&P 500 13.69%	MSCI ACWI ex USA SC 2.60%	Russell 2000 21.31%	MSCI Emerging Markets 37.28%	Bloomberg Barclays Aggregate 0.01%	S&P 500 31.49%	Russell 2000 19.96%	S&P 500 28.71%	Bloomberg Barclays Aggregate -10.35%
S&P 500 32.39%	Bloomberg Barclays Aggregate 5.97%	S&P 500 1.38%	Bloomberg Barclays Corp High Yield 17.13%	MSCI ACWI ex USA SC 31.65%	Bloomberg Barclays Corp High Yield -2.08%	Russell 2000 25.52%	S&P 500 18.40%	Russell 2000 14.82%	Bloomberg Barclays Corp High Yield -14.19%
MSCI World ex USA 21.02%	Russell 2000 4.89%	Bloomberg Barclays Aggregate 0.55%	S&P 500 11.96%	MSCI World ex USA 24.21%	Bloomberg Barclays Global Agg ex US -2.15%	MSCI World ex USA 22.49%	MSCI Emerging Markets 18.31%	MSCI ACWI ex USA SC 12.93%	Bloomberg Barclays Global Agg ex US -16.49%
MSCI ACWI ex USA SC 19.73%	Bloomberg Barclays Corp High Yield 2.45%	MSCI World ex USA -3.04%	MSCI Emerging Markets 11.19%	S&P 500 21.83%	S&P 500 -4.38%	MSCI ACWI ex USA SC 22.42%	MSCI ACWI ex USA SC 14.24%	MSCI World ex USA 12.62%	MSCI Emerging Markets -17.63%
Bloomberg Barclays Corp High Yield 7.44%	MSCI Emerging Markets -2.19%	Russell 2000 -4.41%	MSCI ACWI ex USA SC 3.91%	Russell 2000 14.65%	Russell 2000 -11.01%	MSCI Emerging Markets 18.44%	Bloomberg Barclays Global Agg ex US 10.11%	Bloomberg Barclays Corp High Yield 5.28%	MSCI World ex USA -18.76%
Bloomberg Barclays Aggregate -2.02%	Bloomberg Barclays Global Agg ex US -3.09%	Bloomberg Barclays Corp High Yield -4.47%	MSCI World ex USA 2.75%	Bloomberg Barclays Global Agg ex US 10.51%	MSCI World ex USA -14.09%	Bloomberg Barclays Corp High Yield 14.32%	MSCI World ex USA 7.59%	Bloomberg Barclays Aggregate -1.54%	S&P 500 -19.96%
MSCI Emerging Markets -2.60%	MSCI ACWI ex USA SC -4.03%	Bloomberg Barclays Global Agg ex US -6.02%	Bloomberg Barclays Aggregate 2.65%	Bloomberg Barclays Corp High Yield 7.50%	MSCI Emerging Markets -14.57%	Bloomberg Barclays Aggregate 8.72%	Bloomberg Barclays Aggregate 7.51%	MSCI Emerging Markets -2.54%	MSCI ACWI ex USA SC -22.92%
Bloomberg Barclays Global Agg ex US -3.08%	MSCI World ex USA -4.32%	MSCI Emerging Markets -14.92%	Bloomberg Barclays Global Agg ex US 1.49%	Bloomberg Barclays Aggregate 3.54%	MSCI ACWI ex USA SC -18.20%	Bloomberg Barclays Global Agg ex US 5.09%	Bloomberg Barclays Corp High Yield 7.11%	Bloomberg Barclays Global Agg ex US -7.05%	Russell 2000 -23.43%

Source: Bloomberg Barclays, FTSE Russell, MSCI, Standard & Poor's

# Callan Periodic Table of Investment Returns

## Returns for Key Indices

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
Bloomberg Barclays Aggregate -4.69%	Bloomberg Barclays Aggregate -10.29%	S&P 500 10.60%	S&P 500 11.31%	S&P 500 11.14%	S&P 500 12.96%	S&P 500 9.08%
Bloomberg Barclays Corp High Yield -9.83%	S&P 500 -10.62%	Russell 2000 4.21%	Russell 2000 5.17%	Russell 2000 5.91%	Russell 2000 9.35%	MSCI Emerging Markets 8.43%
Bloomberg Barclays Global Agg ex US -11.01%	Bloomberg Barclays Corp High Yield -12.81%	MSCI ACWI ex USA SC 2.94%	MSCI World ex USA 2.66%	MSCI ACWI ex USA SC 3.71%	MSCI ACWI ex USA SC 6.22%	Russell 2000 8.17%
MSCI Emerging Markets -11.45%	MSCI World ex USA -16.76%	MSCI World ex USA 1.70%	MSCI ACWI ex USA SC 2.55%	Bloomberg Barclays Corp High Yield 3.48%	MSCI World ex USA 5.37%	MSCI ACWI ex USA SC 8.16%
MSCI World ex USA -14.66%	Bloomberg Barclays Global Agg ex US -18.78%	MSCI Emerging Markets 0.57%	MSCI Emerging Markets 2.18%	MSCI World ex USA 2.98%	Bloomberg Barclays Corp High Yield 4.47%	Bloomberg Barclays Corp High Yield 7.28%
S&P 500 -16.10%	MSCI ACWI ex USA SC -22.45%	Bloomberg Barclays Corp High Yield 0.21%	Bloomberg Barclays Corp High Yield 2.10%	MSCI Emerging Markets 2.79%	MSCI Emerging Markets 3.07%	MSCI World ex USA 5.47%
Russell 2000 -17.20%	Russell 2000 -25.20%	Bloomberg Barclays Aggregate -0.93%	Bloomberg Barclays Aggregate 0.88%	Bloomberg Barclays Aggregate 1.42%	Bloomberg Barclays Aggregate 1.54%	Bloomberg Barclays Aggregate 3.57%
MSCI ACWI ex USA SC -17.55%	MSCI Emerging Markets -25.28%	Bloomberg Barclays Global Agg ex US -5.07%	Bloomberg Barclays Global Agg ex US -1.75%	Bloomberg Barclays Global Agg ex US -0.29%	Bloomberg Barclays Global Agg ex US -1.06%	Bloomberg Barclays Global Agg ex US 2.96%

Source: Bloomberg Barclays, FTSE Russell, MSCI, Standard & Poor's

# Market Environment

## Equity and Fixed Income Both Fell in 2Q22

### Global equity markets down sharply following the invasion of Ukraine

- Similar impact across developed markets
- Greater impact on small cap and emerging markets

### Fixed income down with sharply higher inflation and interest rates

- Bloomberg Aggregate: -10.4% year-to-date
- CPI-U: +9.1% for the year ended 2Q22

### Number of times stocks and bonds have been down together

- 37 quarters in almost 100 years, about 10% of the quarters
- But just twice on annual basis

### Inflation spiked to highest rate in decades

### Economic data show growth hit “pause”

- GDP fell 0.9% in 2Q22, after dropping 1.6% in 1Q22
- Forecasters have cut growth estimates for 2022 to 0%, or lower, and to 1.5% for 2023.

Returns for Periods ended 6/30/22

	1 Quarter	1 Year	5 Years	10 Years	25 Years
<b>U.S. Equity</b>					
Russell 3000	-16.70	-13.87	10.60	12.57	8.06
S&P 500	-16.10	-10.62	11.31	12.96	7.97
Russell 2000	-17.20	-25.20	5.17	9.35	7.41
<b>Global ex-U.S. Equity</b>					
MSCI World ex USA	-14.66	-16.76	2.66	5.37	4.07
MSCI Emerging Markets	-11.45	-25.28	2.18	3.07	--
MSCI ACWI ex USA Small Cap	-17.55	-22.45	2.55	6.22	5.68
<b>Fixed Income</b>					
Bloomberg Aggregate	-4.69	-10.29	0.88	1.54	4.36
90-day T-Bill	0.10	0.17	1.11	0.64	1.96
Bloomberg Long Gov/Credit	-12.27	-20.14	1.03	2.63	6.14
Bloomberg Global Agg ex-US	-11.01	-18.78	-1.75	-1.06	2.83
<b>Real Estate</b>					
NCREIF Property	3.23	21.45	8.86	9.67	9.52
FTSE Nareit Equity	-17.00	-6.27	5.30	7.39	8.67
<b>Alternatives</b>					
CS Hedge Fund	-2.30	1.92	4.83	4.65	6.26
Cambridge Private Equity*	-1.51	22.00	20.68	16.50	15.42
Bloomberg Commodity	-5.66	24.27	8.39	-0.82	1.81
Gold Spot Price	-7.51	2.02	7.79	1.20	6.97
<b>Inflation - CPI-U</b>	<b>3.06</b>	<b>9.06</b>	<b>3.88</b>	<b>2.59</b>	<b>2.49</b>

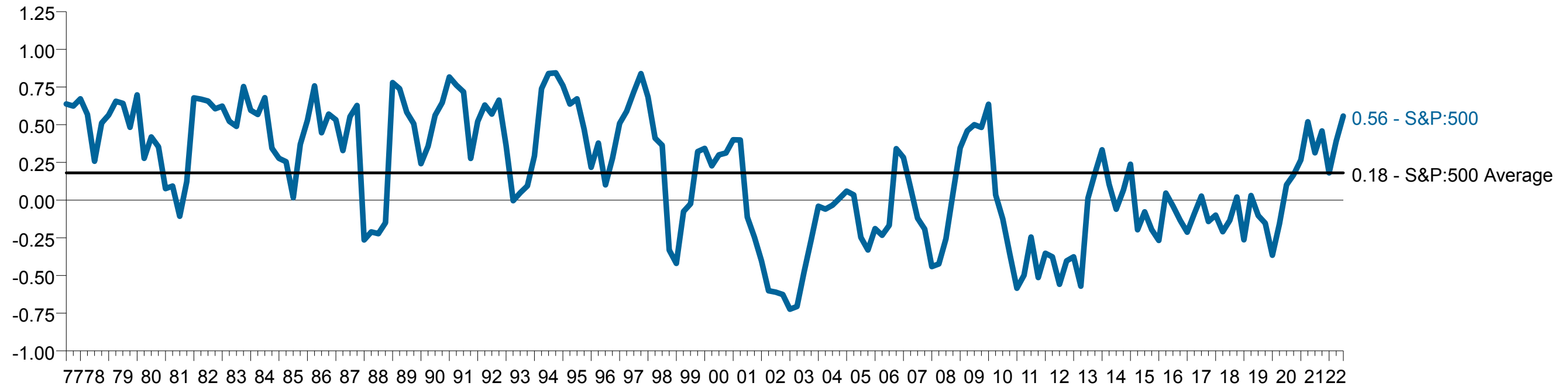
\*Cambridge PE data through 3/31/22.

Sources: Bloomberg, Callan, Cambridge, Credit Suisse, FTSE Russell, MSCI, NCREIF, S&P Dow Jones Indices

# Did Diversification Fail in 2022?

Stocks and bonds down together In 1Q and 2Q

Rolling 12 Month Correlation of S&P 500 to Bloomberg Aggregate for 45 Years Ended June 30, 2022



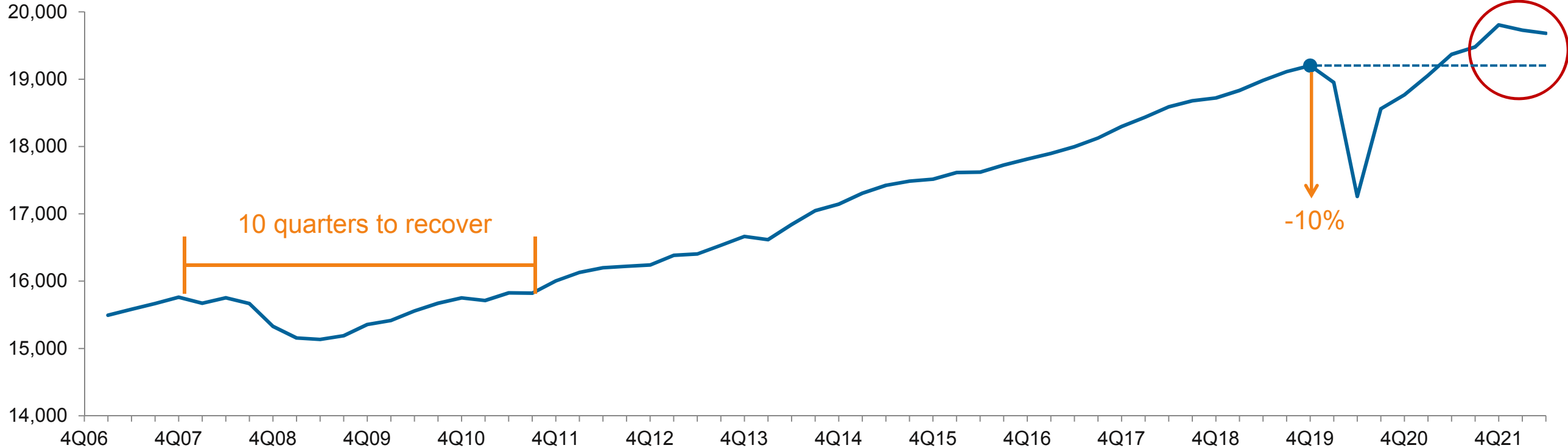
Are we seeing a return to a regime of higher correlation between stocks and bonds, potentially lessening the diversification benefit of bonds to stocks?

While correlation has been relatively low since the global financial crisis, there have been numerous 12-month periods over the last 45 years where correlation has been as high or higher than it is now.

Source: Callan

# GDP Dropped for Two Consecutive Quarters in 2022

Seasonally Adjusted Real GDP in Billions of Dollars



Consensus estimates for GDP growth in 2022 have been scaled back, from north of 4% at the start of the year to 0%, or lower

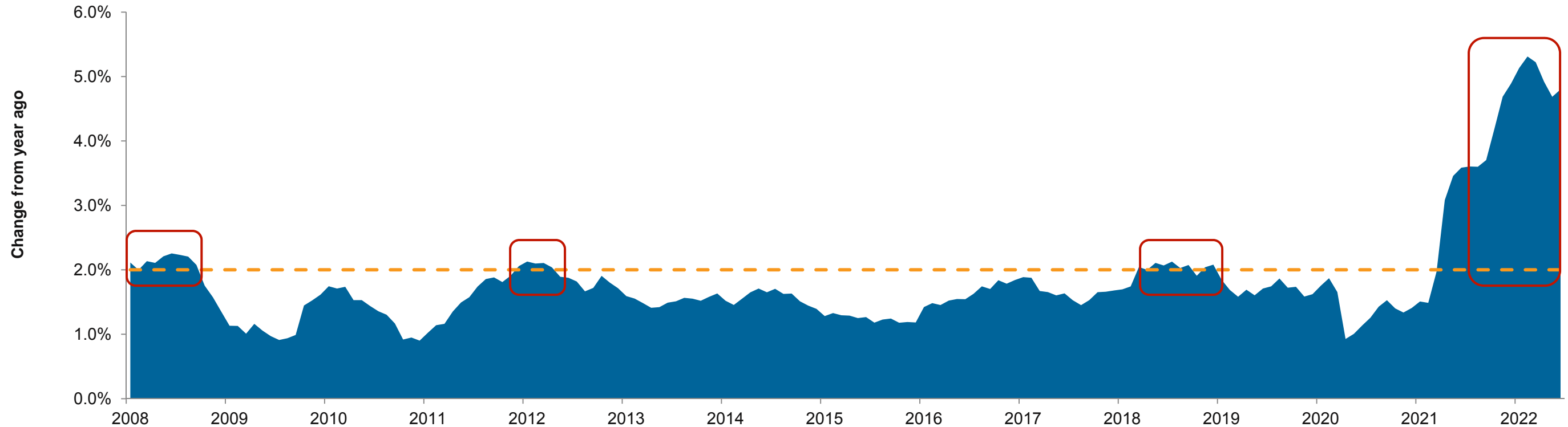
- 1Q22 GDP fell 1.6% in U.S., followed by a 0.9% drop in 2Q22.
- Loss of business and consumer confidence followed the start of the conflict in Ukraine.
- Consumer wealth hit by stock and bond market drop, and now a sharp slowdown in residential housing, as mortgage rates doubled from the start of the year.

Source: Federal Reserve Bank of St. Louis

# The Fed's New Inflation Framework

## Targeting core personal consumption expenditures index

Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



- Inflation worries are in the headlines, and the data are challenging the Fed's dual mandate to manage inflation and unemployment.
- Inflation had consistently undershot the Fed's 2% target, prompting the Fed to change its inflation framework.
- Fed's aim is to achieve an average of 2% inflation over the medium term, which is not specifically defined.
- Personal Consumption Expenditures (PCE) Index is the Fed's target, different from and typically lower than CPI-U, which had a year-over-year gain of 9.1% as of June 30.

Sources: FRED, Federal Reserve Bank of St. Louis

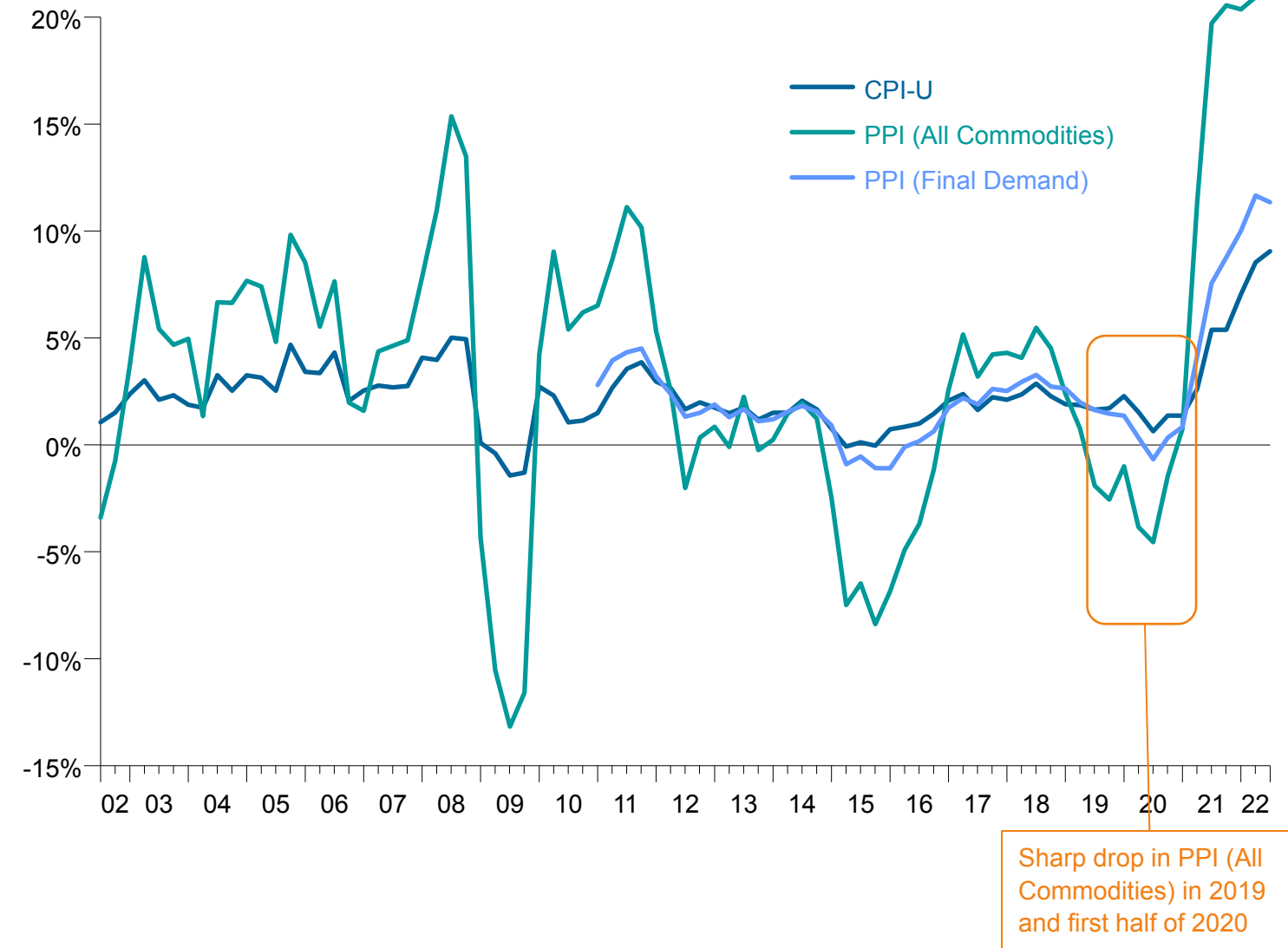
# Inflation Rebounds and Spurs Headline Concerns

## CPI and PPI remain at sharply elevated rates in 2Q22

### Big drop for inflation at start of pandemic

- The recovery to pre-pandemic levels in the Consumer Price Index required a 2.6% year-over-year change.
- 9.1% jump in 2Q CPI-U represents added pressure from the war in Ukraine on top of kinks in supply chains and labor markets after more than a year of global economic disruption and shutdown.
- 9.1% is the highest recorded inflation since 4Q81.
- Producer prices had been tumbling for more than a year prior to the pandemic; recovery to 2018 price **levels** happened by 2Q21, and generated eye-popping year-over-year percentage changes. The sharp rise in PPI continues into 2022.
- Prices for transportation goods, energy, and food are driving the elevated rates in both the Consumer and Producer Price Indices.

Consumer and Producer Price Indexes – Inflation Year-Over-Year



Sources: FRED, Federal Reserve Bank of St. Louis

# Contributors to Recent Inflation: Primary Categories

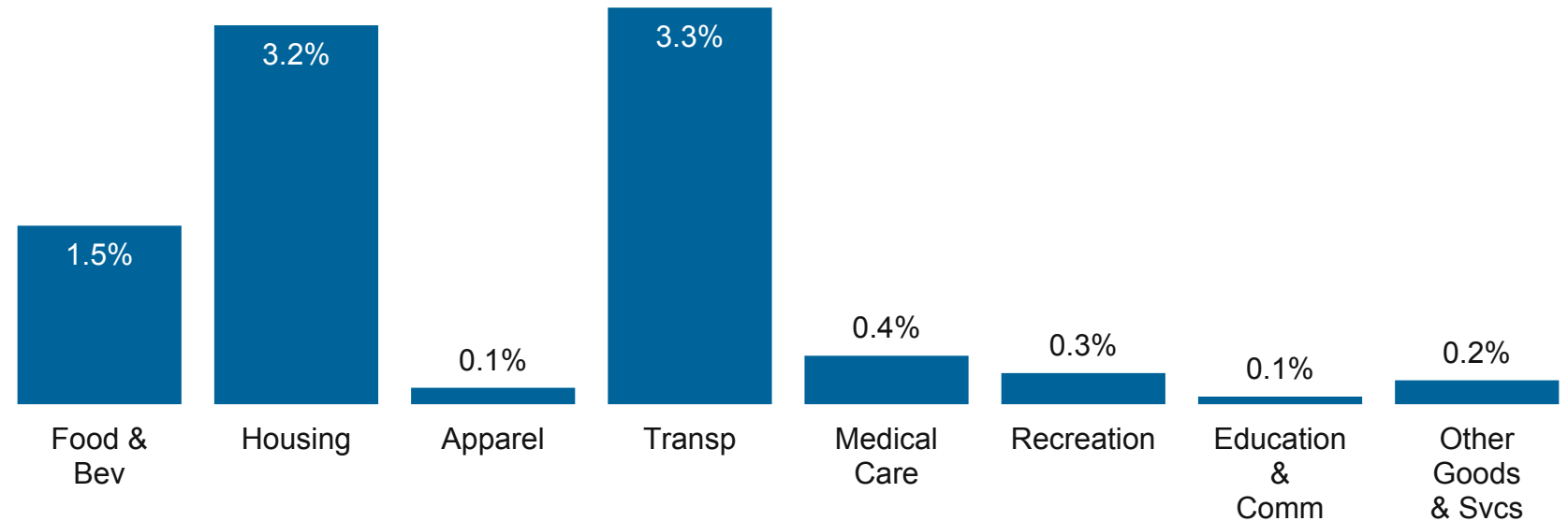
Transportation, including new and used cars, parts, and gasoline, continues to experience high inflation.

- Year-over-year prints are almost two times higher than any other category.
- With a meaningful 18% weight in the index\*, transportation also has the highest weighted contribution to headline CPI.

Housing and food and beverage have also been significant contributors to headline CPI.

- Inflation within these categories is rising while transportation inflation appears to have leveled off.

Contribution to June 2022 YOY Inflation



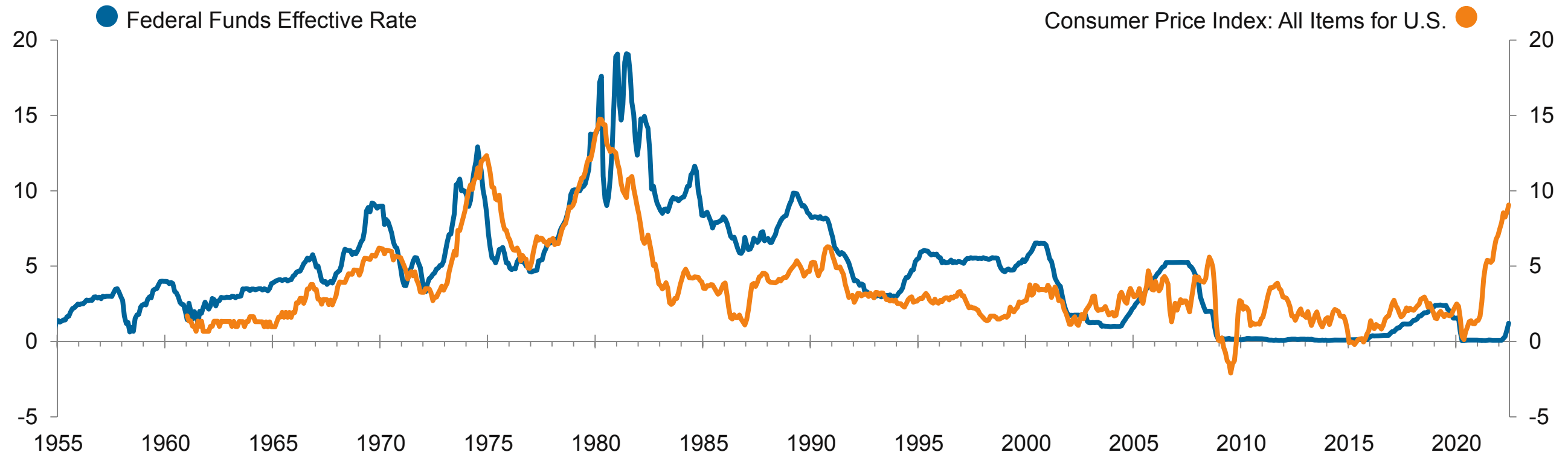
Primary Category	Primary Category Weight	Year-over-Year Change											
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
All Items	100.0%	5.4%	5.3%	5.4%	6.2%	6.8%	7.0%	7.5%	7.9%	8.5%	8.3%	8.6%	9.1%
Food & Bev	14.3%	3.4%	3.7%	4.5%	5.1%	5.8%	6.0%	6.7%	7.6%	8.5%	9.0%	9.7%	10.0%
Housing	42.4%	3.4%	3.5%	3.9%	4.5%	4.8%	5.1%	5.7%	5.9%	6.4%	6.5%	6.9%	7.3%
Apparel	2.5%	4.2%	4.2%	3.4%	4.3%	5.0%	5.8%	5.3%	6.6%	6.8%	5.4%	5.0%	5.2%
Transportation	18.2%	19.4%	17.8%	16.6%	18.7%	21.1%	21.1%	20.8%	21.1%	22.6%	19.9%	19.4%	19.7%
Medical Care	8.5%	0.3%	0.4%	0.4%	1.3%	1.7%	2.2%	2.5%	2.4%	2.9%	3.2%	3.7%	4.5%
Recreation	5.1%	3.5%	3.4%	3.5%	3.9%	3.2%	3.3%	4.7%	5.0%	4.8%	4.3%	4.5%	4.6%
Education & Comm	6.4%	1.1%	1.2%	1.7%	1.8%	1.7%	1.6%	1.6%	1.6%	1.5%	1.0%	0.8%	0.8%
Other Goods & Svcs	2.7%	2.9%	3.5%	3.4%	4.2%	4.4%	4.5%	4.9%	5.6%	5.5%	5.7%	6.3%	6.7%

\*Category weights received a revision for 2022. The Transportation weight is up from 15% to 18% with this revision.

Source: U.S. Bureau of Labor Statistics

# Inflation vs. Interest Rates Over the Long Term

Federal Funds vs. Consumer Price Index



We are now looking at an inflation spike that is above the last rise in inflation from 2005–08.

The gap between inflation and the Fed Funds rate is larger than that seen just before the GFC.

–History suggests that the Fed Funds rate is typically above inflation, not below it.

This gap of 9.1% CPI vs. 150 bps Fed Funds rate is unprecedented in the history of the CPI, going back to 1961

–Resolution to the historic relationship requires the Fed Funds rate to rise and inflation to fall.

Sources: FRED, Federal Reserve Bank of St. Louis

# Inflation vs. Interest Rates Over the Long Term



10-year breakeven inflation rate is the difference in yield between the nominal 10-year Treasury and the 10-year Treasury Inflation Protected Security (TIPS).

–Extra yield nominal Treasury would have to earn to maintain the same purchasing power as a TIPS investment

Values of implied inflation reached 3% in April but have since declined below 2.5%.

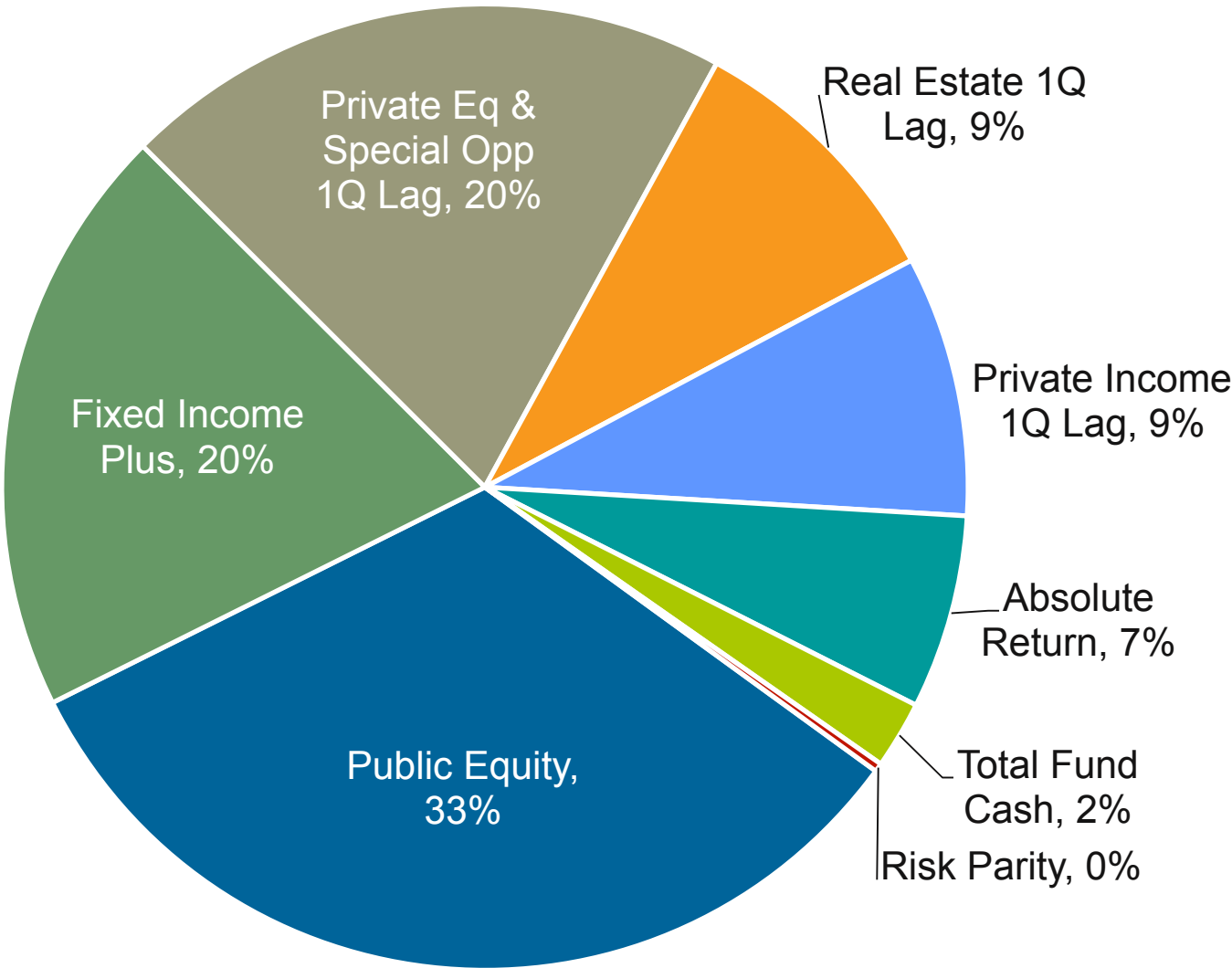
–Includes current high levels of inflation

Sources: FRED, Federal Reserve Bank of St. Louis

# Total Fund Asset Allocation

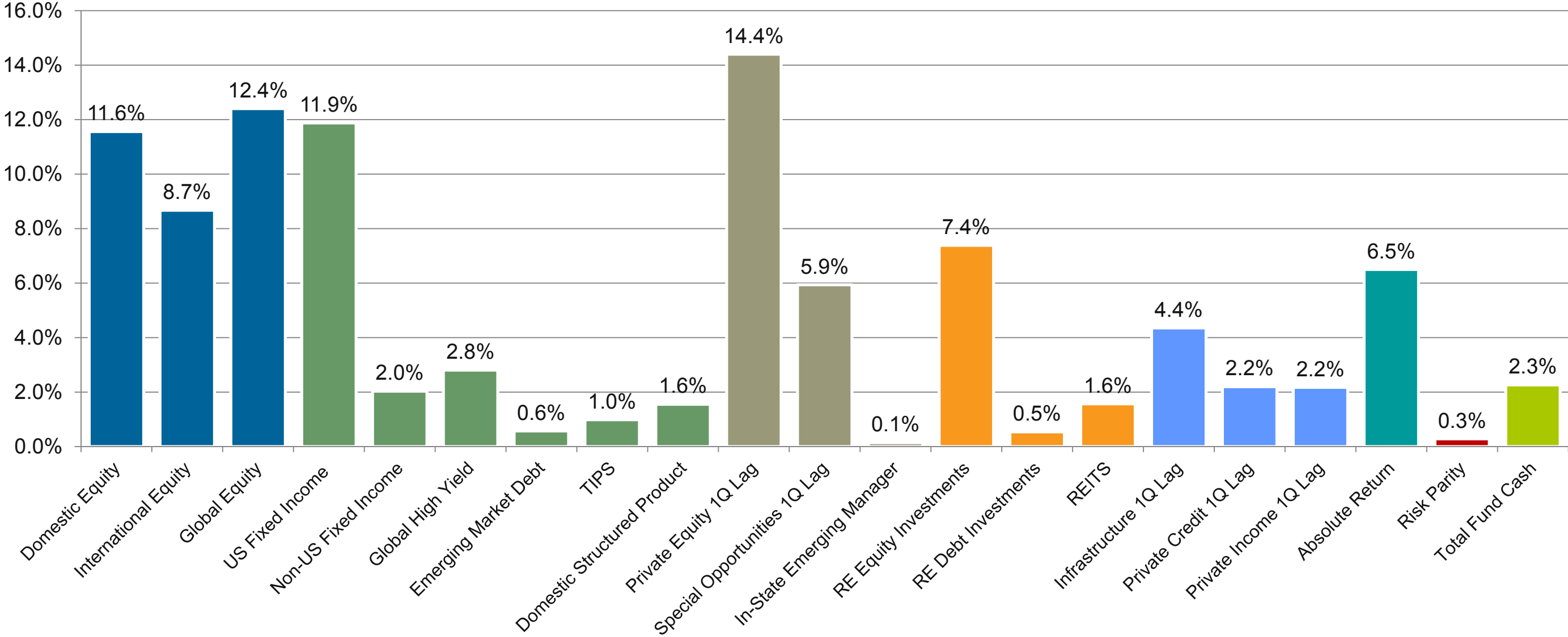
As of June 30, 2022: \$78.18B

- APFC portfolio is well diversified across all major asset classes employed by institutional investors.
- Using institutional standard asset class definitions, the portfolio is currently allocated 33% to public equity, 20% to fixed income, and 47% to alternative investments.
- Compared to allocations in the first quarter, weights to public equity decreased, and fixed income and alternatives increased.
- Alternatives include private equity, special opportunities, real estate, private infrastructure, private credit, private income, absolute return, and risk parity.
- Private Equity & Special Opportunities, Real Estate, and Infrastructure & Private Income are reported on a one-quarter lag.



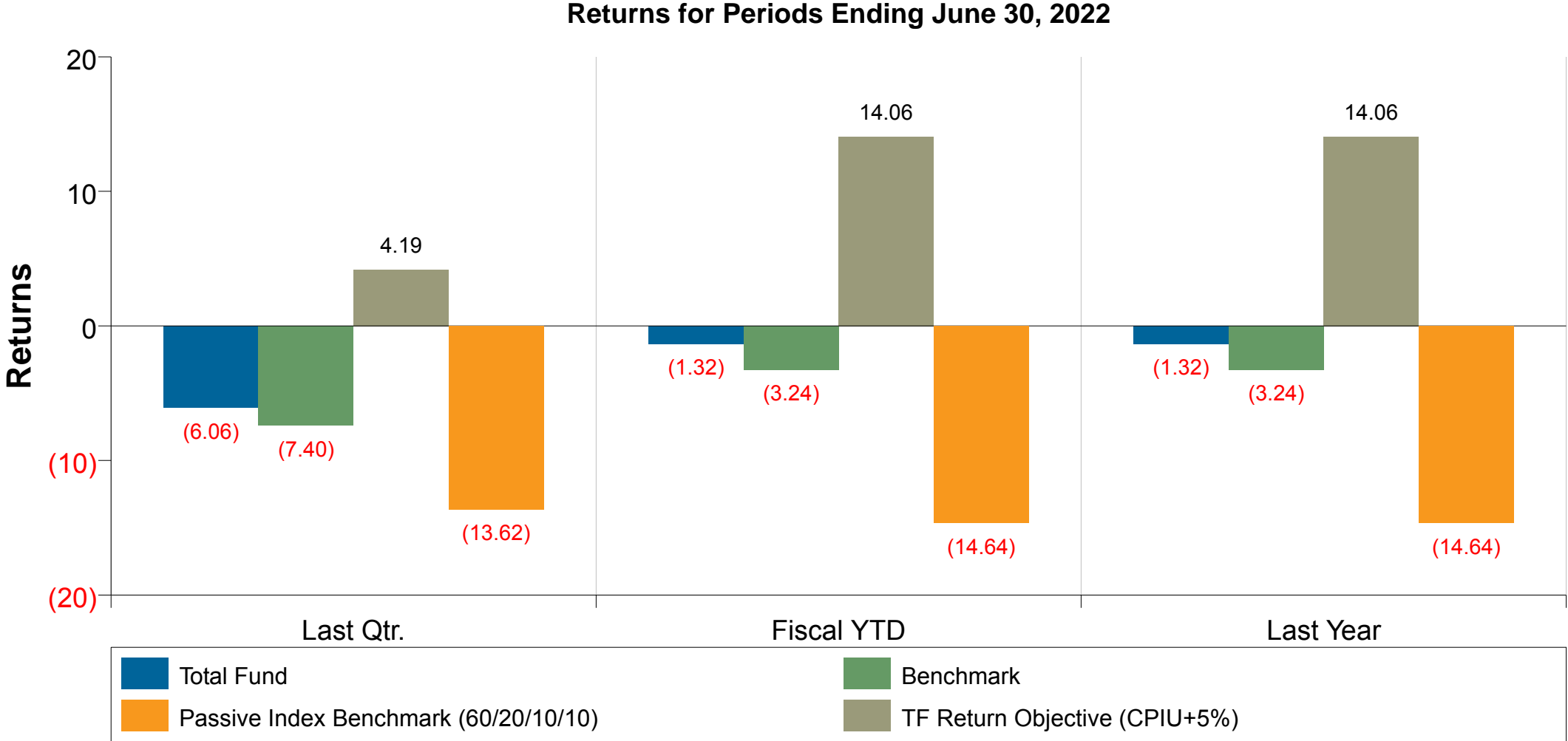
# Total Fund Asset Allocation

As of June 30, 2022



# APFC Total Fund Cumulative Returns

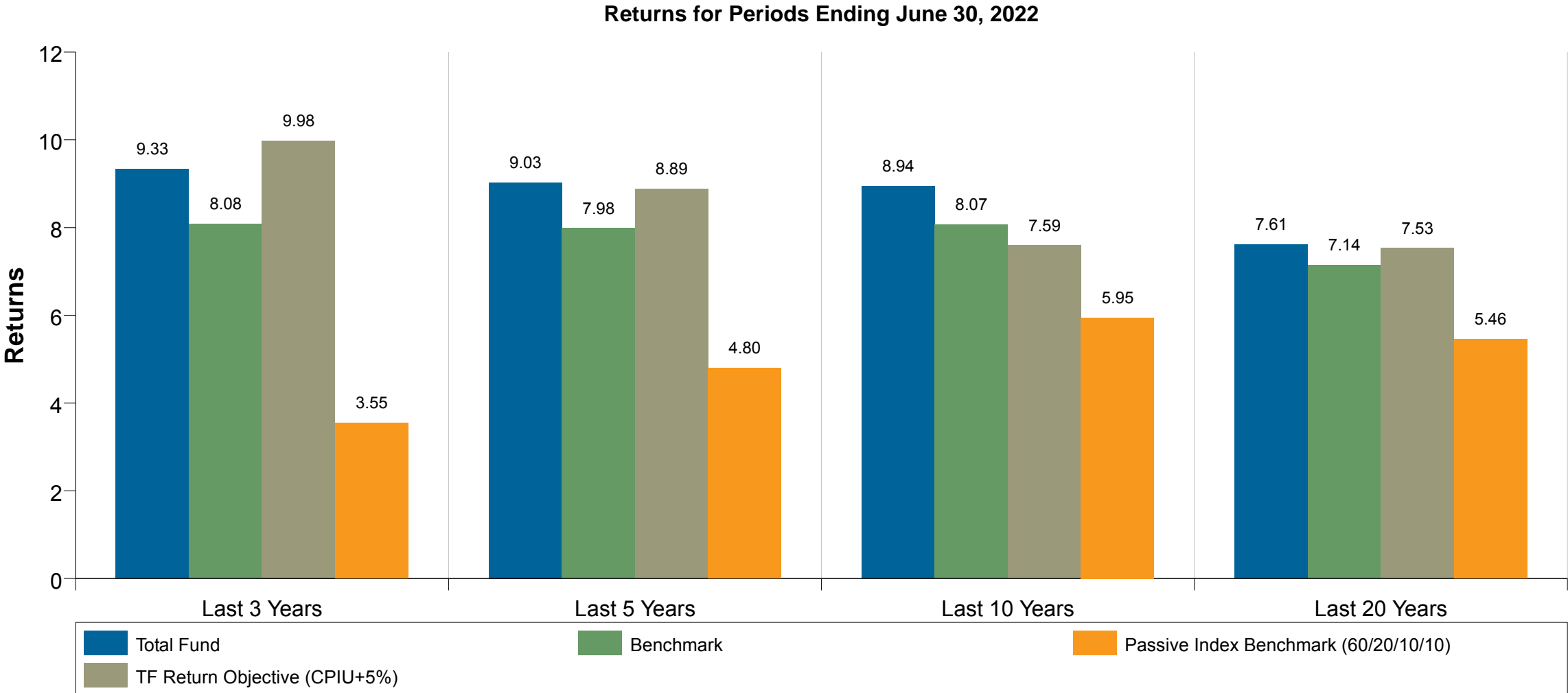
## Total Fund versus Total Fund Targets



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

# APFC Total Fund Cumulative Returns

## Total Fund versus Total Fund Targets



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

# APFC Total Fund Attribution

For One Quarter Ended June 30, 2022

## Relative Attribution Effects for Quarter ended June 30, 2022

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Public Equity	35%	38%	(14.12%)	(15.83%)	0.65%	0.24%	0.90%
Fixed Income	19%	20%	(5.93%)	(5.85%)	(0.02%)	(0.01%)	(0.03%)
Private Eq & Special Opp	20%	16%	(1.26%)	(1.51%)	0.05%	0.22%	0.27%
Real Estate	9%	8%	3.47%	3.94%	(0.04%)	0.06%	0.02%
Private Income	8%	9%	1.93%	3.39%	(0.11%)	(0.09%)	(0.20%)
Absolute Return	6%	6%	1.25%	(4.71%)	0.36%	0.00%	0.36%
Total Fund Cash	3%	2%	(1.78%)	0.10%	(0.05%)	0.04%	(0.01%)
Risk Parity	1%	1%	(16.86%)	(15.40%)	(0.01%)	0.03%	0.02%
<b>Total</b>			<b>(6.06%)</b>	<b>(7.40%)</b>	<b>+ 0.84%</b>	<b>+ 0.49%</b>	<b>1.33%</b>

- In the second quarter, the Total Fund outperformed the Performance Benchmark by 133 basis points.
- Manager and allocation effects to Public Equity, Absolute Return, and Private Equity & Special Opportunities added to relative return. Private Income was the primary detractor in the second quarter, though the asset class return was positive on an absolute basis.
- In aggregate, active management added 84 basis points to relative performance, while deviations from the Policy Target added 49 basis points.

# APFC Total Fund Attribution

For Fiscal Year-to-Date through June 30, 2022

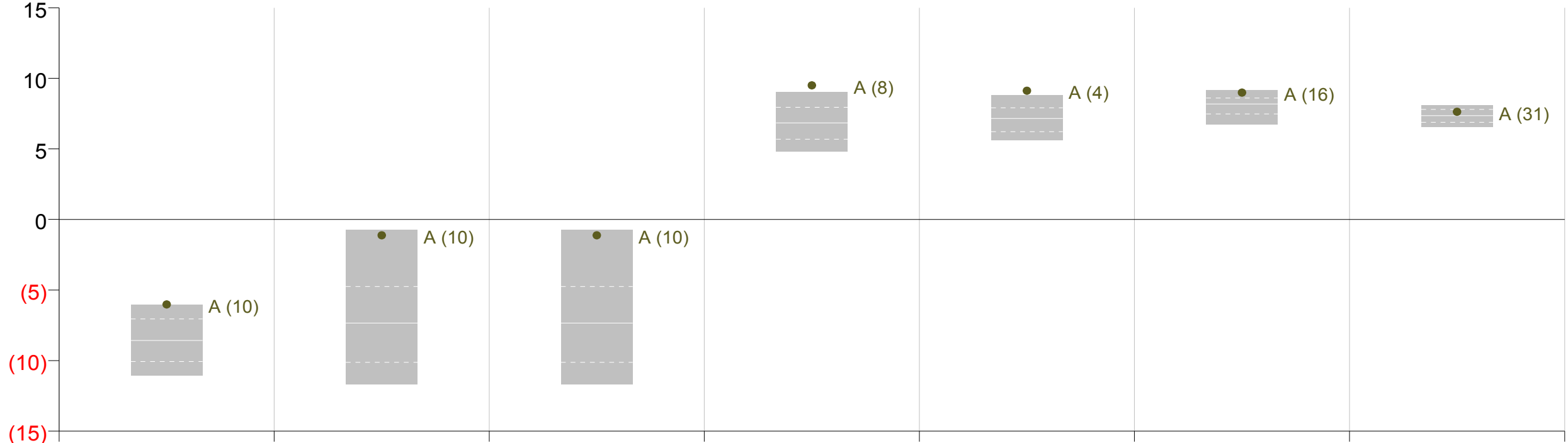
## One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Public Equity	37%	38%	(14.32%)	(16.52%)	0.88%	0.24%	1.13%
Fixed Income	20%	20%	(10.82%)	(10.97%)	0.03%	0.01%	0.04%
Private Eq & Special Opp	19%	16%	17.60%	22.00%	(0.71%)	0.75%	0.04%
Real Estate	7%	8%	23.41%	22.76%	0.04%	(0.03%)	0.01%
Private Income	8%	9%	16.20%	14.99%	0.07%	(0.19%)	(0.12%)
Absolute Return	6%	6%	7.98%	(5.60%)	0.79%	0.02%	0.81%
Total Fund Cash	3%	2%	(0.83%)	0.17%	(0.03%)	0.01%	(0.02%)
Risk Parity	1%	1%	(17.93%)	(17.25%)	0.00%	0.04%	0.04%
<b>Total</b>			<b>(1.32%)</b>	<b>(3.24%)</b>	<b>+ 1.08%</b>	<b>+ 0.84%</b>	<b>1.92%</b>

- For the fiscal year, the Total Fund outperformed the Performance Benchmark by 192 basis points.
- Strong manager performance in every asset class, with the exception of Private Equity & Special Opportunities, added to relative performance. Asset allocation impact was also positive, particularly due to an overweight to Private Equity (which was among the best performing asset classes).
- In aggregate, active management added 108 basis points to relative performance, while deviations from the Policy Target added 84 basis points.

# APFC Total Fund Relative to Callan's Large Public Fund Database

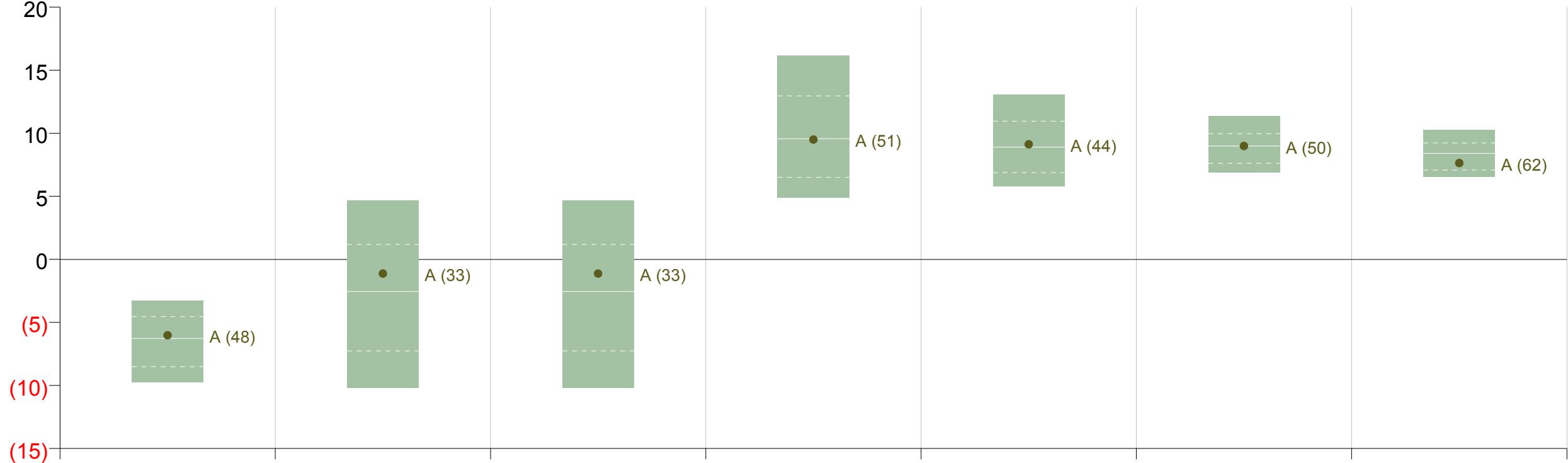
Returns for Periods Ended June 30, 2022  
 Group: Callan Public Fund Sponsor - Large (>1B)



	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
10th Percentile	(6.05)	(0.74)	(0.74)	9.01	8.79	9.19	8.07
25th Percentile	(7.05)	(4.75)	(4.75)	7.95	7.92	8.61	7.80
Median	(8.57)	(7.34)	(7.34)	6.85	7.16	8.19	7.36
75th Percentile	(10.06)	(10.12)	(10.12)	5.68	6.23	7.48	6.89
90th Percentile	(11.04)	(11.68)	(11.68)	4.80	5.62	6.74	6.55
Member Count	80	79	79	79	78	77	66
Total Fund ● A	(6.06)	(1.32)	(1.32)	9.33	9.03	8.94	7.61

# APFC Total Fund Relative to Callan's Large Endowment / Foundation Database

Returns for Periods Ended June 30, 2022  
 Group: Callan Endow/Foundation - Large (>1B)

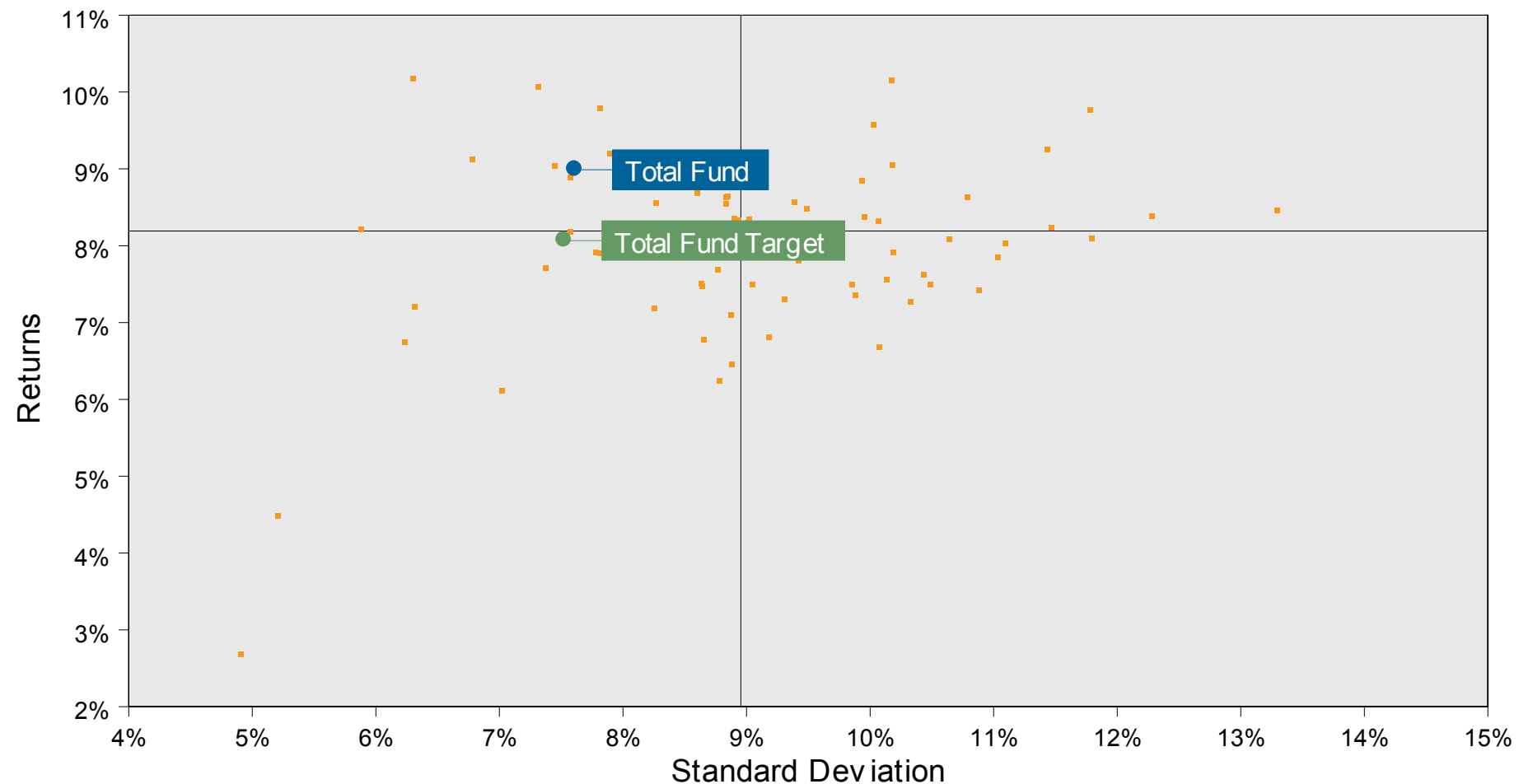


	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
10th Percentile	(3.27)	4.68	4.68	16.20	13.04	11.35	10.29
25th Percentile	(4.54)	1.19	1.19	12.97	10.96	9.97	9.24
Median	(6.28)	(2.54)	(2.54)	9.57	8.91	8.98	8.40
75th Percentile	(8.52)	(7.25)	(7.25)	6.51	6.89	7.62	7.09
90th Percentile	(9.73)	(10.19)	(10.19)	4.91	5.78	6.86	6.57
Member Count	38	38	38	37	37	37	30
Total Fund ● A	(6.06)	(1.32)	(1.32)	9.33	9.03	8.94	7.61

# APFC Total Fund Return versus Standard Deviations

Relative to Callan's Large Public Fund Database

Ten Year Annualized Risk vs Return

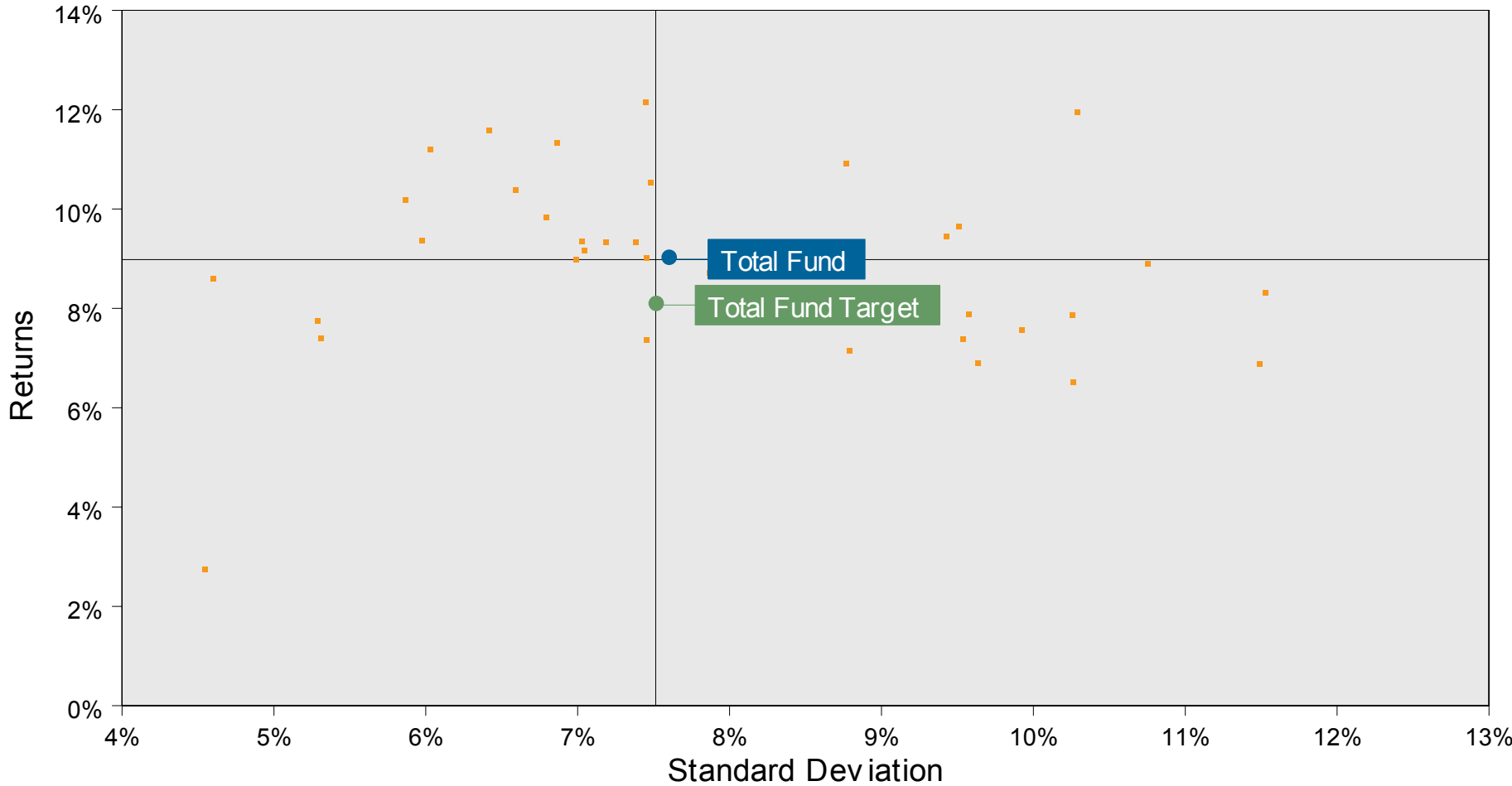


Squares represent membership of the Callan Public Fund Spons - Large (>1B)

# APFC Total Fund Return versus Standard Deviations

Relative to Callan's Large Endowment / Foundation Database

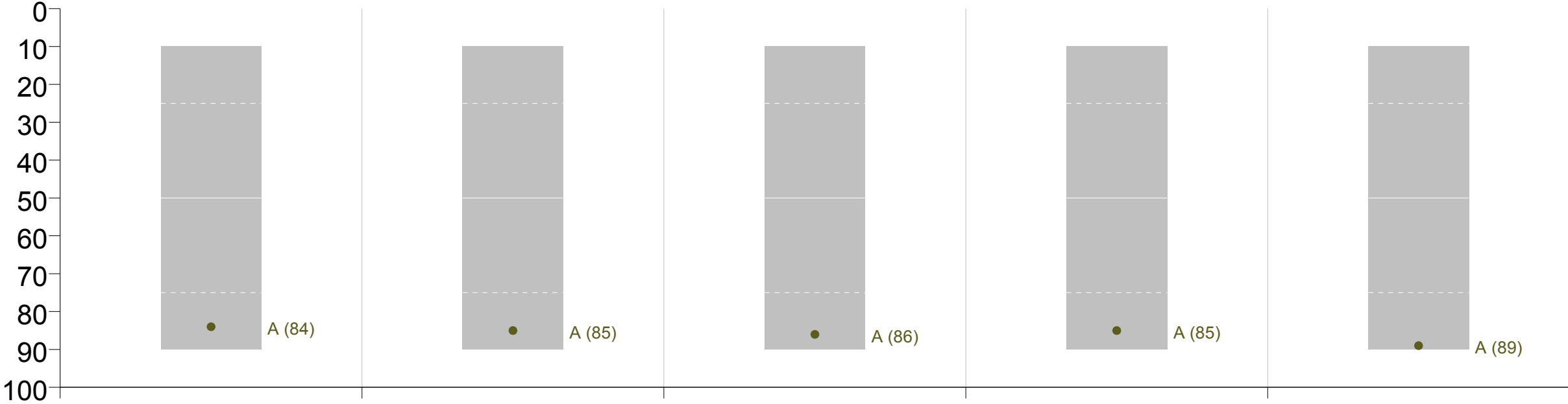
Ten Year Annualized Risk vs Return



Squares represent membership of the Callan Endow/Foundation - Large (>1B)

# APFC Total Fund Standard Deviation Relative to Callan's Large Public Fund Database

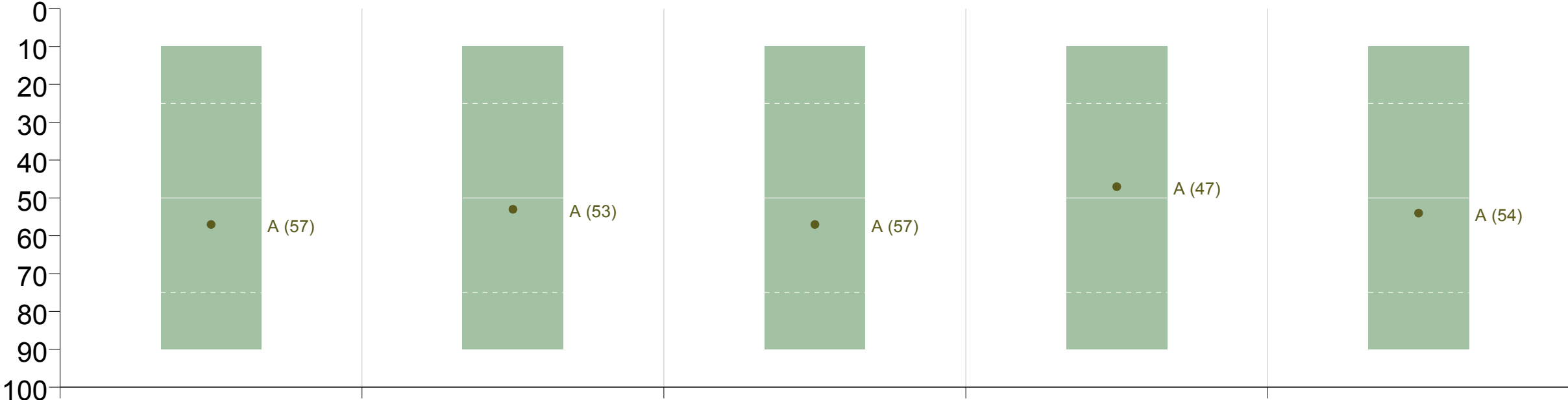
Standard Deviation for Periods Ended June 30, 2022  
 Group: Callan Public Fund Sponsor - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	17.55	14.72	12.79	11.12	11.99
25th Percentile	16.06	13.48	11.78	10.15	11.23
Median	14.12	11.84	10.45	8.95	10.64
75th Percentile	12.90	10.86	9.64	8.36	9.80
90th Percentile	10.37	8.91	7.95	7.05	9.31
Member Count	79	78	77	77	66
Total Fund ● A	11.74	9.90	8.72	7.62	9.36

# APFC Total Fund Standard Deviation Relative to Callan's Large Endowment/Foundation Database

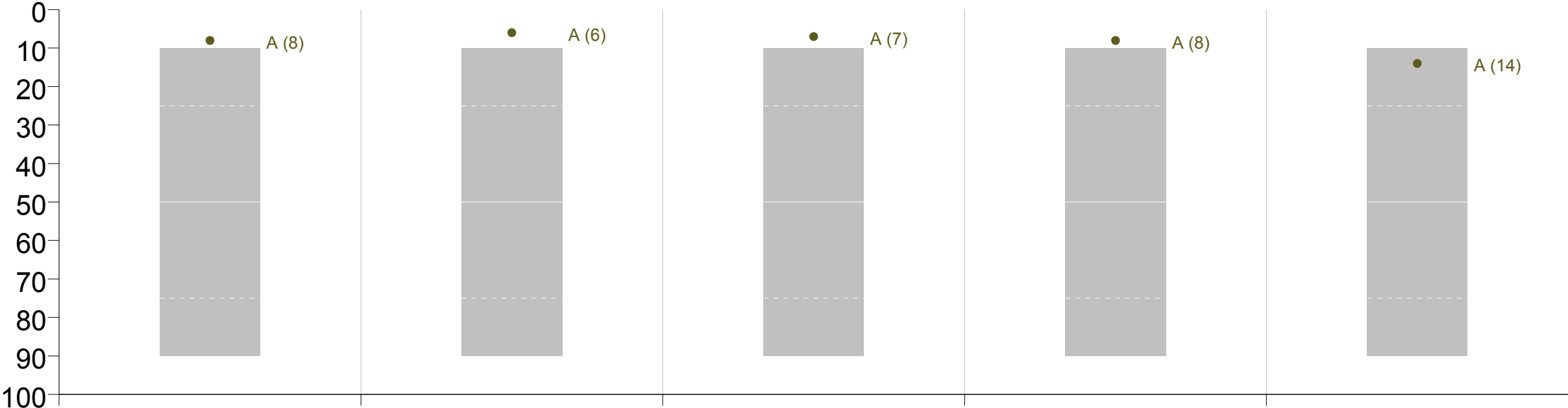
Standard Deviation for Periods Ended June 30, 2022  
 Group: Callan Endow/Foundation - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	17.10	13.93	12.31	10.44	12.34
25th Percentile	15.67	13.03	11.31	9.62	10.77
Median	12.18	9.97	8.75	7.51	9.41
75th Percentile	10.92	8.95	7.92	6.75	8.81
90th Percentile	7.43	6.45	6.08	5.36	7.76
Member Count	37	37	37	37	30
Total Fund ● A	11.74	9.90	8.72	7.62	9.36

# APFC Total Fund Sharpe Ratio Relative to Callan's Large Public Fund Database

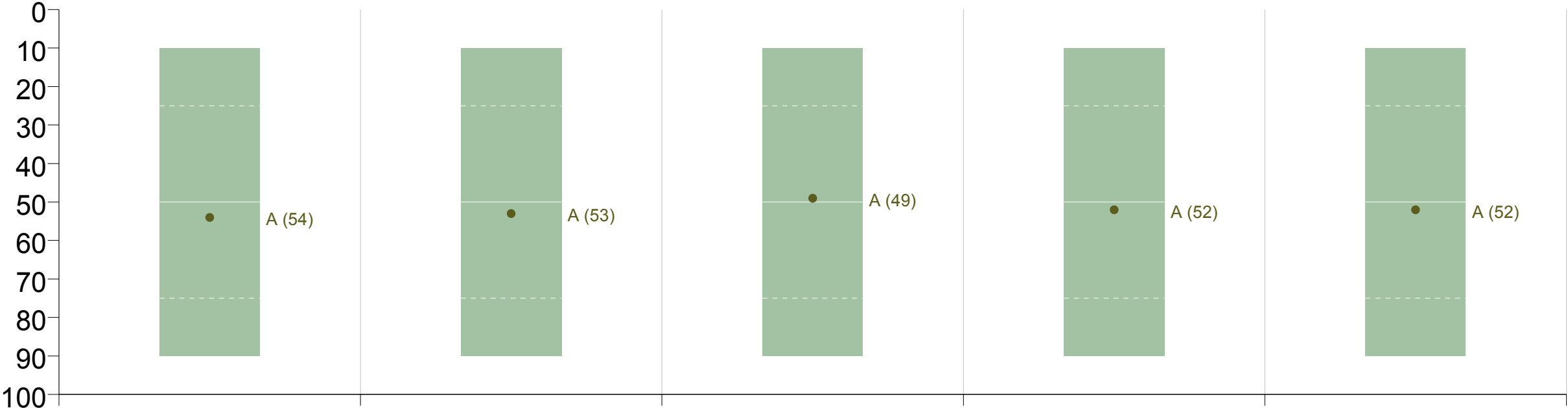
Sharpe Ratio for Periods Ended June 30, 2022  
 Group: Callan Public Fund Sponsor - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	0.72	0.76	0.81	1.07	0.70
25th Percentile	0.54	0.61	0.68	0.92	0.63
Median	0.42	0.50	0.58	0.81	0.58
75th Percentile	0.33	0.40	0.48	0.70	0.52
90th Percentile	0.24	0.32	0.41	0.63	0.48
Member Count	79	78	77	77	66
Total Fund ● A	0.76	0.81	0.86	1.10	0.68

# APFC Total Fund Sharpe Ratio Relative to Callan's Large Endowment/Foundation Database

Sharpe Ratio for Periods Ended June 30, 2022  
Group: Callan Endow/Foundation - Large (>1B)



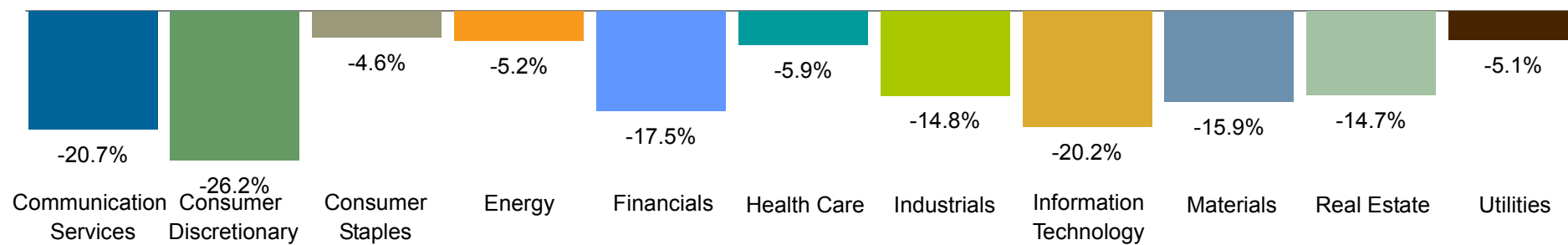
	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	1.31	1.30	1.26	1.62	1.10
25th Percentile	1.14	1.06	1.06	1.33	0.92
Median	0.81	0.85	0.84	1.11	0.72
75th Percentile	0.42	0.46	0.53	0.74	0.54
90th Percentile	0.28	0.38	0.42	0.63	0.46
Member Count	37	37	37	37	30
Total Fund ● A	0.76	0.81	0.86	1.10	0.68

# U.S. Equity Performance: 2Q22

## Worst first half since 1970

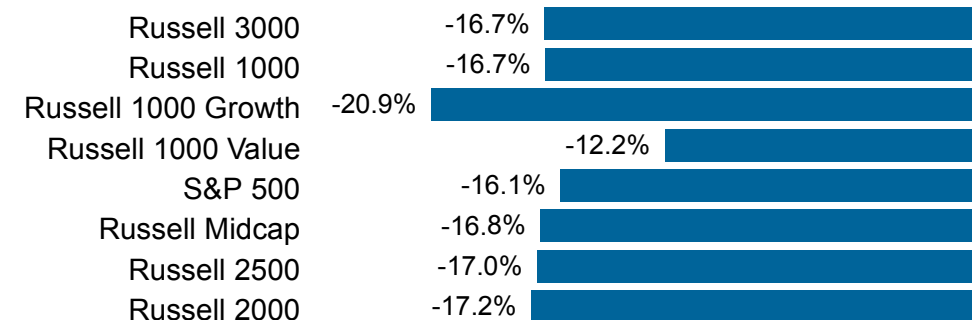
- The S&P 500 dropped by 16.1% in 2Q22; all major U.S. indices across styles and market cap ranges were negative in the quarter.
- All sectors posted negative returns over the quarter. Energy continues to be the best-performing sector, and it is the only sector that has posted positive returns YTD 2022.
- Large cap stocks nominally outpaced smaller cap stocks in the quarter. The performance spread between the Russell 1000 and the Russell 2000 Index was around 50 basis points.
- Value stocks have outperformed growth stocks across the market capitalization spectrum.
- Consumer Discretionary (-26%), Communication Services (-21%), and Information Technology (-20%) were the worst-performing sectors.
- Rising interest rates and inflation along with geopolitical headlines all contributed to a volatile and risk-averse environment.

### Industry Sector Quarterly Performance (S&P 500)

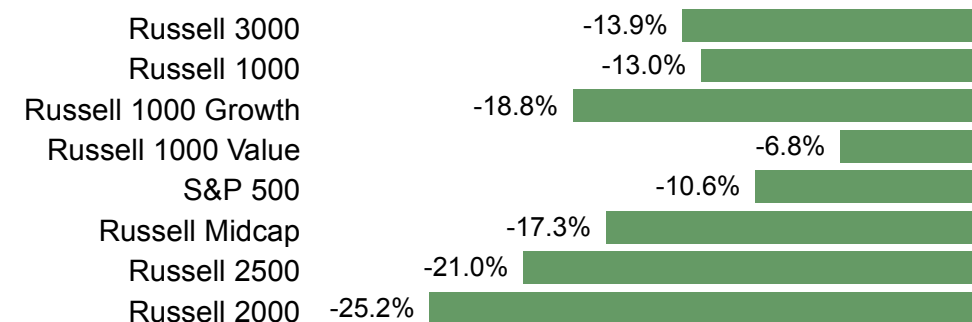


Sources: FTSE Russell, Standard & Poor's

### U.S. Equity: Quarterly Returns



### U.S. Equity: One-Year Returns



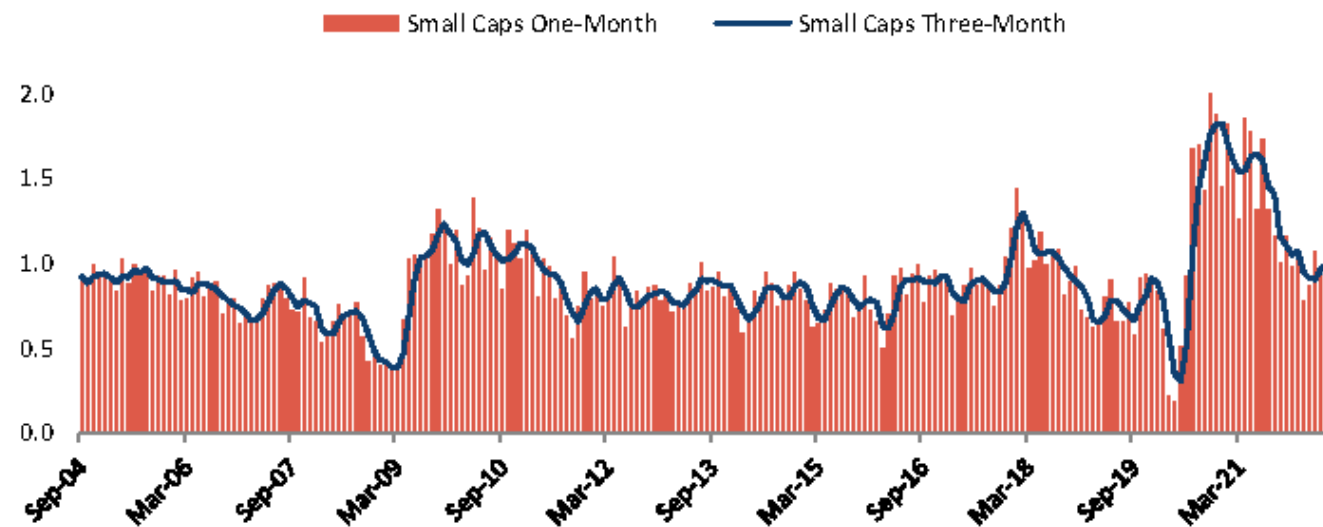
# U.S. Equity Key Theme

## Market valuations

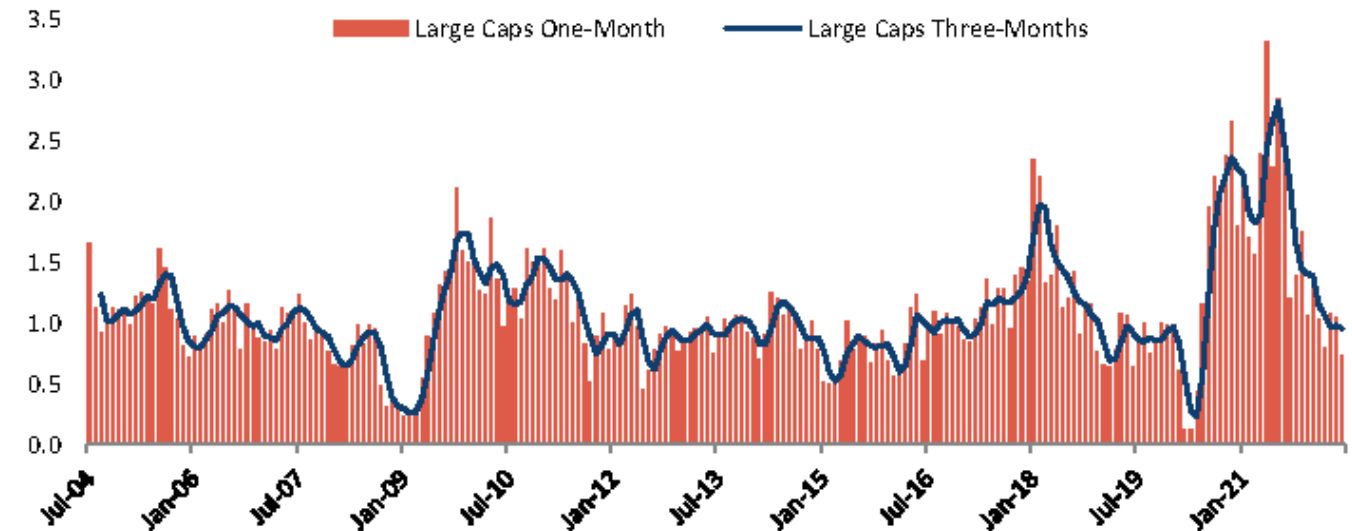
- Against the backdrop of a potential economic slow-down, sell side analysts have been revising corporate earnings lower.
- Longer-duration growth assets, such as growth stocks, are vulnerable during periods of high inflation because of higher interest rates discounting way-out future earnings.

## Earnings Revisions Have Drifted Lower for Both Small and Large Caps

Small Cap Earnings Revision Ratio



Large Cap Earnings Revision Ratio



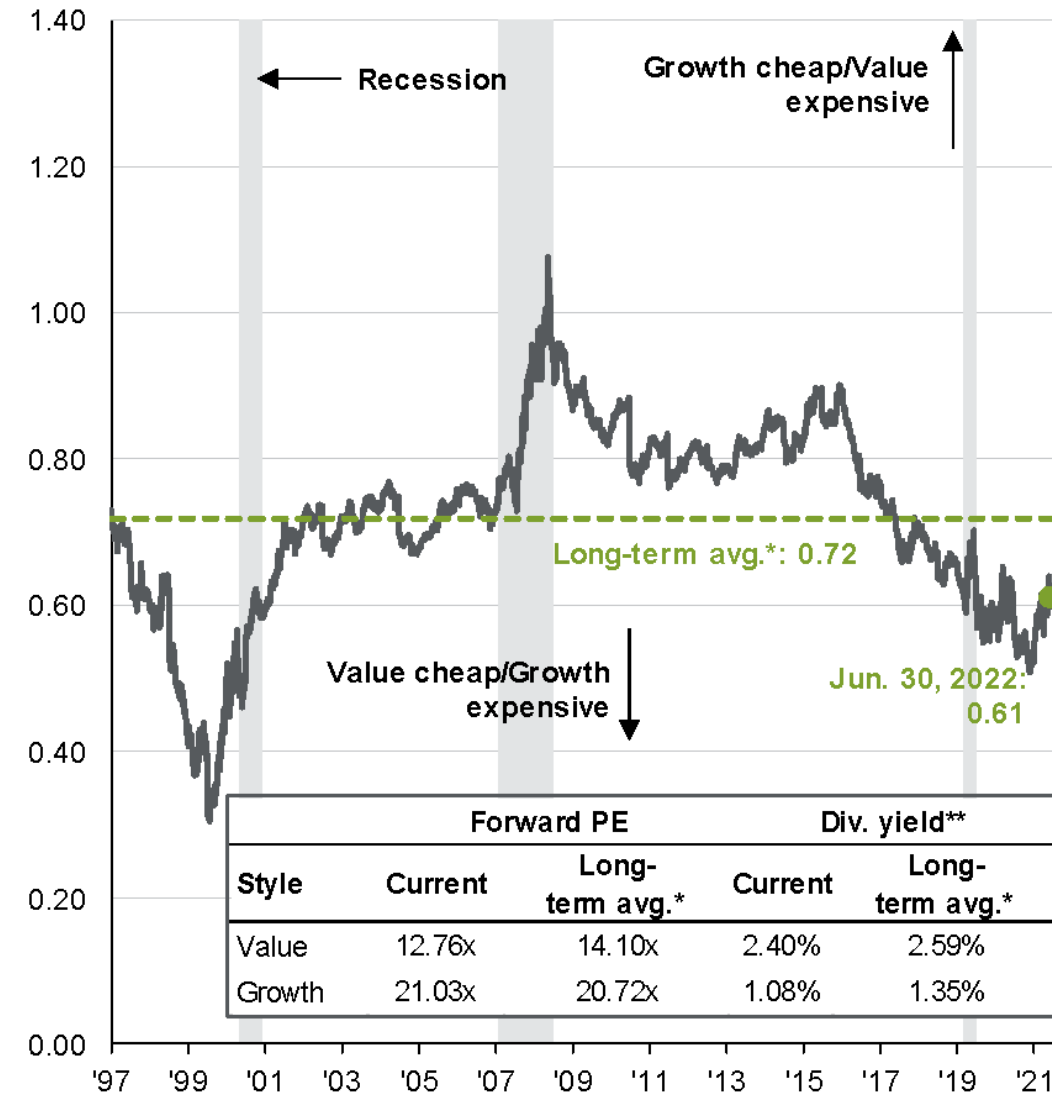
Source: Jefferies and J.P. Morgan

# U.S. Equity Key Theme

## Value stocks are still cheap but the gap has tightened

- In 2Q, value stocks meaningfully outperformed growth stocks across the market capitalization spectrum. The performance dispersion between large growth, mid growth, and small growth was minimal.
- Value P/E ratios relative to growth stocks still indicate that value is cheap. However, the valuation gap has narrowed.
- Historically, value stocks have performed better in rising rate and inflationary environments.

**Value vs. Growth Relative Valuations**  
Relative forward P/E ratio of Value vs. Growth (1997-2Q22)



Source: JP Morgan

# Global ex-U.S. Equity Performance Q1 2022

## War in Ukraine stoked market volatility

- In the aftermath of invading Ukraine, Russia faced condemnation and sanctions that crippled its stocks, bonds, and currency and shocked the global markets.
- The fog of war exacerbated inflationary concerns and led energy prices to surge as Russia is the second-largest natural gas provider and the third-largest oil producer in the world.
- Energy exporters notably outperformed importers.

### Fears of COVID-19

- A resurgence of COVID-19 cases in Europe and Asia, specifically in China, weighed on global recovery.
- China's zero-COVID policy has injected doubt into the 2022 GDP growth projection of 5.5%, already its lowest annual target in more than 25 years.

### Growth vs. value

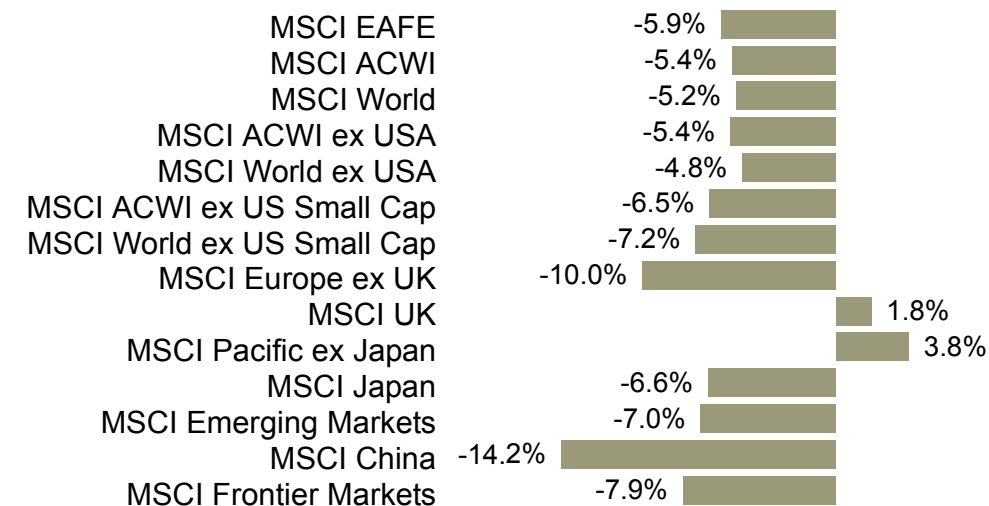
- Value sectors such as Energy, Materials, and Financials were in favor relative to growth sectors like Consumer Discretionary and Information Technology due to a combination of recession fears and tightening monetary cycle.
- However, Energy was the worst performer within Emerging Markets due to the removal of Russia from indices with effectively zero value.

### U.S. dollar vs. other currencies

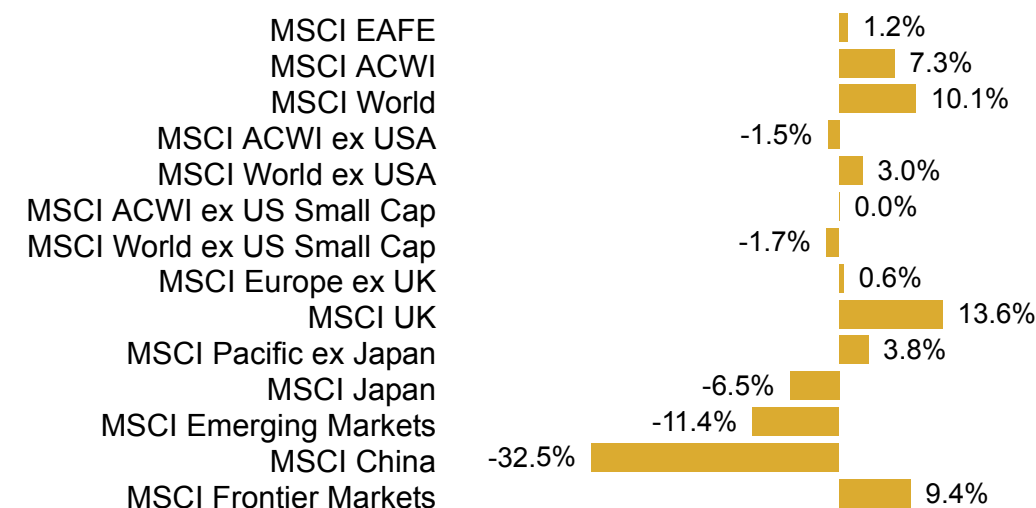
- With the uncertainty of war, the U.S. dollar strengthened against other major currencies.

Source: MSCI

## Global Equity: Quarterly Returns



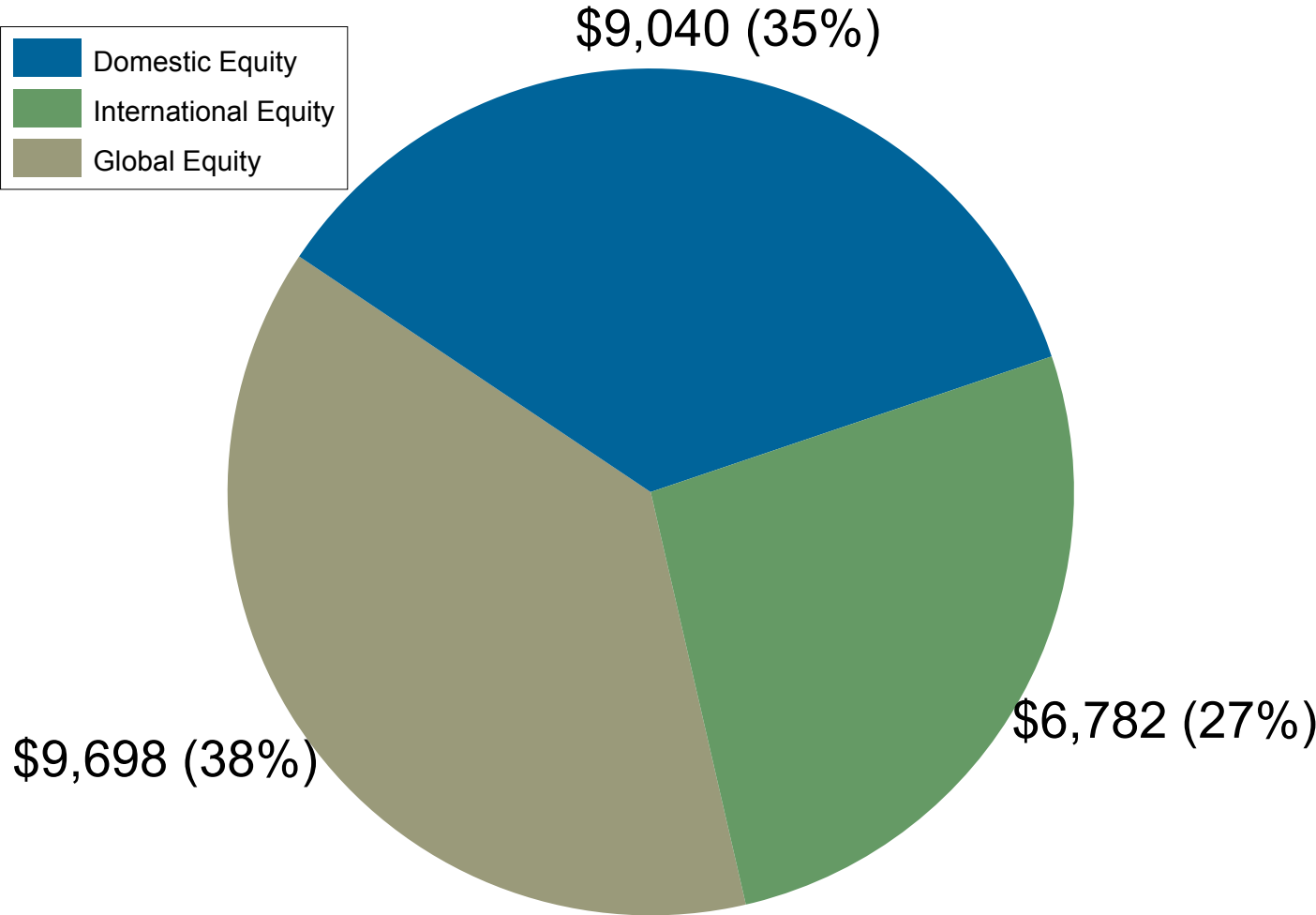
## Global Equity: Annual Returns



# APFC Public Equity Structure

As of June 30, 2022

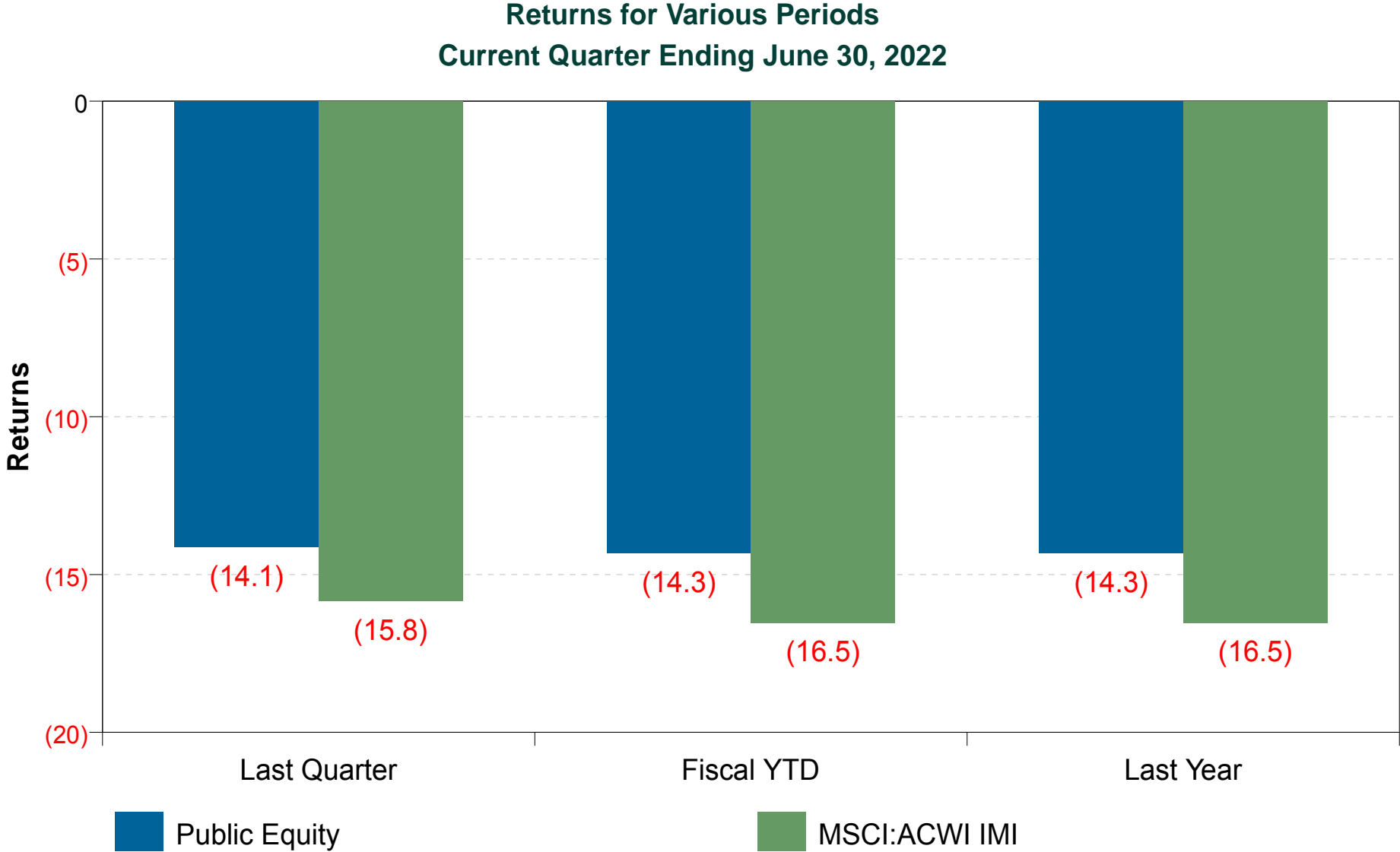
- APFC Public Equity portfolio has a weighting of roughly 58% in US equity, and 42% in non-US equity.
- The MSCI ACWI IMI benchmark has a weighting of roughly 60% in US equity, and 40% in non-US equity.
- The median allocation to US equity across public equity portfolios in Callan’s Large Public Fund Sponsor database is roughly 59%.



# APFC Public Equity vs. MSCI ACWI-IMI

Periods Ended June 30, 2022

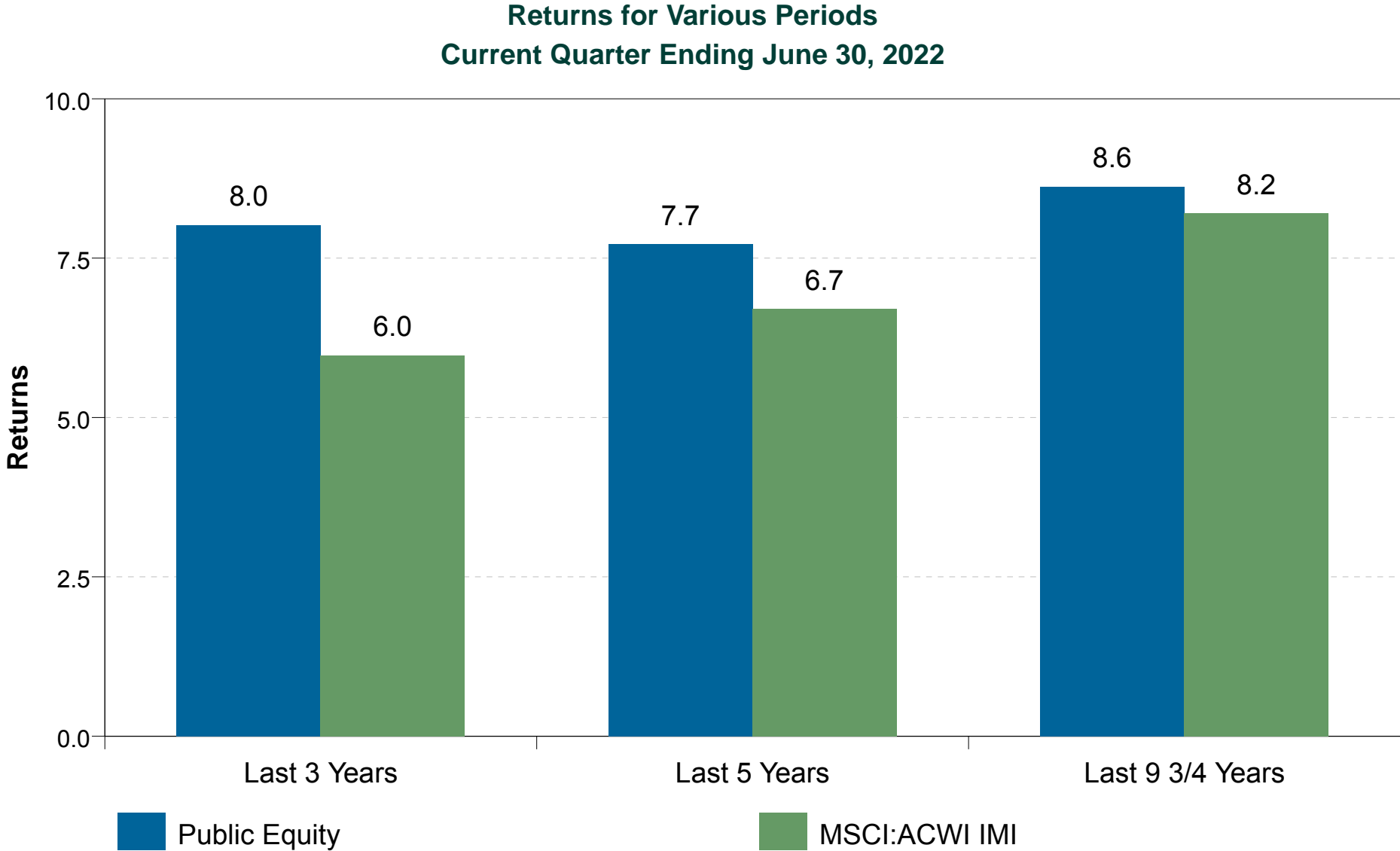
- APFC Public Equity portfolio outperformed the MSCI ACWI IMI index for the quarter and year.
- Domestic, International, Global Equity composites ended ahead of their respective benchmarks in the latest quarter and trailing year.



# APFC Public Equities Performance vs. MSCI ACWI-IMI

Periods Ended June 30, 2022

- Public Equities exceeded the benchmark over the intermediate and long-term. Domestic Equity lagged the most within Public Equities.
- Overall, the portfolio is well diversified across regions, countries, and underlying strategies.

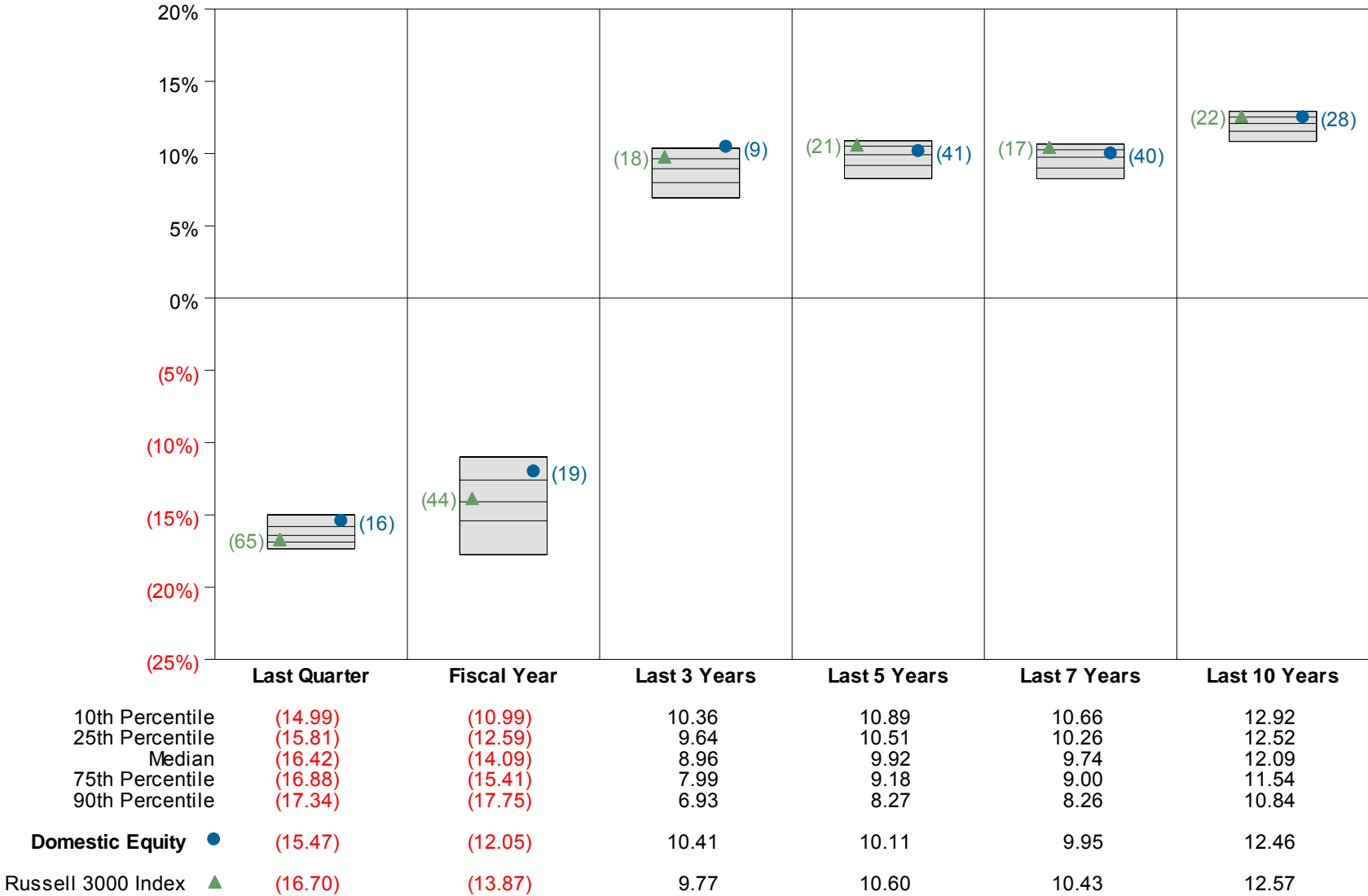


# APFC US Equity Performance vs. Fund Sponsor US Equity

Periods Ended June 30, 2022

- The universe is comprised of total domestic equity portfolios of large institutional investors in Callan's Fund Sponsor Database.
- APFC US Equity portfolio ended the recent quarter and year ahead of its benchmark.
- When compared to US Equity portfolios of other large institutional investors, APFC's US Equity composite ranked above median in all periods.

Performance vs Fund Sponsor - Domestic Equity (Gross)



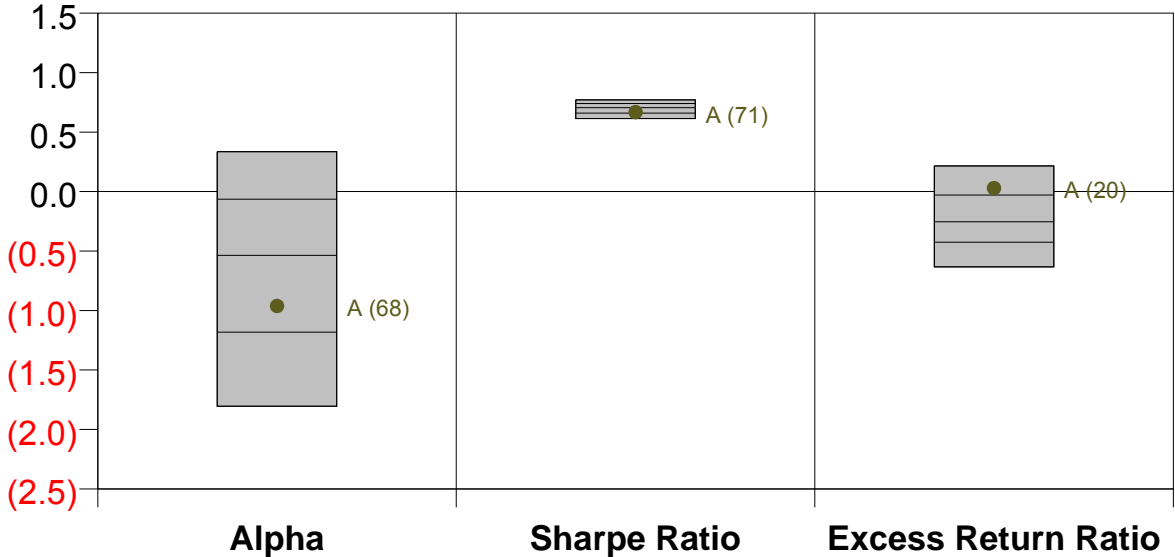
# APFC US Equity Portfolio Risk Adjusted Return Rankings

Ten Years Ended June 30, 2022

- The universe is comprised of total domestic equity portfolios of large institutional investors in Callan’s Fund Sponsor Domestic Equity Database.
- For the trailing ten-year period, APFC portfolio ranked below median for alpha and Sharpe ratio, and above median for excess return ratio.

- Alpha measures contribution to performance – portfolio’s return above index adjusted for risk.
- Sharpe Ratio represents return gained per unit of risk taken (return/risk).
- Excess Return Ratio measures alpha (return above benchmark) divided by tracking error (risk versus benchmark).

**Risk Adjusted Return Measures vs Russell 3000 Index  
Rankings Against Fund Sponsor Domestic Equity Database**

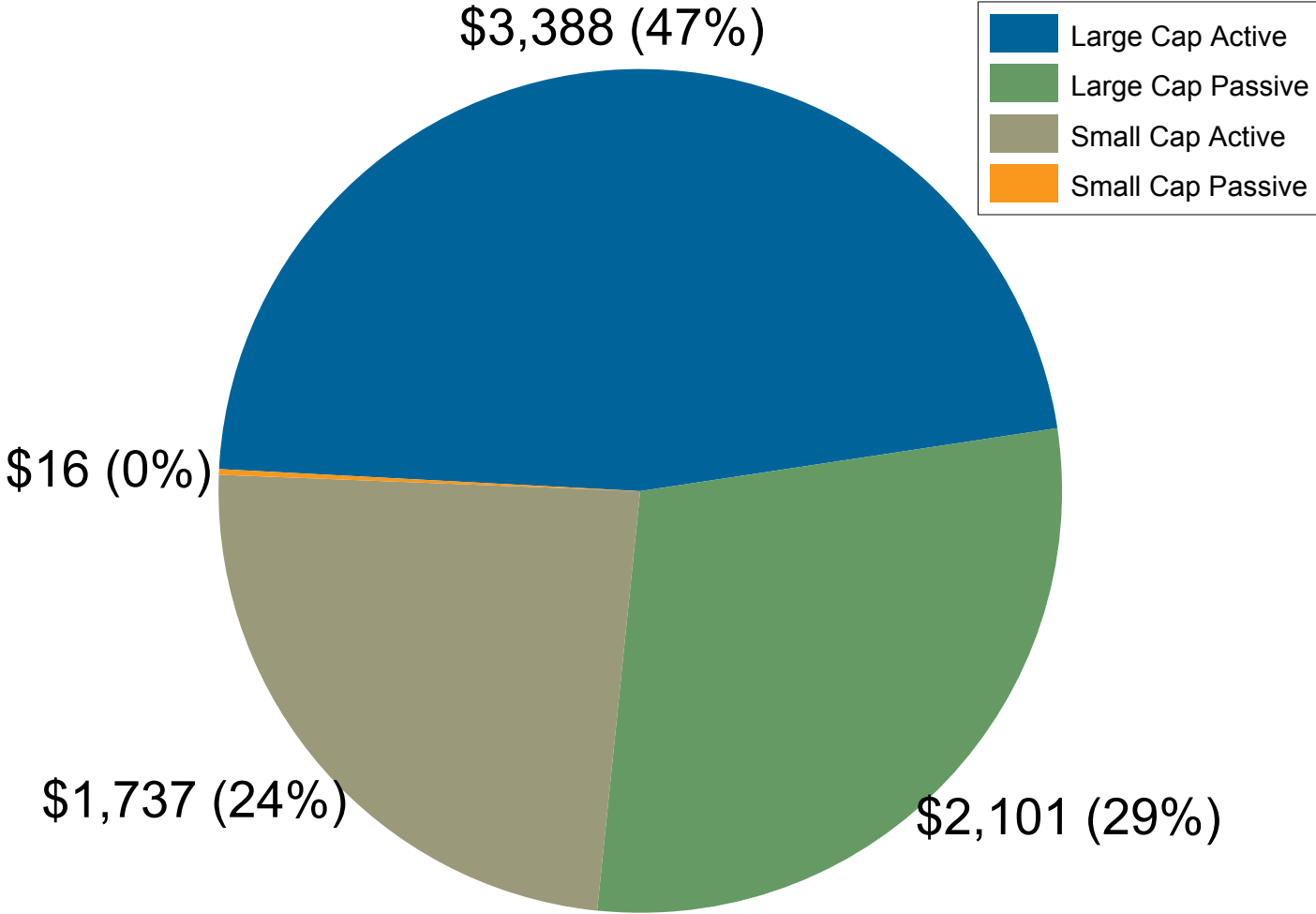


	Alpha	Sharpe Ratio	Excess Return Ratio
10th Percentile	0.34	0.77	0.22
25th Percentile	(0.06)	0.74	(0.03)
Median	(0.53)	0.71	(0.25)
75th Percentile	(1.18)	0.66	(0.42)
90th Percentile	(1.80)	0.62	(0.63)
<b>Domestic Equity ● A</b>	<b>(0.96)</b>	0.67	0.03

# APFC US Equity Structure

As of June 30, 2022

- US equity portfolio is roughly 71% actively managed and 29% passive (or quasi-passive).
- Roughly 62% of the large cap allocation is actively managed while 99% of the small cap allocation is actively managed.

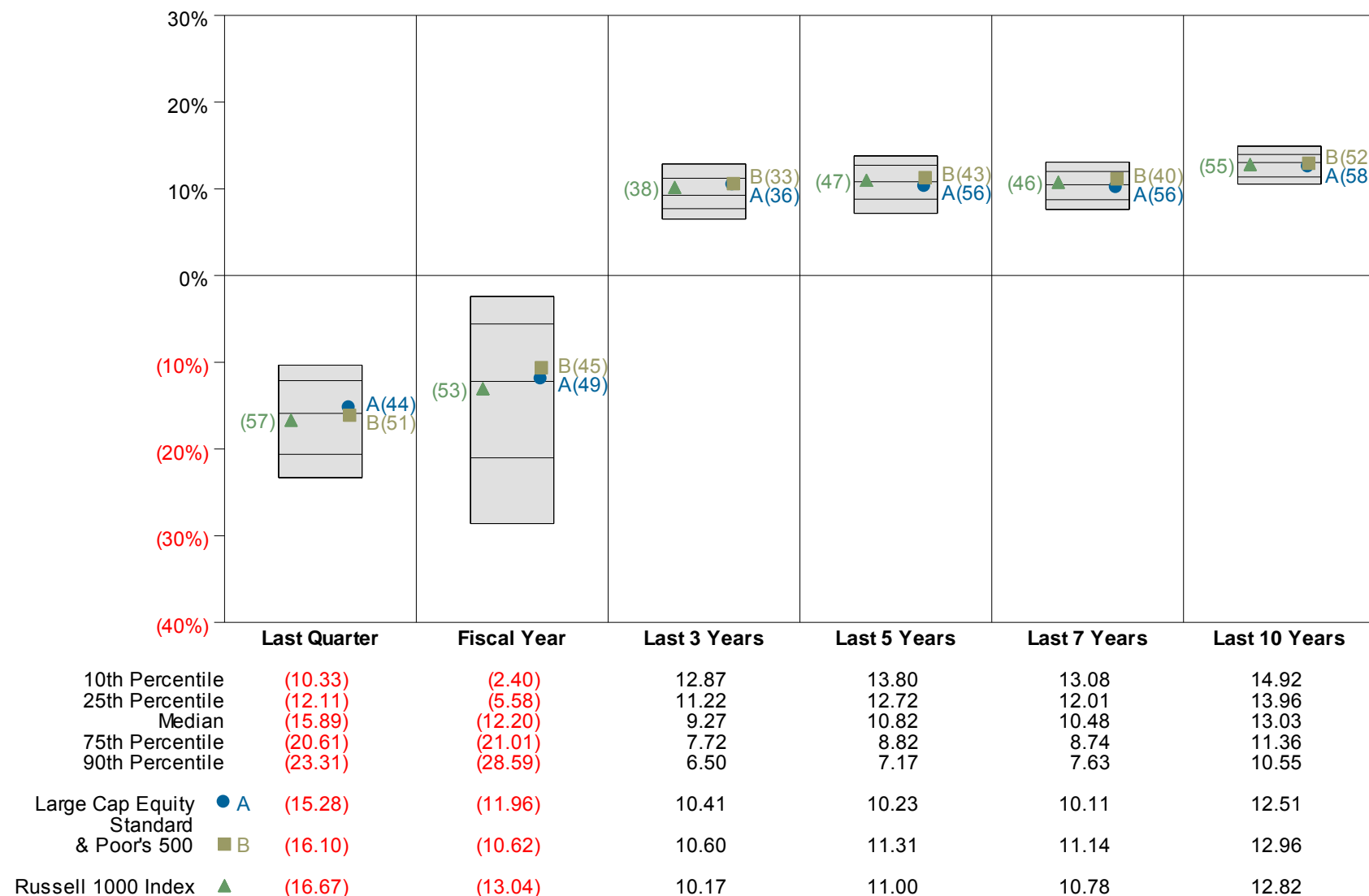


# APFC Large Cap Equity Relative to Large Cap Universe

Periods Ended June 30, 2022

- APFC's Large Cap portfolio outperformed its benchmark over the quarter and year.
- Over the short-term periods, the portfolio ranked above median within the large cap universe. Over longer-term periods, the portfolio ranked just below median.
- Performance from the APFC US Tactical Tilt portfolios and internal portfolio positively impacted relative performance over the quarter and year.

Performance vs Callan Large Capitalization (Gross)

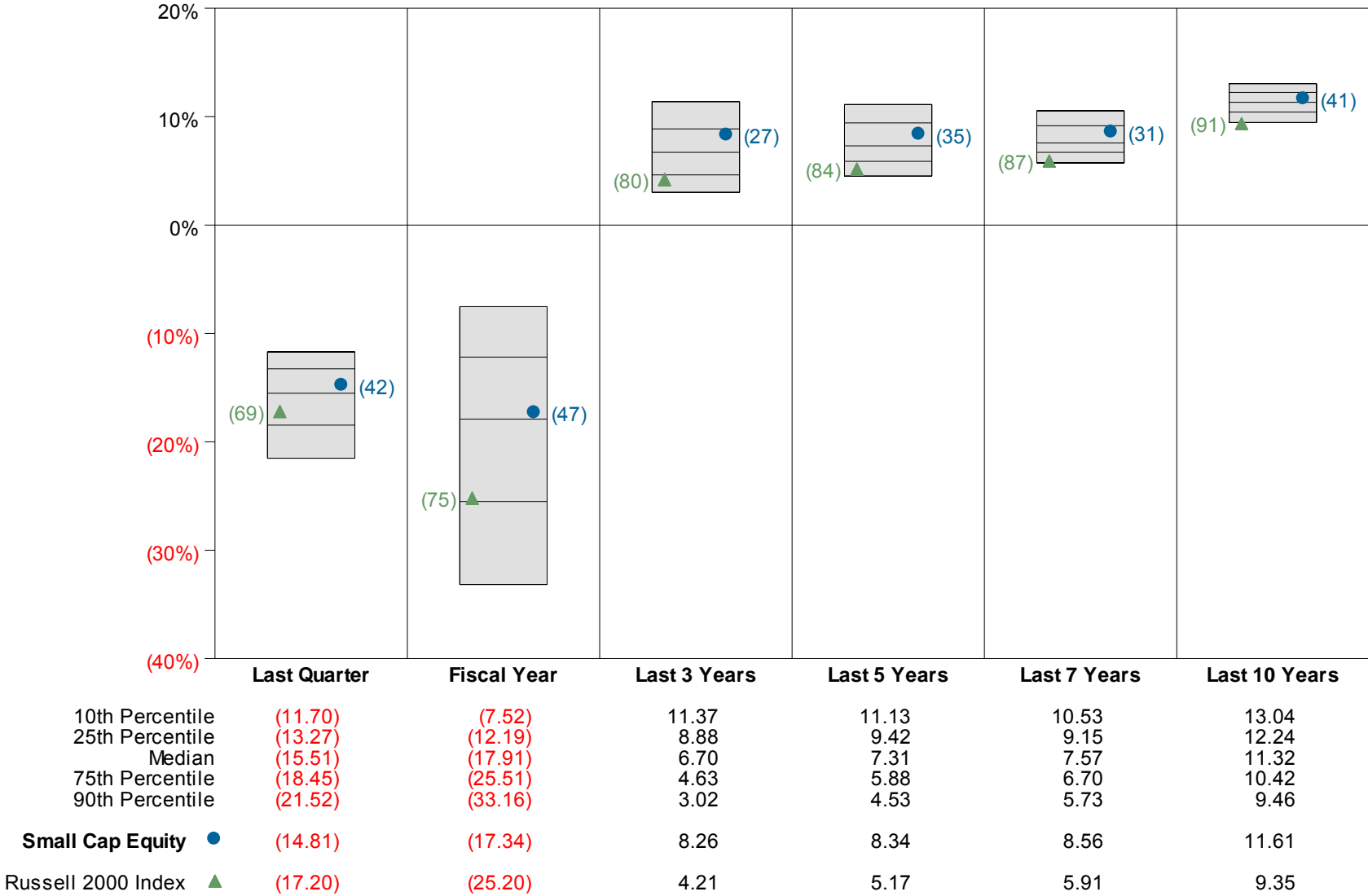


# APFC Small Cap Equity Relative to Small Cap Universe

Periods Ended June 30, 2022

- APFC small cap portfolio outperformed the Russell 2000 for the quarter and year, and ranked above its peer group median.
- In all other standard time periods, the portfolio ranked above median in the small cap universe and was ahead of the benchmark.

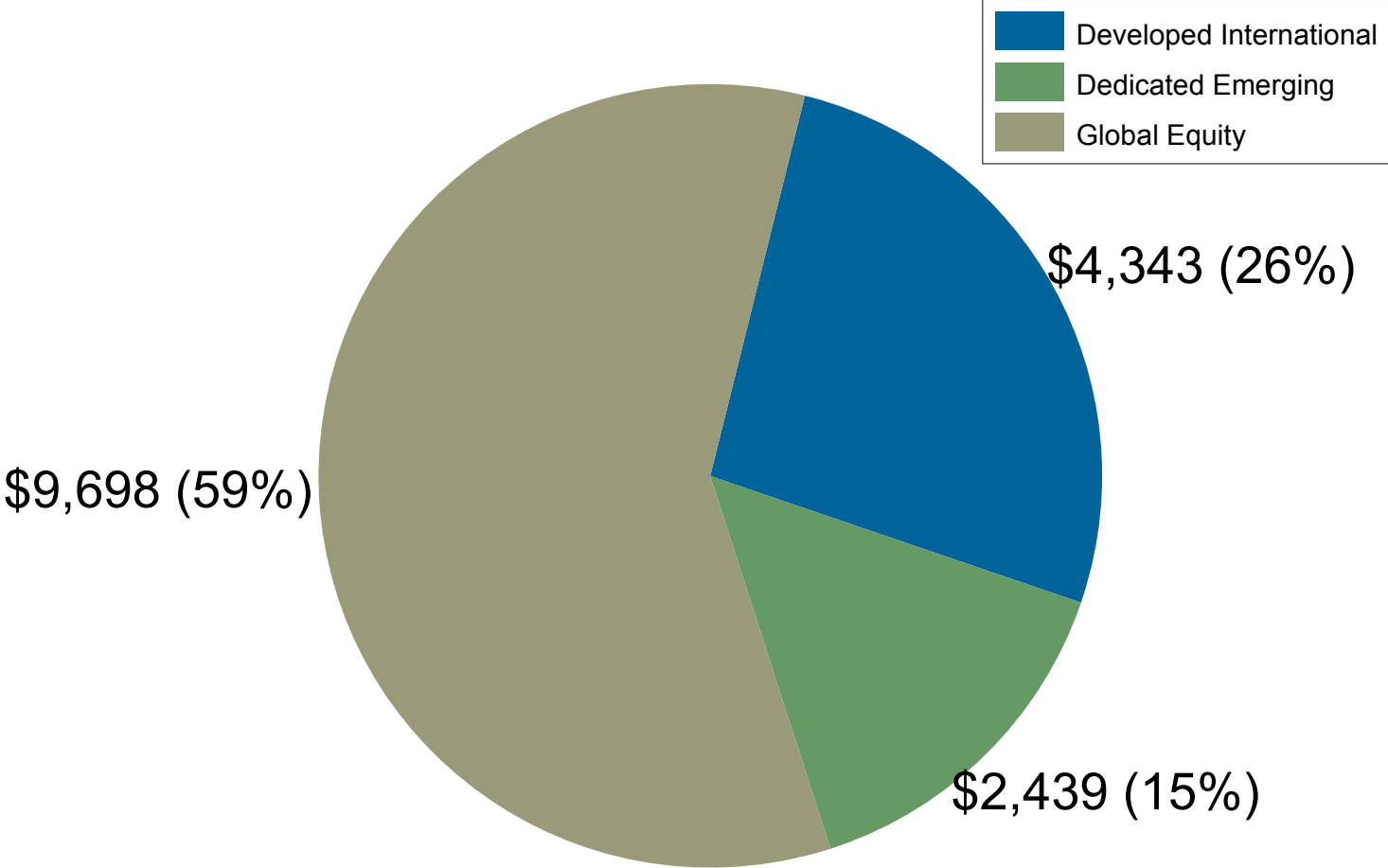
Performance vs Callan Small Capitalization (Gross)



# APFC Non-US and Global Equity Structure

As of June 30, 2022

- Portfolio is divided between global, non-US, and emerging markets mandates.
- Both global and non-US equity managers invest in emerging markets.
- Global managers invest in US markets as part of their mandate.

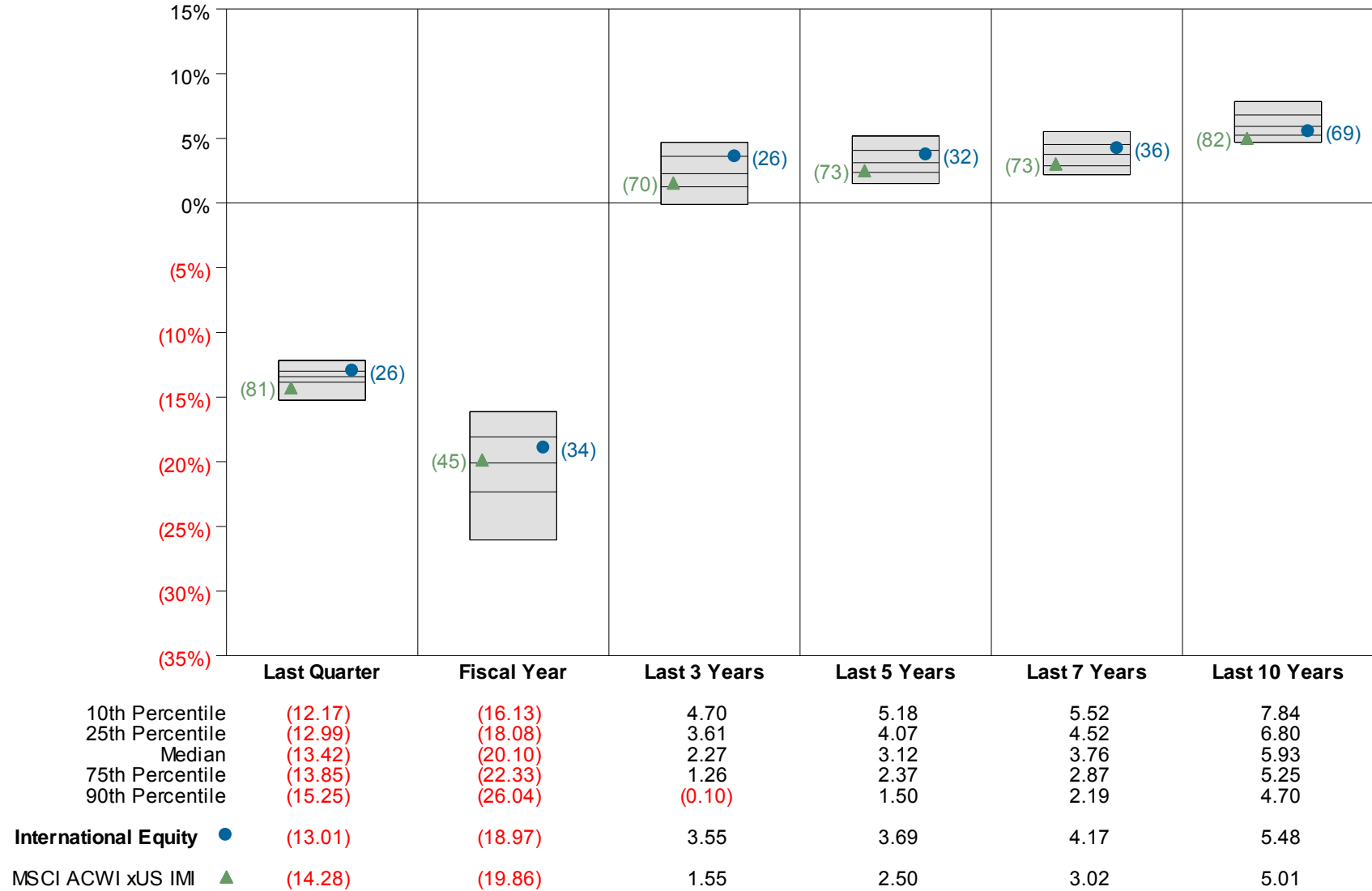


# APFC International Equity Relative to Fund Sponsor Universe

Periods Ended June 30, 2022

- International Equity ended the quarter and year ahead of its benchmark and peer group median.
- In periods outside the year, the portfolio outperformed its benchmark.
- Relative to other fund sponsor portfolios, International Equity ranked above median for all periods other than the 10-year period.

Performance vs Fund Sponsor - International Equity (Gross)

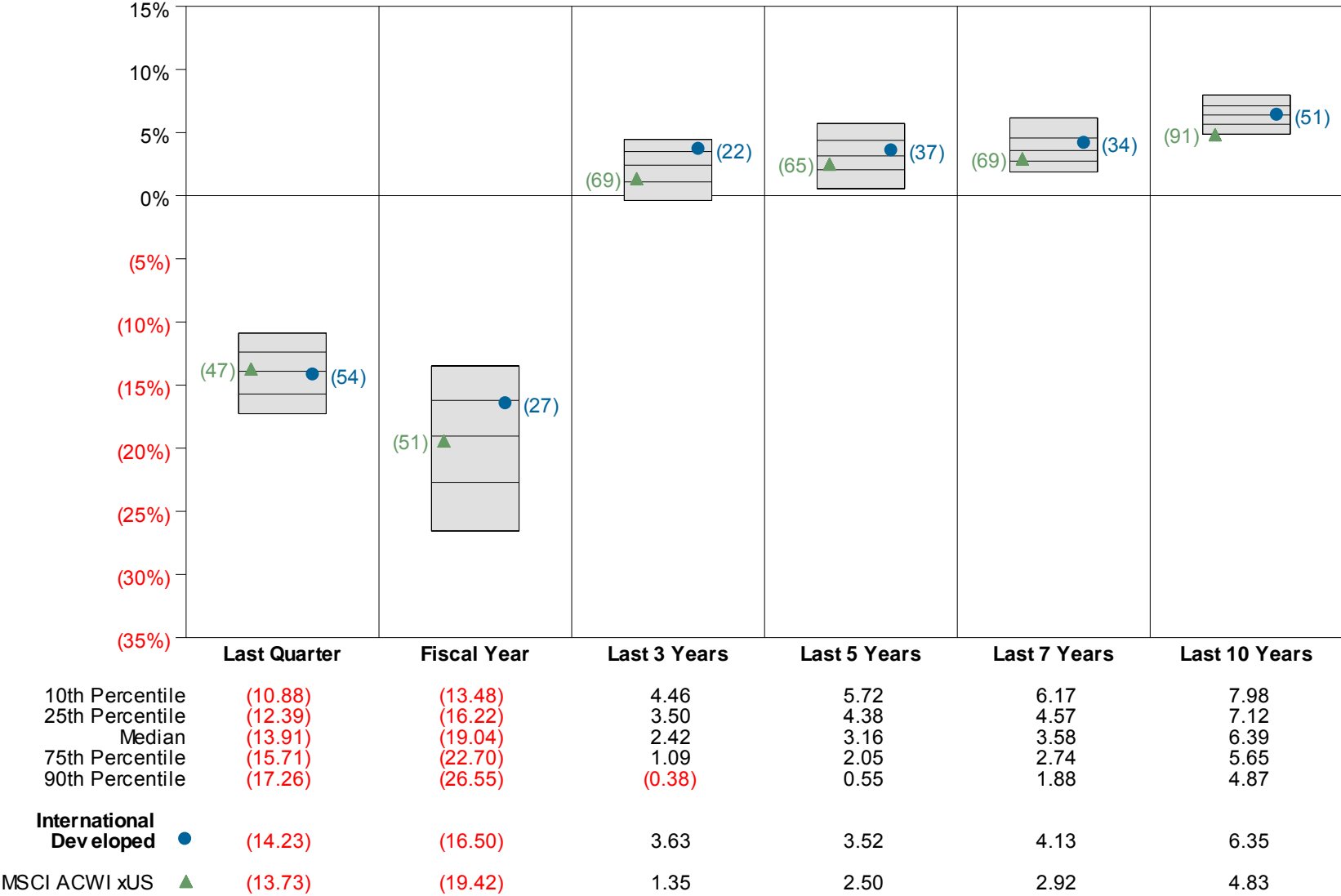


# APFC Int’l Developed Equity Relative to Non-US Equity Universe

Periods Ended June 30, 2022

- The International Developed portfolio ended the quarter behind its benchmark and peer group, but outperformed over the fiscal year period.
- The portfolio continued to show strong performance relative to its benchmark across all other time periods.
- The portfolio ranked above median for most time periods and near median for the 10-year period.

Performance vs Callan Non-US Equity (Gross)

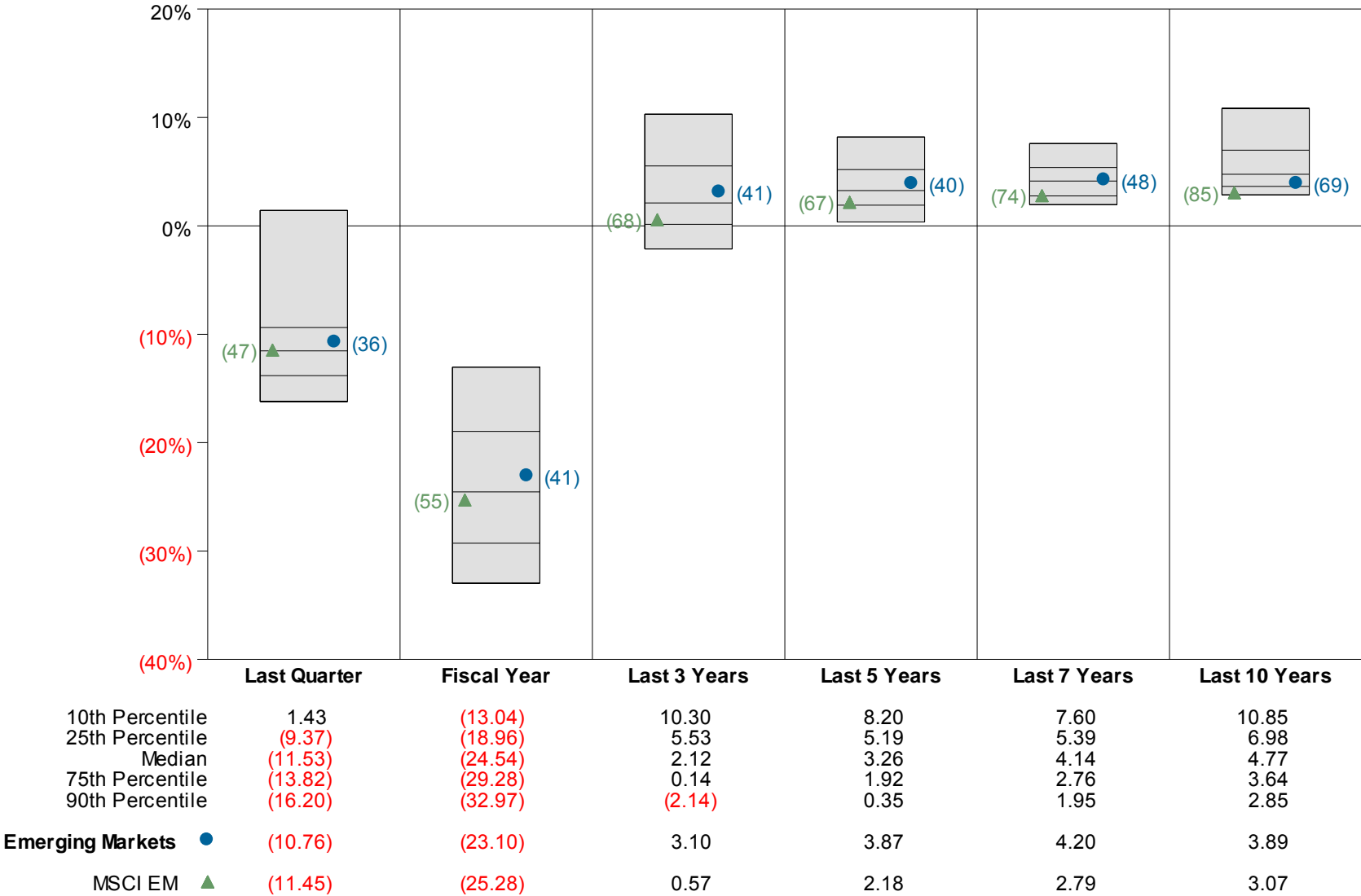


# APFC Emerging Markets Equity Relative to EM Universe

Periods Ended June 30, 2022

- APFC Emerging Markets Equity portfolio experienced a shallower decline than its benchmark over the quarter and trailing year.
- The portfolio leads its benchmark across all standard periods.
- The portfolio sits above the median in all periods except the 10 year period.

Performance vs Emerging Markets Equity DB (Gross)

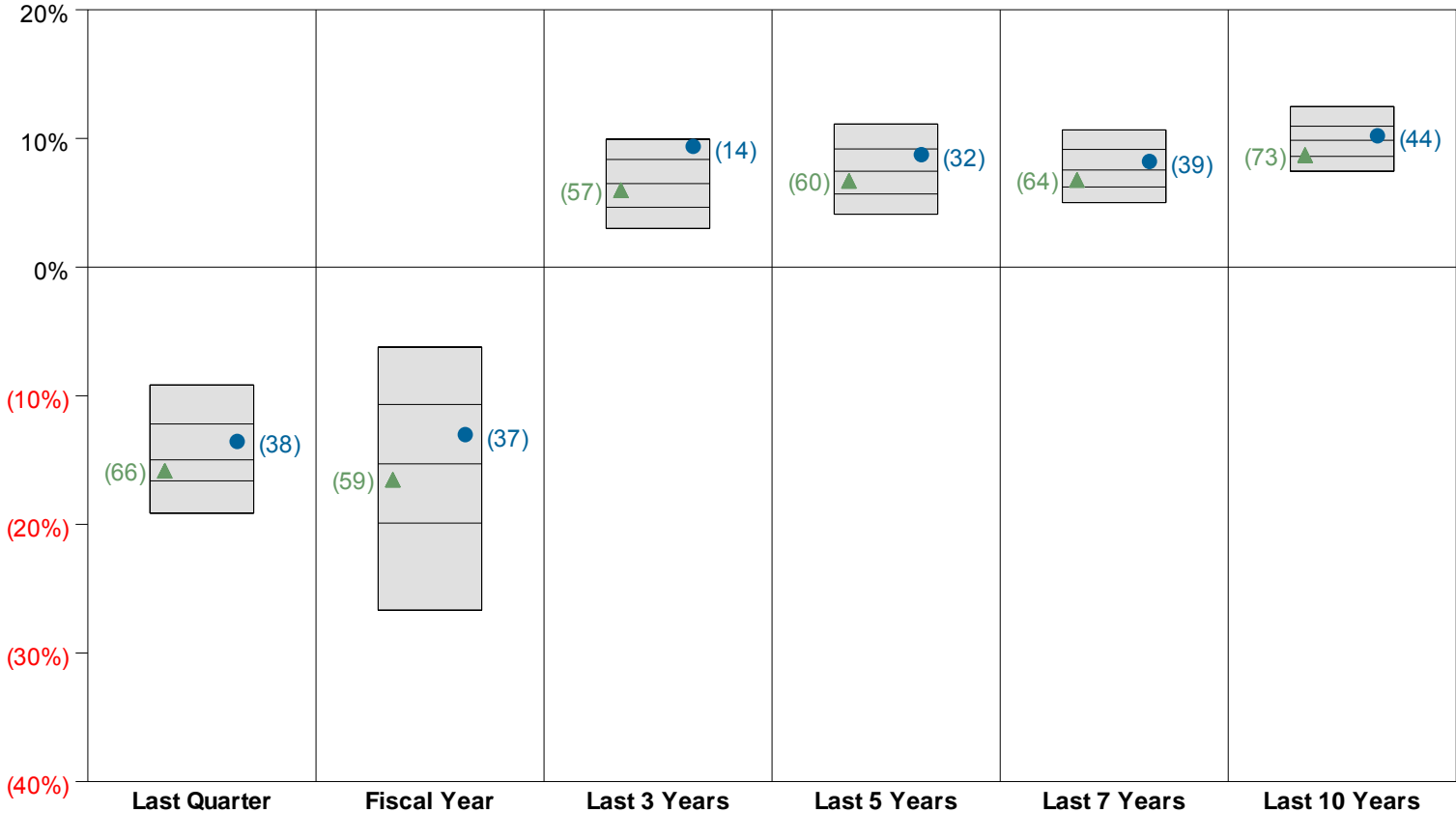


# APFC Global Equity Relative to Global Universe

Periods Ended June 30, 2022

- APFC Global Equity portfolio outperformed its benchmark and peer group for the quarter and year.
- The portfolio was ahead of its benchmark over all time periods and ranked above median for all time periods.
- Performance from the APFC Tactical Tilts portfolio positively impacted performance over the quarter, 1-, 3-, and 5-year.

Performance vs Global Equity Database (Gross)



	Last Quarter	Fiscal Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	(9.16)	(6.22)	9.94	11.13	10.66	12.48
25th Percentile	(12.20)	(10.68)	8.36	9.18	9.14	10.94
Median	(14.99)	(15.30)	6.49	7.46	7.54	9.85
75th Percentile	(16.61)	(19.91)	4.66	5.68	6.23	8.60
90th Percentile	(19.13)	(26.66)	3.01	4.10	5.02	7.45
<b>Global Equity</b> ●	(13.68)	(13.15)	9.25	8.61	8.09	10.07
MSCI ACWI IMI ▲	(15.83)	(16.52)	5.98	6.70	6.78	8.71

# U.S. Fixed Income Performance

## Second Quarter 2022

### Bonds hit hard as rates rose sharply (again)

- Worst six-month return for Bloomberg US Aggregate in history
- Yield curve flirted with inversion but 2-year/10-year yield spread was slightly positive at quarter-end.
- TIPS underperformed nominal Treasuries, and 10-year breakeven spreads fell to 2.33% from 2.84% at 3/31/22.
- Fed raised rates by 75 bps, the largest increase since 1994, with further hikes expected.
  - Market pricing reflects Fed Funds rate of 3.4% at year-end.*

### Spread sectors underperformed

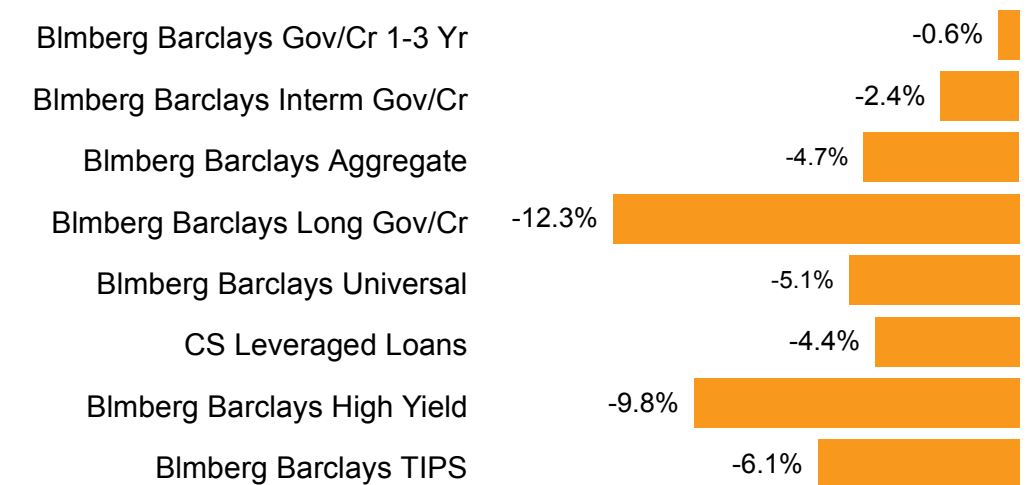
- Investment grade corporates underperformed like-duration U.S. Treasuries by 205 bps, RMBS by 98 bps.
- High yield underperformed as spreads widened; excess return vs. U.S. Treasuries was -792 bps.
  - Hurt by equity market performance and worries over the impact of higher rates on the economy*
- Leveraged loans held up relatively well with lower-quality credits generally underperforming.

### Securitized sectors continue to hang in

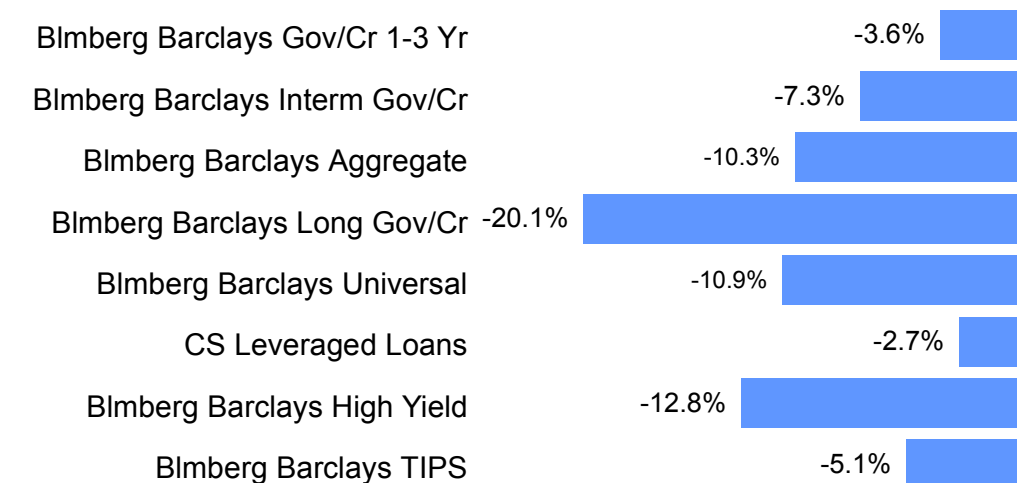
- Agency RMBS spreads widened in response to increased rate volatility.
- ABS spreads tightened, led by credit cards.

Sources: Bloomberg

### U.S. Fixed Income: Quarterly Returns



### U.S. Fixed Income: Annual Returns



# Global Fixed Income Performance

## Second Quarter 2022

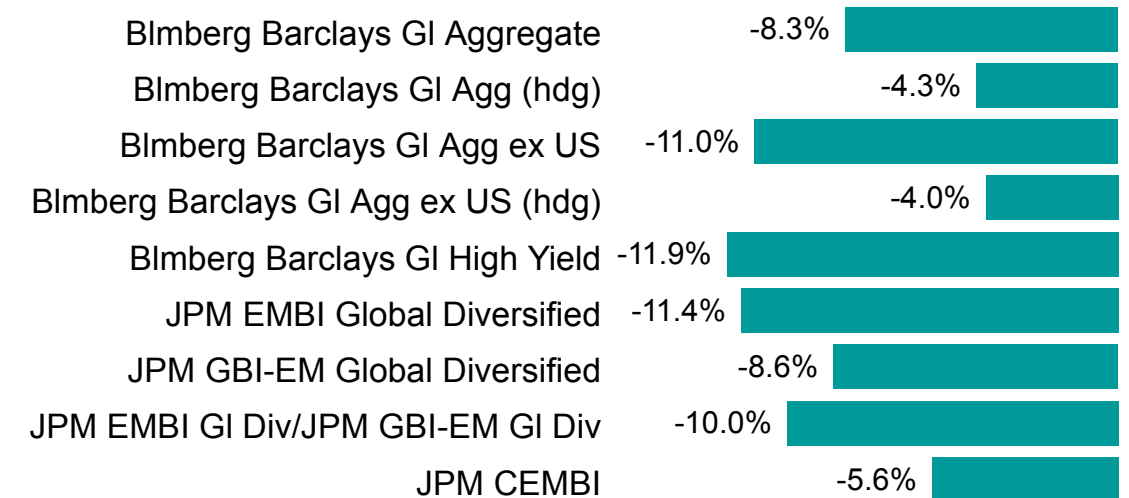
### Negative returns driven by broad interest rate increases

- U.S. dollar continued to appreciate vs. yen, euro, and pound.
- Double-digit negative returns were widespread across developed markets.

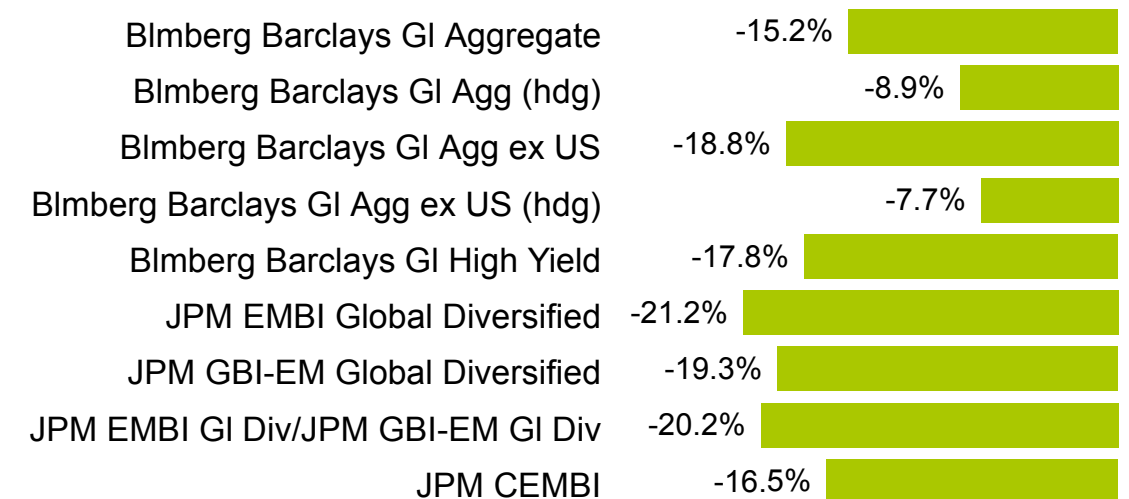
### Inflation and global recession fears drag on EMD

- All countries in the USD-denominated JPM EMBI Global Diversified Index posted negative returns, hurt by rising rates in the U.S.
- Local currency markets across the JPM GBI-EM Global Diversified were down only slightly, but USD strength eroded returns for U.S. investors.

### Global Fixed Income: Quarterly Returns



### Global Fixed Income: Annual Returns

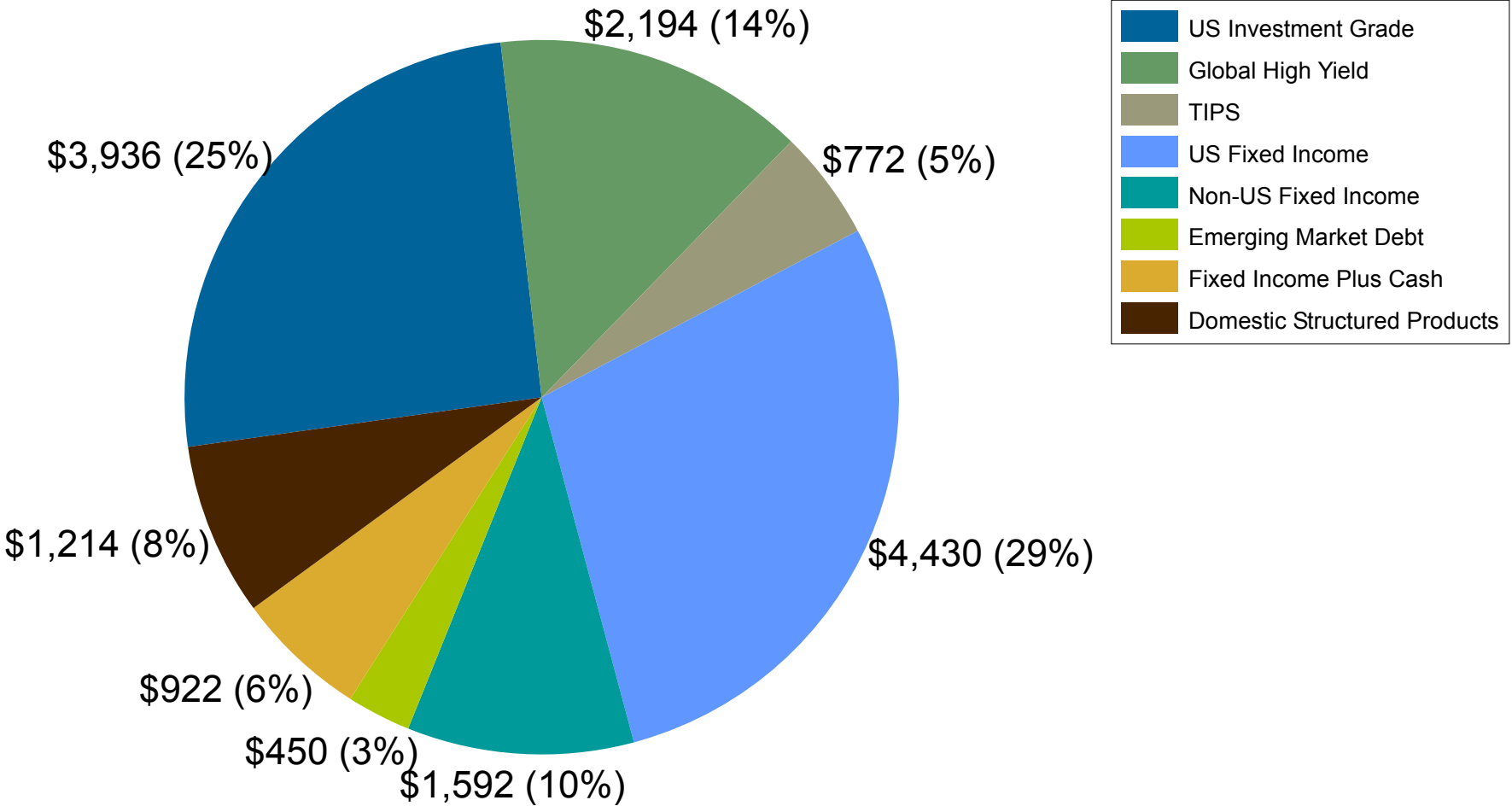


Sources: Bloomberg Barclays, J.P.Morgan

# APFC Fixed Income Structure

As of June 30, 2022

- Approximately 93% of the fixed income plus portfolio is managed internally, including allocations within Fixed Income Plus Cash, US Fixed Income Aggregate, US Investment Grade Corporate, Non-US Fixed Income, Structured Products, Emerging Market Debt and TIPS.
- External mandates focused, in specialty areas including Non-US Fixed Income, Global High Yield, and Emerging Market Debt began the liquidation process during the quarter.

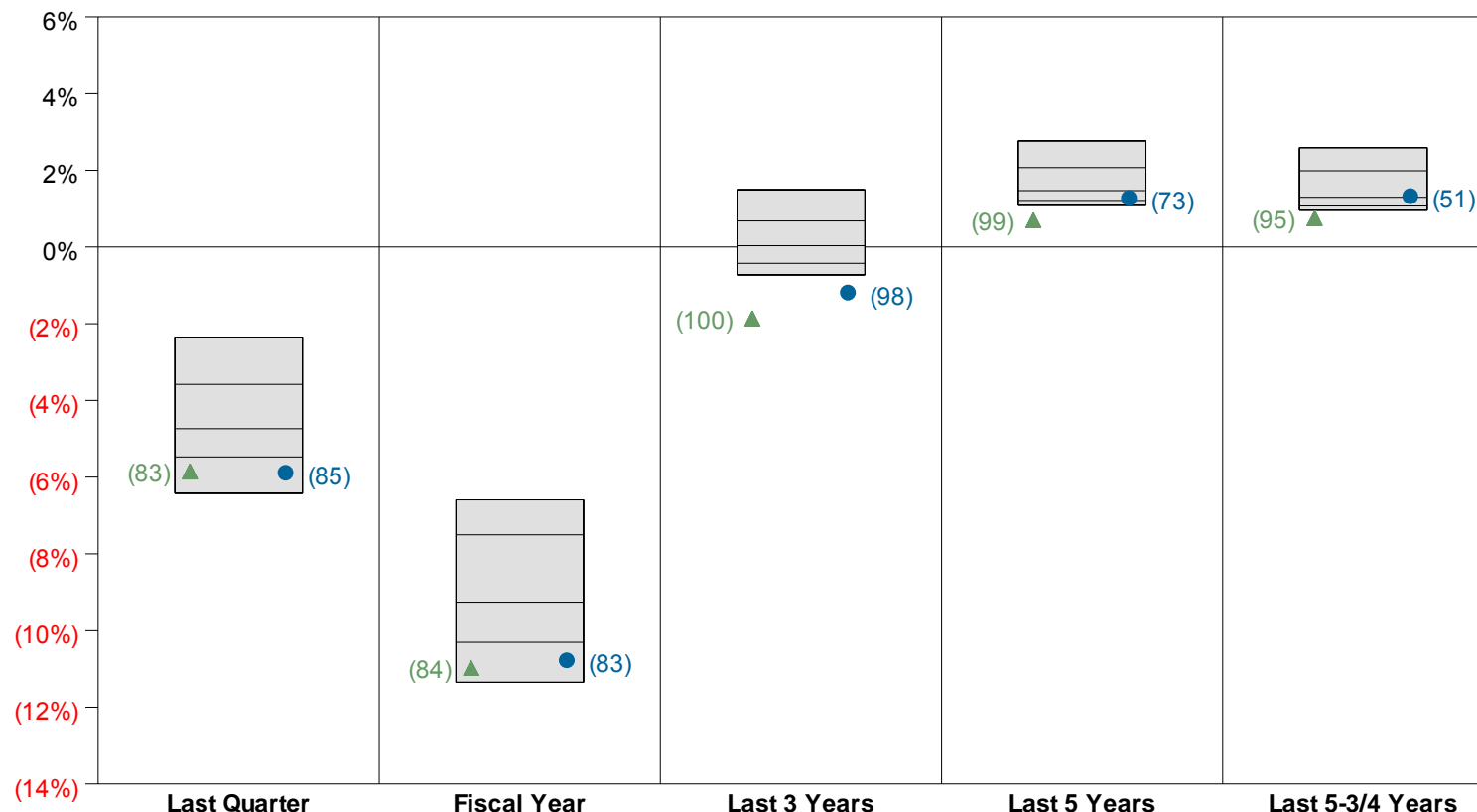


# Fixed Income Relative to Public Fixed Income Funds

Periods Ended June 30, 2022

Performance vs Public Fund - Domestic Fixed (Gross)

- The APFC Total Fixed Income portfolio slightly underperformed its benchmark over the quarter, but outperformed over the fiscal year. The portfolio ranked below median in both periods.
- The portfolio outperformed its benchmark over the 3- and 5-year periods, but ranked below the median over both periods.
- As a reminder, Total Fixed Income included REITs and Listed Infrastructure up to the end of the second quarter of 2020.



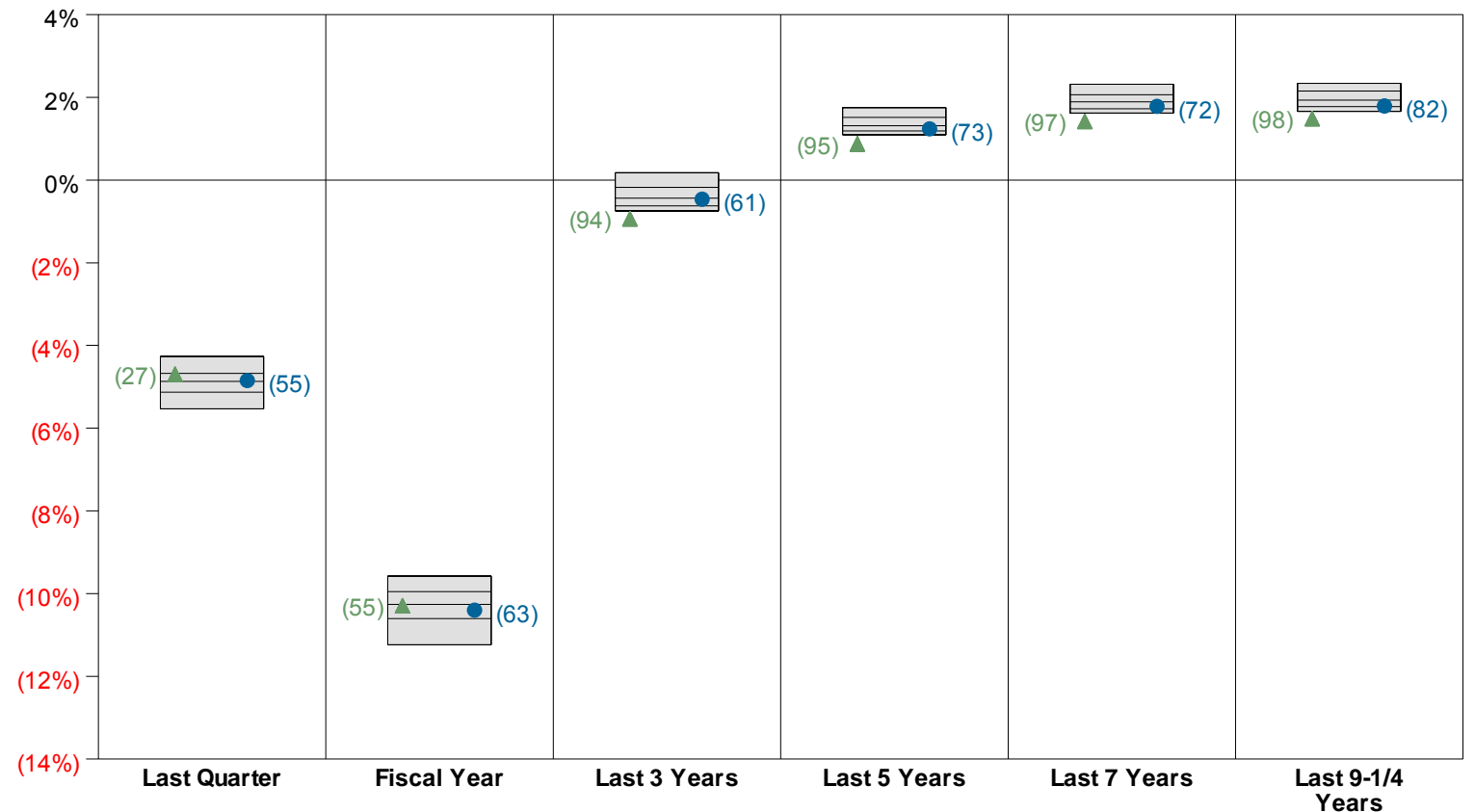
	Last Quarter	Fiscal Year	Last 3 Years	Last 5 Years	Last 5-3/4 Years
10th Percentile	(2.34)	(6.59)	1.49	2.77	2.59
25th Percentile	(3.58)	(7.51)	0.68	2.07	1.99
Median	(4.73)	(9.26)	0.03	1.47	1.30
75th Percentile	(5.47)	(10.30)	(0.43)	1.21	1.07
90th Percentile	(6.42)	(11.35)	(0.73)	1.09	0.96
Fixed Income	(5.93)	(10.82)	(1.23)	1.23	1.29
Fixed Income Benchmark	(5.85)	(10.97)	(1.86)	0.70	0.75

# US Fixed Income Aggregate Relative to Core Bond Funds

Periods Ended June 30, 2022

Performance vs Callan Core Bond Fixed Income (Gross)

- APFC US Fixed Income Aggregate portfolio fell behind its benchmark over the trailing quarter and year, but outperformed in all other periods.
- Peer ranks were below median for all periods.
- As a reminder, this strategy is far more benchmark-aware than the typical active manager in the Callan Core Bond peer group.



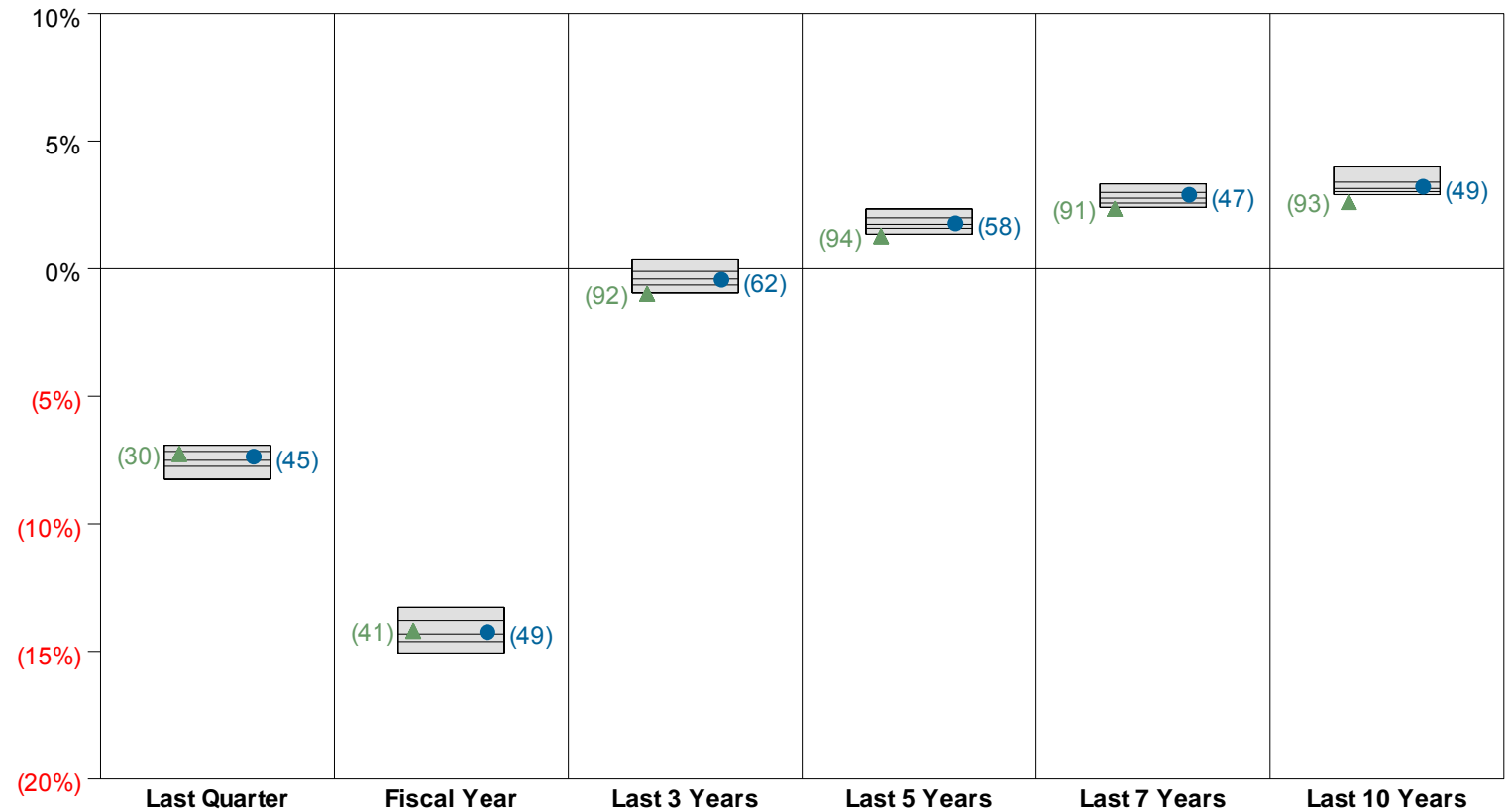
10th Percentile	(4.27)	(9.58)	0.18	1.75	2.32	2.34
25th Percentile	(4.68)	(9.95)	(0.18)	1.51	2.06	2.15
Median	(4.87)	(10.26)	(0.44)	1.31	1.89	1.93
75th Percentile	(5.13)	(10.60)	(0.62)	1.19	1.72	1.78
90th Percentile	(5.53)	(11.24)	(0.75)	1.09	1.62	1.66
<b>US Fixed Income Aggregate</b> ●	(4.89)	(10.44)	(0.50)	1.20	1.74	1.75
Blmbg Aggregate ▲	(4.69)	(10.29)	(0.93)	0.88	1.42	1.49

# US Investment Grade Corp Relative to Investment Grade Funds

Periods Ended June 30, 2022

- APFC US Investment Grade Corporate trailed its benchmark for the quarter and year, and ranked above median.
- The Investment Grade Corporate composite outperformed its benchmark over all other periods.

Performance vs Callan Investment Grade Credit Fixed Inc (Gross)



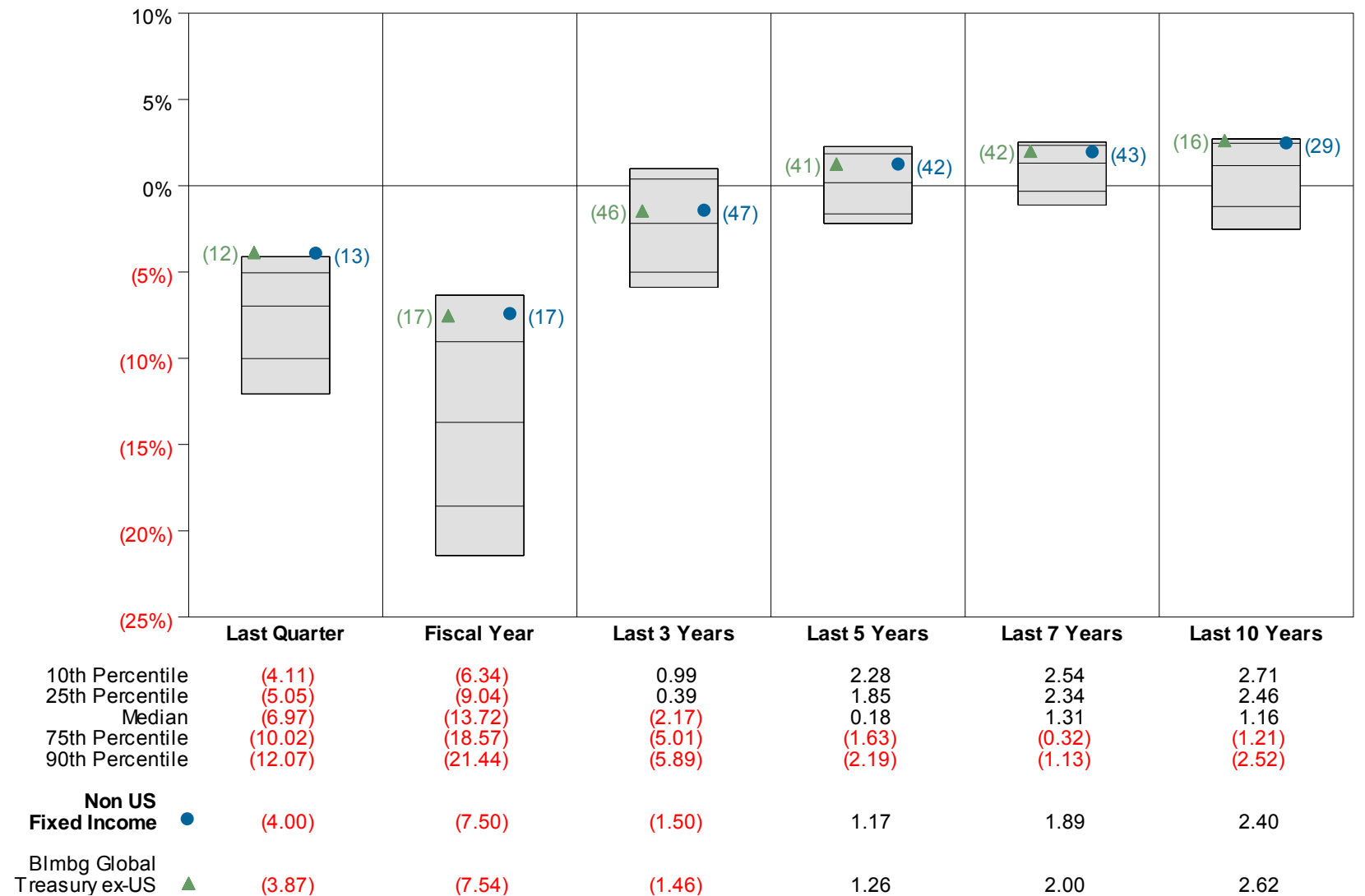
	Last Quarter	Fiscal Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	(6.92)	(13.27)	0.35	2.34	3.32	3.99
25th Percentile	(7.16)	(13.79)	(0.10)	2.00	2.99	3.40
Median	(7.51)	(14.32)	(0.41)	1.74	2.77	3.15
75th Percentile	(7.75)	(14.61)	(0.64)	1.59	2.58	3.02
90th Percentile	(8.25)	(15.06)	(0.95)	1.36	2.41	2.91
<b>US Investment Grade Corporate</b> ●	(7.43)	(14.31)	(0.51)	1.71	2.83	3.15
Blmbg Corporate ▲	(7.26)	(14.19)	(0.99)	1.28	2.35	2.62

# Non-U.S. Fixed Income Relative to International Fixed Income Funds

Periods Ended June 30, 2022

- The APFC Non-U.S. Fixed Income portfolio end the quarter behind its benchmark, but ahead on a relative basis for the year.
- Compared to peers, the portfolio ranked above median in all time periods.
- During the quarter, an external mandate managed by Rogge was liquidated and moved In-House.

Performance vs Public Fund - International Fixed (Gross)

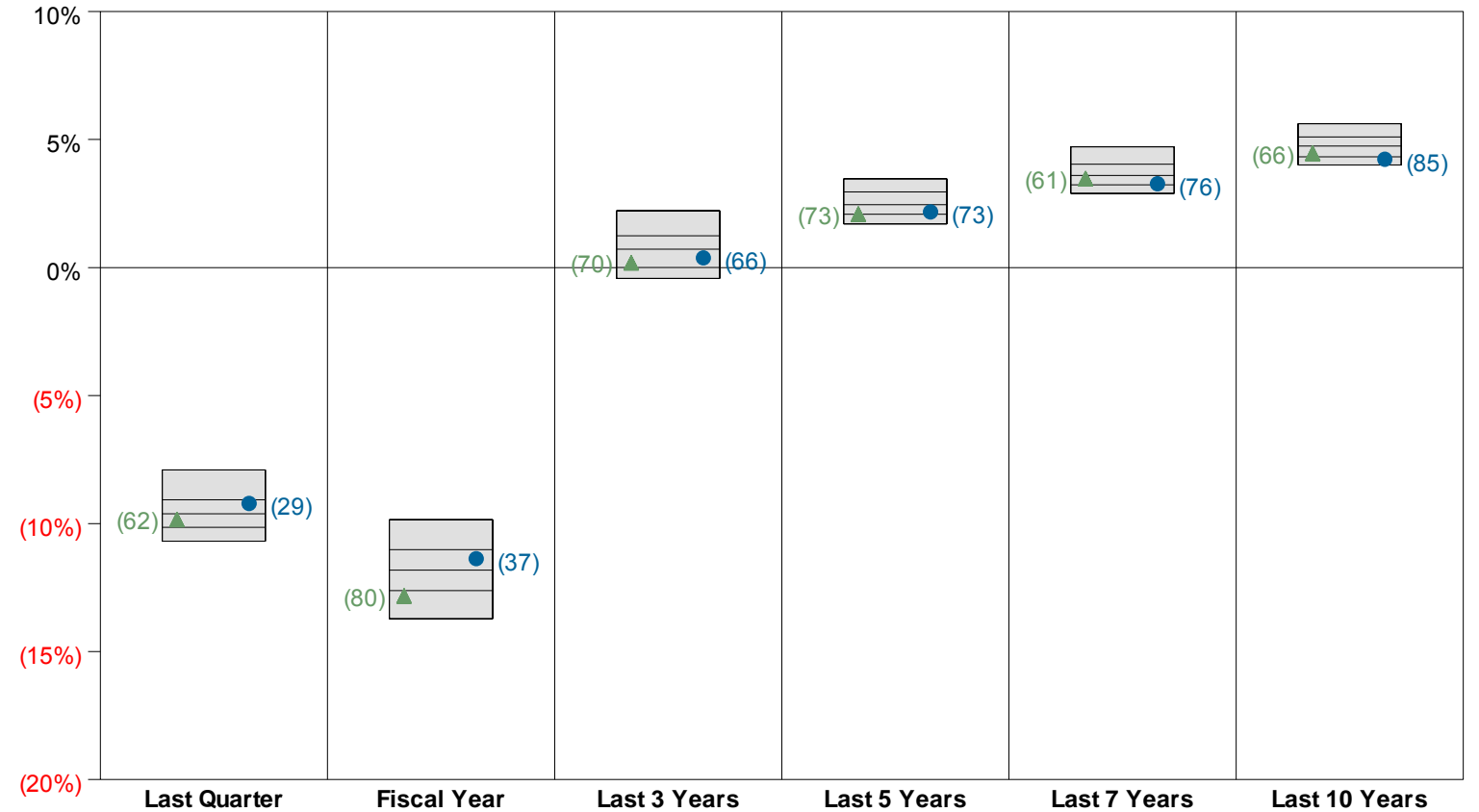


# Global High Yield Relative to High Yield Funds

Periods Ended June 30, 2022

- APFC Global High Yield portfolio outperformed versus its benchmark and peer group in the quarter and fiscal year.
- The portfolio ranked below median for all other reported periods.
- During the quarter, external mandates managed by Oaktree and Capital Guardian, along with iShares ETF, were liquidated.

Performance vs Callan High Yield Fixed Income (Gross)



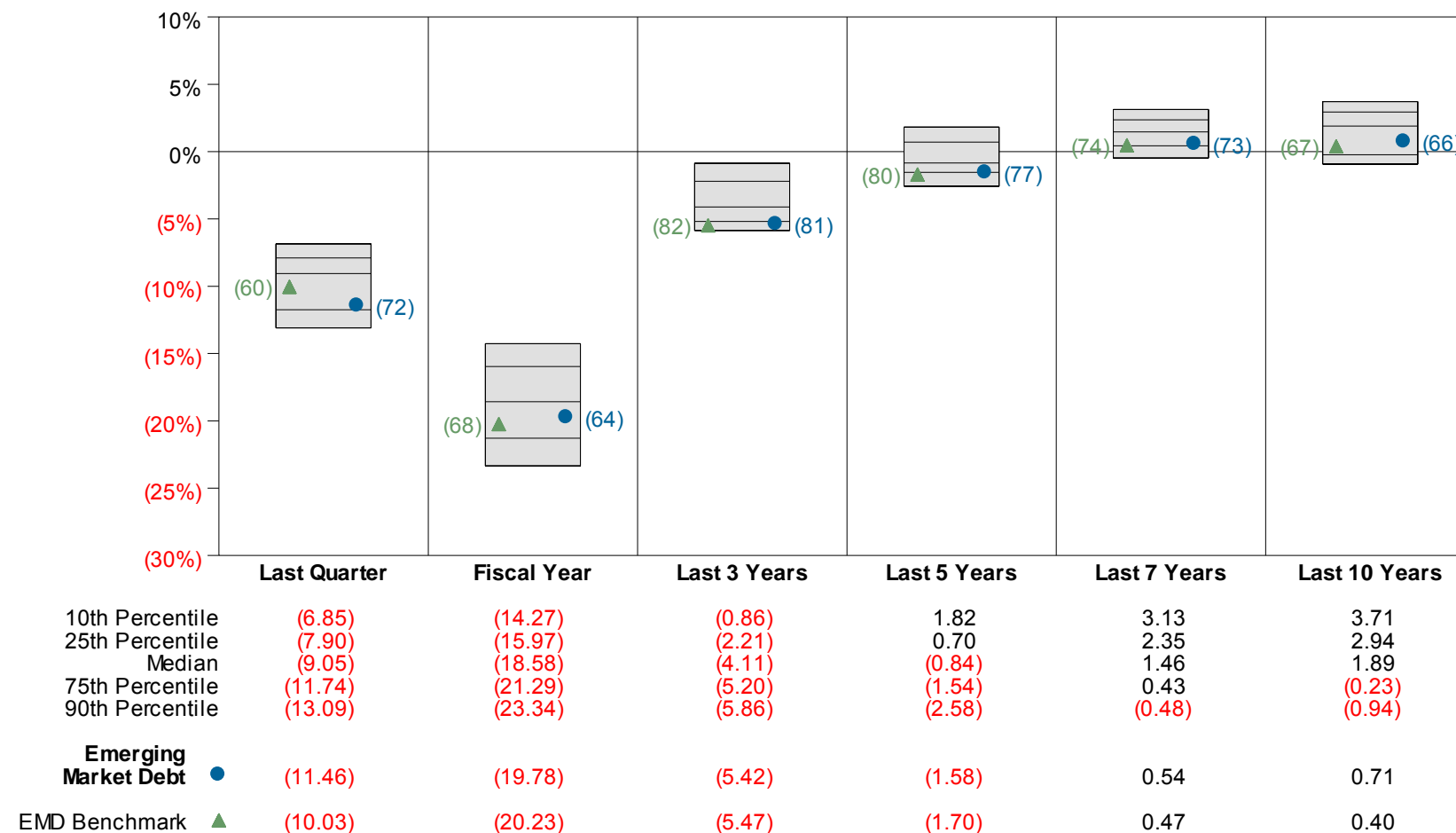
	Last Quarter	Fiscal Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	(7.90)	(9.84)	2.22	3.47	4.72	5.62
25th Percentile	(9.07)	(11.02)	1.24	2.95	4.04	5.10
Median	(9.62)	(11.81)	0.72	2.46	3.60	4.74
75th Percentile	(10.15)	(12.61)	0.00	2.08	3.23	4.33
90th Percentile	(10.69)	(13.72)	(0.42)	1.70	2.89	4.00
<b>Global High Yield</b> ●	(9.28)	(11.43)	0.31	2.11	3.20	4.17
Bimbg HY 2% Iss Cap ▲	(9.84)	(12.82)	0.18	2.09	3.48	4.47

# Emerging Market Debt Relative to EMD Funds

Periods Ended June 30, 2022

- APFC Emerging Market Debt portfolio underperformed relative to its benchmark for the quarter, however outperformed for the year.
- Relative to peers, the portfolio ranked below median for all periods exhibited.
- During the quarter, external mandates managed by Ninety One, PGIM, Colchester and Payden & Rygel began liquidation with management moved In-House.

Performance vs Emerging Debt Database (Gross)

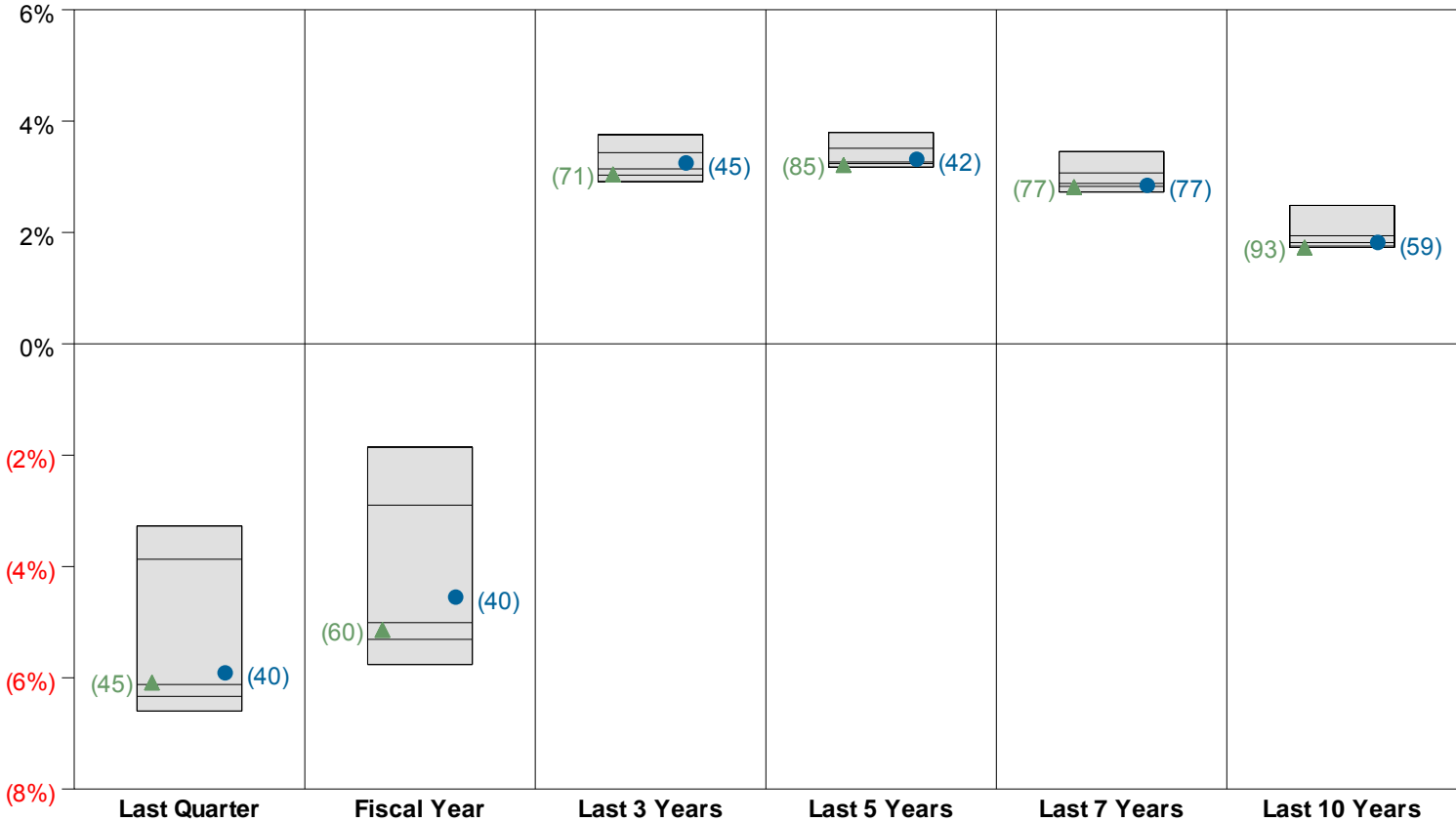


# TIPS Relative to Callan's Inflation Linked Bonds database

Periods Ended June 30, 2022

- APFC TIPS portfolio ended the quarter and year ahead of its benchmark.
- The TIPS composite ranked above median in Callan's Inflation Linked Bonds peer universe over the short-term and intermediate periods.
- The TIPS allocation includes an In House TIPS portfolio; APCM was completely liquidated in Q4 2021.

Performance vs Callan Inflation Linked Bonds (Gross)



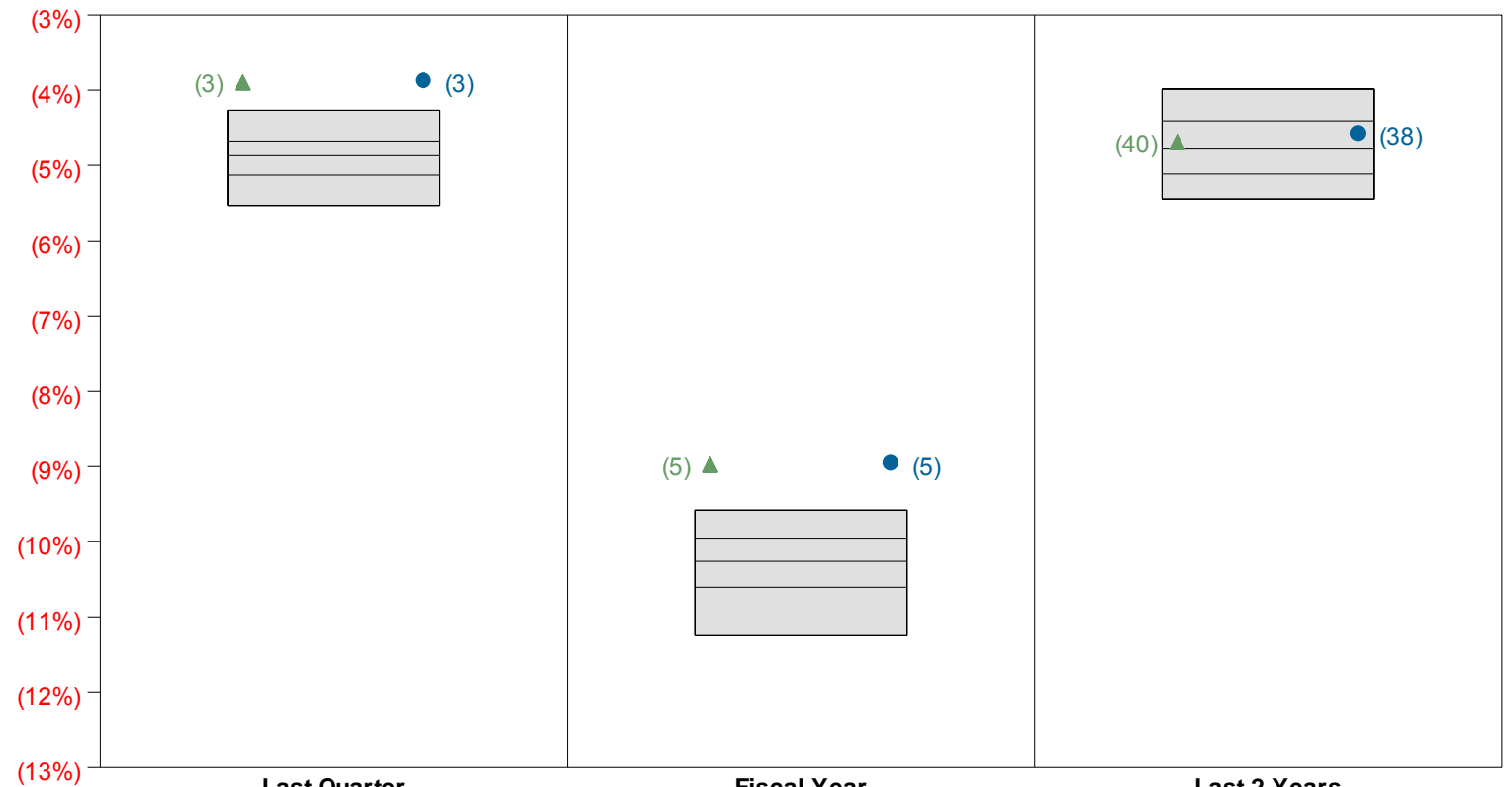
	Last Quarter	Fiscal Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	(3.27)	(1.85)	3.75	3.79	3.45	2.49
25th Percentile	(3.87)	(2.90)	3.43	3.51	3.07	1.94
Median	(6.12)	(5.01)	3.14	3.26	2.88	1.82
75th Percentile	(6.33)	(5.31)	3.03	3.23	2.83	1.75
90th Percentile	(6.60)	(5.76)	2.91	3.17	2.73	1.73
<b>TIPS</b> ●	(5.94)	(4.58)	3.22	3.29	2.82	1.79
Blmbg TIPS ▲	(6.08)	(5.14)	3.04	3.21	2.82	1.73

# Domestic Structured Product to Callan's Core Bond database

Periods Ended June 30, 2022

- The Domestic Structured Product portfolio was funded at the end of the second quarter of 2020.
- The portfolio ended the quarter and year nearly inline with its benchmark.
- The portfolio ranked above the median of the Core Bond Fixed Income peer group, though benchmark-relative performance is far more applicable.

Performance vs Callan Core Bond Fixed Income (Gross)



	Last Quarter	Fiscal Year	Last 2 Years
10th Percentile	(4.27)	(9.58)	(3.99)
25th Percentile	(4.68)	(9.95)	(4.41)
Median	(4.87)	(10.26)	(4.78)
75th Percentile	(5.13)	(10.60)	(5.12)
90th Percentile	(5.53)	(11.24)	(5.45)
<b>Domestic Structured Products</b> ●	<b>(3.90)</b>	<b>(8.98)</b>	<b>(4.59)</b>
<b>BB US Securitized</b> ▲	<b>(3.90)</b>	<b>(8.97)</b>	<b>(4.69)</b>

# Real Estate Market

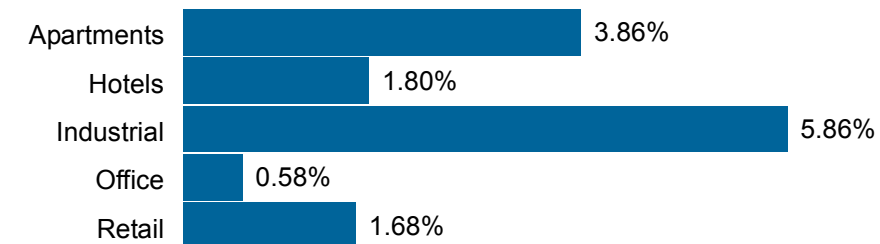
## Second Quarter 2022

U.S. Private Real Assets	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
Real Estate ODCE Style	4.99	12.22	27.86	12.25	10.24	10.59	6.15
NFI-ODCE (value weight net)	4.54	12.00	28.31	11.66	9.55	10.15	6.01
NCREIF Property	3.23	8.73	21.45	10.22	8.86	9.67	7.23
NCREIF Farmland	2.63	5.33	10.99	6.55	6.37	9.59	10.62
NCREIF Timberland	1.87	5.13	12.01	5.03	4.32	5.73	5.14
Public Real Estate							
Global Real Estate Style	-17.23	-20.59	-12.24	1.90	5.04	6.94	3.86
EPRA/NAREIT Developed	-17.45	-20.72	-13.45	-1.08	1.95	4.69	1.96
Global ex-U.S. Real Estate Style	-18.52	-21.51	-20.64	-1.24	3.69	6.15	1.45
EPRA/NAREIT Developed ex US	-17.46	-20.12	-20.59	-4.45	0.44	3.85	0.62
U.S. REIT Style	-16.72	-19.98	-6.26	6.00	7.05	8.37	6.80
NAREIT Equity REITs	-17.00	-20.20	-6.27	4.00	5.30	7.39	5.77

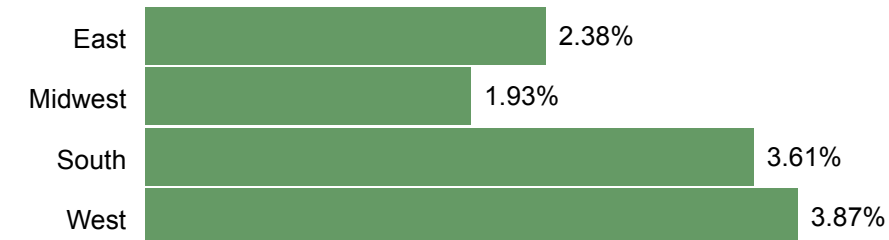
### Another strong quarter for real estate

- Income returns were positive across sectors.
- Valuations are reflective of strong fundamentals in Industrial and Apartment and continued uncertainty despite a modest recovery in Office and Retail.
- Return dispersion by manager within the ODCE Index was due to the composition of underlying portfolios, and increased borrowing costs are impacting values.
- Niche sectors such as self-storage and life sciences continued to be accretive.

### Sector Quarterly Returns by Property Type



### Sector Quarterly Returns by Region



Sources: Callan, FTSE Russell, NAREIT, NCREIF

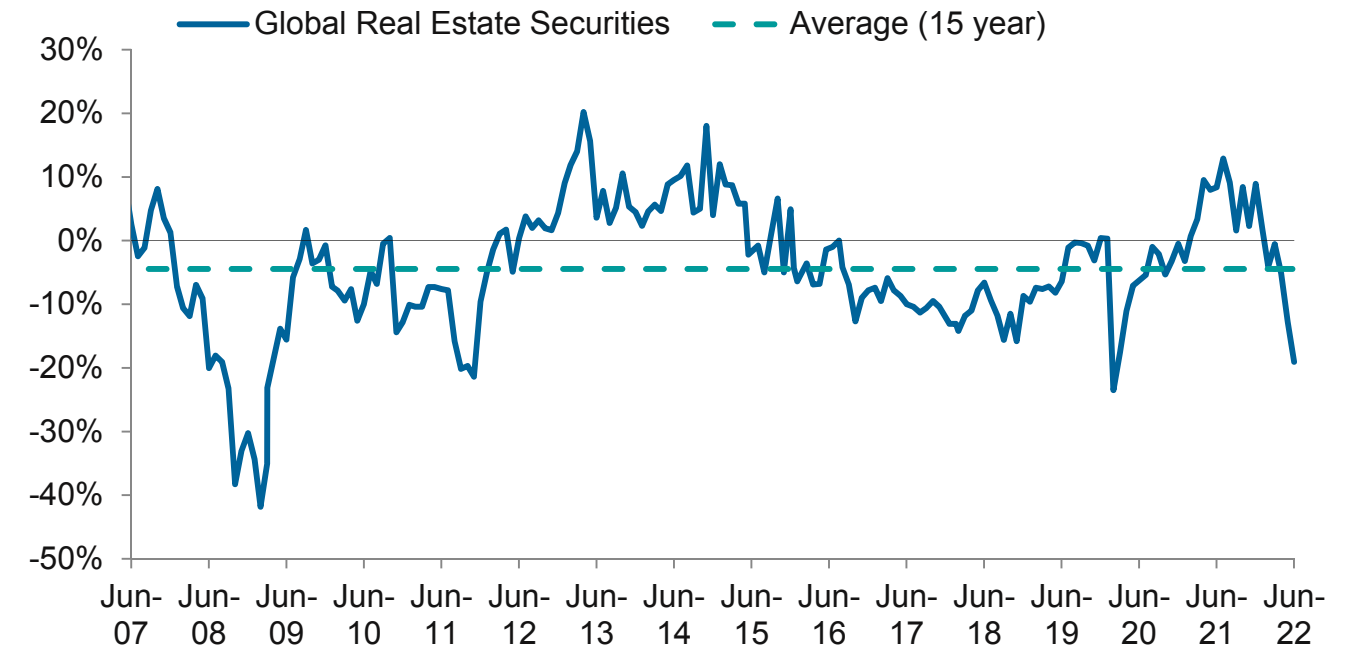
# Real Estate Market

## Second Quarter 2022

### Observations

- Global REITs underperformed in 2Q22, falling 17.4% compared to a 15.8% drop for global equities (MSCI World).
- U.S. REITs fell 17.0% in 2Q22, in contrast with the S&P 500 Index, which lost 16.1%.
- REITs are now trading at a discount to NAV and offer relative value given the strength of underlying fundamentals

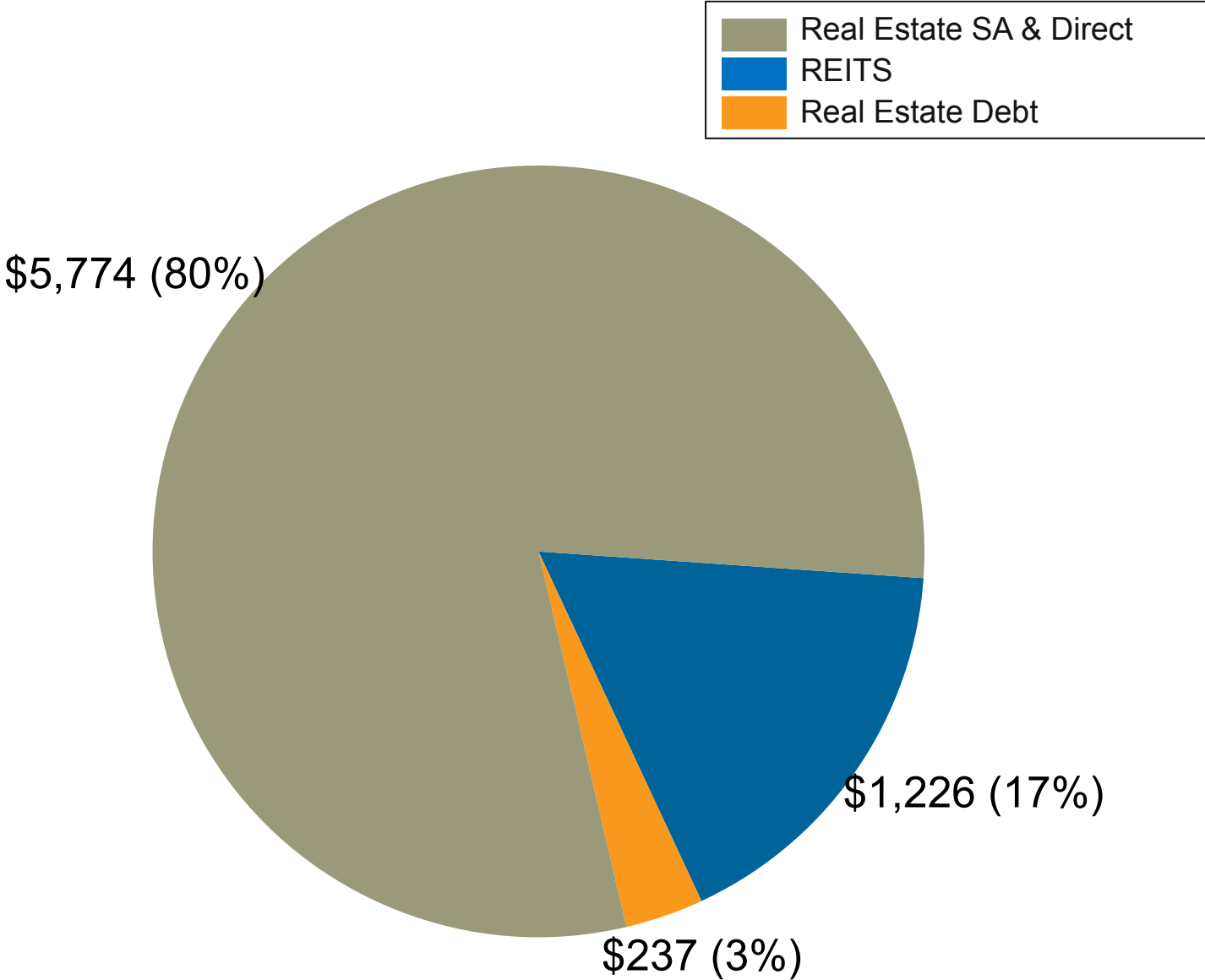
Global Real Estate Securities Price to NAV



# APFC Real Estate Structure (1Q LAG)

As of March 31, 2022

- The real estate portfolio is comprised of Real Estate Separate Accounts and Direct Investments, REITS, and Real Estate Debt Investments.
- Real Estate Debt Funds moved from Real Estate Separate Accounts and Direct Investments, and REITS from Fixed Income Plus.

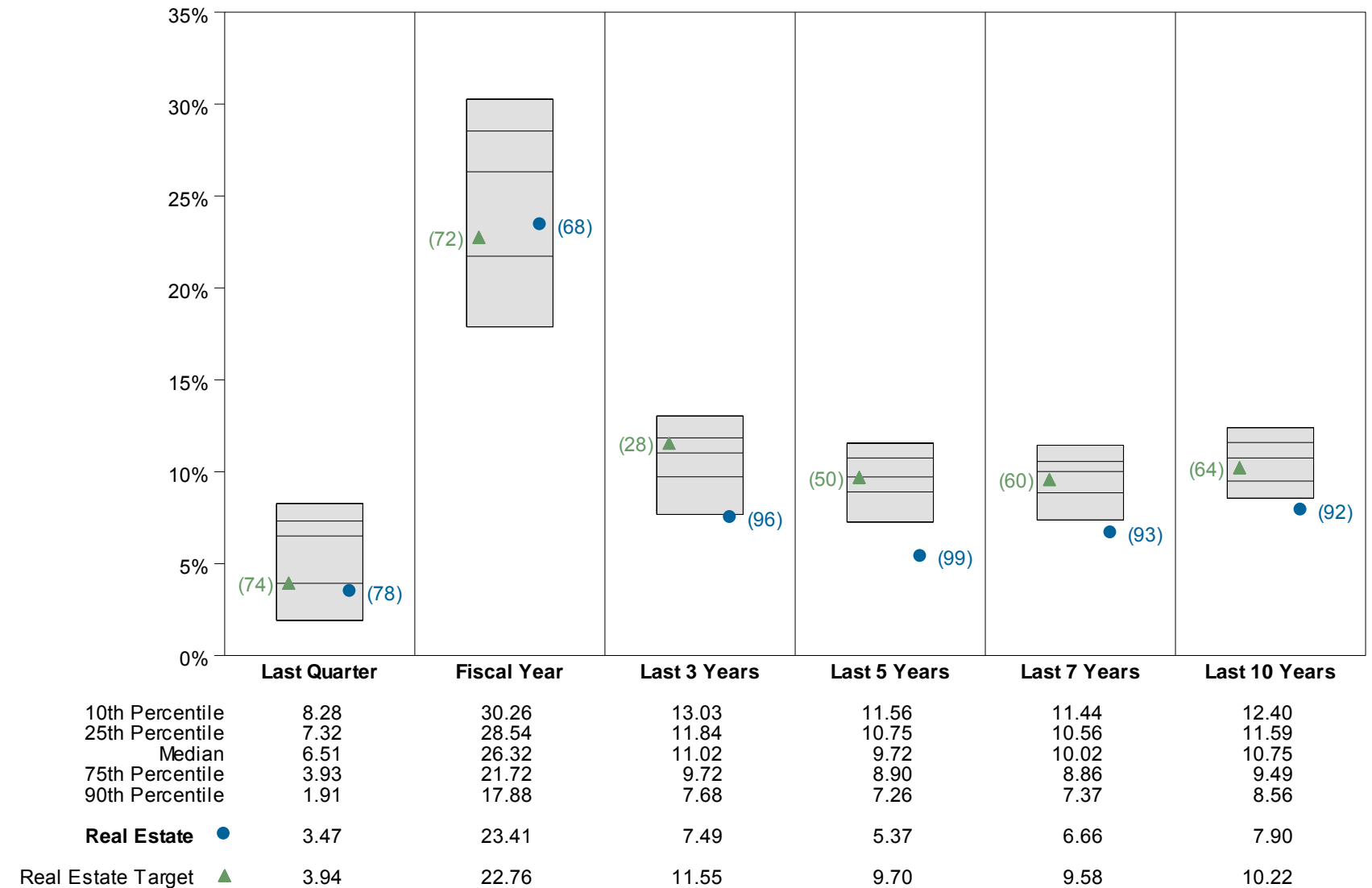


# Real Estate Relative to Callan's Total Real Estate Database (1Q LAG)

Periods Ended March 31, 2022

- APFC Real Estate portfolio performance is shown net of fees for all investments.
- The real estate portfolio lagged against its benchmark for the quarter, but outperformed for the year.
- The portfolio was behind its benchmark and Real Estate peer group median in all other periods.

Performance vs Public Fund - Real Estate (Gross)



# Real Estate Performance (1Q LAG)

Periods Ended March 31, 2022

	Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>RE Equity Investments</b>	<b>5.24%</b>	<b>22.29%</b>	-	-	-
RE Separate Accts & Direct	4.47%	19.70%	2.93%	2.70%	6.53%
RE EQ Funds & Co-Invest	<b>8.60%</b>	<b>36.83%</b>	<b>19.67%</b>	-	-
<b>RE Debt Investments</b>	<b>1.89%</b>	<b>12.70%</b>	<b>12.11%</b>	-	-
<i>NCREIF Total Index</i>	5.33%	21.87%	9.60%	8.54%	9.61%
<b>REITS</b>	<b>-3.77%</b>	<b>32.31%</b>	<b>12.08%</b>	<b>10.51%</b>	<b>9.65%</b>
<i>MSCI US REIT Index</i>	-4.06%	26.20%	11.14%	9.65%	9.74%
<b>Real Estate Composite</b>	<b>3.47%</b>	<b>23.41%</b>	<b>7.49%</b>	<b>5.37%</b>	<b>7.90%</b>
<i>Real Estate Custom</i>	3.94%	22.76%	11.55%	9.70%	10.19%

- APFC's Real Estate Equity outperformed the NCREIF benchmark for the quarter while Real Estate Debt underperformed. REITS outperformed on a relative basis for the quarter.
- Overall, the Real Estate Composite underperformed its custom benchmark for the quarter and outperformed for the year.

# Private Credit Market Environment: 2Q22

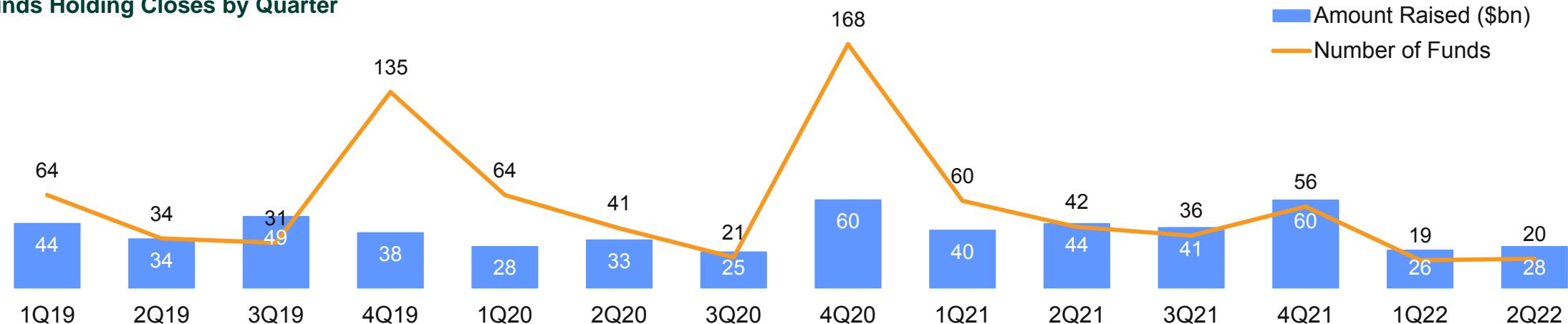
## Muted volumes during the pandemic

- ▶ Private credit fundraising was robust leading into the COVID dislocation, with a particular focus on direct lending and distressed strategies.
- ▶ Fundraising slowed in the first half of 2022 as rate hikes and market volatility led to investor uncertainty.
- ▶ For mature private credit programs, demand for diversifying strategies is increasing to capture opportunities outside of traditional sponsor-backed direct lending.

## Largest Funds Holding Closes in 2Q22

Name	Amount (\$millions)	Strategy
Monroe Capital Private Credit Fund IV	\$4,800	Direct Lending
Apollo Hybrid Value Fund II	\$4,600	Distressed Debt
Carlyle Credit Opportunities Fund II	\$4,600	Direct Lending
Thoma Bravo Credit Fund II	\$3,300	Direct Lending

Funds Holding Closes by Quarter

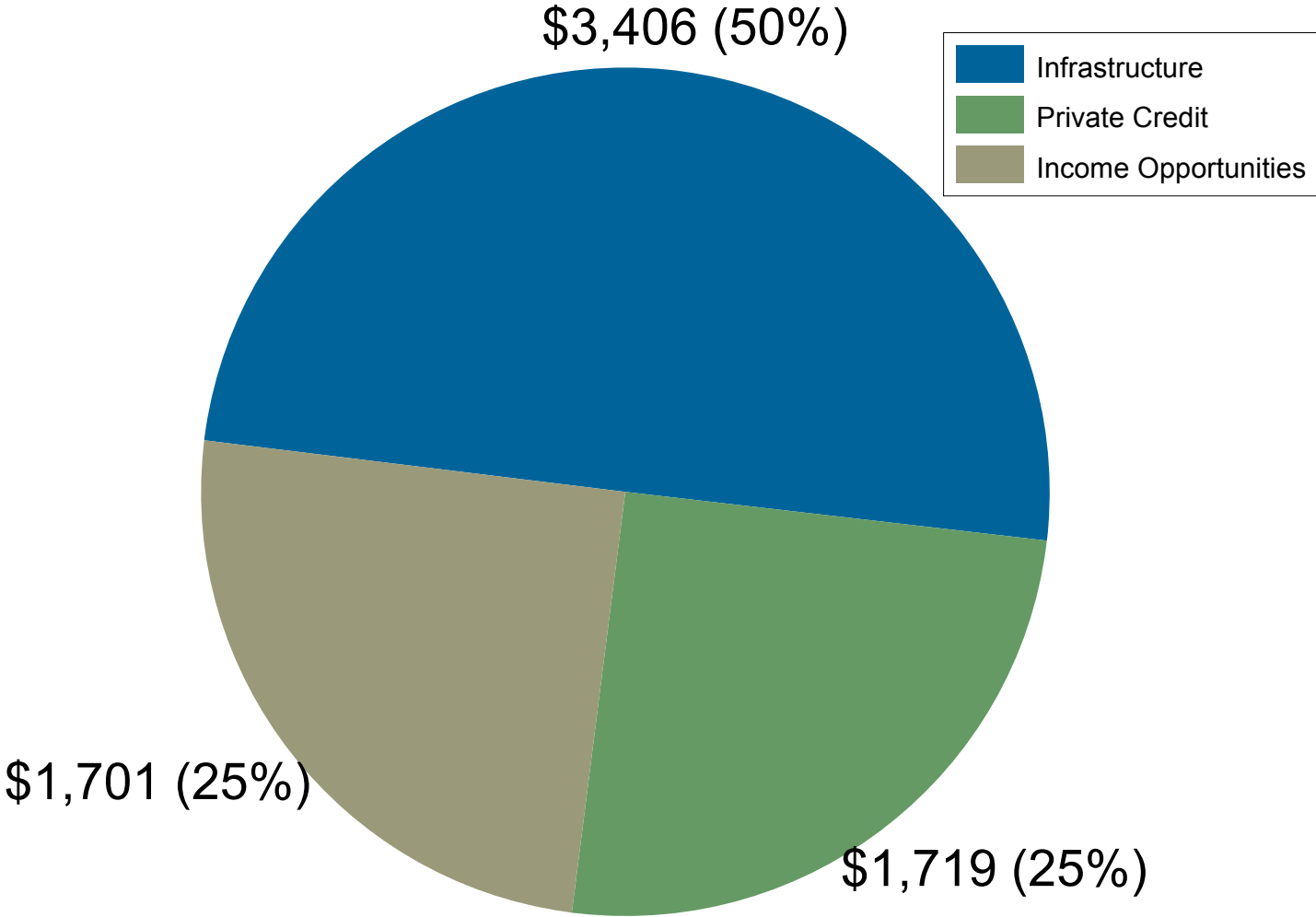


Source: Pitchbook

# APFC Private Income Structure (1Q LAG)

As of March 31, 2022

- 50% of the structure is invested in infrastructure funds, which includes a diversified portfolio of infrastructure, energy, and generation assets. Listed Infrastructure makes up just 4% of this allocation.
- 25% of the structure was invested in private credit mandates including mezzanine debt, opportunistic credit, and direct lending strategies.
- 25% of the structure was invested in income opportunities including structured credit, alternative credit, AH4R2, APFC ADAC and timber.



# Private Income Performance (1Q LAG)

As of March 31, 2022

	Quarter	Last Year	Last 3 Years	Last 5 Years
<b>Infrastructure</b>	<b>4.10%</b>	<b>24.35%</b>	<b>13.63%</b>	<b>15.80%</b>
Cambridge Global Private Infrastructure	4.66%	17.18%	8.12%	9.52%
<b>Income Opportunities</b>	<b>-1.50%</b>	<b>6.80%</b>	<b>8.91%</b>	<b>6.61%</b>
Private Income Custom	3.39%	14.99%	8.13%	8.46%
<b>Private Credit</b>	<b>1.39%</b>	<b>12.00%</b>	<b>9.09%</b>	<b>8.33%</b>
Cambridge Private Credit	1.52%	11.75%	8.04%	6.75%
<b>Private Income Composite</b>	<b>1.93%</b>	<b>16.20%</b>	<b>11.13%</b>	<b>12.12%</b>
Private Income Custom	3.39%	14.99%	8.13%	8.46%

- APFC's Private Income composite underperformed the benchmark (60% Cambridge Global Private Infra and 40% Cambridge Private Credit) in the quarter and outperformed in the year.
- Private Income sub-strategies Infrastructure, Income Opportunities, and Private Credit, all underperformed for the quarter. Over the year, Infrastructure and Private Credit outperformed and Income Opportunities underperformed.

# Hedge Fund and MAC Industry Trends

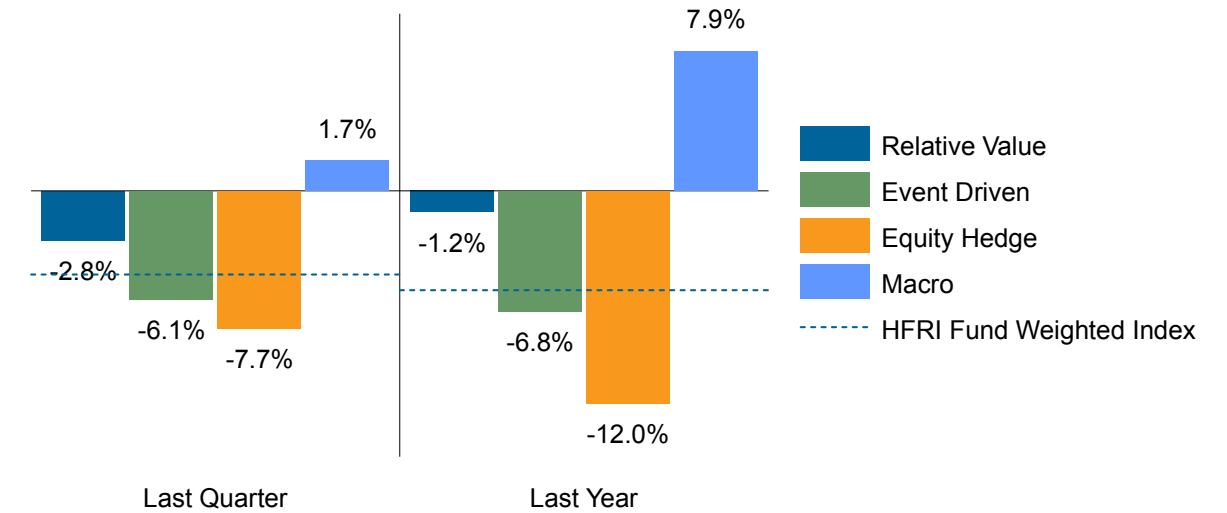
## Inflation, rate hikes lead to risk-off environment

- Macro strategies were the best-performing strategy for the first half, as commodity and rates trading drove performance.
- Relative value strategies ended in negative territory, as some managers took losses around interest rate volatility while others were successful in capital structure arbitrage.
- Equity hedge strategies had another quarter of disappointing returns, as long biased growth managers were the largest drag on performance for the first half of the year.
- Event-driven strategies continued to struggle, as their deep value equity positions were the main detractor during the first half, while credit positions held up better.

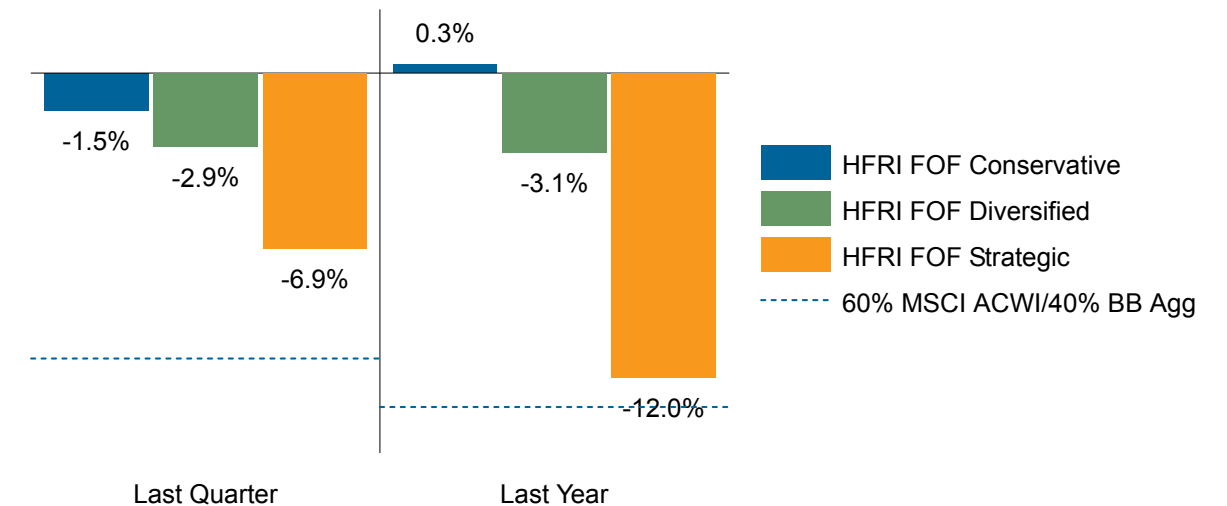
## FOFs had disappointing performance

- Those with more long biased technology managers saw underperformance.
- Those tilted more toward macro and relative value managers held up better during the first half of the year.

HFRI Strategy Index Returns vs. Broad Hedge Fund Universe



HFRI Fund-of-Fund Returns vs. 60% Stock/40% Bond Mix



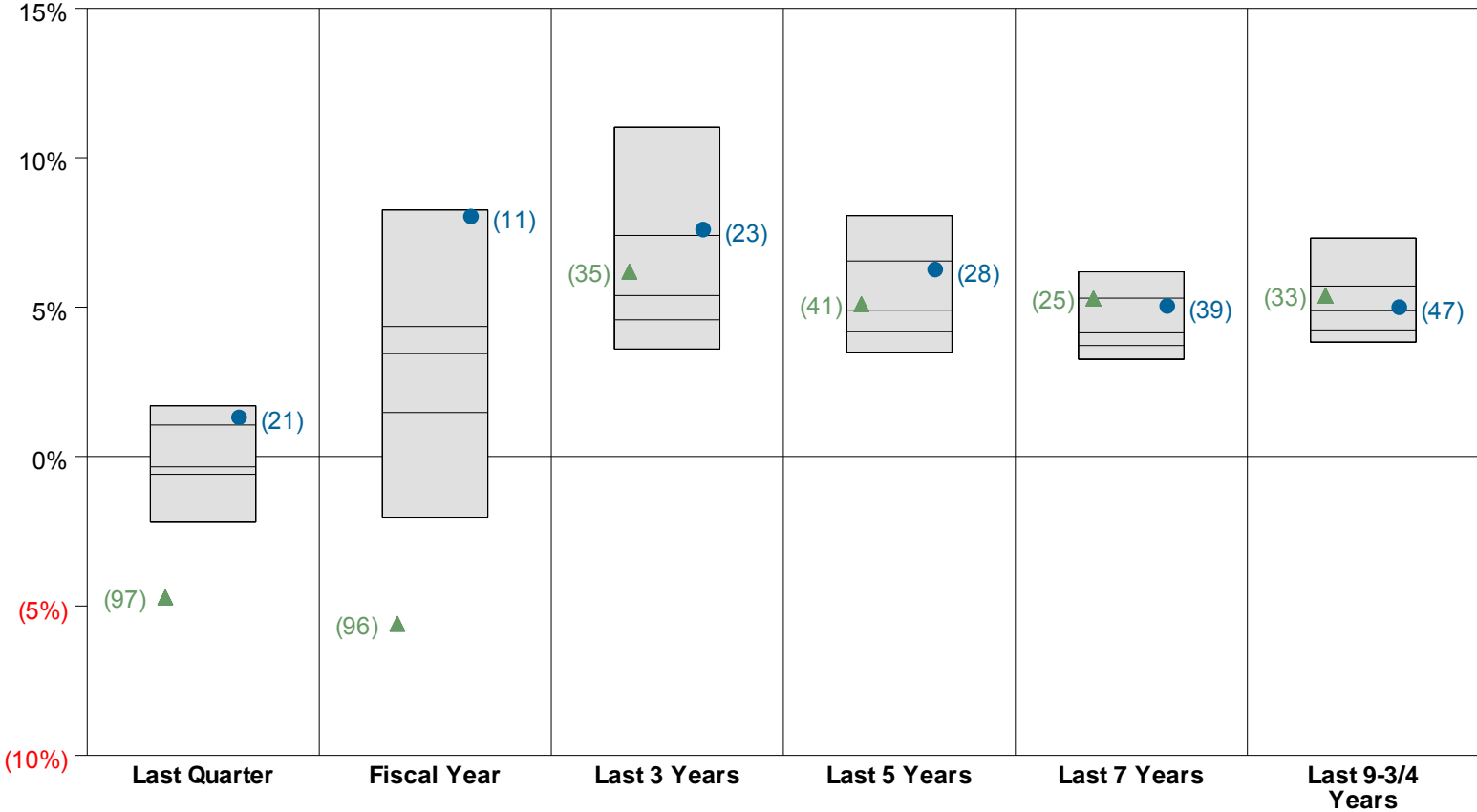
Source: Hedge Fund Research ([www.hedgefundresearch.com](http://www.hedgefundresearch.com))

# Absolute Return Portfolio Relative to HFOF Universe

Periods Ended June 30, 2022

- The Absolute Return portfolio exceeded its custom benchmark in the latest quarter.
- The portfolio ranked above median for the quarter, 1-, 3-, 5-, and 7-year periods.

Performance vs Callan Absolute Rtn Hedge Fund of Funds (Net)



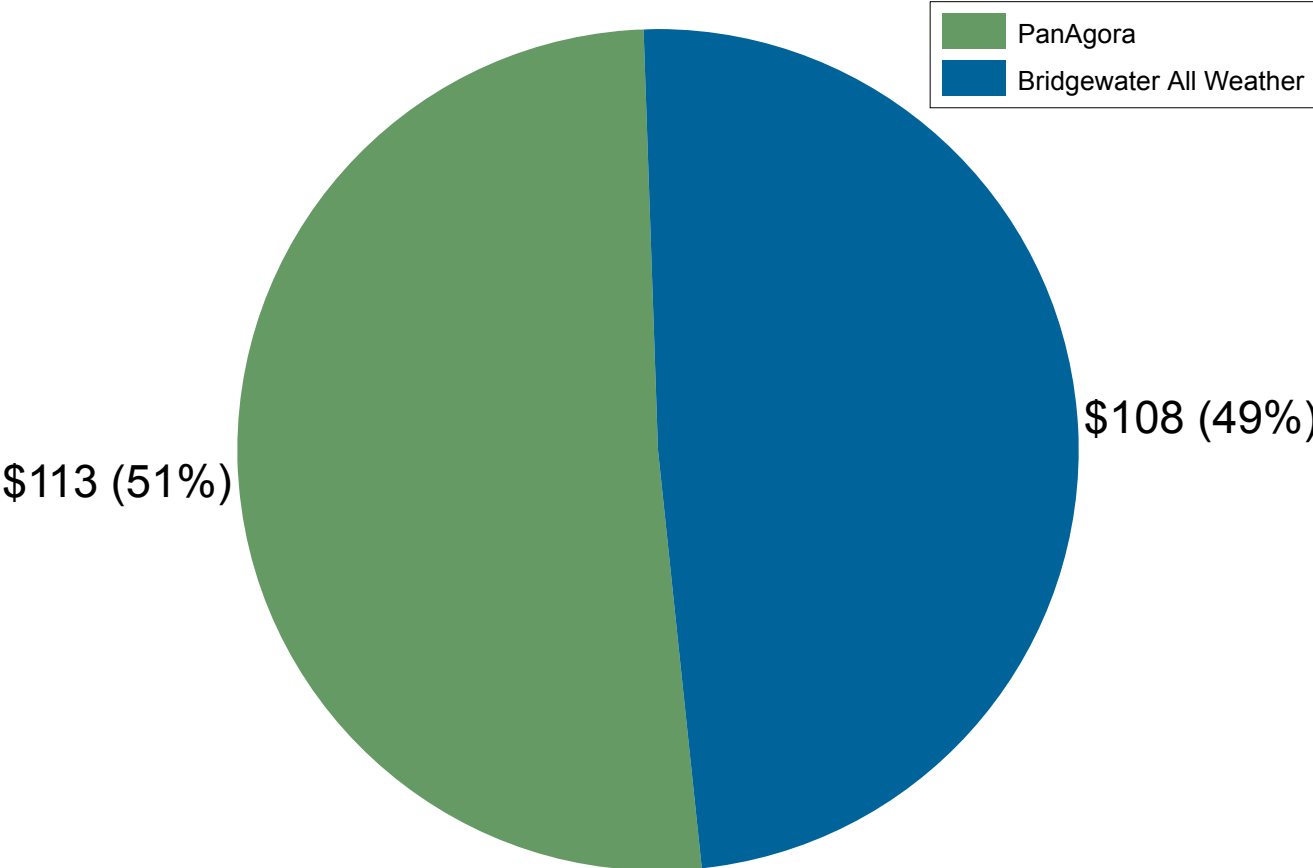
10th Percentile	1.70	8.25	11.02	8.06	6.18	7.31
25th Percentile	1.05	4.36	7.40	6.54	5.30	5.70
Median	(0.35)	3.44	5.39	4.90	4.14	4.88
75th Percentile	(0.60)	1.48	4.57	4.18	3.72	4.23
90th Percentile	(2.17)	(2.04)	3.60	3.49	3.26	3.83
<b>Absolute Return</b> ●	1.25	7.98	7.54	6.20	4.98	4.94
Absolute Return Benchmark ▲	(4.71)	(5.60)	6.19	5.10	5.29	5.38

Absolute Return Benchmark is LIBOR + 4% through 6/30/13, LIBOR + 6% through 6/30/15, LIBOR + 5% through 9/30/16, and HFRI Total HFOF Universe thereafter.

# APFC Risk Parity Structure and Performance

As of June 30, 2022

- Roughly \$221 million distributed across two mandates.
- Multi asset class portfolios, limited use of illiquid assets. Leverage is used to amplify the impact of asset classes and/or strategies in an effort to optimize performance vis-à-vis overall portfolio risk.
- PanAgora underperformed in the quarter and year; Bridgewater underperformed in the quarter and outperformed over the year.
- Program began the quarter with \$600 million, half of which was moved out during the quarter.



	Last Quarter	Last Year
PanAgora	-15.86	-19.00
Bridgewater All Weather	-17.82	-16.63
HFR Risk Parity Vol 12 Inst'l Idx	-15.40	-17.25

# Private Equity Overview

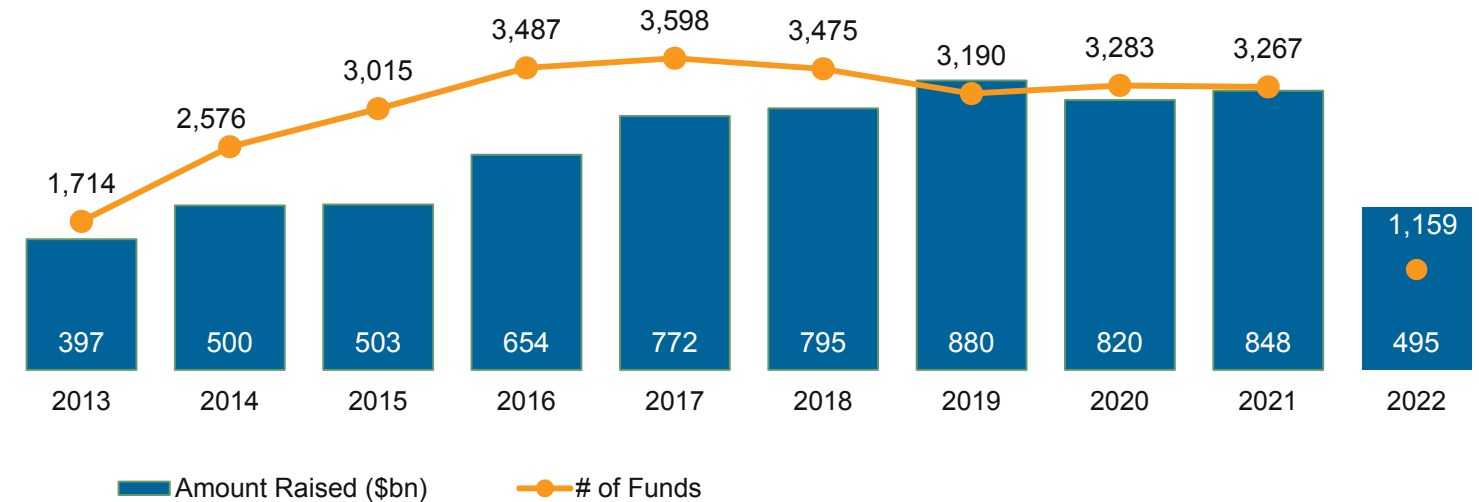
## Fundraising

- Despite the pandemic, annual fundraising consistent from 2019-2021
- 1H22 fundraising behind 1H21 by 13%, but may catch up in the second half of the year
- Fundraising timelines extending due to so many funds in the market and constrained LP commitment budgets because of the “denominator effect,” delaying many final closes

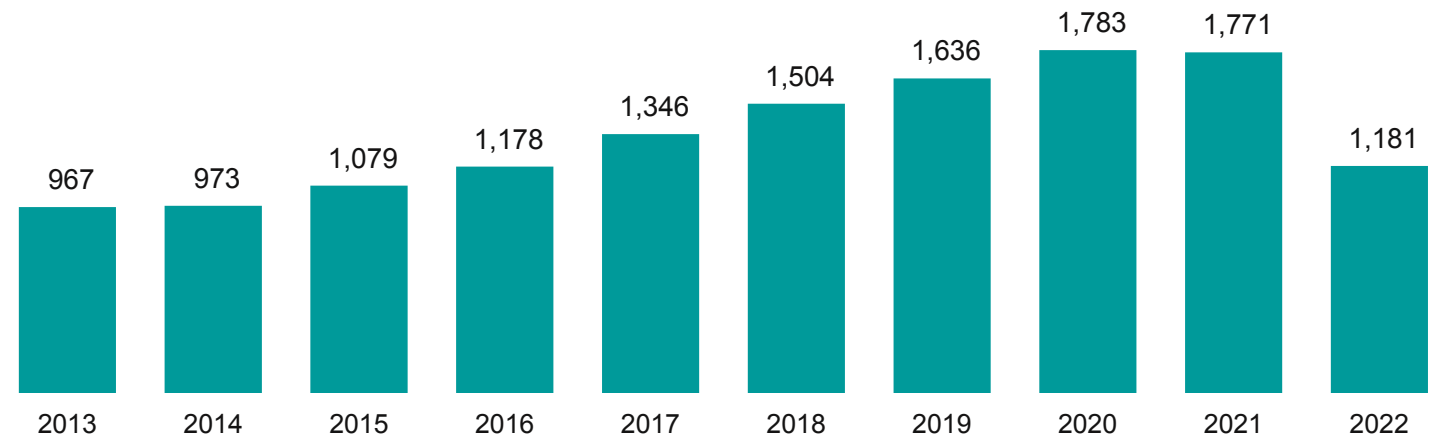
## Dry powder

- Level of dry powder influenced by two factors: fundraising and capital deployment
- Dry powder around \$1.8 trillion in 2020 and 2021 due to consistent annual fundraising levels
- Dry powder not yet finalized for 2022, but may drop due to the slower fundraising environment

Annual Fundraising



Dry Powder (\$bn)  
Cumulative as of Year-end



Source: PitchBook, data as of 12/31/21

# Private Equity Key Themes

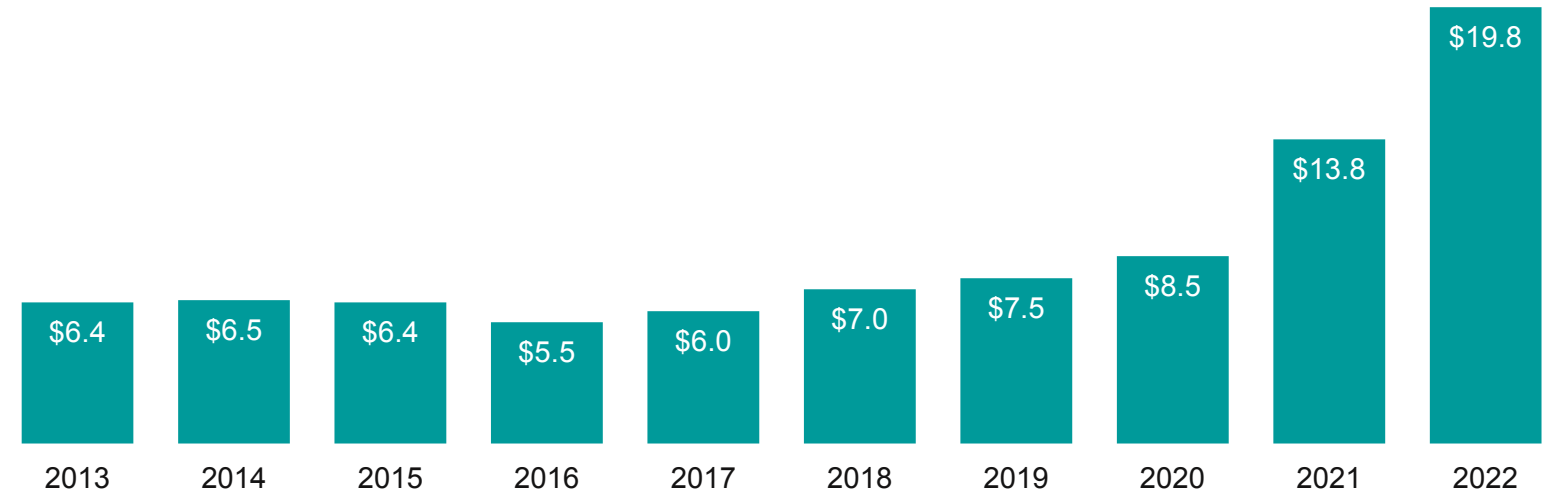
## Decline of the venture-backed unicorn

- 2022 a tough year for high-profile unicorns and many recent IPOs, in marked contrast to the technology boom of the last few years
- Late-stage valuations beginning to be impacted in 2022
  - Many venture-backed companies delaying their next financing round to avoid markdowns in valuations

## Denominator effect

- Due to the smoothing effect in short-term private equity performance
- Occurs when public equity allocations drop (pulling down the denominator), but PE allocations do not drop as far (the numerator)
  - Private equity now a larger percentage of a portfolio
- Investors unable to rebalance these illiquid exposures; now overallocated to private equity

Median Pre-Money Valuation – Global Venture Capital/Growth Equity (\$mm)

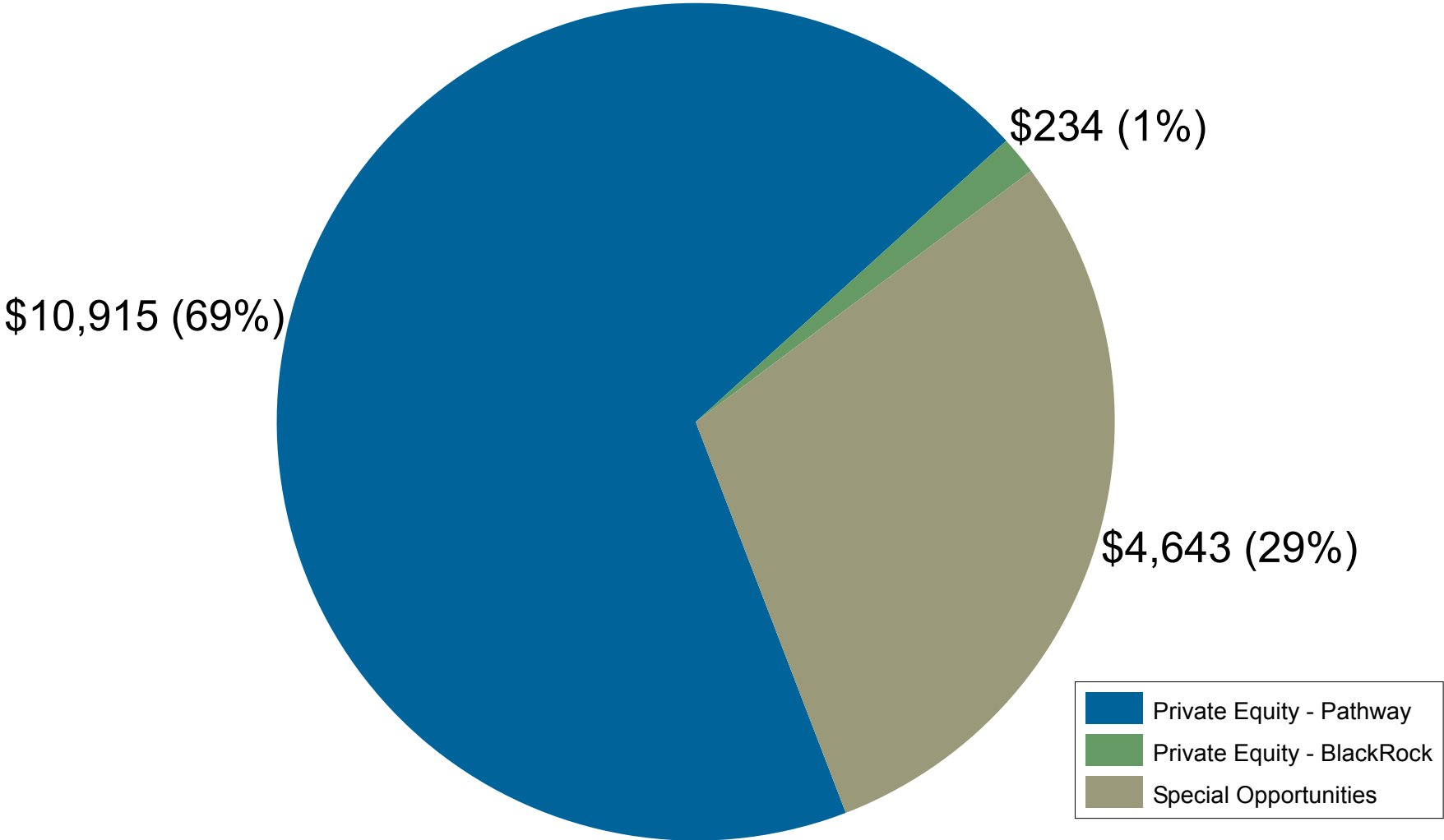


Source: PitchBook, data as of April 2022; global, includes private equity and private credit

# APFC Private Equity and Special Opportunities Structure (1Q LAG)

As of March 31, 2021

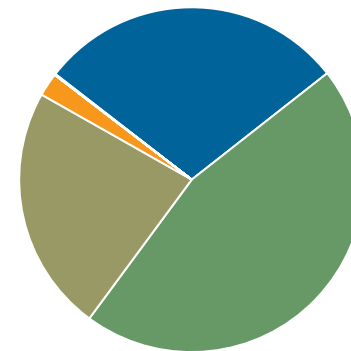
- 69% of the structure was invested in private equity.
- 29% of the structure was invested in special opportunities.



# Private Equity Portfolio Positioning (1Q LAG)

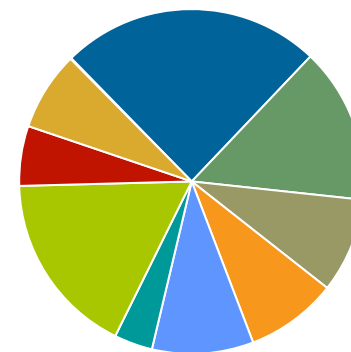
As of March 31, 2022

- APFC's Total Private Equity Portfolio continued to be well-diversified by strategy, geography, and industry.
- Buyouts, Venture Capital and Special Situations remained the largest strategy allocations.
- The largest non-U.S. geographic exposure was Europe. The largest industry exposure was in Technology.



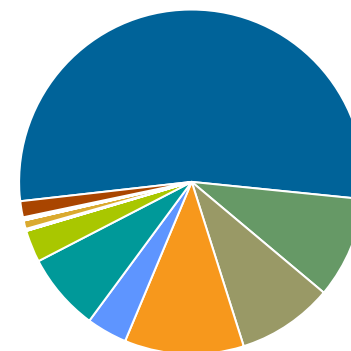
**Strategy Mix by Net Asset Value**

Venture Capital	28.85%
Buyout	45.74%
Special Situations	23.14%
Distressed for Control	2.19%
Secondary Interest	0.03%
Mezzanine	0.05%



**Geographic Mix by Net Asset Value**

West/Pacific Northwest	24.41%
North Atlantic	14.57%
Mid-West	8.92%
Southeast	8.65%
Southwest/Rockies	9.51%
Mid-Atlantic	3.62%
Europe	17.29%
Asia/Pacific	5.59%
Other	7.45%



**Industry Mix by Net Asset Value**

Technology	53.41%
Health Care	9.52%
Financial	9.00%
Consumer Discretionary	11.17%
Energy	3.78%
Industrials	7.32%
Communication Services	3.01%
Utilities	0.17%
Materials	0.80%
Consumer Staples	0.28%
Other/Misc	1.54%

# APFC Private Equity and Special Opportunities Performance (1Q LAG)

As of March 31, 2022

	Last Quarter	FYTD	Last Year	Last 3 Years	Last 5 Years
Private Equity and Special Opportunities	-1.26	17.60	17.60	25.18	25.05
Cambridge Private Equity	-1.51	22.00	22.00	24.41	20.68

- APFC's Private Equity and Special Opportunities composite outperformed the Cambridge Private Equity benchmark in the quarter, 3-, and 5-year periods. The portfolio underperformed over the trailing 1-year.
- In the last reported quarter, Private Equity was up 0.4% and Special Opportunities was down 4.1%.

# Closing Remarks

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- Total Fund ended the second quarter of 2022 with \$78.2 billion in assets, decreasing 6.1% for the quarter. Compared with the prior fiscal year ended June 30, the Fund had an investment return of -1.3%, dropping from \$81.4 billion. The trailing quarter performance placed the Total Fund in the top quartile relative to other large public funds and above median relative to a large endowments/foundations peer group.
- For the quarter, the Total Fund outperformed the Performance and Passive Index benchmarks and underperformed the CPI + 5% benchmark. Over the 5-, 10-, and 20-year periods, the Fund outperformed and was ahead of all three targets.
- The Public Equity portfolio outperformed its benchmark for the quarter and one-year period. Domestic, International, Global Equity composites all ended ahead of their respective benchmarks in both periods.
- The Fixed Income portfolio underperformed its benchmark in the latest quarter; US Fixed Income Aggregate, US Investment Grade Corporate, Non-US Fixed Income, and Emerging Market Debt, underperformed.
- In the Alternatives portfolio, Private Equity & Special Opportunities and Absolute Return outperformed in the quarter; Real Estate and Private Income underperformed their respective benchmarks, though both experienced positive absolute returns.
- Prudent asset allocation with appropriate levels of diversification and a long-term perspective remain Callan's recommended course.

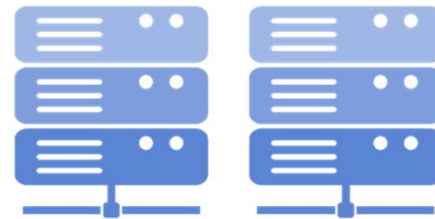


# Published Research Highlights from 2Q22

## Research Café: ESG Interview Series



## Investing in Data Centers: The Real Assets of the Digital Age



## Webinar: Pension Risk Transfer



## Do Active Fixed Income Managers Add Value With Sector Rotation?



## Recent Blog Posts

**Best Practices to Make Sure Investors and Their Managers Are in Sync**

Jan Mende

**Rising Interest Rates Spur Look at Structured Credit**

Nathan Wong

**SEC Proposes Rule to Enhance ESG Disclosures for Investments**

Kristin Bradbury

## Additional Reading

*Alternatives Focus quarterly newsletter*

*Active vs. Passive quarterly charts*

*Capital Markets Review quarterly newsletter*

*Monthly Updates to the Periodic Table*

*Market Pulse Flipbook quarterly markets update*

*Real Estate Indicators market outlook*

# Callan Institute Events

## Upcoming Conferences, Workshops, and Webinars

### Callan College

#### Intro to Alternatives

This course is for institutional investors, including trustees and staff members of public plans, corporate plans, and nonprofits. This session familiarizes trustees and staff with alternative investments like private equity, hedge funds, and real estate and how they can play a key role in any portfolio. In our “Callan College” on Alternatives, you will learn about the importance of allocations to alternatives, and how to consider integrating, evaluating, and monitoring them.

**Join our next VIRTUAL session via Zoom** (2 sessions, 3 hours each): August 24-25, 2022

#### Intro to Investments—Learn the Fundamentals

This course is for institutional investors, including trustees and staff members of public plans, corporate plans, and nonprofits. This session familiarizes trustees and staff with basic investment theory, terminology, and practices.

**Join our next VIRTUAL session via Zoom** (3 sessions, 2–3 hours each): September 20–22, 2022

### Webinars

#### Market Intelligence

October 14, 2022 – 9:30am (PT)

### Mark Your Calendar

#### 2022 October Regional Workshops

October 18, 2022  
Denver

October 20, 2022  
San Francisco

#### Callan Institute’s 2023 National Conference

April 2-4, 2023  
Scottsdale, Arizona

*Watch your email for further details and an invitation.*

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SUBJECT: Update on Executive Search

ACTION:

DATE: September 21, 2022

INFORMATION: X

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### BACKGROUND

Following a competitive procurement process, People AK was retained to assist the Board of Trustees in hiring a new Executive Director. A recruitment committee consisting of Chair Richards, Trustee Schutt, Marcus Frampton, Sebastian Vadakumcherry and Valerie Mertz has been working with People AK to identify a short list of candidates to be interviewed by the full Board on October 3<sup>rd</sup>.

### STATUS

Stephanie Buchanan, Senior Consultant & Business Development Director, will be providing an update on the hiring process.



# Alaska Permanent Fund Corporation Executive Director Search

*Activities and status update*





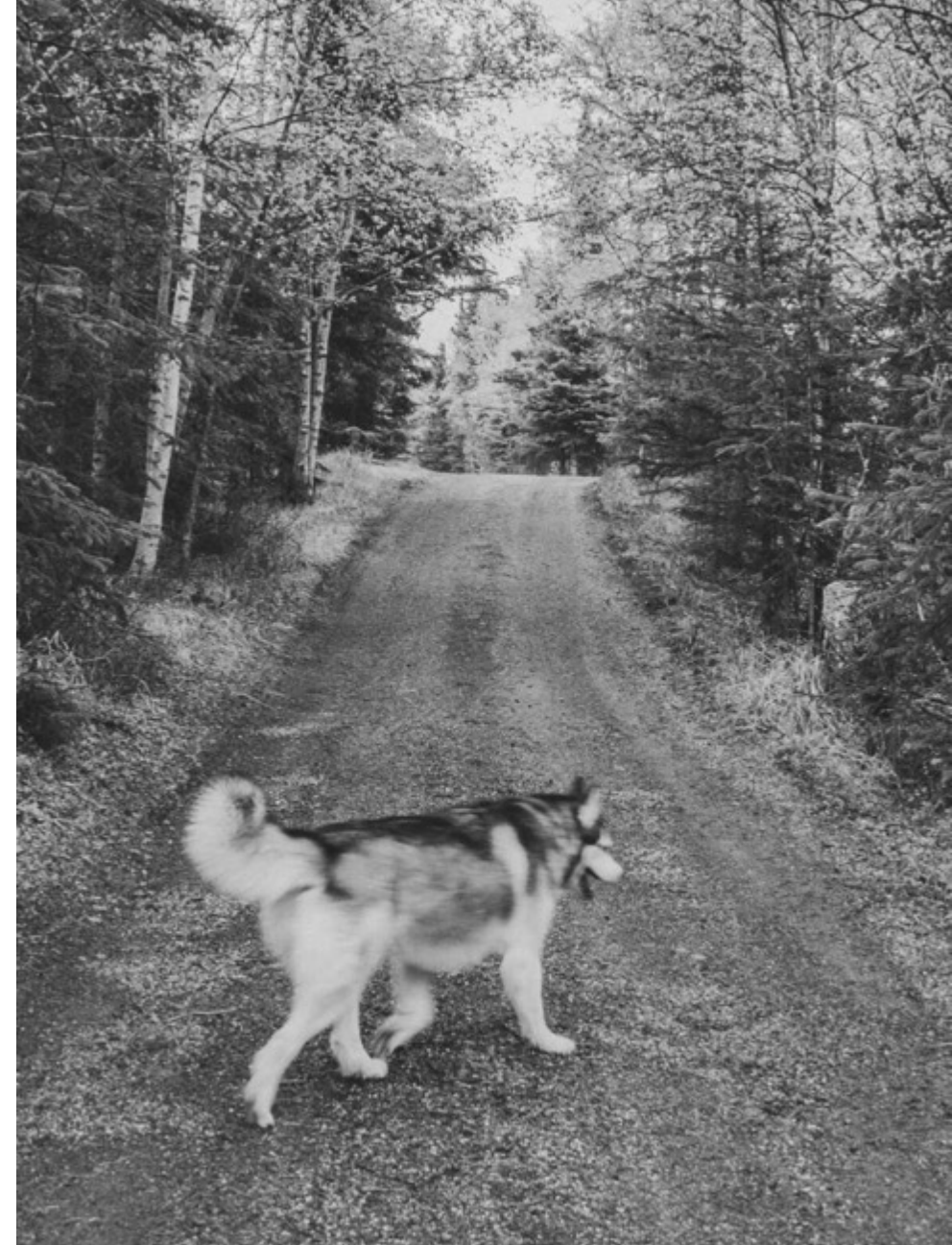
**June 2022**

**PeopleAK selected to perform APFC  
Executive Director search**



# Deliverables:

- June 6, 2022 - Contract executed
- June 14, 2022 - Project initiation
- June 30, 2022 -Initiation of search and marketing activities
- June to Completion – Weekly status reports
- July, August, September - Applicant screening
- September 13, 2022 – First committee review
- September 26, 2022 – Begin committee interviews





# Process:

1. Develop Job Description
2. Identify sourcing activities
3. Leverage relationships to attract passive applicants
4. Screen resumes for minimum qualifications
5. Conduct screening and interviews
6. Conduct initial background screening
7. Develop candidate submission process
8. Review candidates
9. Schedule Interviews with the APFC hiring committee



# Juneau

## October 3, 2022

- Finalist interviews with Board of Trustees

SUBJECT: APFC Absolute Return Program      ACTION:  
Update

DATE: September 21, 2022                      INFORMATION: X

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**BACKGROUND:**

The presentation provides an overview of APFC's Absolute Return program objectives, strategy, and performance.

**STATUS:**

Youlian Ninkov, Senior Portfolio Manager, will present an update on the Program's recent developments, an overview of the strategy and performance since inception through calendar quarter Q2 2022.



APFC

ALASKA PERMANENT  
FUND CORPORATION

# Absolute Return Portfolio

As of June 30, 2022

# Absolute Return Portfolio

## Strategy Overview

- The Absolute Return portfolio aims to provide the Fund with a stream of uncorrelated and defensive returns while offering better liquidity than other alternative investments

Key Facts as of June 2022	
AUM	\$5.1bn
Number of Direct Allocations	18
Returns (net of fees)*	6.8%
Volatility*	3.4%
Correlation to S&P 500*	0.38
Beta to S&P 500*	0.09
Average Management Fee	1.8%
Average Performance Fee	20.7%

\* Since inception of Direct Program; July 1, 2016

ALASKA PERMANENT FUND CORPORATION **2**

# Absolute Return Portfolio

## *Strategy Overview*

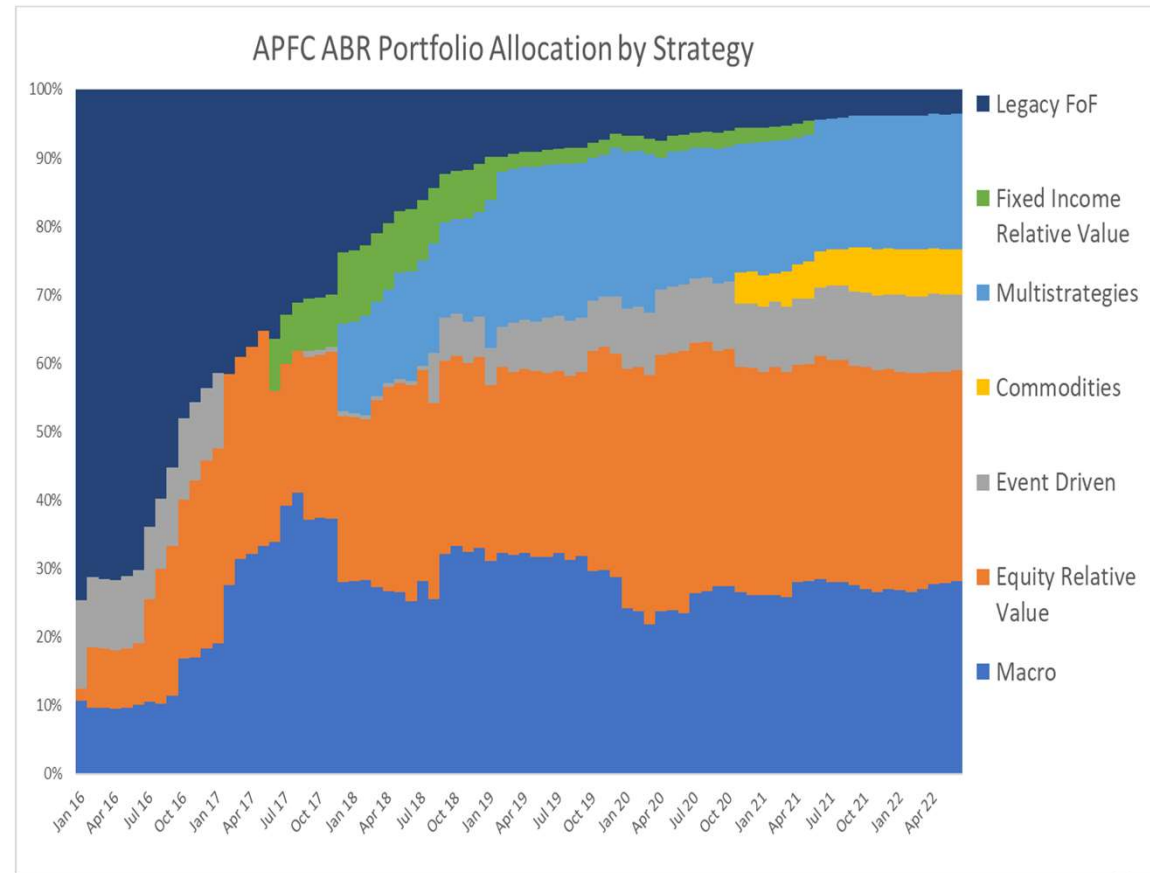
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- Our investment approach is focused on establishing lasting partnerships with managers that demonstrate identifiable competitive edge in strategies that are uncorrelated to traditional risk premia
  - Select managers with strategies and businesses that are not too dependent on a particular set of market and economic conditions
  - Invest in strategies that have persistent low Beta and Correlation to traditional assets: current average manager equity Beta is 0.11; aggregate portfolio equity Beta is less than 0.1
  - Seek maximum diversification while minimizing manager specific risks (organizational structure, operations, culture, investor base). Average pairwise correlation between managers is 0.2
- Portfolio construction based on a diversified core and satellite approach with some conviction based allocation decisions
- Aim to balance the portfolio based on expected strategy response to market volatility
- Long-term investment horizon: since inception of direct program in 2016, we have invested with 22 managers and redeemed from 4

# Absolute Return Portfolio

## Allocation Overview and Objectives

- As of June 30, 2022, APFC invests with 18 managers directly; two legacy Fund-of-Funds investments representing approximately \$180mm, or 3.5% of the portfolio, are in process of returning capital
- The portfolio is diversified across Multistrategy, Relative Value, Directional, and Event Driven type of strategies
- In process of building out the core; open to smaller niche strategies
- Since July 1, 2016, the Direct portfolio has generated \$1.2bn on \$3.8bn net contributed capital
- Returns are measured against two benchmarks
  - Absolute: CPI + 5.00%
  - Relative: 50/50 HFRI Equity Hedge / HFRI Macro



# Absolute Return

*Divergence between outlook and objectives*

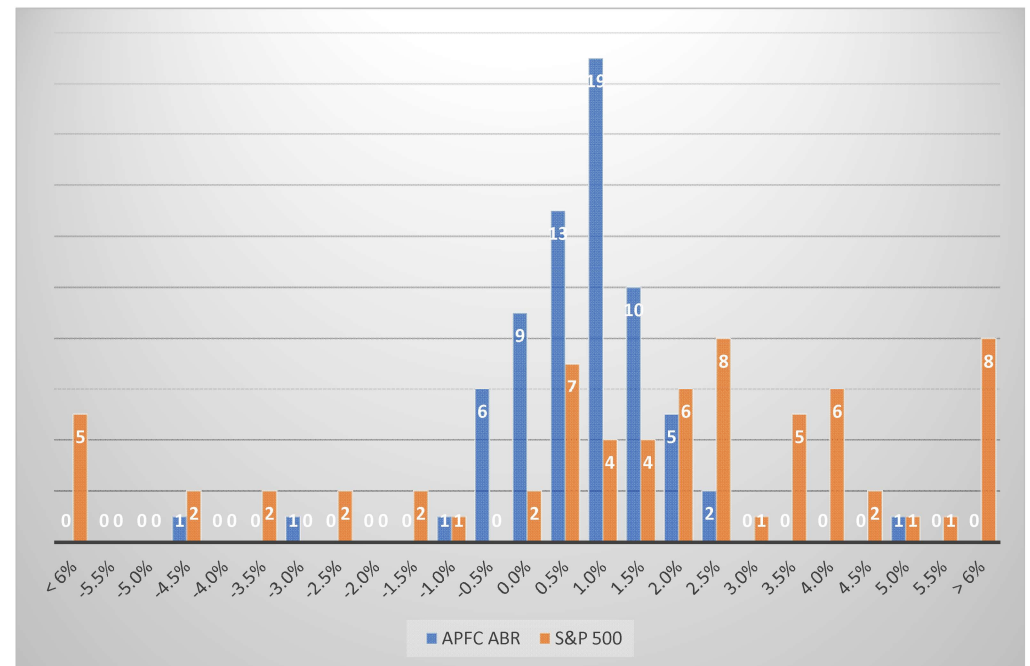
## Through-the- Cycle Expectations

10-Year Projections	r	$\sigma$
Callan	4.1%	8.2%
CPI	2.25%	1.60%
APFC Objective	5.5%	<12.00%
APFC Results (07.2016)	6.8%	3.4%

## Risks to Meeting Objectives

- Lower ex-post volatility limiting returns
- Overpaying for non-accretive strategies
- Leverage used by managers can lead to significant losses if not properly managed

## Distribution of monthly returns



# Performance Summary

## Periodic performance comparison

- Very favorable performance profile since start of the Direct program, with low Correlation and Beta to traditional risk assets (equities), and impressive Sharpe ratio
- As market volatility increased over the recent period, the relative performance of APFC's portfolio improved significantly compared to the traditional 60/40 portfolio. All sub-strategies contributing positively

Performance through			Barclays US	HFRI
June 2022	APFC ABR	S&P 500	Agg	Composite
MTD	0.3%	-8.3%	-1.6%	-3.1%
QTD	1.3%	-16.1%	-4.7%	-4.9%
YTD	4.5%	-20.0%	-10.3%	-5.9%
1YR	8.1%	-10.6%	-10.3%	-5.8%
3YR	7.8%	10.6%	-0.9%	6.1%
SI Ret / Vol ( July 2016)	6.8% / 3.4%	12.6% / 13.5%	0.7% / 3.3%	5.6% / 6.1%
SI Correlation / Beta S&P 500	0.38 / 0.1	1 / 1	0.21 / 0.05	0.9 / 0.4

Source: APFC staff. APFC ABR performance numbers are net of fees.

ALASKA PERMANENT FUND CORPORATION



# Performance Summary

Attribution by Strategy through calendar Q2 2022

- The Absolute Return portfolio gained +1.3% in the quarter ended June 2022, bringing the YTD 2022 return to +4.5%. The HFRI fund-weighted composite returned -4.9% and -5.9% for the quarter and YTD, respectively, while the S&P 500 returned -16.1% and -20%, respectively
- Markets were digesting signs of economic slowdown amid higher inflation and hawkish Central Banks

Period Ending: June 2022

Strategy	MTD	QTD	YTD	1YR	Allocation \$mm	Funds #
Macro	0.3%	1.6%	2.7%	2.6%	\$1,433,803,418	6
Equity Relative Value	0.2%	-0.2%	0.4%	1.6%	\$1,567,623,405	6
Event Driven	-0.3%	-0.4%	-0.2%	0.3%	\$566,245,958	2
Commodities*	-0.1%	-0.3%	0.1%	0.4%	\$332,860,134	2*
Multistrategies	0.3%	0.6%	1.4%	2.5%	\$1,010,004,619	3
Legacy FoF	-0.2%	-0.1%	0.1%	0.6%	\$179,141,297	2
<b>Total</b>	<b>0.3%</b>	<b>1.3%</b>	<b>4.5%</b>	<b>8.1%</b>	<b>\$5,089,678,831</b>	<b>21</b>

\* includes direct allocation to Gold ETF

Source: APFC staff. APFC ABR performance numbers are net of fees.

ALASKA PERMANENT FUND CORPORATION

7

# Performance Summary

## Periodic Upside / Downside Capture vs. S&P 500

- Shows the percent participation to S&P 500 **Up** months and **Down** months
- The portfolio exhibits defensive characteristics, providing positive performance on Down months (negative capture on Down months), while still capturing some positive performance on Up months

Peers	1Y Downside Capture vs S&P 500 TR	3Y Downside Capture vs S&P 500 TR	5Y Downside Capture vs S&P 500 TR
Alaska Permanent - HF Portfolio	-16.6%	-0.8%	-0.2%
Barclays US Agg. TR UH	34.1%	10.5%	3.8%
HFRI All Weighted Composite	30.9%	40.8%	41.2%

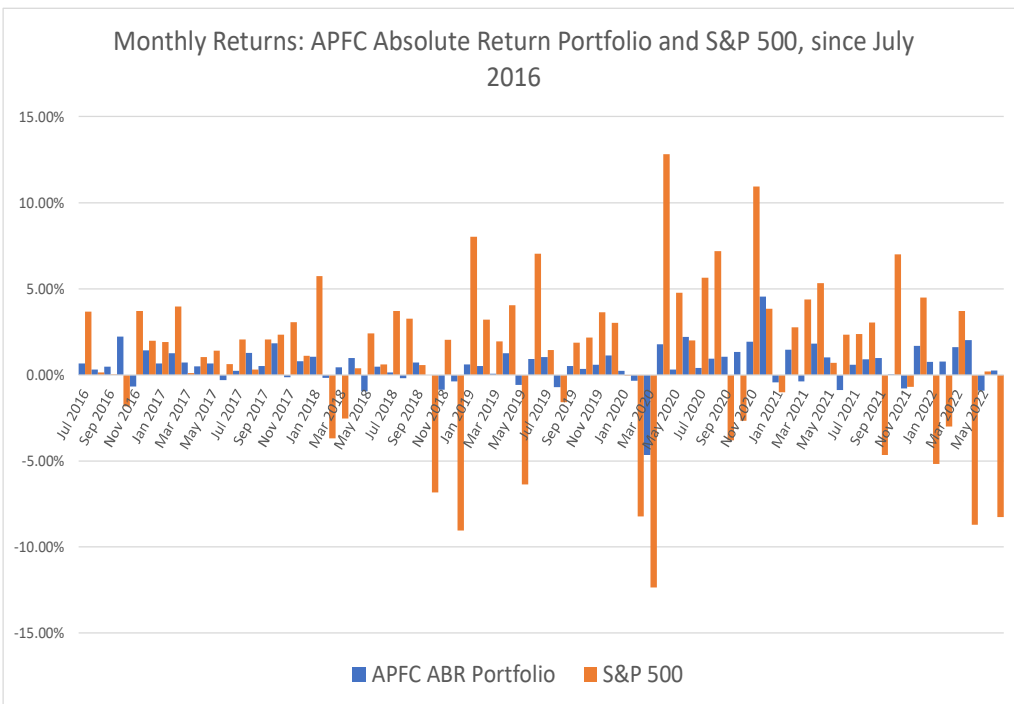
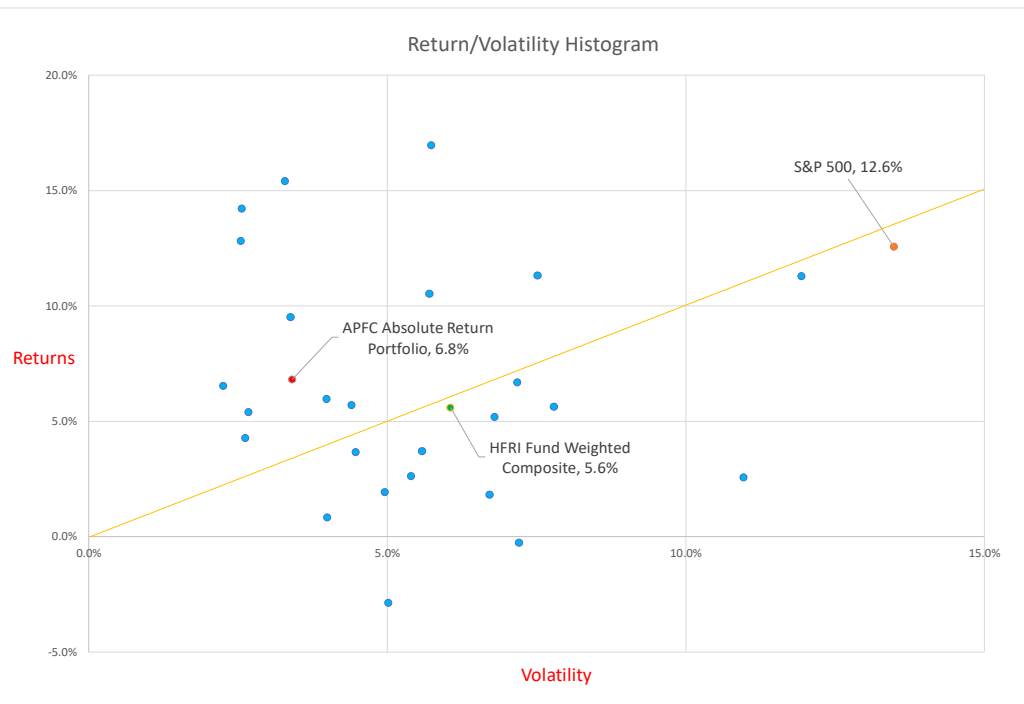
  

	1Y Upside Capture vs S&P 500 TR	3Y Upside Capture vs S&P 500 TR	5Y Upside Capture vs S&P 500 TR
Alaska Permanent - HF Portfolio	8.8%	18.3%	17.7%
Barclays US Agg. TR UH	0.4%	3.6%	4.8%
HFRI All Weighted Composite	17.2%	34.0%	32.1%

Source: Albourne. APFC ABR performance numbers are net of fees.

# Performance Summary

## Monthly returns and Volatility Comparison with S&P 500

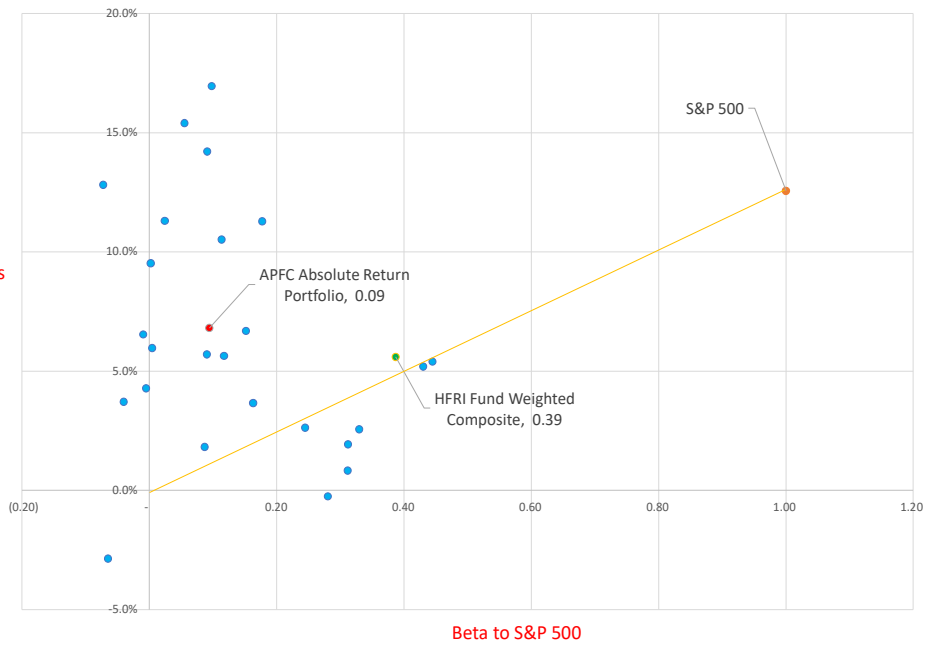


Source: APFC staff. APFC ABR performance numbers are net of fees.

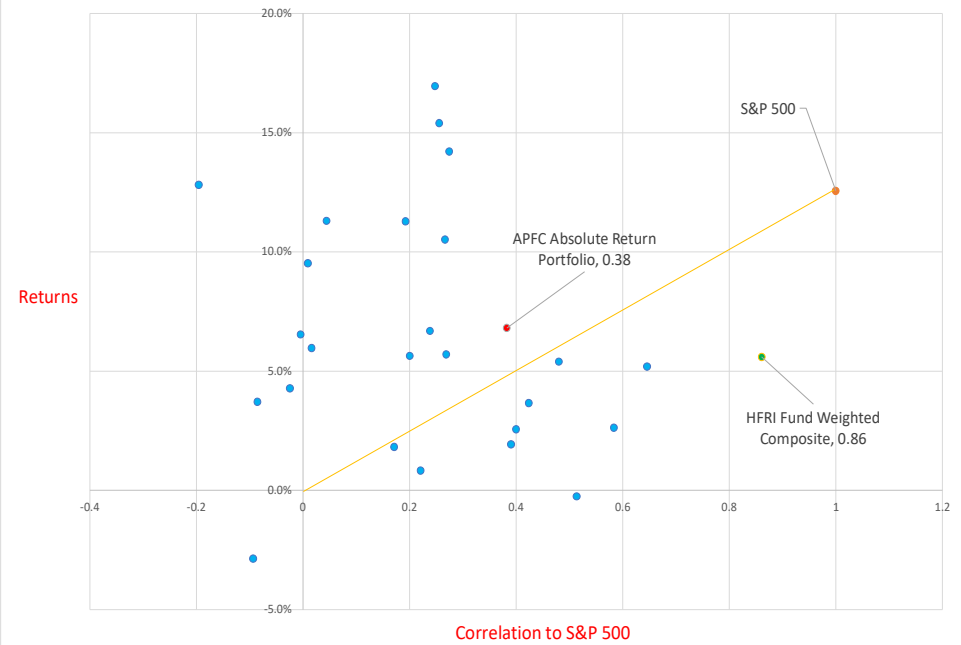
# Performance Summary

## Beta and Correlation to S&P 500

Return/Beta Histogram



Return/Correlation Histogram



Source: APFC staff. APFC ABR performance numbers are net of fees.

SUBJECT: Asset Class Update – Absolute Return  
Albourne America LLC

ACTION: \_\_\_\_\_

DATE: September 21, 2022

INFORMATION: \_\_\_\_\_ X \_\_\_\_\_

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**BACKGROUND:**

Albourne, APFC's consultant on the Fund's Absolute Return asset class, will provide an update to the Board on trends in and outlook for the hedge fund industry. They will also comment on APFC's Absolute Return portfolio and its composition of external managers.

**Biography of Presenter:**

**Spencer Edge, CFA, CAIA:**

Spencer is a Partner and Senior Portfolio Analyst at Albourne America LLC in San Francisco. Previously, Spencer was a Partner and Senior Investment Professional at Tiedemann Advisors, a \$25bn multi-family office, for over ten years. He spent eight years in the firm's New York headquarters before supporting the launch of Tiedemann's San Francisco office. At Tiedemann, Spencer performed initial and ongoing due diligence on prospective and existing investments across all asset classes, with a focus on alternatives, and contributed to the top-down strategic and tactical asset allocation. Prior to joining Tiedemann, Spencer was a Senior Consultant in the Financial Services Advisory practice at Ernst & Young LLP in New York. Spencer earned a Master's in Accounting from the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill and a BA from Dartmouth College. He is a CFA and CAIA charter holder, and a member of the CFA Institute and the CFA Society of San Francisco.

# Alaska Permanent Fund\_Hedge Fund Overview and Industry Update

September 2022

# Why invest in hedge funds?

# Why Invest in Hedge Funds

- Adding hedge funds to an investment portfolio provides **diversification not otherwise available in traditional investing**
- Huge variety of hedge fund investment styles – many uncorrelated with each other – provide investors with a **wide choice of hedge fund strategies to meet their investment objectives**
- Hedge funds can potentially **protect investors from common market risks** by allowing them to invest in risk management skills rather than just embedded exposures
- Potential for **higher returns**, especially in a bear market (ability to short the market)
- Hedge funds **provide a long-term investment solution**, eliminating the need to correctly time entry and exit from markets
- Dynamic capital allocations can **provide exposure to the most attractive opportunities**

# Hedge Fund Strategies

## Relative Value

- Seek returns by capitalizing on the mispricing of related securities or financial instruments; capital preservation oriented

## Directional

- Typically investing at the asset class level, these strategies can shift opportunistically between having a directional bias and a non-directional bias; capital preservation oriented

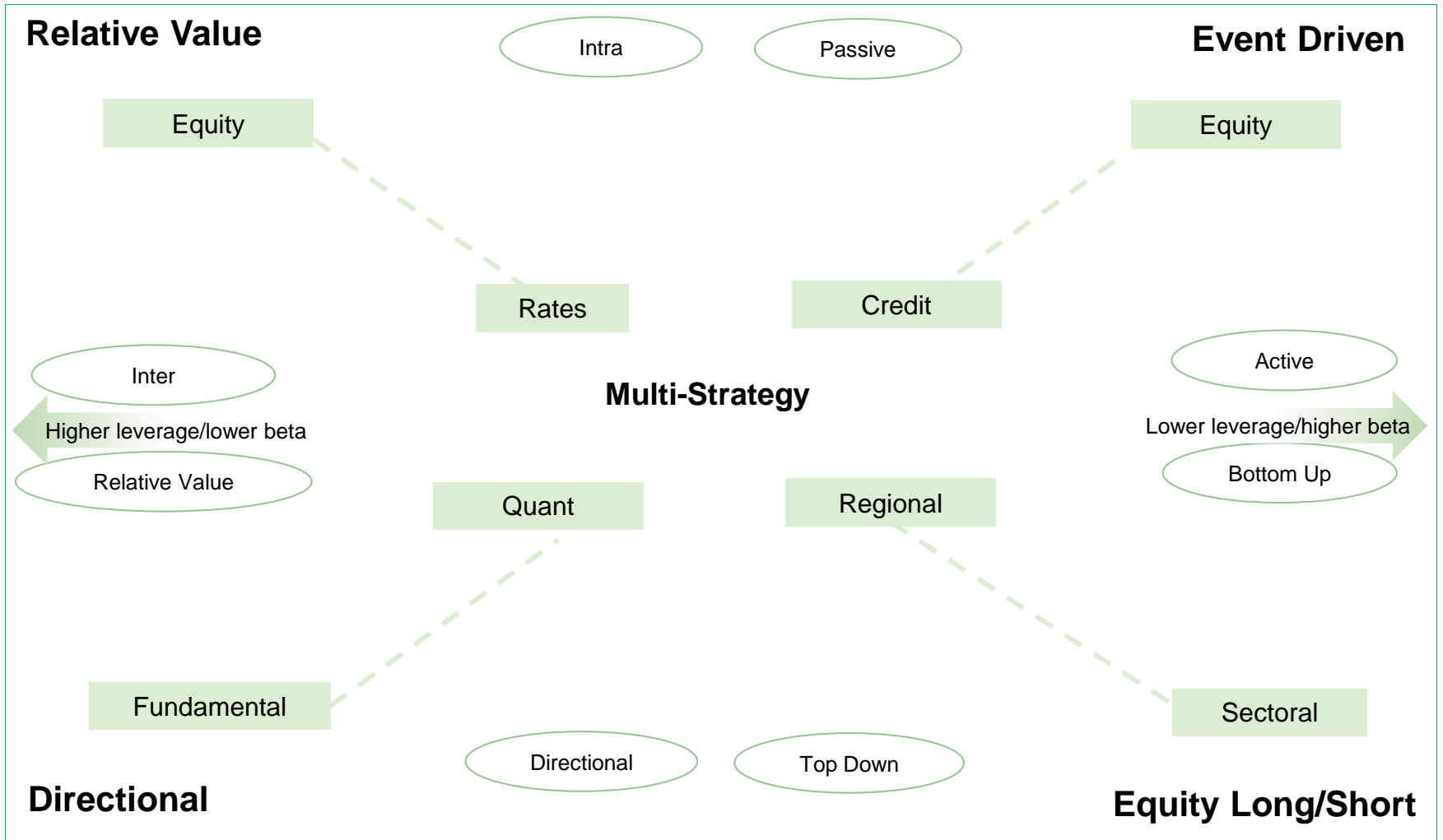
## Equity Long/Short

- Buys equities on a long and short basis based typically on fundamental analysis; growth oriented

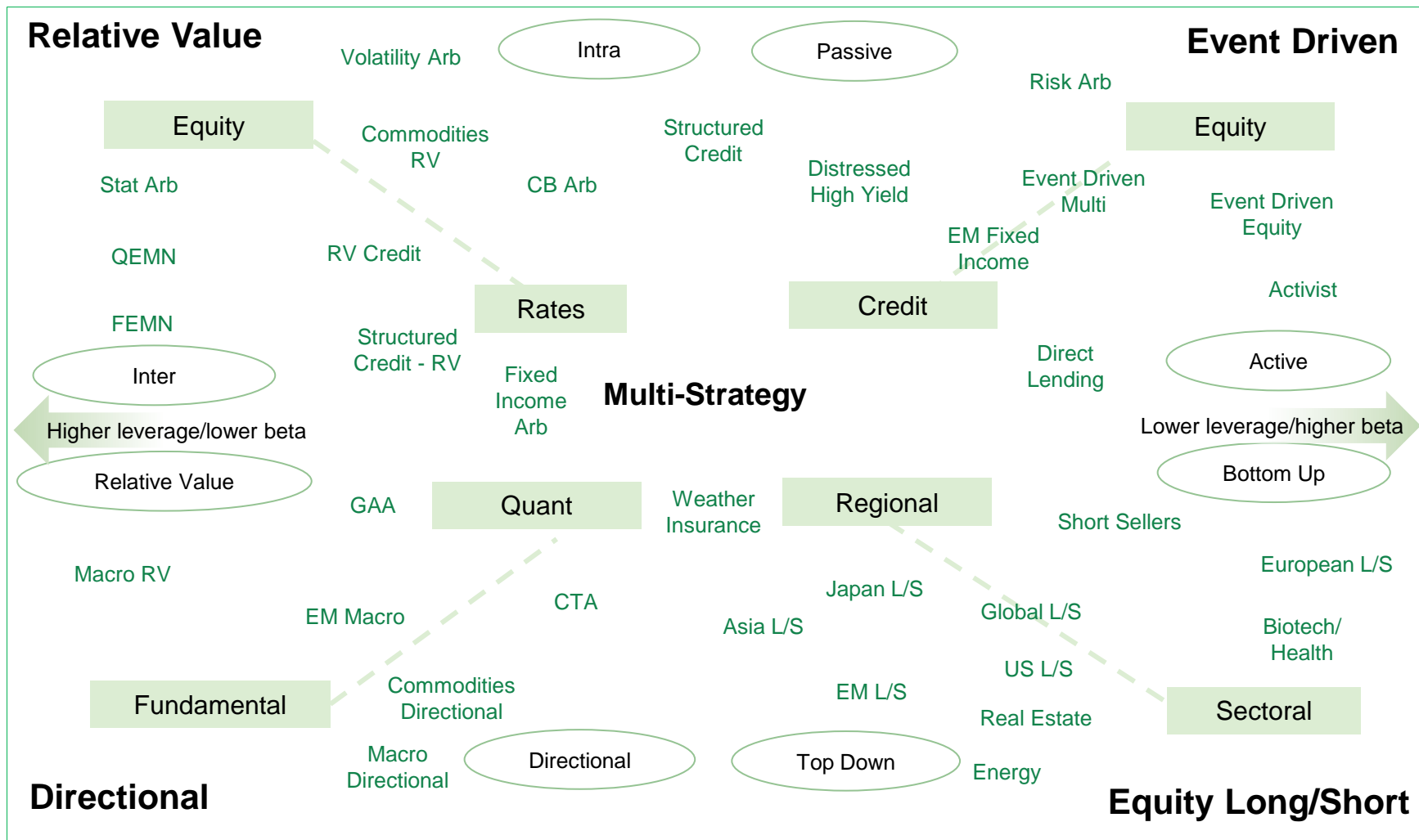
## Event Driven

- Focuses on identifying and analyzing securities that can benefit from the occurrence of an extraordinary transaction or event (e.g., restructurings, takeovers, mergers, spin-offs, bankruptcy, etc.); growth oriented

# Hedge Fund Options



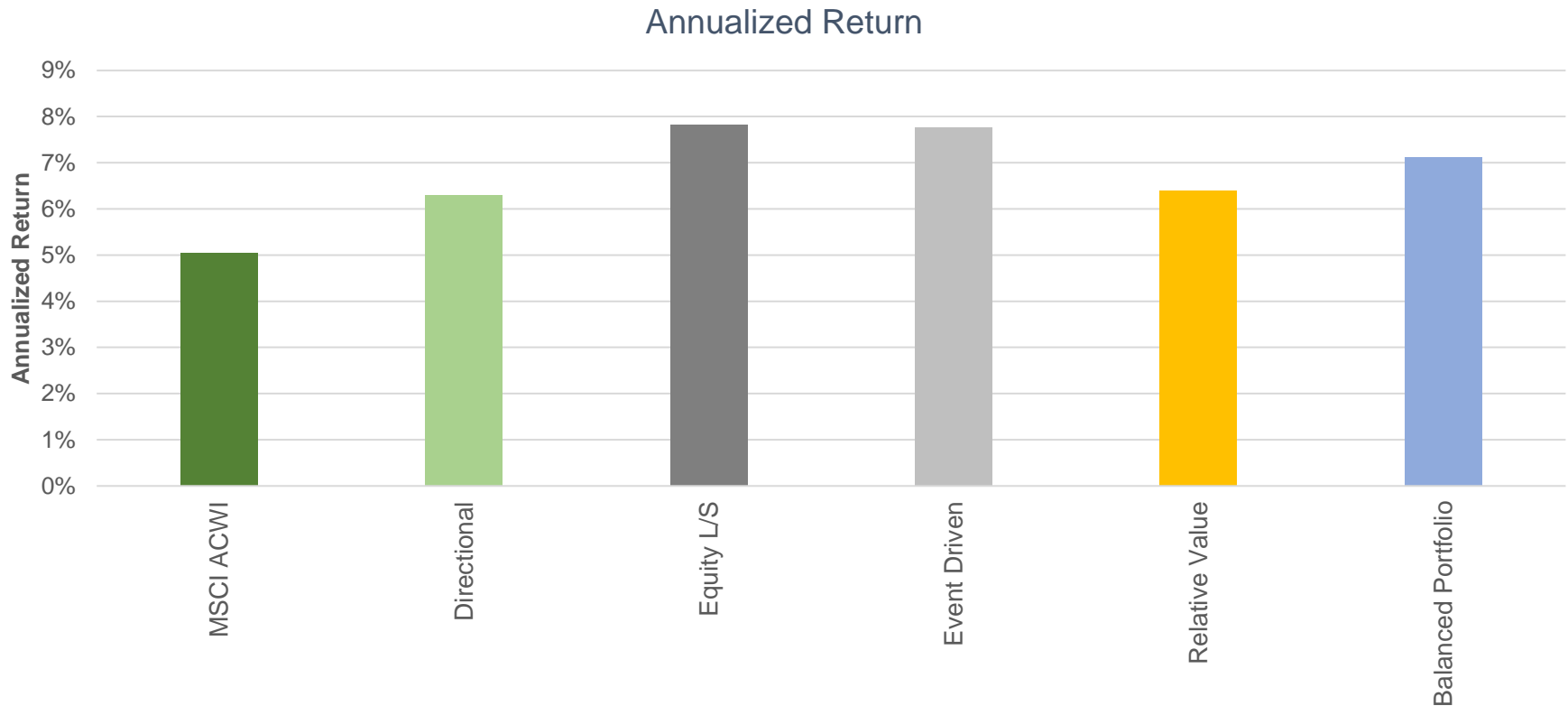
# Hedge Fund Options



# Hedge Fund Performance

Hedge funds have produced an advantageous return profile, with exposures to different asset classes

- Since 2002, hedge funds, as measured by the Albourne strategy indices, have produced a similar annualized return as the MSCI All Country World Index



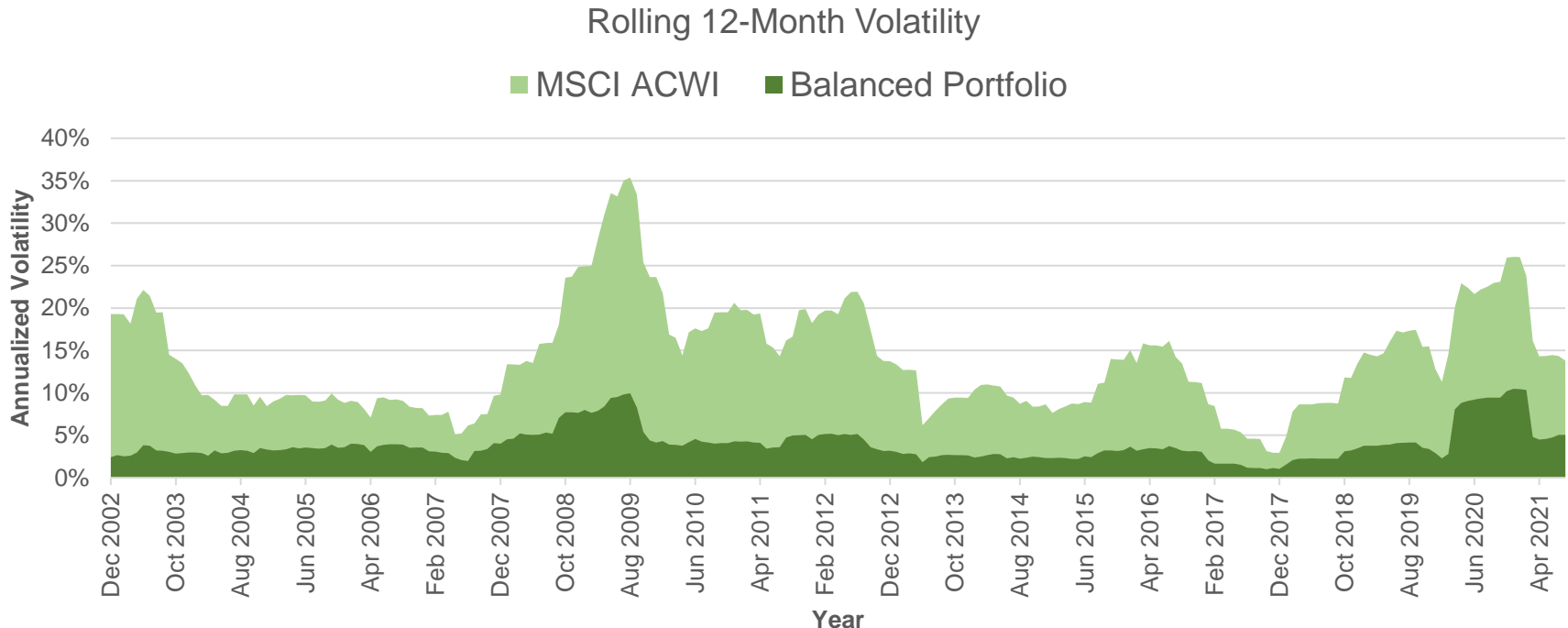
Note: Global Equities represented by the MSCI ACWI Gross TR Index. Data begins April 2022 and goes back to January 2002, the inception date of Albourne's hedge fund indices, which are shown in the chart. Balanced HF Portfolio uses Albourne's long-term hedge fund super-strategy target weights applied to Albourne's super-strategy hedge fund indices (25% Equity L/S, 25% Event Driven, 20% Macro/Directional, 30% Relative Value). Past Performance is not indicative of future results.

Are hedge funds **more** or **less** risky than the broader stock market?

# Hedge Fund Volatility

Hedge funds have demonstrated the ability to manage risk to lower levels than equity markets; importantly they have done this in times when equity markets have struggled

- Since 2002, a balanced portfolio of hedge funds has historically exhibited volatility levels less than one-third of that of the MSCI All Country World Index

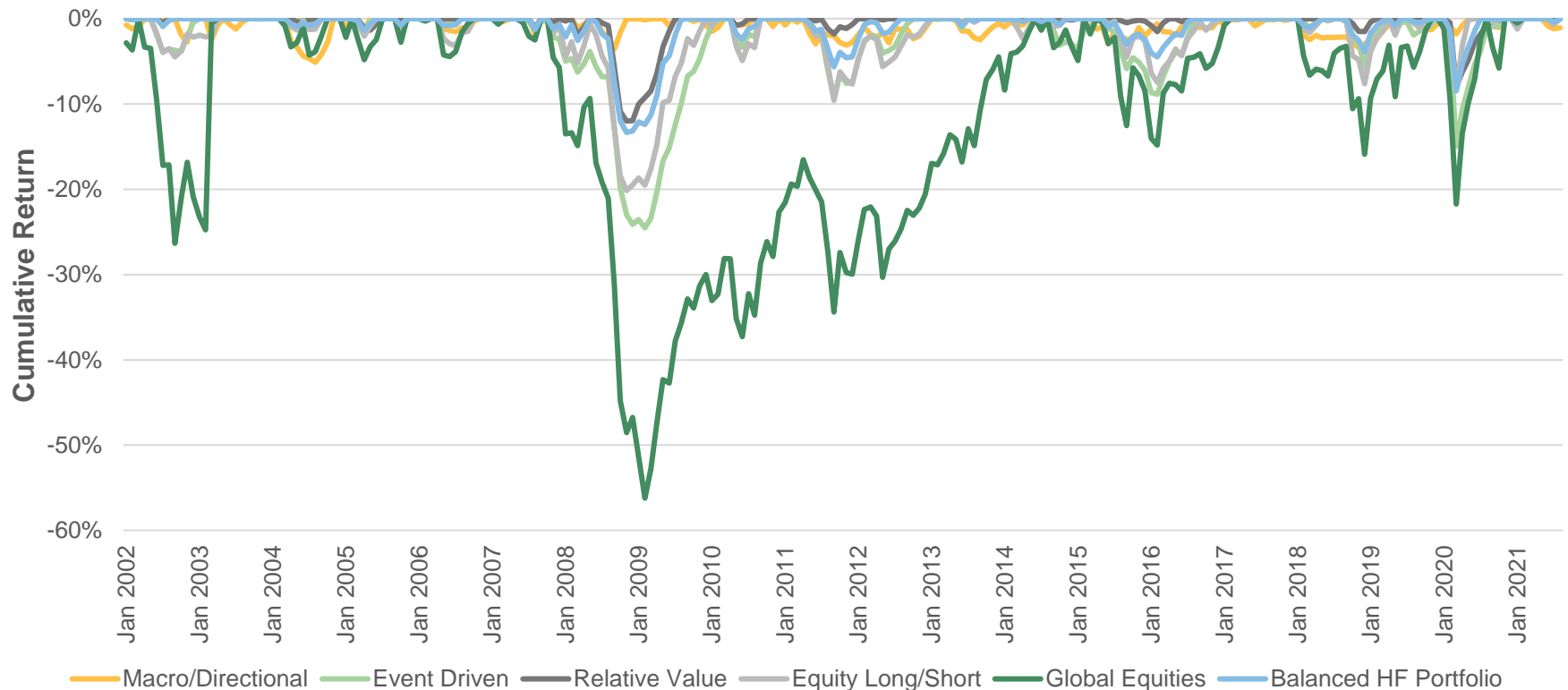


Note: Global Equities represented by the MSCI ACWI Gross TR Index. Data begins April 2022 and goes back to January 2002, the inception date of Albourne's hedge fund indices, which are shown in the chart. Balanced HF Portfolio uses Albourne's long-term hedge fund super-strategy target weights applied to Albourne's super-strategy hedge fund indices (25% Equity L/S, 25% Event Driven, 20% Macro/Directional, 30% Relative Value).

# Protection During Drawdowns

Hedge funds have demonstrated an ability to protect during equity drawdowns and recover more quickly

Drawdown Analysis

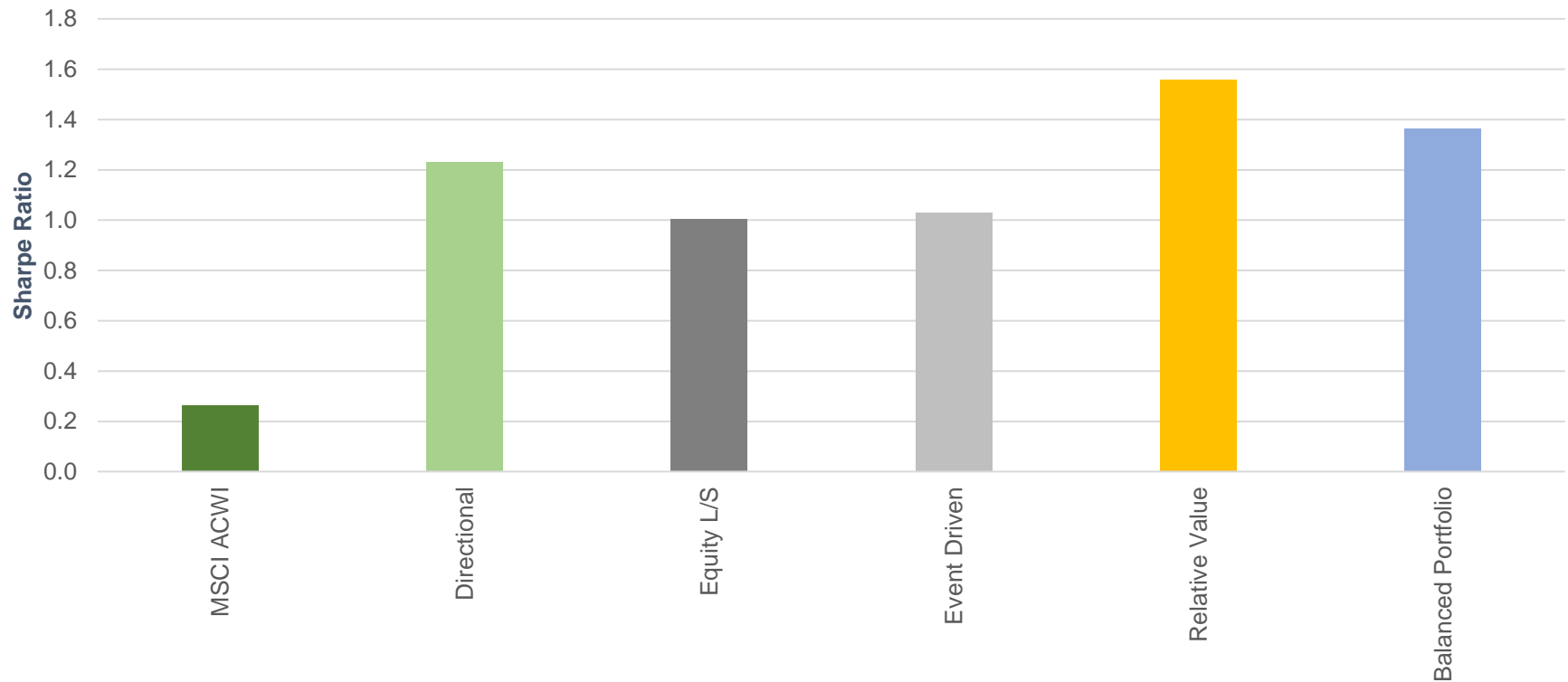


Note: Chart shows cumulative drawdown. Global Equities are represented by the MSCI ACWI Gross TR Index. Data goes back to January 2002, the inception date of Albourne's hedge fund indices, which are shown in the chart.

# Hedge Fund Performance

- Since 2002, hedge funds, as measured by the Albourne strategy indices, have produced a similar annualized return as the MSCI All Country World Index, with far less volatility, resulting in a better risk-adjusted return

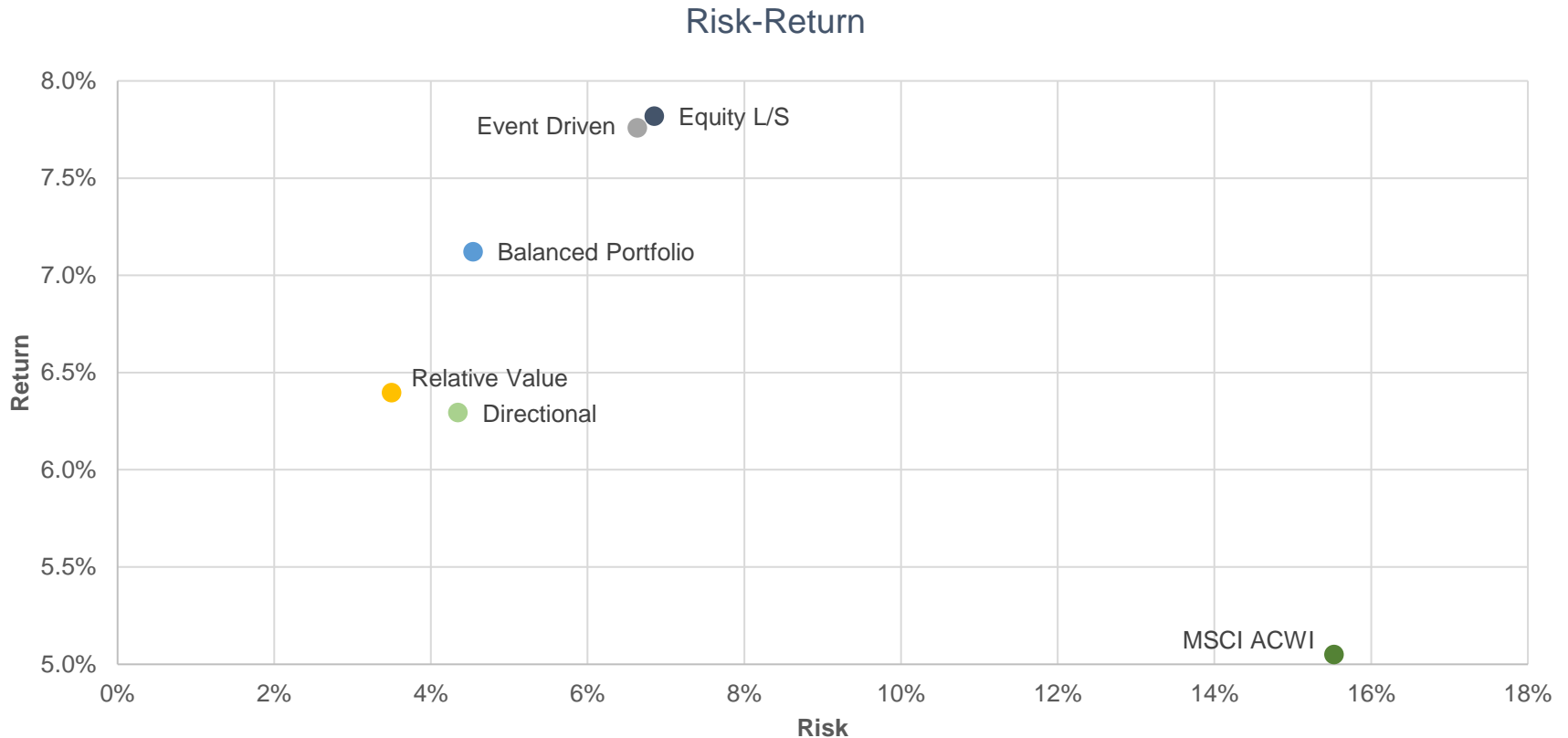
## Sharpe Ratio



Note: Global Equities represented by the MSCI ACWI Gross TR Index. Data begins April 2022 and goes back to January 2002, the inception date of Albourne's hedge fund indices, which are shown in the chart. Balanced HF Portfolio uses Albourne's long-term hedge fund super-strategy target weights applied to Albourne's super-strategy hedge fund indices (25% Equity L/S, 25% Event Driven, 20% Macro/Directional, 30% Relative Value). Past Performance is not indicative of future results.

# Risk-Return Comparison

- Since 2002, hedge funds have produced better risk-adjusted returns than broader equity markets. Typically, hedge funds produce less than half the amount of volatility seen in equity markets.



Note: Global Equities represented by the MSCI ACWI Gross TR Index. Data begins April 2022 and goes back to January 2002, the inception date of Albourne's hedge fund indices, which are shown in the chart. Balanced HF Portfolio uses Albourne's long-term hedge fund super-strategy target weights applied to Albourne's super-strategy hedge fund indices (25% Equity L/S, 25% Event Driven, 20% Macro/Directional, 30% Relative Value). Past Performance is not indicative of future results.

# 1H 2022 Industry Update

# Markets Snapshot – 1H 2022

June was a volatile and broadly negative month across most asset classes with the S&P posting its worst 1H performance since 1970. Recession concerns and inflationary pressures continued to mount, with the US CPI print coming in at the multi-decade high of 8.6% and the Fed hiking 75bp in June – the largest single month hike since 1994.

Index	MTD	2Q 2022	YTD	Yield
<b>EQUITY</b>				
S&P 500 TR	-8.3%	-16.1%	-20.0%	
Dow Jones TR	-6.6%	-10.8%	-14.4%	
Nasdaq TR	-8.7%	-22.3%	-29.2%	
MSCI World TR	-7.6%	-15.1%	-19.4%	
Eurostoxx 50 TR	-8.7%	-9.4%	-17.4%	
FTSE 100 TR	-5.5%	-3.7%	-1.0%	
Nikkei TR	-3.1%	-4.9%	-7.3%	
Hang Seng TR	3.0%	0.9%	-4.8%	
CSI 300 TR	10.4%	7.3%	-8.3%	
MSCI EM TR	-6.6%	-11.3%	-17.5%	
<b>CREDIT</b>				
USD HY	-6.8%	-10.0%	-14.0%	
USD CCC HY	-7.3%	-13.9%	-17.1%	
US Corporate	-2.4%	-6.7%	-13.9%	
JPM EMBI Global TR	-5.6%	-10.6%	-18.9%	
CS Leveraged Loan	-1.5%	-3.7%	-3.9%	
<b>BONDS (bps)</b>				
US (2yr)	39.7	61.9	222.1	3.0%
US (10yr)	16.9	67.5	150.3	3.0%
UK (10yr)	12.8	61.9	125.8	2.2%
Germany (10yr)	21.4	78.9	151.6	1.3%
Italy (10yr)	14.5	122.5	209.2	3.3%
Japan (10yr)	-1.1	1.4	16.0	0.2%
<b>CURRENCY</b>				
USD Index	2.9%	6.5%	9.4%	
<b>COMMODITIES</b>				
CRB Index	-8.0%	-1.4%	25.3%	
BBG WTI Crude Oil TR	-6.0%	9.0%	50.8%	
BBG Brent Crude Oil TR	-3.0%	9.5%	57.3%	
BBG Gold TR	-2.1%	-7.6%	-1.5%	
<b>VIX Index</b>				
28.71	9.6%	39.6%	66.7%	

**Directional strategies continue to perform in 2Q 2022 finishing the quarter up +4.5% and YTD up +13.8% YTD.** CTA and Global Asset Allocation were some of the better returning strategies in June, with their corresponding HedgeRS indices returning +0.8% and +0.3%, respectively.

- **Asia Pacific Long/Short managers outperformed.** Despite broad equity market declines, Chinese stocks rallied significantly, with the CSI 300 TR returning double digits in the month. Easing in COVID-19 restrictions and the conclusion of regulatory probes of tech companies drove broadly positive performance for Asia Pacific Long/Short managers. The HedgeRS Equal Weighted APAC Long/Short index returned +0.9% in June.
- **Emerging Markets continue to be hit, particularly Fixed Income.** Emerging Market Fixed Income managers struggled to contain losses through the month. With US rates moving higher, and a strengthening dollar, the risk-off sentiment in Emerging Markets intensified, with the drawdown in the JPM EMBI Global index being larger than 2008 and 1Q 2020.
- **Technology Investors continue to feel the pain** with the NASDAQ finishing June down -29.2%, significantly underperforming broad market indices. Open Protocol data shows that gross and net long exposures to Information Technology by Long/Short managers have come down to multi-year lows.

For more details of market performance, please see the CIO Note: [June 2022: Monthly Market Summary](#)

# HedgeRS Equal Weighted Index Snapshot – 2Q 2022

Strategy	1Q 2022	2Q 2022				YTD
		Apr-22	May-22	Jun-22	QTD	
<b>Relative Value</b>	<b>0.4%</b>	<b>0.4%</b>	<b>-0.7%</b>	<b>-0.7%</b>	<b>-1.0%</b>	<b>-0.6%</b>
Fundamental Equity MN	1.0%	0.6%	0.3%	-0.4%	0.5%	1.5%
QEMN	1.3%	1.5%	0.3%	0.2%	2.0%	3.4%
Statistical Arbitrage	1.2%	0.6%	0.2%	0.4%	1.2%	2.5%
CB Arbitrage	-1.2%	-1.0%	-1.8%	-1.1%	-3.8%	-5.0%
Fixed Income Arbitrage	-2.1%	-0.3%	-0.8%	-1.4%	-2.4%	-4.4%
Structured Credit - Relative Value	0.1%	0.4%	-2.1%	-2.3%	-4.0%	-4.0%
Relative Value Credit	0.3%	0.1%	-0.6%	-1.5%	-2.0%	-1.7%
MS - Relative Value	0.8%	0.7%	-0.9%	-0.5%	-0.7%	0.1%
<b>Event Driven</b>	<b>-0.6%</b>	<b>-1.4%</b>	<b>-1.4%</b>	<b>-4.2%</b>	<b>-6.8%</b>	<b>-7.3%</b>
Distressed / Restructuring	0.8%	-0.5%	-1.1%	-3.5%	-5.1%	-4.3%
EM Fixed Income	-1.6%	-1.0%	-0.6%	-6.6%	-8.1%	-9.6%
Risk Arbitrage	1.0%	-0.7%	-1.4%	-0.6%	-2.7%	-1.7%
Activist	-4.6%	-3.3%	-1.8%	-6.8%	-11.5%	-15.5%
MS - Event Driven	1.3%	-0.8%	-1.3%	-3.0%	-5.0%	-3.8%
<b>Equity Long/Short</b>	<b>-4.4%</b>	<b>-2.8%</b>	<b>-1.3%</b>	<b>-2.1%</b>	<b>-6.2%</b>	<b>-10.4%</b>
Asia Pacific Long / Short	-7.5%	-1.5%	-0.5%	0.9%	-1.1%	-8.5%
EU Long / Short	-2.1%	-0.1%	-0.5%	-1.7%	-2.2%	-4.3%
Japan Long / Short	-1.0%	-0.4%	1.2%	-0.7%	0.1%	-0.9%
US Long / Short	-2.6%	-2.8%	-0.6%	-3.2%	-6.5%	-8.9%
EM Long / Short	-1.4%	0.8%	0.2%	-3.0%	-2.0%	-3.5%
<b>Directional</b>	<b>5.1%</b>	<b>2.4%</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>2.2%</b>	<b>7.4%</b>
Global Macro	5.6%	1.7%	0.4%	-0.6%	1.5%	7.2%
CTA	9.0%	4.0%	-0.3%	0.8%	4.5%	13.8%
Global Asset Allocation	2.7%	2.1%	-0.7%	0.3%	1.6%	4.4%
<b>Long Biased</b>	<b>0.9%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>0.6%</b>	<b>1.5%</b>
Insurance	0.6%	0.2%	0.3%	0.0%	0.5%	1.1%
<b>Multi-Strategy</b>	<b>0.4%</b>	<b>0.1%</b>	<b>-0.7%</b>	<b>-1.1%</b>	<b>-1.7%</b>	<b>-1.3%</b>
MS - Diversified	1.5%	0.6%	-0.7%	-0.4%	-0.6%	0.9%
MS - Opportunistic	-5.3%	-3.1%	-0.8%	-5.9%	-9.6%	-14.4%
<b>HF Universal</b>	<b>-0.2%</b>	<b>-0.4%</b>	<b>-0.9%</b>	<b>-1.7%</b>	<b>-2.9%</b>	<b>-3.1%</b>

## Quarterly Strategy Highlights

### Upper Quartile:

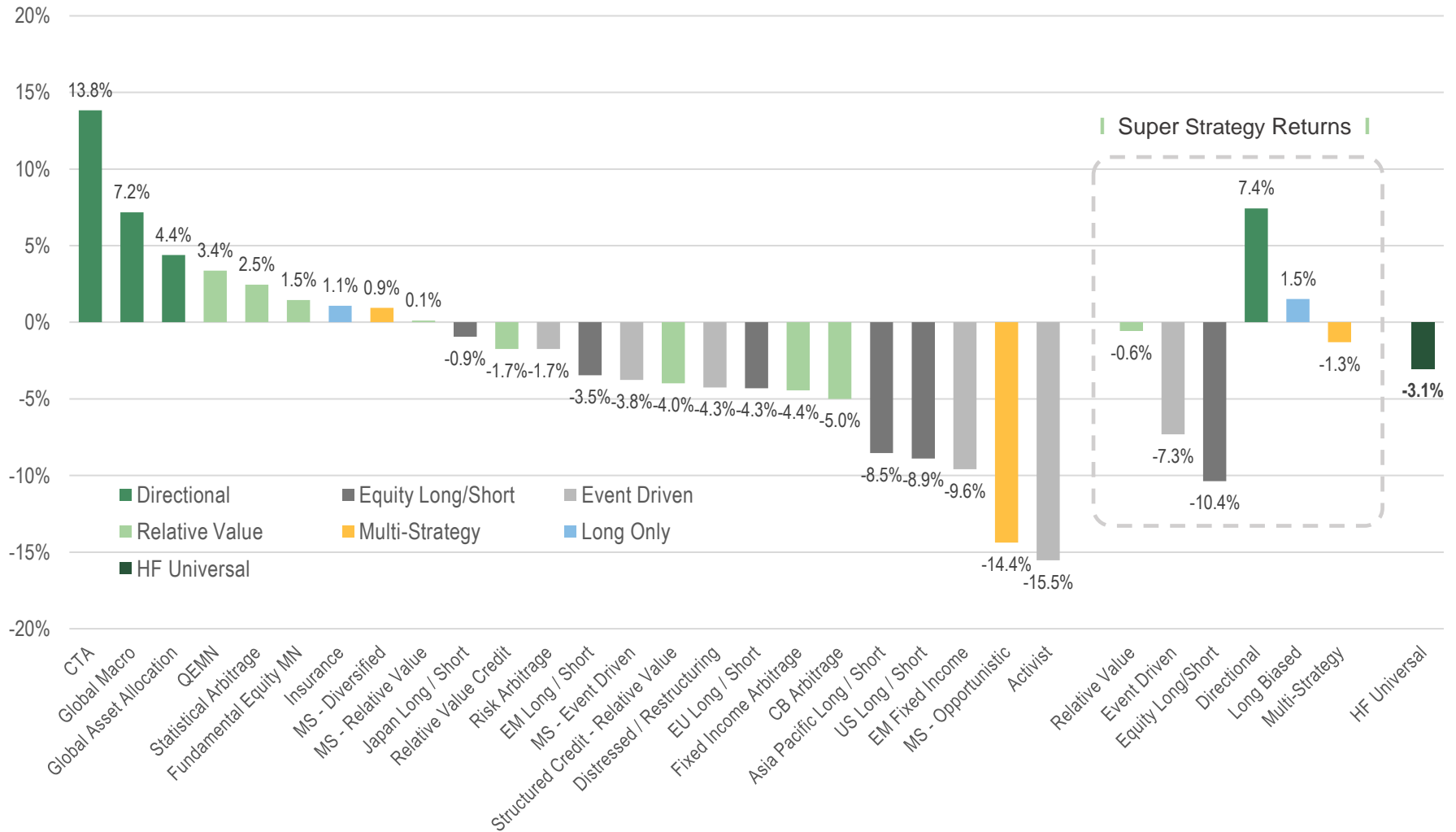
- CTA:** Fears of global recessions and inflation drove the markets in 2Q 2022, with CTA managers benefitting from this environment. April was an excellent month for the strategy as inflation concerns were felt in the bond and currency markets as well as the commodity markets. May was a flat month for CTAs overall, and no particular sub-set of managers under/outperformed. Short positions in stocks and bonds and long USD positions helped CTAs in June with the HedgeRS EW index returning +0.8% which brings the QTD to +4.5% and YTD performance to +13.8%.
- Global Macro:** Global Macro managers performed very well in the first part of 2Q 2022 with more mixed results in June for the peer group. Rates trading as well as long USD positions has been positive for traders in April. Similarly in May, managers performed well as market volatility created various opportunities for traders. In general, Global Macro managers continue to trade tactically and focus on staying in liquid markets. For 2Q the strategy was up +1.5% with the YTD being at +7.2%.
- QEMN:** In April the factors have generally provided a tailwind, with positive contributions from Value, Momentum, Quality and Low Volatility. Performance in May was more mixed but predominantly positive. The strategy finished the quarter at +2.0%. Expectations of inflation and higher interest rates can be encouraging for the strategy's outlook.

### Lower Quartile:

- Activist:** It was a challenging quarter for Activist managers with an extended sell-off in equity markets. The strategy is associated with high beta to equities and the environment proved very challenging for Activist managers. Recession fears increased in June due to the Federal Reserve's interest rate hiking cycle, which put downward pressure on broader indices and long-biased strategies, thus bringing the QTD performance to -11.5% and YTD to -15.5%.
- MS Opportunistic:** Due to the long-biased nature of the strategy, the strategy experienced significant drawdowns in 2Q 2022 with June being the worst month thus far in 2022. While many funds were down in the quarter, a surprising number of managers generated a profit, even in the face of heightened volatility.
- US Long/Short:** the strategy faced a very challenging 2Q with all the months being in negative territory. Despite a tough quarter the strategy significantly outperformed broader equity markets as markets had downward pressure throughout the quarter. YTD performance is at -8.9%.

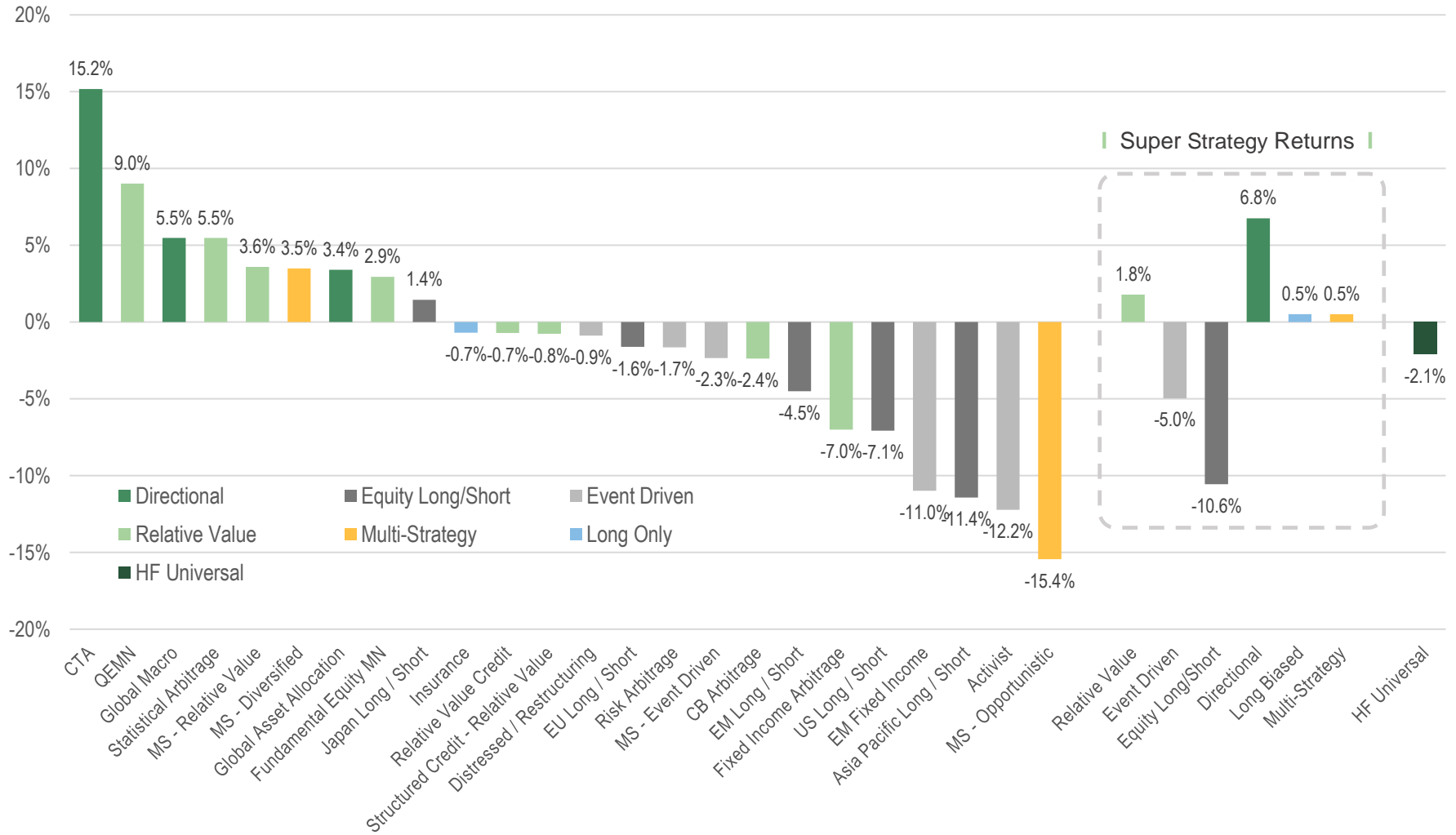
# Albourne HF Indices – YTD Performance as of June 2022

HedgeRS EW Performance - YTD\*

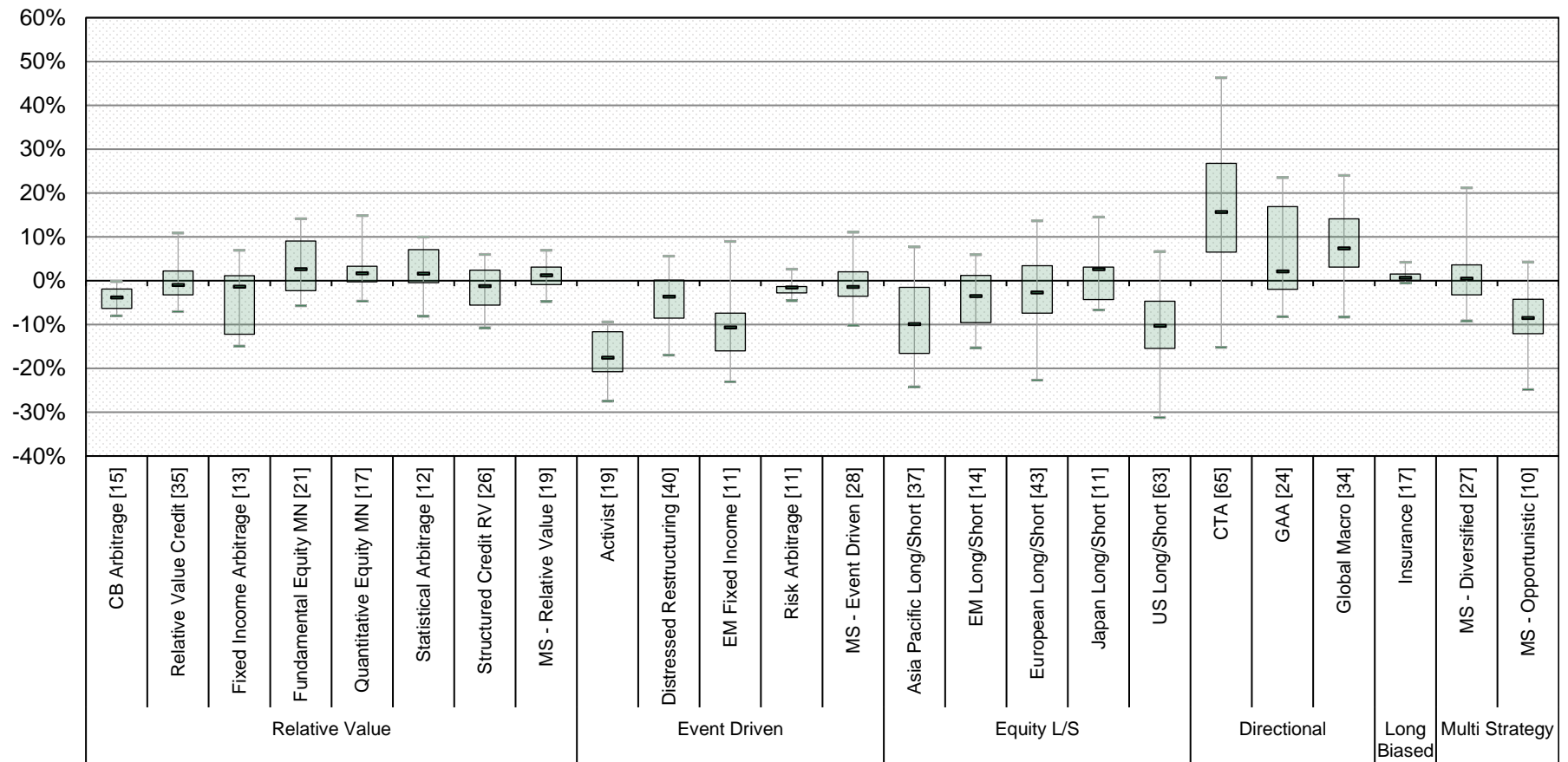


# Albourne HF Indices – 12 Month Rolling as of June 2022

## HedgeRS EW Performance



# Dispersion – YTD as of June 2022\*



**Albourne Hedge Fund Strategy & Number of Funds**

**Notes:**

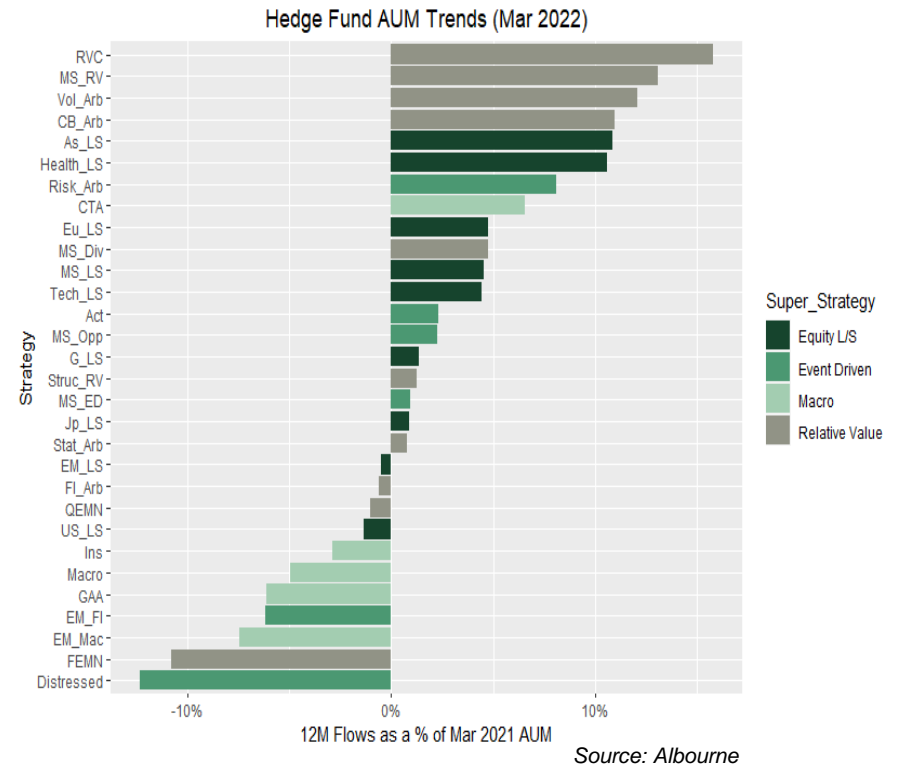
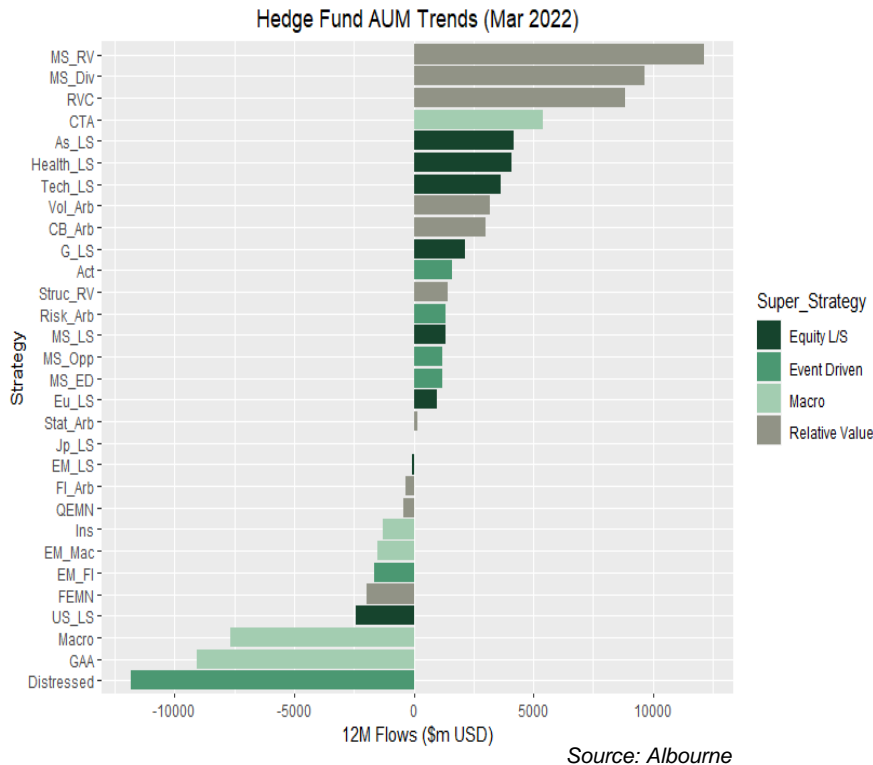
Data shows dispersion of returns: Middle bar represents the median; upper & lower bounds of the box represents the top quartile and bottom quartile, respectively; upper & lower whiskers represent the 95th & 5th percentiles, respectively.

Universe shown is the constituents of the relevant HedgeRS Equal Weighted Index for each strategy  
Calculations include all funds with returns over each relevant time period.

\* Based on all fund returns/estimates received as of 14 July 2022.

# Hedge Fund AUM Trends (Mar 2021 – Mar 2022)

Multi-strategy and Relative Value funds have been notable beneficiaries of flows over the past year. Long/Short remains positive but less compared to last year. Distressed and GAA have seen the largest outflows as a dearth of opportunity, and a question mark over the relevance of GAA strategies seem to have discouraged allocations.



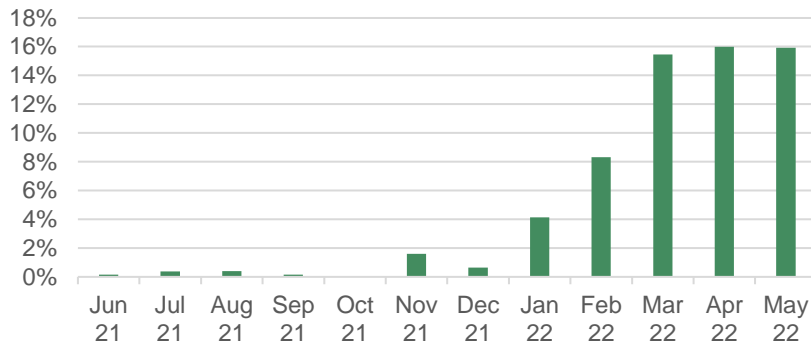
“Act” = Activist, “As\_LS” = Asia Pacific Long/Short, “CB\_Arb” = Convertible Bond Arbitrage, “EM\_FI” = Emerging Markets Fixed Income, “EM\_LS” = Emerging Markets Long/Short, “EM\_Mac” = Emerging Markets Macro, “Eu\_LS” = European Long/Short, “FEMN” = Fundamental Equity Market Neutral, “FI\_Arb” = Fixed Income Arbitrage, “G\_LS” = Global Long/Short, “GAA” = Global Asset Allocation, “Health\_LS” = Healthcare Long/Short, “Ins” = Insurance, “Jp\_LS” = Japan Long/Short, “Macro” = Global Macro, “MS\_Div” = Multi-Strategy Diversified, “MS\_ED” = Multi-Strategy Event Driven, “MS\_LS” = Multi-Strategy Long/Short, “MS\_Opp” = Multi-Strategy Opportunistic, “MS\_RV” = Multi-Strategy Relative Value, “QEMN” = Quantitative Equity Market Neutral, “Risk\_Arb” = Risk Arbitrage, “RVC” = Relative Value Credit, “Stat\_Arb” = Statistical Arbitrage, “Struc\_RV” = Structured Credit Relative Value, “Tech\_LS” = Tech Long/Short, “US\_LS” = US Long/Short, “Vol\_Arb” = Volatility Arbitrage

# Industry Trends

With market volatility picking up, managers continue to keep risk subdued; the proportion of funds showing alerts for high credit exposure declined to a multi-year low.

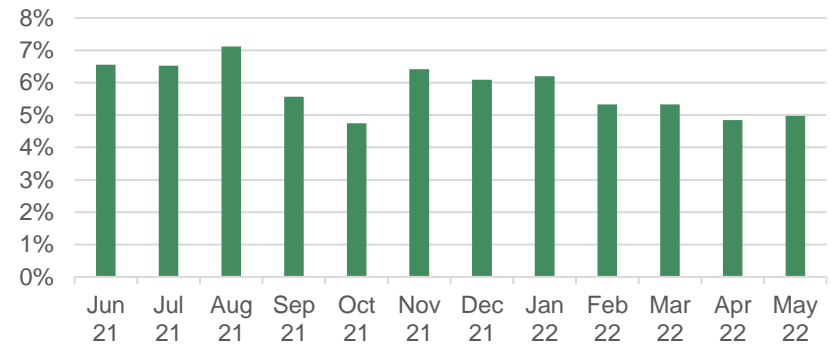
The proportion of funds with alerts related to market volatility remains at a 12-month high.

### Alerts for Market Volatility



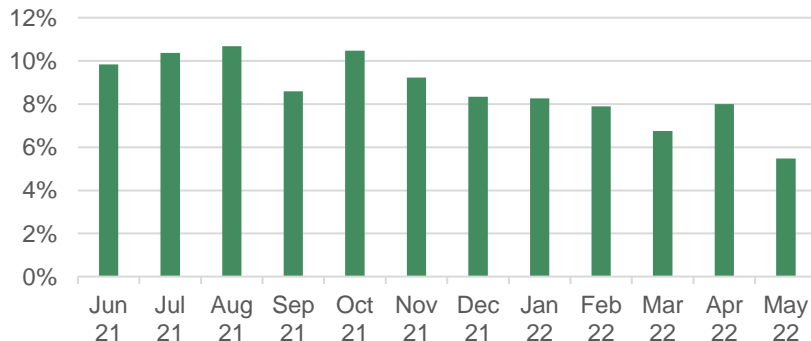
The proportion of funds with alerts related to high leverage remains at the low end of the yearly range.

### Alerts for High Leverage



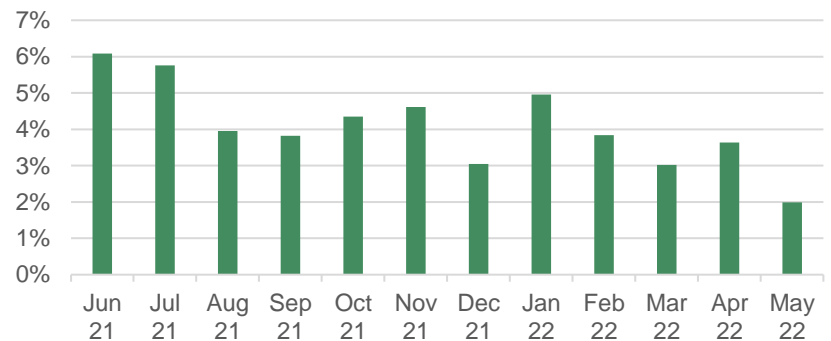
The proportion of funds with alerts pertaining to high asset class VaR has decreased alongside exposures.

### Alerts for High Portfolio VaR



The proportion of funds with alerts related to high credit exposure has reached a yearly low.

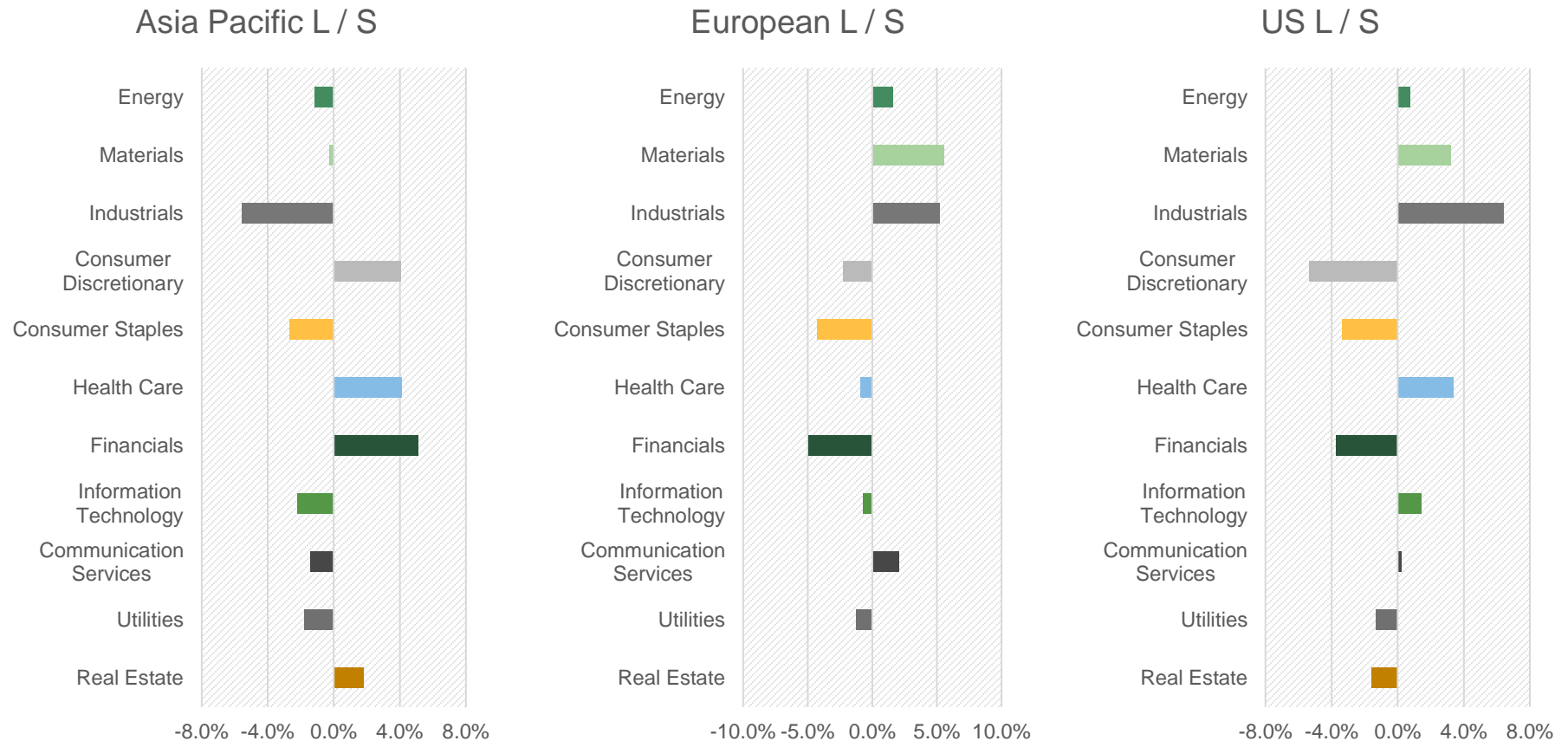
### Alerts for High Credit Exposure



# Equity Long / Short Net Exposures vs Benchmarks

European and US Long / Short managers run overweight positions in Industrials, and underweighted positions in Financials and Consumer Staples compared to their benchmarks. Asia Pacific managers maintain overweight positions in Consumer Discretionary, Healthcare and Financials, and underweight in Industrials, Consumer Staples and IT.

Benchmark net exposures are rebased to the respective strategies' total net exposure, and refer to MSCI Indices.



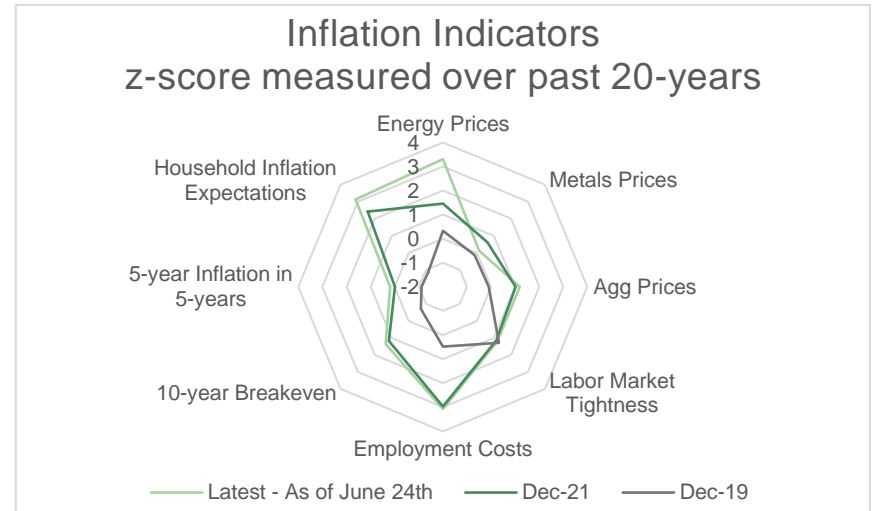
Source: Open Protocol data collected and analyzed by Albourne. Benchmarks refer to MSCI AC Asia Pacific TR, MSCI Europe TR, and MSCI US TR Indices. Data is shown through 31 May 2022. Refer to Appendix E for the number of funds in the latest month. Note that the number of funds may change over time.

# Stagflation?

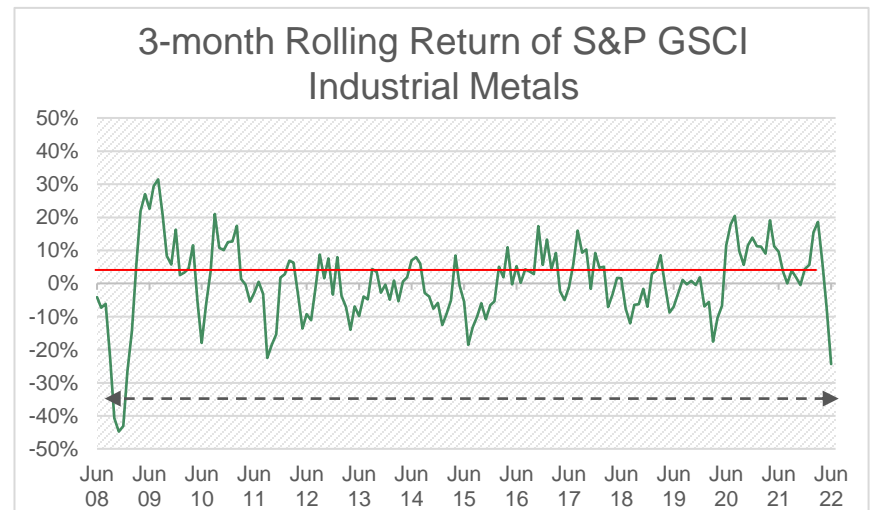
Managers are broadly taking risk off and positioning more defensively as twin fears of higher inflation and slower growth have gripped the financial markets in the first half of 2022:

- **Yield Curve Inversion:** The 10yr/2yr yield curve inverted on 6 July and 1 April 2022, the first time/s since 2019. Each of the 6 recessions since 1978 was preceded by an inversion of the 10yr-2yr yield curve.
- **Industrial Metals:** industrial metals are having their worst 3-month rolling return since the financial crisis of 2008 (third-worst since 1980 if we deem the financial crisis a single period)
- **Bond volatility:** bond volatility coming into July reached its highest value since the spike in the first half of 2020 buoyed by Fed's rate increases, and dual inflation and recession concerns
- **Looking forward:** In thinking about the potential outcomes over the next 12-months, Albourne has taken more cautious stance towards the probabilities of the outcomes over the coming year, with the likelihood of outcomes tilted firmly into the negative.

[See here for the 2<sup>nd</sup> Quarterly Strategy Forecasts and more detail on the Macro Economic and Strategy Outlook](#)



Source: FRED - Federal Reserve bank of St. Louis, Bloomberg

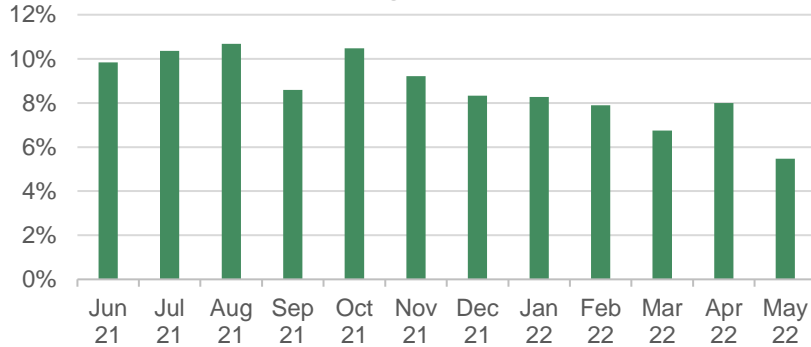


Source: Bloomberg

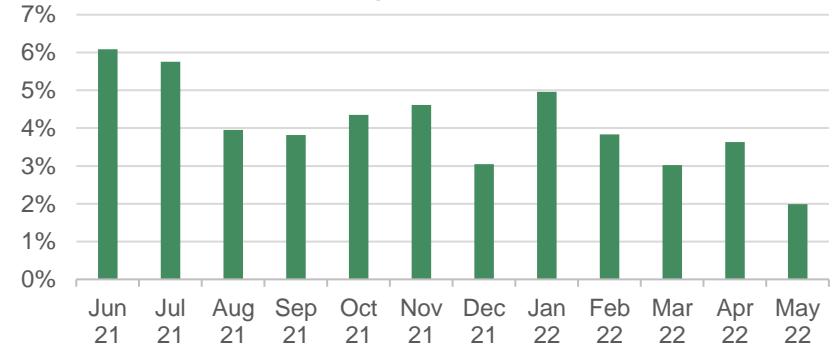
# Open Protocol Data on Manager Positioning

Alerts across Albourne's Open Protocol data show that the proportion of funds with Fund Core Control alerts for high exposure to risk assets, and alerts for high VaR, are at multi-year lows, indicating relative risk-off positioning.

Alerts for High Portfolio VaR

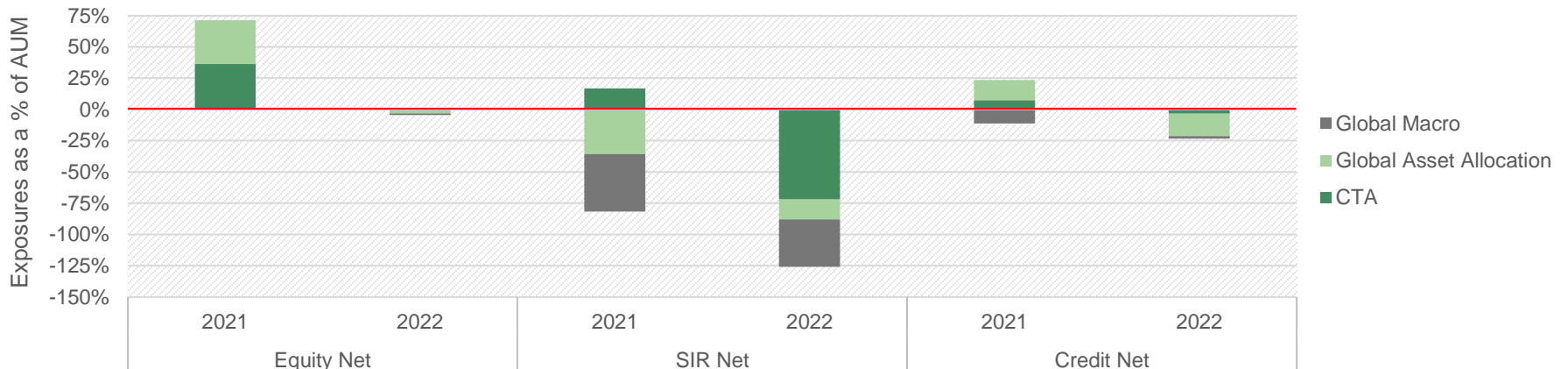


Alerts for High Credit Exposure



Directional (Macro, CTA, GAA) strategies are now all showing an overall net short positioning across equities, government bonds, and credit:

Net Exposures of Directional Strategies - May 2022 vs May 2021

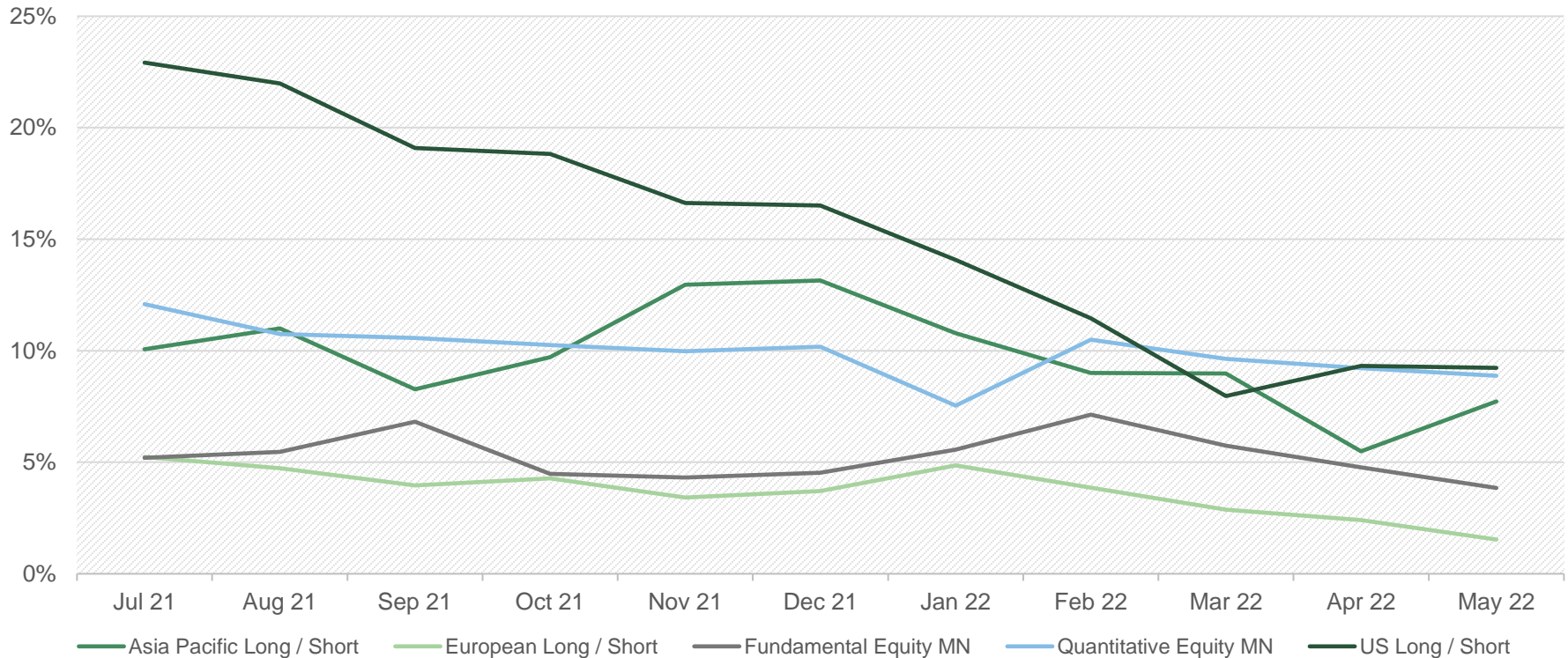


# IT Exposures in Decline

With continued underperformance from Technology related stocks, managers have been reducing exposure to the Information Technology sector, with net exposures sitting at or near multi-year lows.

- US Long / Short in particular, over the last 12-months, has seen its IT net long exposure decline from 23% to 9%.
- It should be noted that despite the decline in gross and net exposures, managers maintain a long bias in the sector.

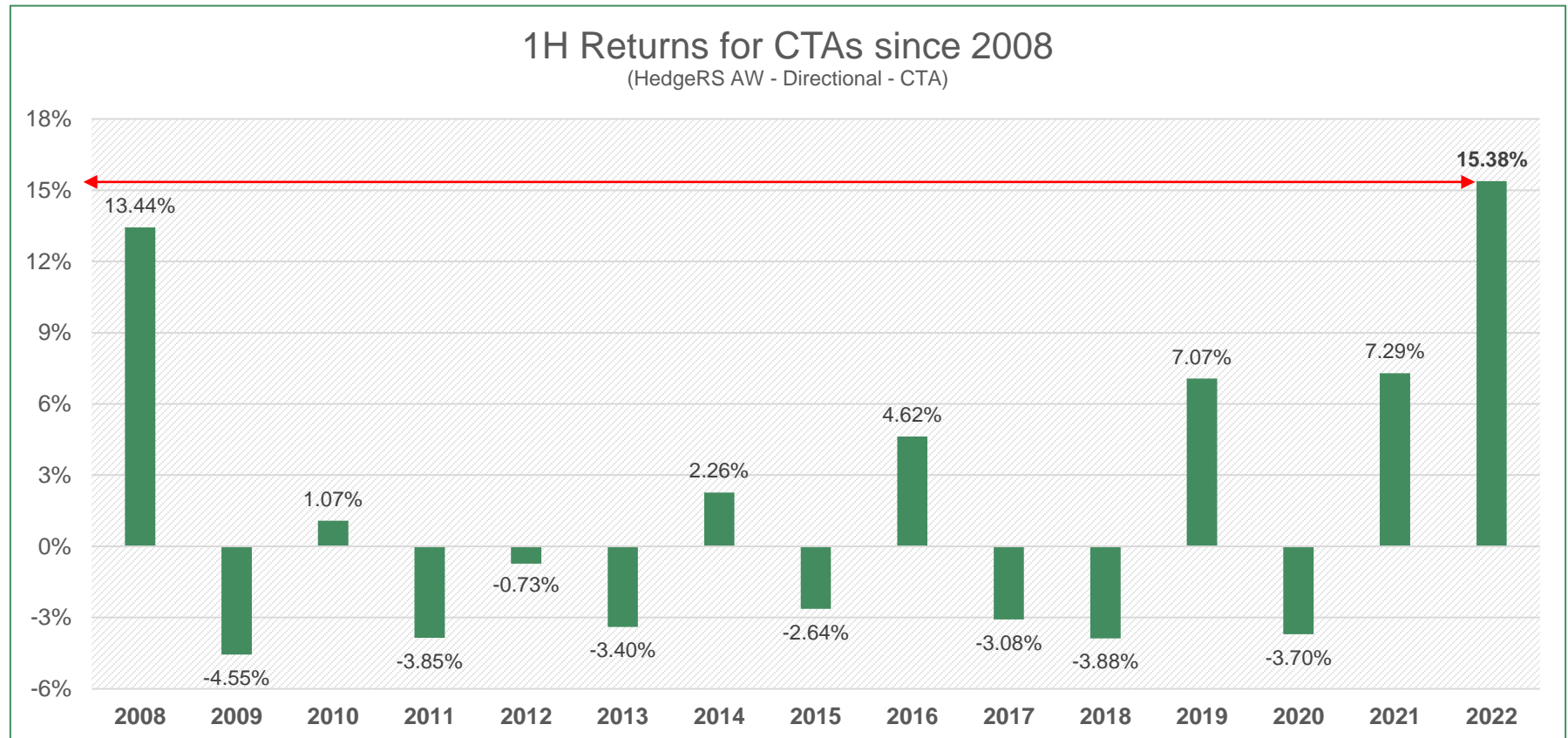
Net Exposure to Information Technology



# CTAs - Best 1st Half of Year since 2008

## CTAs have had their best start to a year since 2008.

- The HedgeRS AW CTA index returned 15.38%, as the high volatility and clear trends of the first 6 months of 2022, provided a conducive market environment for the strategy. According to Open Protocol data collected by Albourne, CTAs were quick to decrease their net long exposure to equities, which turned to a short positioning in June. CTAs also carried shorts in sovereign bonds since the beginning of the year, boosting returns significantly as global yields shot higher.



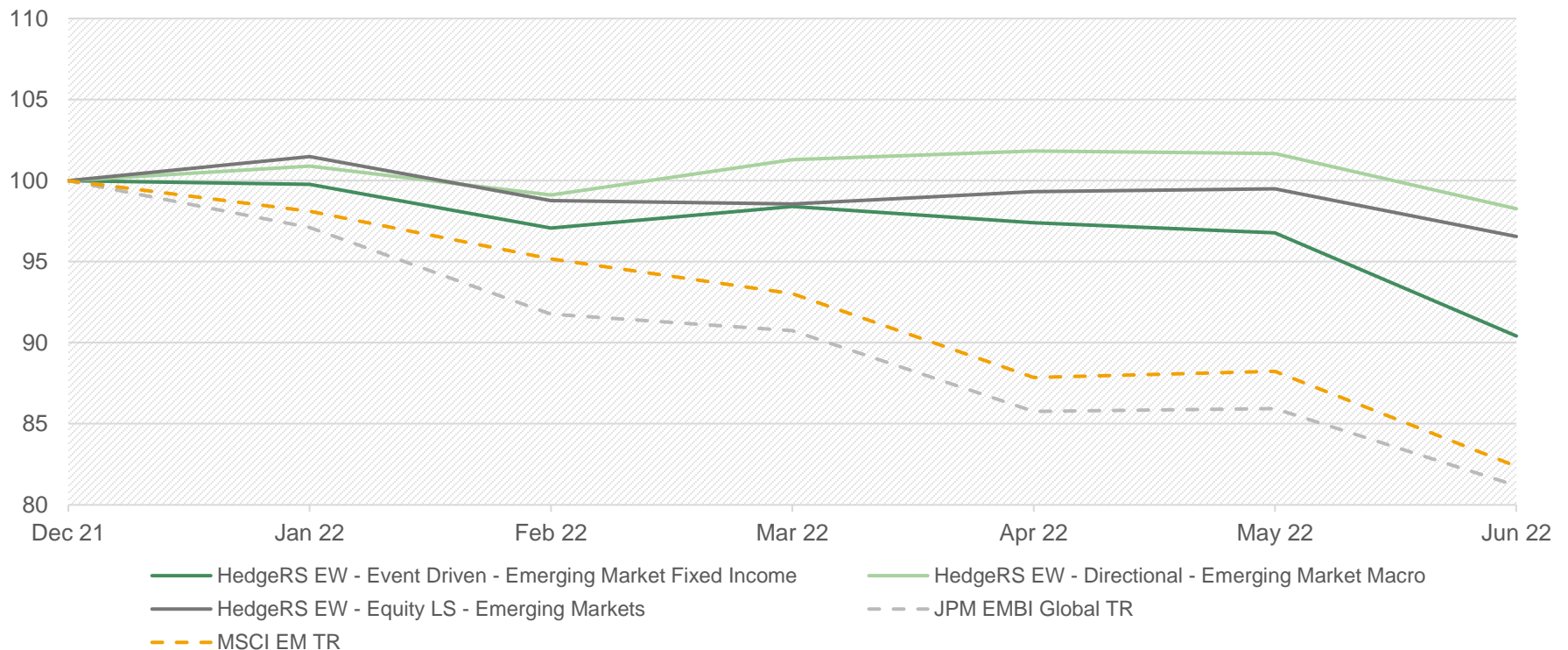
Note: Past performance is not indicative of future results.

# Emerging Markets

Emerging Markets managers had a difficult month in June, particularly in Fixed Income as the Fed Hike and a shift in the curve led to a brutal sell-off, exacerbated by the retracement in Energy prices.

Albourne's HedgeRS Emerging Market Fixed income EW index finished June down close to -10% YTD. Brazil and LATAM, as net exporters of fuel and food, had been safe havens in EM prior to June, but most of this was undone in June as the MSCI Brazil USD index fell -19% in June and the MSCI Latin America USD index fell -17%.

Emerging Markets VAMI – HedgeRS vs Indices



Source: Bloomberg. Past performance is not necessarily indicative of future results

As of 30 June 2022

214 of 435

Source: Albourne HedgeRS Indices. <https://village-eu.albourne.com/castle/hedgers>

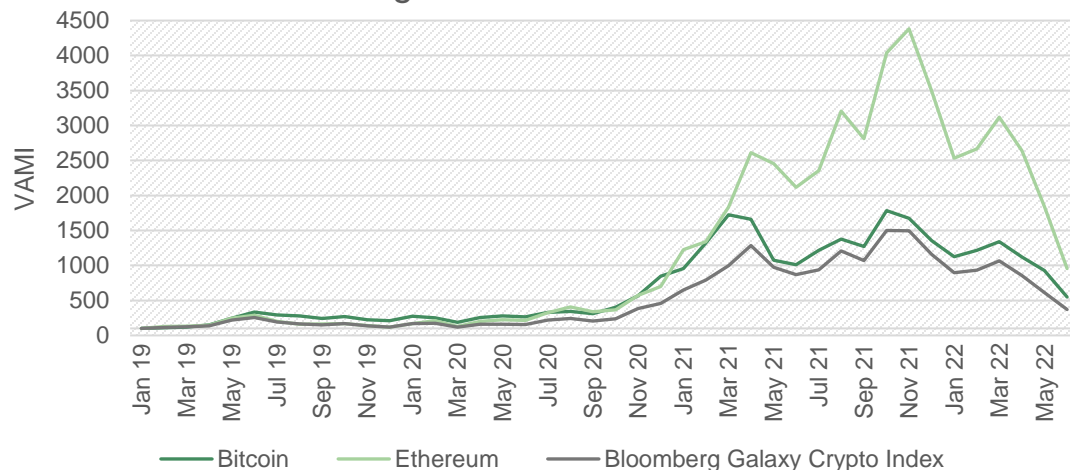
\*Based on fund returns/estimates received as of 14 July 2022. Past performance is not necessarily indicative of future results

# Digital Assets Update

2Q 2022 was a tumultuous one for digital assets, as the asset class was subjected to unseen levels of volatility, leading to a general market capitulation. Manager generally view the “tourists” as having left, and believe that the longer-term thesis and value of the asset class remains in-tact

- **Coin Crashes:** Algorithmic stablecoin Terra - and affiliated coin Luna - plunged in May, resulting in an aggressive sell-off across digital assets. This showcased systemic risk for the cryptoindustry, even in stablecoins that are often used as collateral for loans.
- **Volatilis Incognita:** Digital assets have been adopted in a low equity volatility, in stark contrast to the environment we have seen in 2022. Their resulting sell off, concurrent with the overall market woes, casts doubts on their use as a diversifier or volatility hedge.
- **Regulation:** a joint effort of governments and the industry has been making progress towards implementing regulations to improve market transparency, investor protection, and custody practices.
- **Exposures:** According to May Open Protocol data, 20 Hedge Funds are showing exposure to digital assets, with over 50% of said funds coming from the Directional super-strategy, with an average gross exposure of 1.6%.

Digital Assets VAMI Chart



**[Follow the links below for Albourne's Recent Digital Assets Collateral:](#)**

- [Digital Assets under Pressure - May 2022](#)
- [Crypto and Asset Allocation - June 2022](#)
- [2Q 2022 Prevailing Topics, Current Themes & Opportunities in Alternatives](#)

# 3Q 2022 Quarterly Strategy Forecast

To capture the multiple dimensions of the outlook over the next 12-months, we set out three distinct cases, or scenarios, in each Quarterly Strategy Forecast. Over the prior two QSFs, we have become more cautious in our stance regarding the probabilities of the outcomes over the coming year. In two successive, but equal steps, we increased the probability of the Negative Case from 30% to 40% in the prior two reports, reducing the probability of the Positive Case by an equal amount. Against a neutral stance of 1/3, 1/3, 1/3, we have tilted the likelihood of outcomes firmly into the negative. Having done so, we have left the probabilities unchanged in this report. See below:

## Negative Case

(40% Probability)

- The Negative Case is one in which the economy weakens more than expected, leading to a pull back in long-term interest rates from their current levels, US dollar weakness and a widening of the credit spread. This is the hard landing scenario.
- Clearly how the Fed walks this tightrope will have a profound impact on the path of long-term interest rates.

## Central Case

(35% Probability)

- Our assumption is that in the Central Case the outcome is in line with market expectations, i.e. no surprises.
- The FOMC meeting in June saw the release of the median year end estimate of the Fed Funds rate of 3.4%, compared to 1.5%-1.7% today which implies a likelihood of 1.5%-1.7% of rate increases over the balance of the four meetings this year.
- Equity returns should be in line with more long-term averages; bond yields will sell off modestly having priced in much of the hiking cycle, and the US dollar weakens as the rate hiking cycle internationally catches up with the US.
- This is essentially a soft-landing scenario.

## Positive Case

(25% Probability)

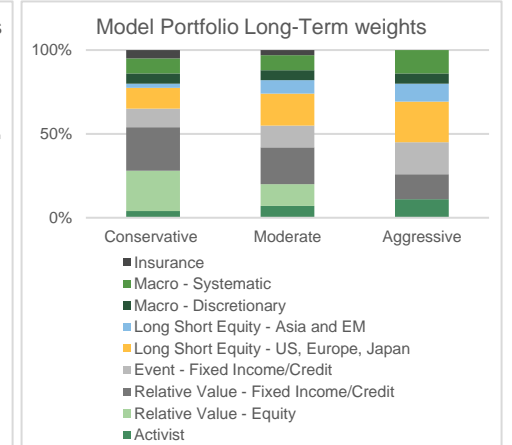
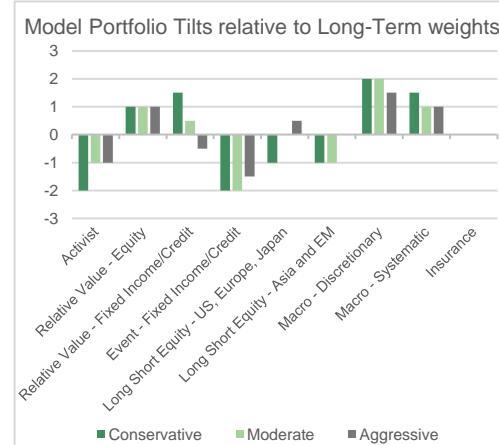
- The Positive Case is one that much has already been priced into markets, and the Fed's job has in part been done for it by the rise in long term interest rates and mortgage rates.
- It is therefore possible that weakening activity and signs that inflation is coming under control, will trigger a relief rally for risk assets.

# 3Q 2022 Quarterly Strategy Forecast

## Key Points:

- **The decline in both US equities and bonds continued into 2Q 2022. This is the first time that US equities and bonds had two consecutive negative quarters.** This breakdown in the diversification benefit of bonds has long been feared by investors, especially in the current inflationary environment. Such an environment is exactly the reason investors build diversified portfolios of alpha-based, low-beta strategies through hedge funds.
- **The inflation concerns coming into 2022 materialized with the war in Ukraine significantly reinforcing these** through price rises across commodity markets, forcing the Federal Reserve to enter into a rate hike cycle. Higher inflation data reinforced the market's perception that there is an elevated risk of the actions of the Federal Reserve to trip the US economy into a recession.
- **Global Macro, CTA and GAA strategies have thrived in the current environment,** having seen their portfolio tilts coming into 2022 benefitting from recent events. We continue to see these strategies well placed in the current environment.
- **The improvement of credit valuations and the opportunity set create a better outlook for the strategies in the space.** In particular, the Distressed strategy should benefit from higher default rate expectations. On the Relative Value side, increased spread dispersion and quality differentials along with higher yields have shifted our expectations for the strategy higher compared to recent history.

Quartile Rank	Strategy	Super Strategy	Sub-Strategy	Expected Return			
				Weighted Average	Negative	Central	Positive
				100%	40%	35%	25%
1	1 Global Macro	Directional	Macro – Discretionary	7.4%	8.0%	6.0%	8.6%
	2 CTA	Directional	Macro – Systematic	6.9%	9.0%	3.9%	7.5%
	3 Risk Arbitrage	Event	Event	6.8%	3.0%	9.0%	10.0%
	4 Fixed Income Arbitrage	Relative Value	RV FI/Credit	6.7%	5.3%	6.8%	8.8%
	5 Insurance*	Directional	Insurance	6.3%		6.3%	
2	6 Asia Pacific Long / Short	Equity Long Short	L/S Equity EM/Asia	6.2%	-2.8%	8.7%	16.8%
	7 CB Arbitrage	Relative Value	RV FI/Credit	5.3%	-1.9%	8.1%	12.8%
	8 Japan Long / Short	Equity Long Short	L/S Equity DM	4.7%	-1.3%	6.3%	11.9%
	9 Fundamental Equity MN	Relative Value	RV Equity	4.4%	1.5%	5.5%	7.5%
	10 Global Asset Allocation	Directional	Macro – Systematic	4.2%	4.5%	3.9%	4.0%
3	11 Distressed / Restructuring	Event	Event	4.2%	-7.0%	9.0%	15.3%
	12 Quantitative Equity MN	Relative Value	RV Equity	4.1%	1.5%	5.0%	7.0%
	13 Statistical Arbitrage	Relative Value	RV Equity	4.0%	1.5%	6.5%	4.5%
	14 Relative Value Credit	Relative Value	RV FI/Credit	4.0%	-2.0%	6.8%	9.5%
	15 Emerging Markets Long / Short	Equity Long Short	L/S Equity EM/Asia	3.8%	-4.6%	6.5%	13.7%
4	16 Activist	Event	Activist	3.4%	-10.7%	7.3%	20.5%
	17 Emerging Market Fixed Income	Event	Event	3.3%	-5.3%	7.1%	11.7%
	18 European Long / Short	Equity Long Short	L/S Equity DM	2.9%	-6.9%	7.0%	12.9%
	19 US Long / Short	Equity Long Short	L/S Equity DM	2.8%	-5.9%	6.0%	12.5%
	20 Structured Credit - Relative Value	Relative Value	RV FI/Credit	2.8%	-9.4%	9.5%	13.0%



# Appendix: Albourne Update

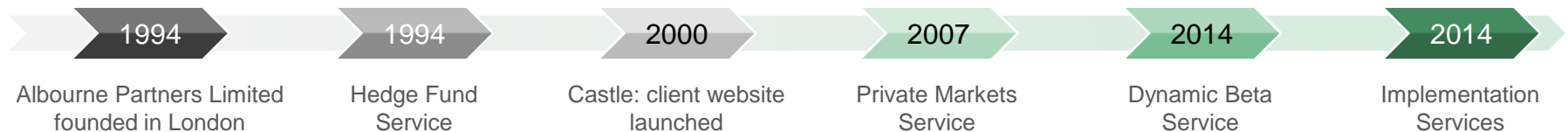
# Business Model

**Our goal is to empower our clients to be the best investors that they can be**

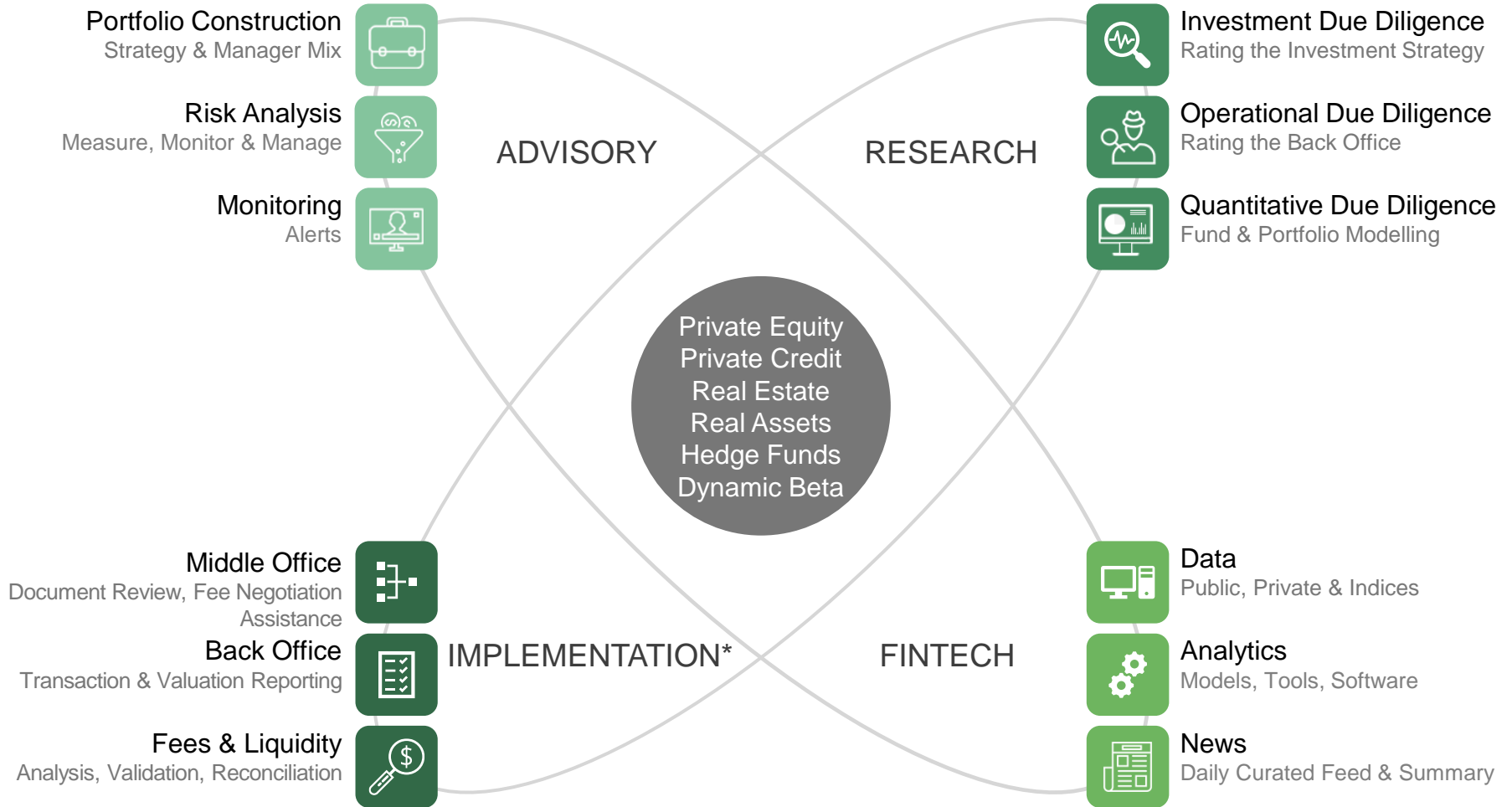
Albourne is committed to:

- Non-discretionary advice
- Transparent pricing
- Independent ownership

**Albourne believes in promoting alignment and minimizing conflicts**

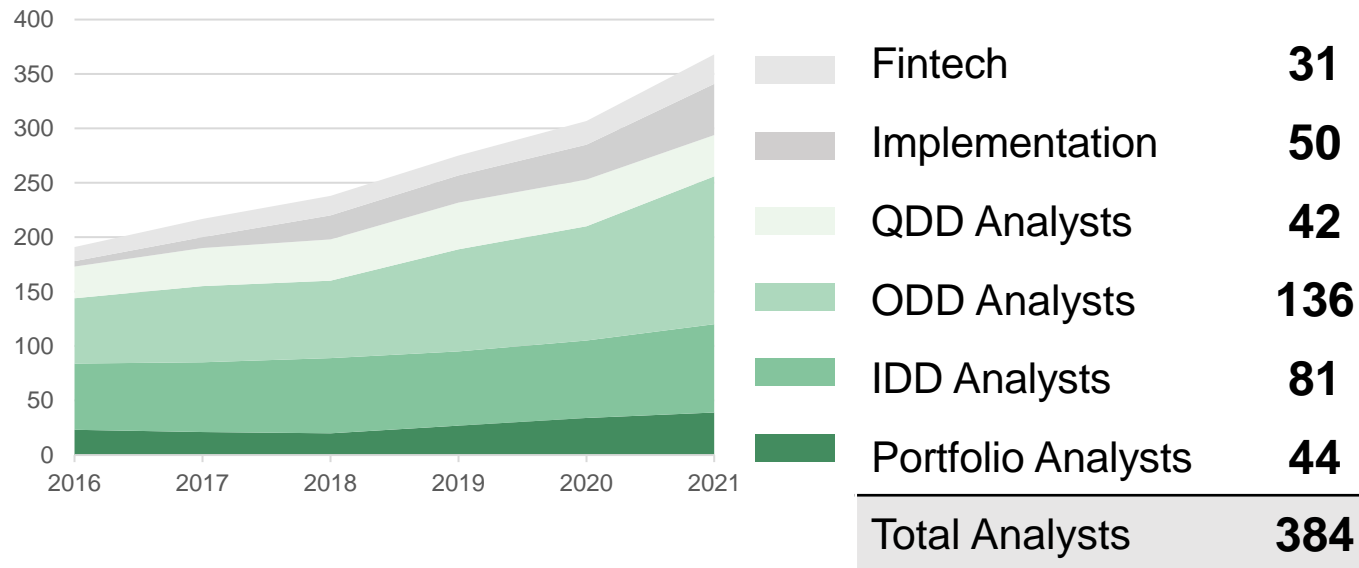


# Services



# Colleagues

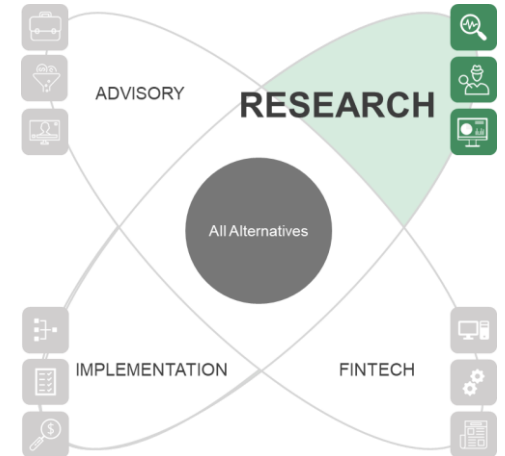
<b>583</b> Total Headcount <sup>1</sup>	<b>384</b> Analysts	<b>&lt;8%</b> Analyst Turnover <sup>3</sup>	<b>47%53%</b> Female / Male
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<b>100%</b> Owned by Employees <sup>2</sup>	<b>&gt;70</b> Employee Share & Option Holders	<b>115</b> Partners	<b>&gt;13</b> Partners' Average Tenure (Years)
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# Research

- Standardized, robust, repeatable & documented due diligence framework
- Strategy specialists
- Transparent & opinionated IDD
- Disciplined & consistent ODD
- Sophisticated & proprietary QDD (risk analysis)
- Albourne is not paid by managers to rate or recommend their funds



Dedicated local team: IDD, ODD & QDD Analysts around the world



# Research Coverage



## Private Markets (PM)

Private Equity  
Private Credit  
Real Assets  
Real Estate  
Esoteric

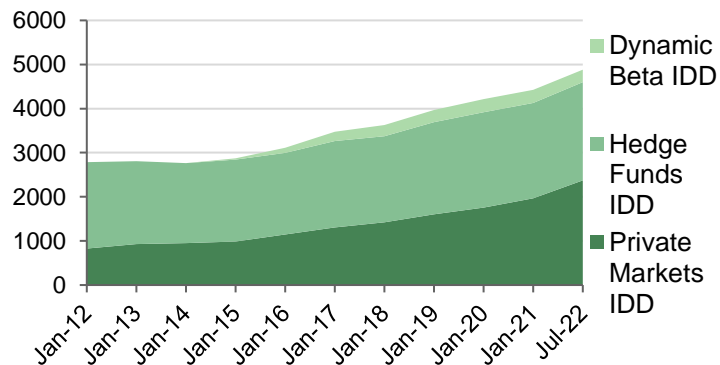
## Hedge Funds (HF)

Relative Value  
Event Driven  
Equity Long/short  
Directional  
Long Biased

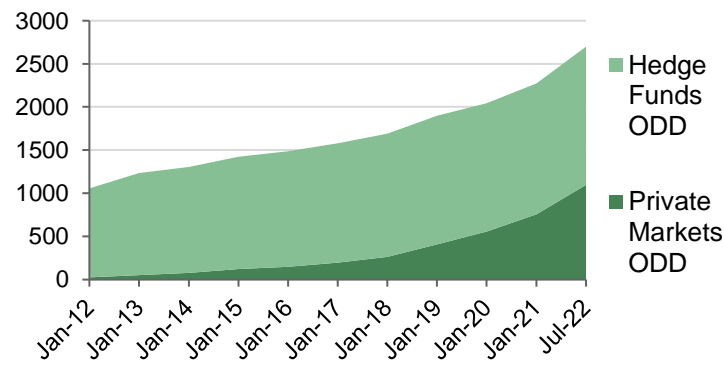
## Dynamic Beta (DB)

Equity  
Fixed Income  
Currency  
Commodity  
Credit

IDD Reports available online



ODD Reports available online



Coverage includes Commingled Funds, Co-Investments, Secondaries, SMAs

# IDD - Investment Due Diligence



## Three Reasons: Albourne IDD

- Breadth and Depth of global coverage across alternatives
- Clients can access experienced specialist analysts & their fund ratings
- Client scale can provide access to some of the best managers

### Global Team

- 52 Private Markets IDD Analysts\*
- 41 Hedge Fund IDD Analysts\*
- Analysts in 10 locations

### Online Library

- >2,370 Private Markets IDD Reports
- >2,230 Hedge Fund IDD Reports
- >280 Dynamic Beta IDD Reports

Average		High (Auto-decayed)
<b>C</b> IDD Analyst Assessment	<b>4</b> Conviction	
Latest <sup>1</sup>		Previous <sup>2</sup>
<b>C</b>	<b>C</b>	IDD Analyst Assessment
<b>4</b>	<b>5</b>	Conviction <sup>3</sup>
<b>M</b>	<b>M</b>	Expected Alpha
<b>L</b>	<b>L</b>	Expected Beta
<b>L</b>	<b>L</b>	Expected Risk
<b>C</b>	<b>C</b>	Strategy & Investment Process
<b>B</b>	<b>B</b>	Management & Team
<b>B</b>	<b>C</b>	Risk Process

Ratings are relative to strategy. <sup>1</sup>Rating date 25 Mar 2018 <sup>2</sup>Rating date 6 Jul 2017 <sup>3</sup>Latest Conviction auto-decayed

Clear rating scheme based on qualitative and quantitative input

### Focus for 2022

- **MWBE & ESG**
- **Emerging Managers (NEMO)**
- **Digital Assets**

# ODD - Operational Due Diligence



## Three Reasons: Albourne ODD

- Large global team based in Europe, Asia, North America
- Flexible Offering depending on depth of ODD required
- Feedback to manager ensures research is “actionable”

### Global Team

- 136 ODD Analysts
- On the ground in 7 locations
- 17 Partners in ODD

### Online Library

- >1,000 Private Markets ODD Reports
- >1,600 Hedge Fund ODD Reports
- >1,500 managers ongoing desk based monitoring

**C** Manager ODD  
Acceptable practices with areas for improvement.

Latest <sup>1</sup>	Peers <sup>2</sup>	
C	C	Manager ODD
B	B	Disclosure
C	B	Manager Organization
C	B	Background Checks
D	C	Compliance Resources & Policy
B	B	Investment Operations
B	C	Infrastructure & Business Continuity

Ratings are relative to industry best practices. <sup>1</sup>Rating date 19 Feb 2021 <sup>2</sup>Average rating of 17 managers in the Asset Class Specialist - Private Equity peer group.

**C** Fund ODD  
Acceptable practices with areas for improvement.

Latest <sup>5</sup>	Previous <sup>6</sup>	Peers <sup>7</sup>	
C	C	B	Fund ODD
C	C	C	Fund Terms & Governance
B	B	B	Custody & Counterparties
C	C	B	Valuation
C	C	B	Review of Financial Statements

Ratings are relative to industry best practices. <sup>5</sup>Rating date 19 Feb 2021 <sup>6</sup>Rating date 15 Jun 2015 <sup>7</sup>Average rating of 15 fund series with North American Multi-Strategy LBO/Growth strategy.

### Focus for 2022

- Data Analytics & Digitization
- Return to Onsite Diligence Meetings
- Virtual ODD Monitoring

# QDD - Quantitative Due Diligence



## Three Reasons: Albourne QDD

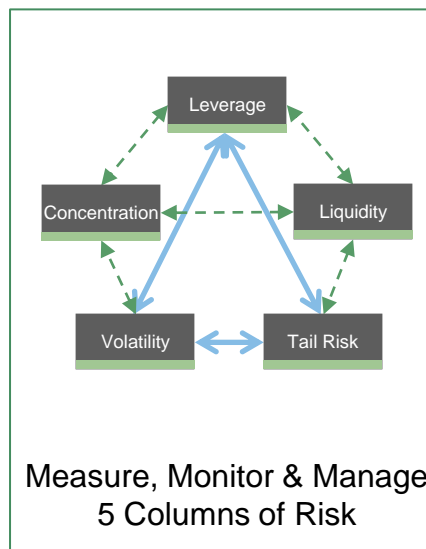
- Proprietary, robust models, academically rigorous philosophy
- Portfolio & fund level analytics across all asset classes
- Open Protocol enables standardized risk reporting & monitoring

## Deep Analytical Capability

- 42 QDD Analysts
- >600 portfolio risk models
- QDD Reports published since 2004

## Online Resources

- >2,900 QDD Reports on HF & UCITS
- >900 Level 3 QDD Reports on PM\*
- >730 HF reporting Open Protocol



## Focus for 2022

- **PrimeRS Launch**
- **Portfolio Manager Revamp**
- **Private Markets OP Insights**

# Monitoring



## Continually

- Regulatory filings and court cases
- Form ADV
- News / media articles
- Contact with Albourne Analysts

## Monthly / Quarterly

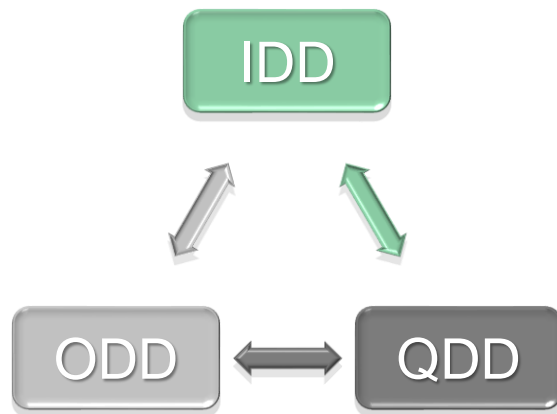
- Performance / exposures
- Control Alerts
- Newsletter Reviews
- Calls

## Annually

- Questionnaire
- Background checks
- Review of Audited Financial Statements

## Every 2-3 Years

- Onsite Meeting



Category	Count	Status
Summary of Fund Newsletter	5	✓
News	0	
Regulatory & Legal	0	✓
Core Control	0	✓
Albourne TV	0	✓
Accessible Only	13	
ODD Research	10	✓
QDD Research	13	✓

Category	Item	Status	Date
ODD	Example Fund 03	Test Update 22 June 2017 - A truly dynamic capital allocation act...	22 Jun 17
ODD	Example Fund 03	Test Update 22 June 2017 12:15 This is a truly dynamic capital a...	22 Jun 17
ODD	Example Fund 2	IDD Main Report Updated - Rating Change	18 Jul 14
ODD	Example Fund 01	IDD Main Report Updated - Rating Change	18 Jul 14
ODD	Example Fund 05	IDD Main Report Updated - Rating Change	18 Jul 14
ODD	Example Fund 01	ODD Main Report Updated - No Rating Change	03 Apr 14
ODD	Example Fund 03	ODD Main Report Updated - No Rating Change	03 Apr 14
ODD	Example Fund 2	ODD Main Report Updated - No Rating Change	03 Apr 14
Newsletter	Example Fund 04	For the first quarter of 2014, Example Fund 04 returned 1.57%, bringing the...	24 Mar 14

Portfolio News monitoring on the client website, the Castle

# Disclaimer

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# Alaska Permanent Fund Corporation

## Discussion with Those Charged with Governance

**Audit results for the year ending June 30, 2022**

September 1, 2022

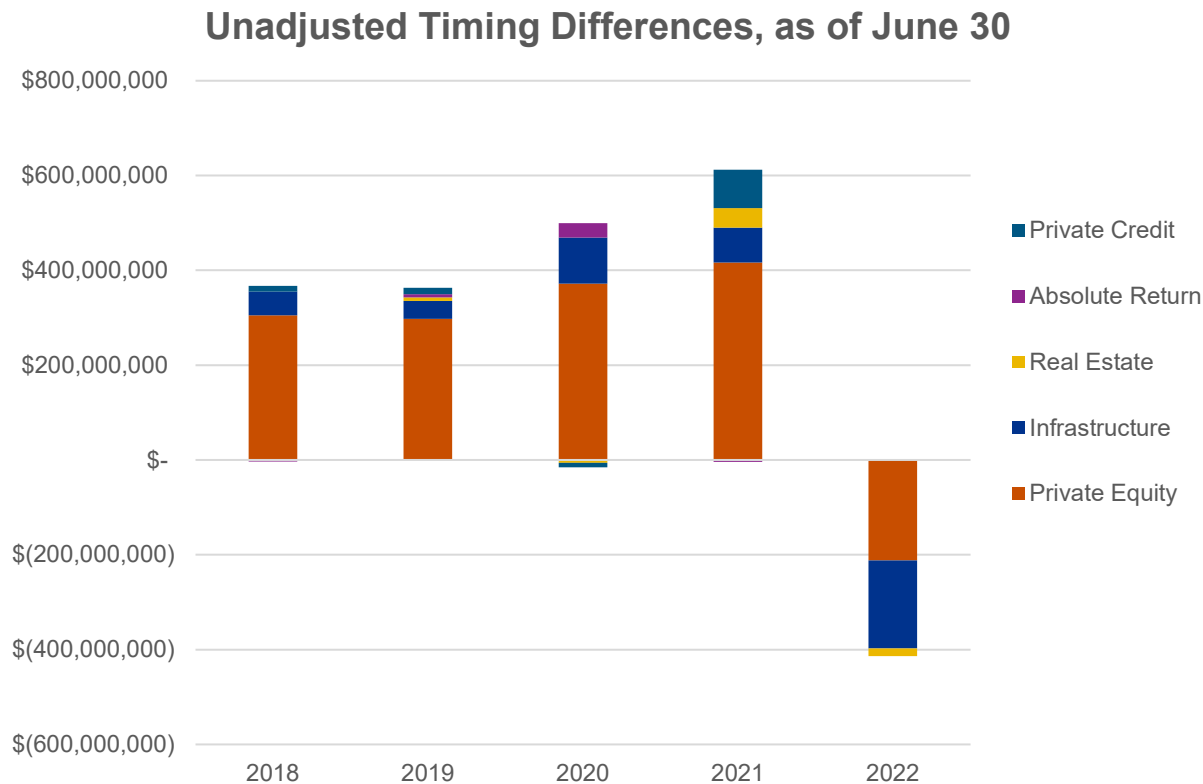
# Summary: Audit results required communications and other matters

		Response
Audit results	Outstanding matters	Management representation letter.
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	See slide 3.
	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 4-5.
	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



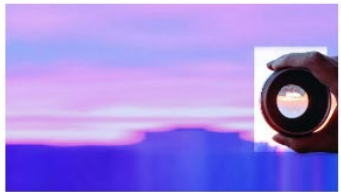
Reports and supplements available at:  
[audit.kpmg.us/auditquality/transparency](https://audit.kpmg.us/auditquality/transparency)

# KPMG's Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and ESG, to data governance, audit quality, proxy trends, and more.

Visit [boardleadership.kpmg.us](https://boardleadership.kpmg.us)


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, macro trends, 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](http://www.kpmg.com/ACI)

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# Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges

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

John D. Skjervem, CFA

September 22, 2022

# Disclaimer

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# Agenda

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- Section I: Climate Change
- Section II: Divestment
- Section III: Energy Transition
- Section IV: Related Challenges
- Section V: Conclusion

## Appendix & Disclosures

The background of the slide is a solid teal color. Overlaid on this background is a faint, semi-transparent image of a pine branch with several long, thin needles and a central pine cone. The text is centered on the slide.

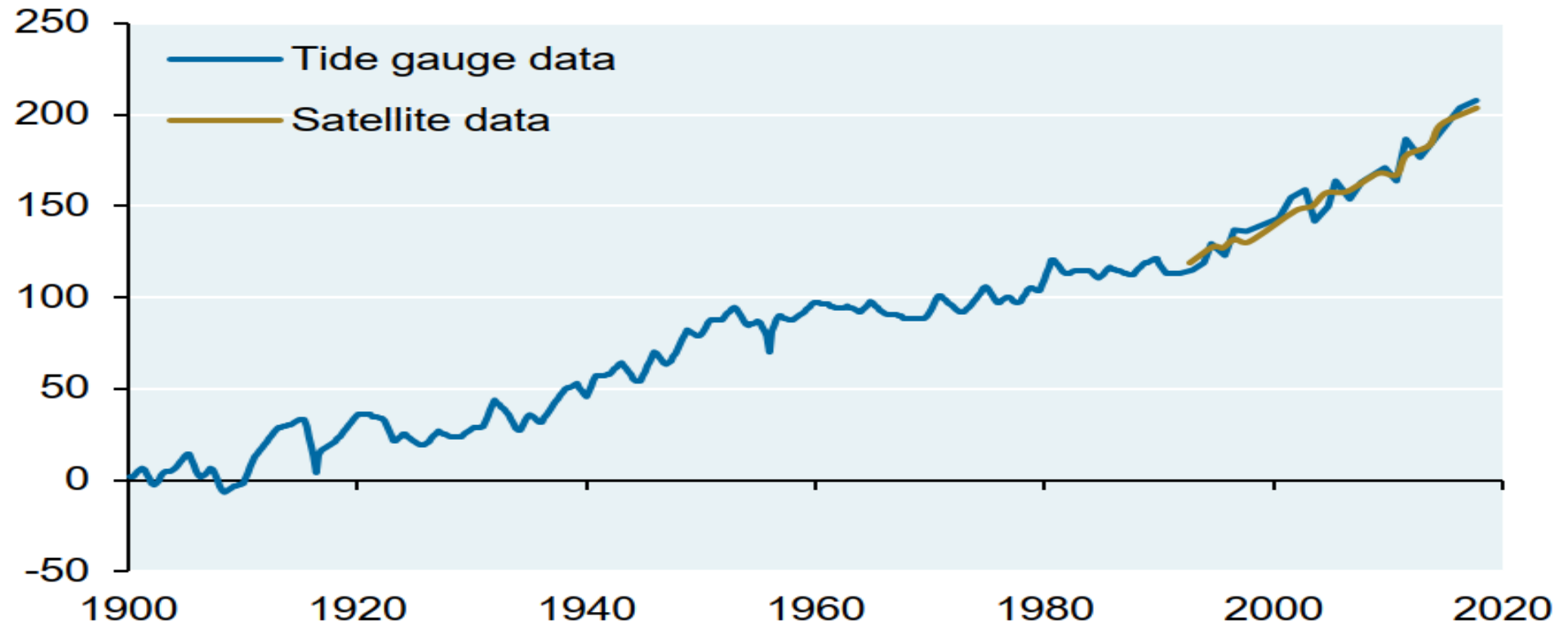
# Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges

## Section I: Climate Change

# Climate Change

## Sea level change (1900-2018)

Millimeters

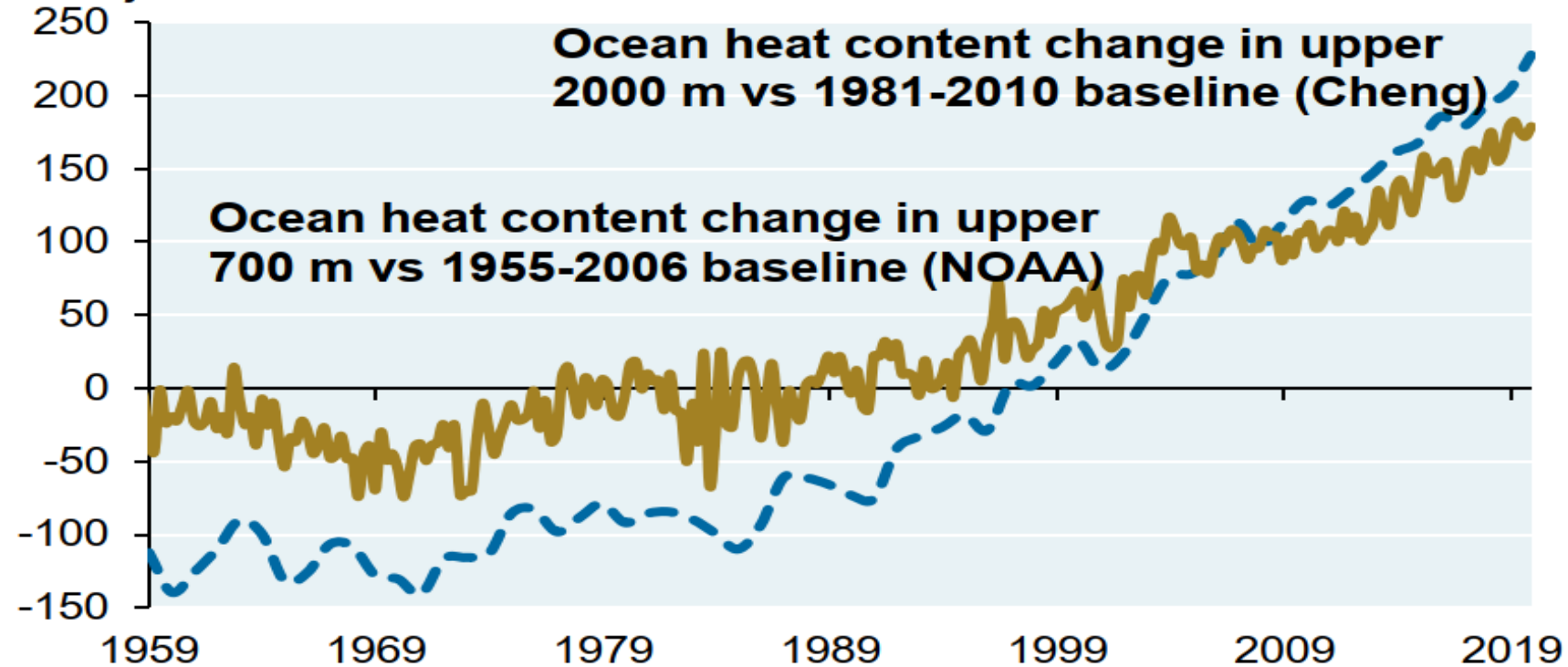


Source: NASA's Goddard Space Flight Center. 2018.

# Climate Change

## Warming oceans

Zettajoules

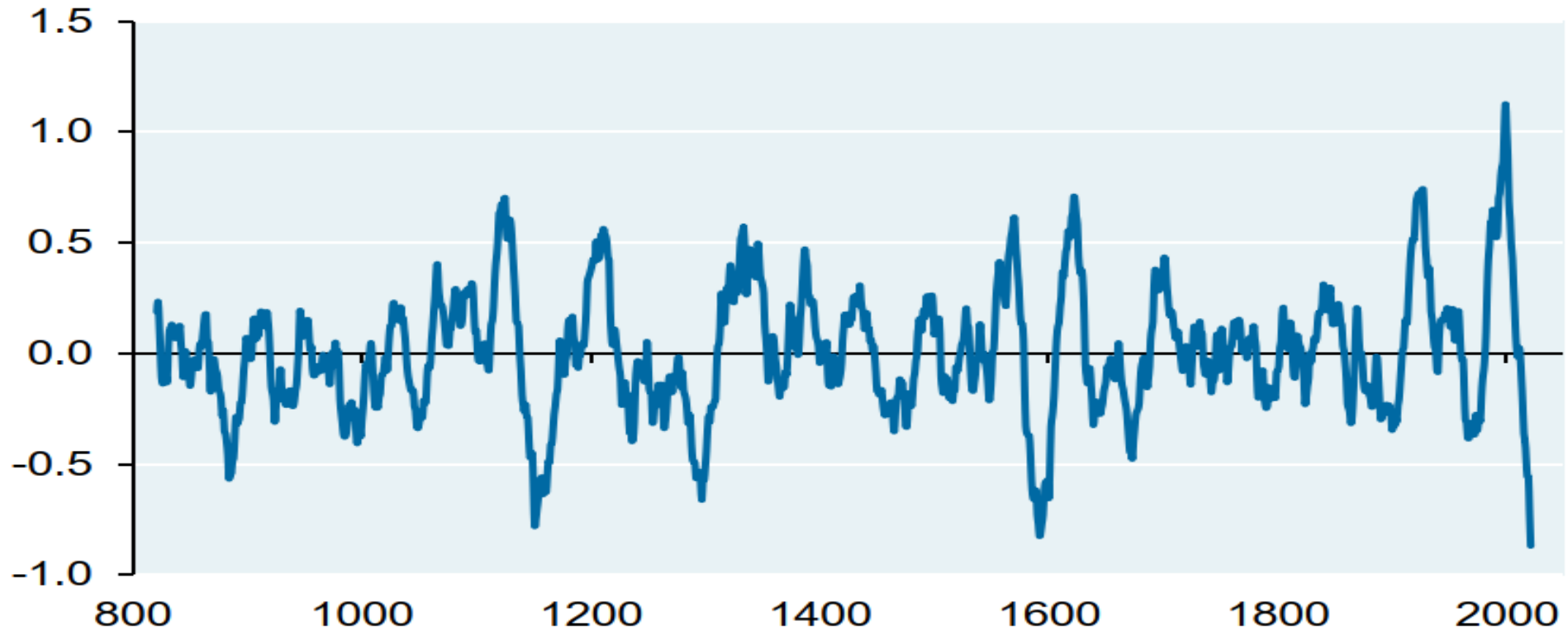


Source: Cheng, L. *et al.*, *Advances in Atmospheric Sciences*; Dahlman and Lindsey, National Oceanic and Atmospheric Administration. February 2020.

# Climate Change

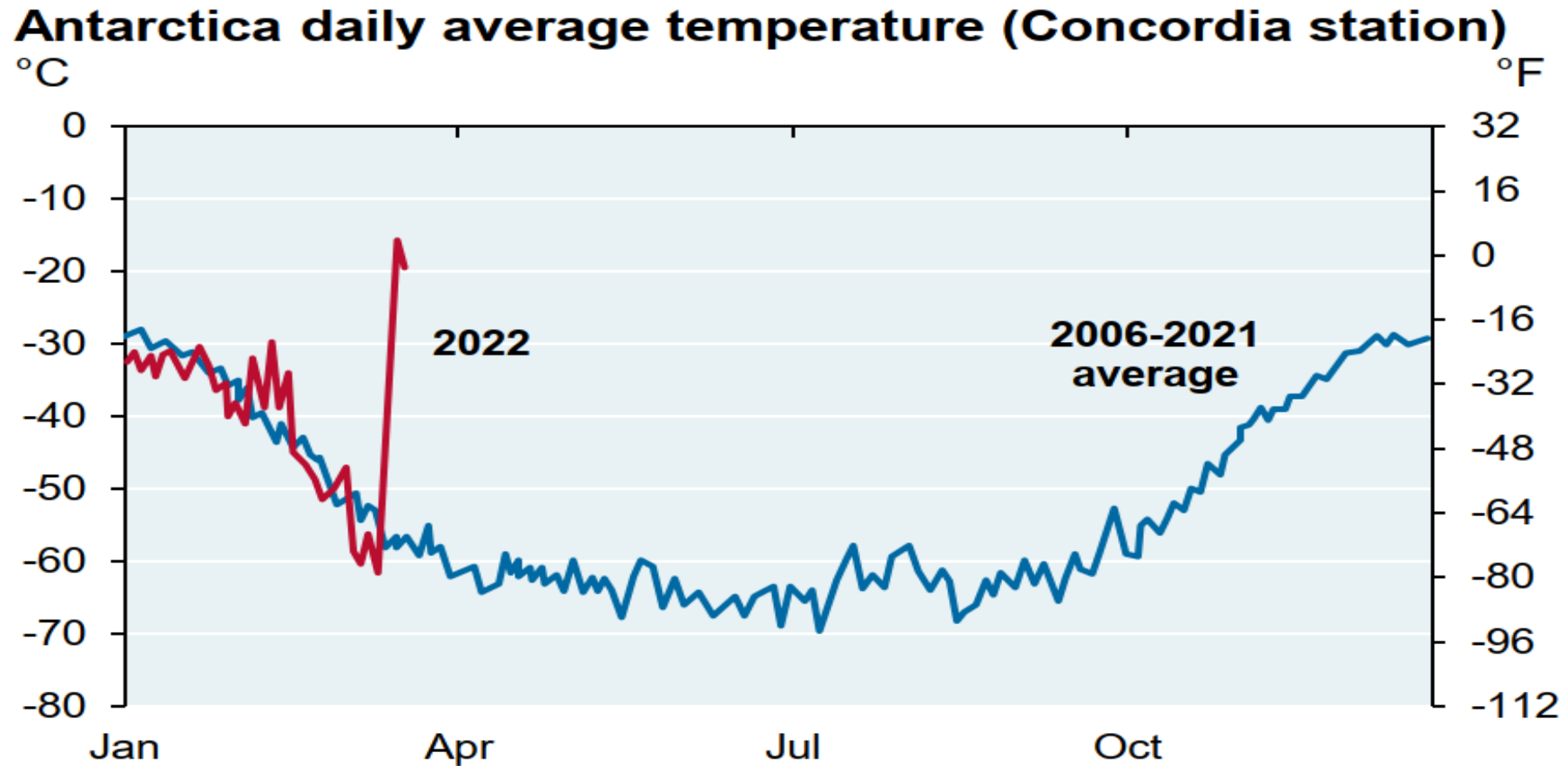
## Western drought conditions since 800 AD

Soil moisture relative to 800-2021 average, standard deviations



Source: Nature Climate Change. March 2022.

# Climate Change



Source: National Oceanic and Atmospheric Administration. March 24, 2022.

# Climate Change

In Cologne, Germany, the Rhine river's water level has now fallen below the bottom step of dock stairs.



Photographer: Thierry Monasse/Getty Images

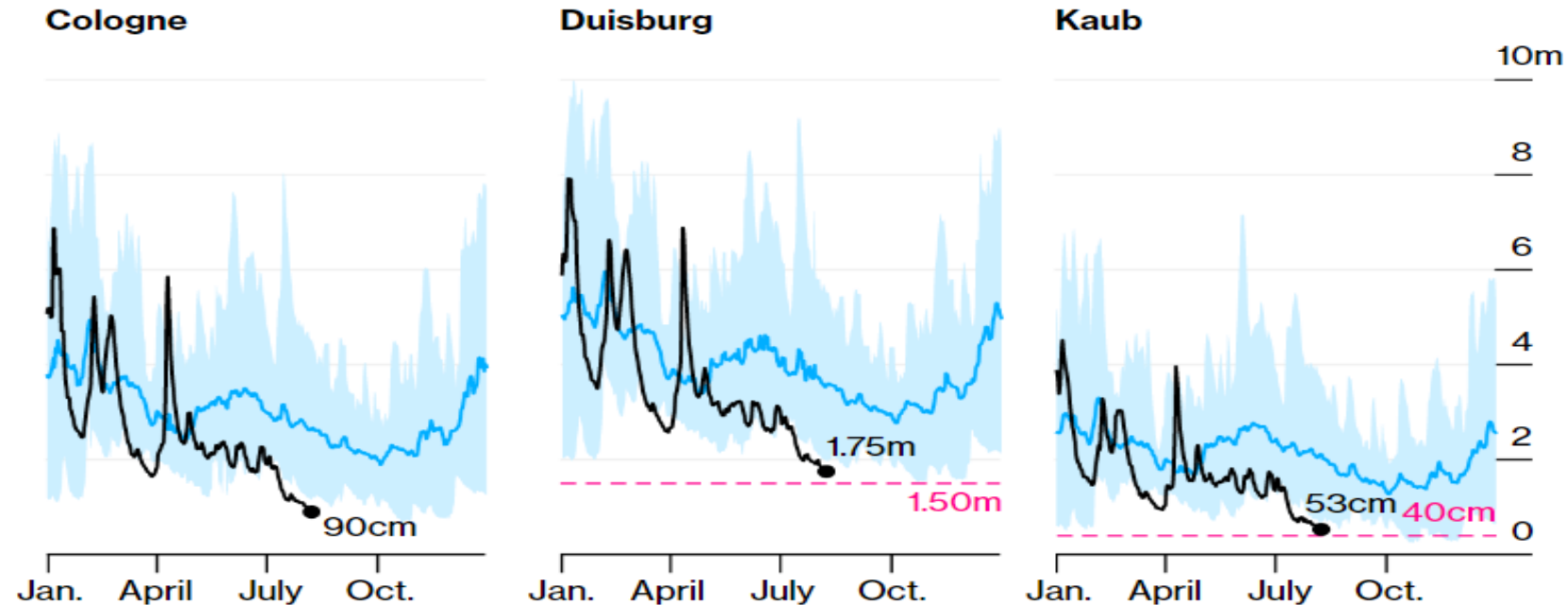
Source: Bloomberg

# Climate Change

## Water Levels at Rhine Waypoints Fall to Season-Record Lows

Comparison between 2022 and previous years; daily data as of Aug. 8

- 2022
- 2010–2021 average
- 2010–2021 high-low range
- Level below which the river is considered uneconomical to sail\*

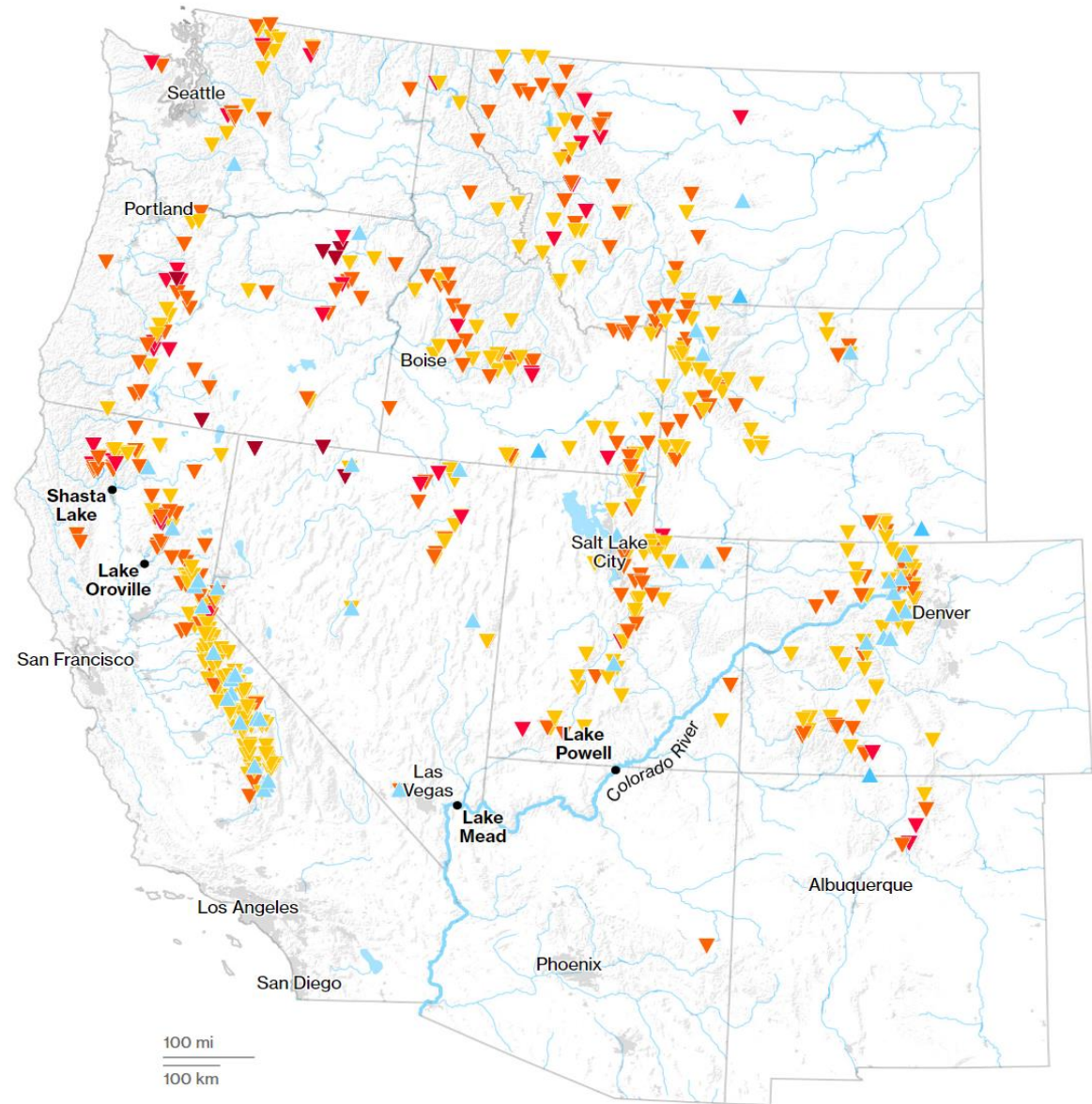
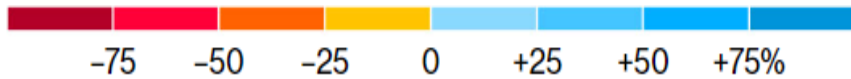


Sources: German Federal Waterways and Shipping Administration; German Federal Institute of Hydrology

\*No definitive threshold for Cologne

# Climate Change

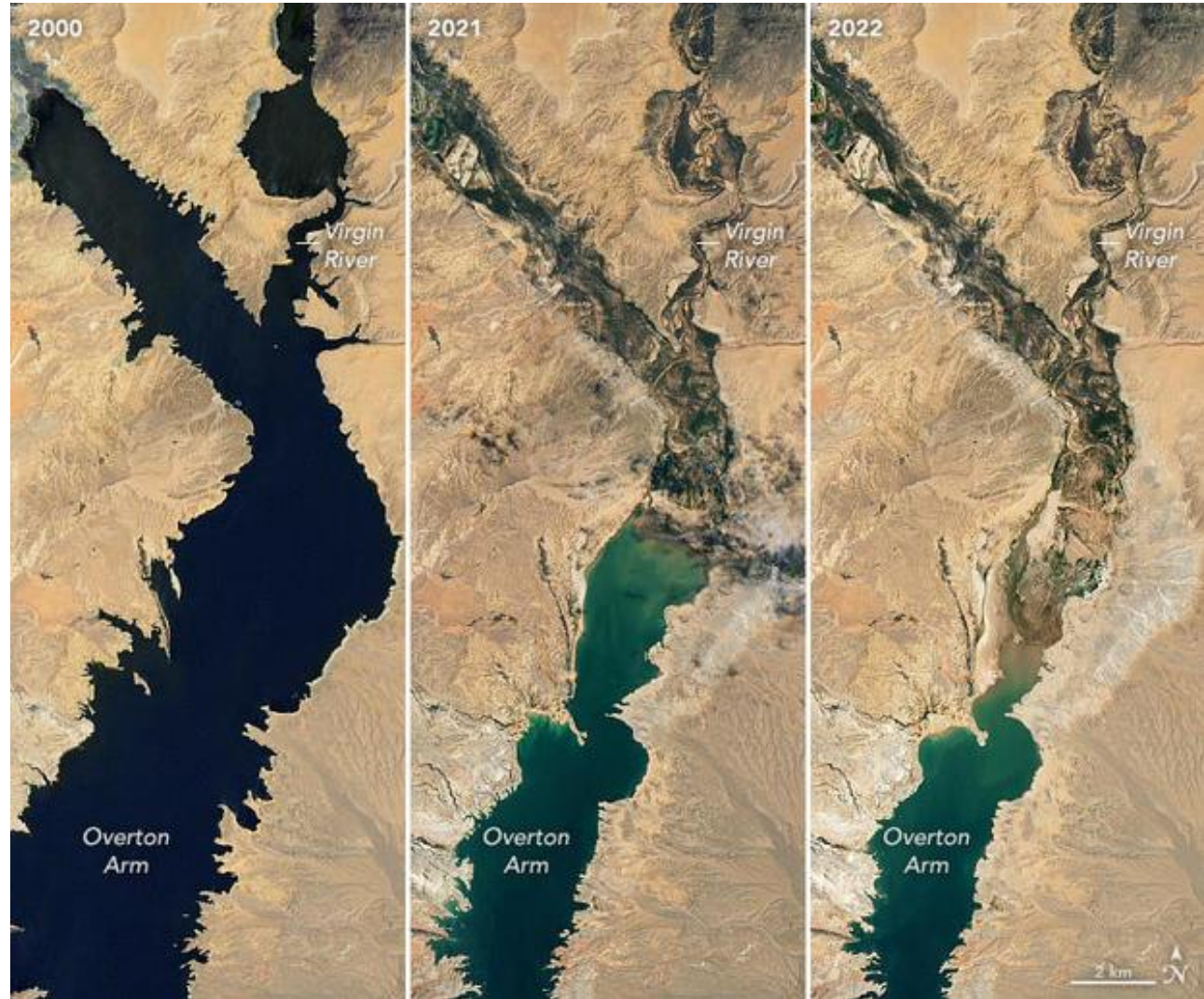
**Western Snowpack Has Shrunk by 23% Since 1955**  
Change in April snowpack in the Western US, 1955-2022



Source: Bloomberg; EPA.

# Climate Change

## Lake Mead Water Levels, 2000 to 2022



Source: NASA Earth Observatory; CBS News.



Thoughts on Climate Change, Divestment,  
Energy Transition & Related Challenges

**Section II: Divestment**

# Divestment

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## CalSTRS Experience Study

- Tracking 6 Specific Divestment Initiatives Beginning with Tobacco in March 2000
- Each Initiative Has Produced Negative Results
- Cumulative Cost Estimate = \$9.4B\*

\* As of June 30, 2022. See Appendix for study details.

# Divestment

---

## Other Considerations I

- Subsequent Share Owners Likely Less Responsible

*"Some people in the MIT community have suggested that MIT divest from fossil fuel companies. We prefer the net-zero approach instead for several reasons. First, it encompasses the whole energy system rather than simply targeting the producers of fossil fuels. Second, we believe divestment could lead to fossil fuel holdings moving into the hands of investors who do not care about climate issues... \**

\* Massachusetts Institute of Technology Investment Management Company,  
March 2022.

# Divestment

---

## Other Considerations II

- Engagement Opportunities Truncated

*...and thereby preclude the opportunity for constructive engagement with companies about their climate policies... "\**

\* Massachusetts Institute of Technology Investment Management Company,  
March 2022.

# Divestment

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## Other Considerations III

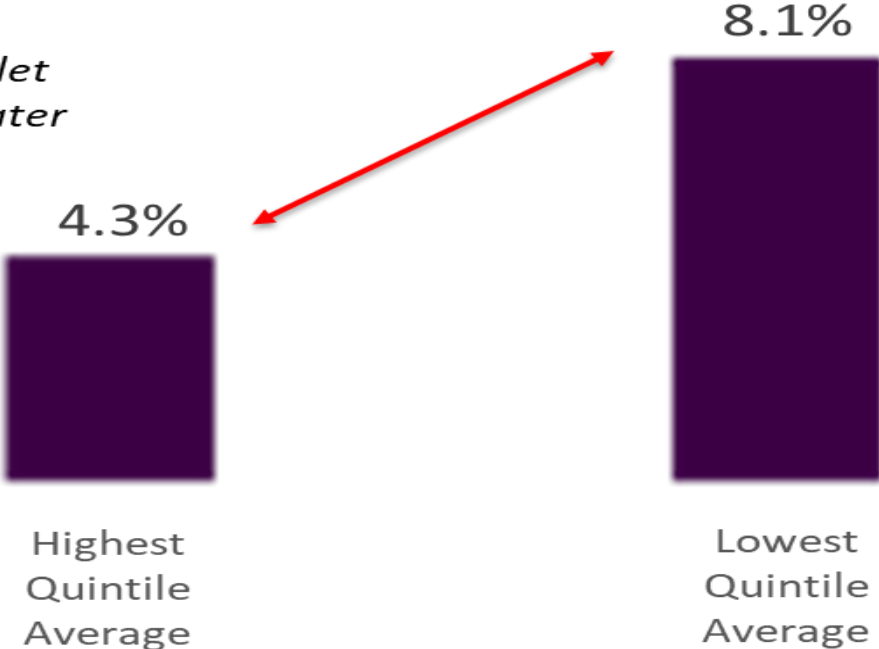
- Divestment Doesn't Work: Nobody Stopped Smoking Because CalSTRS Divested

# Divestment

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Annual Energy Spend as a % of Total Spending by Household, %

*In the U.S., energy wallet share is almost 2x greater for lower income Households*

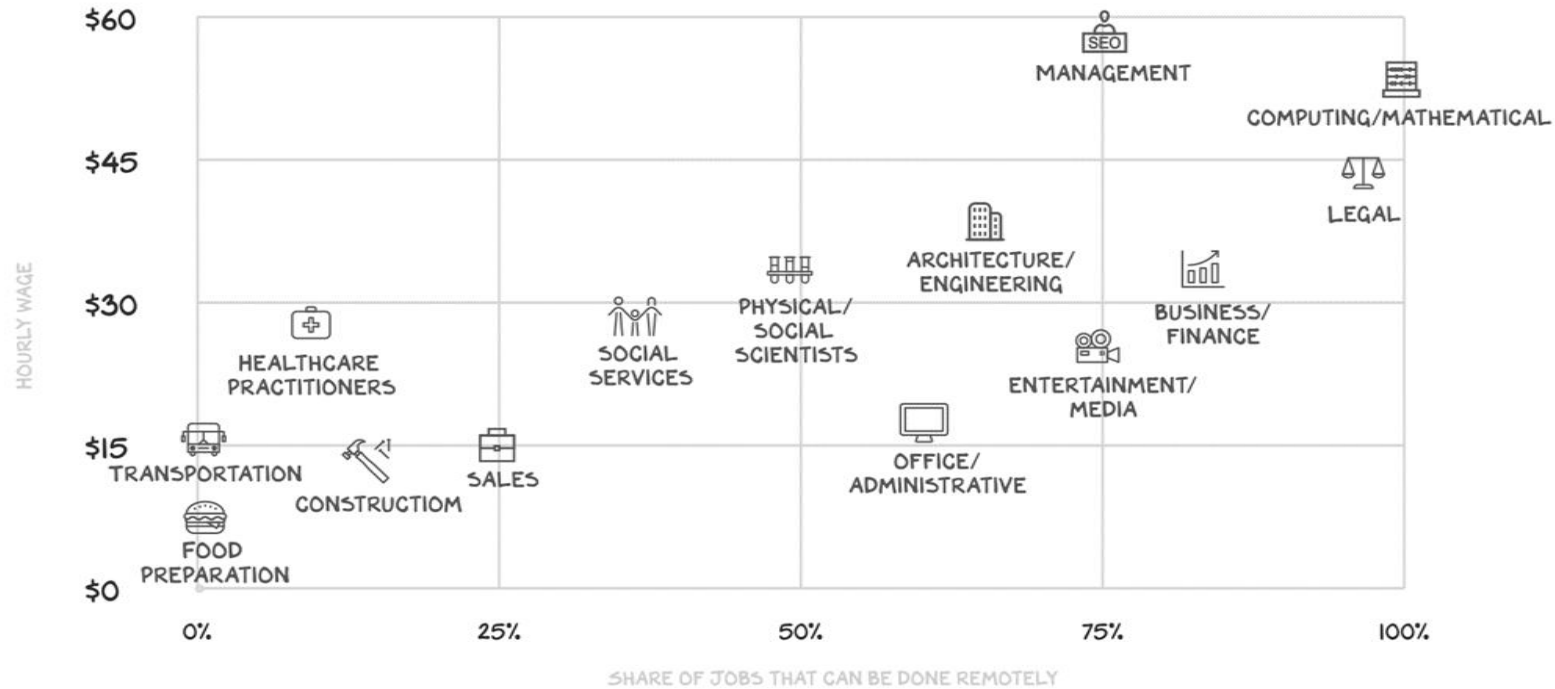


Source: KKR, *Global Macro: State of Play*, April 2022.

# Divestment

## CORRELATION BETWEEN REMOTE WORKABILITY AND MEDIAN HOURLY WAGE

U.S., 2020



Sources: Dingel and Newman; *No Mercy / No Malice*, @profalloway, August 12, 2022.

# Divestment

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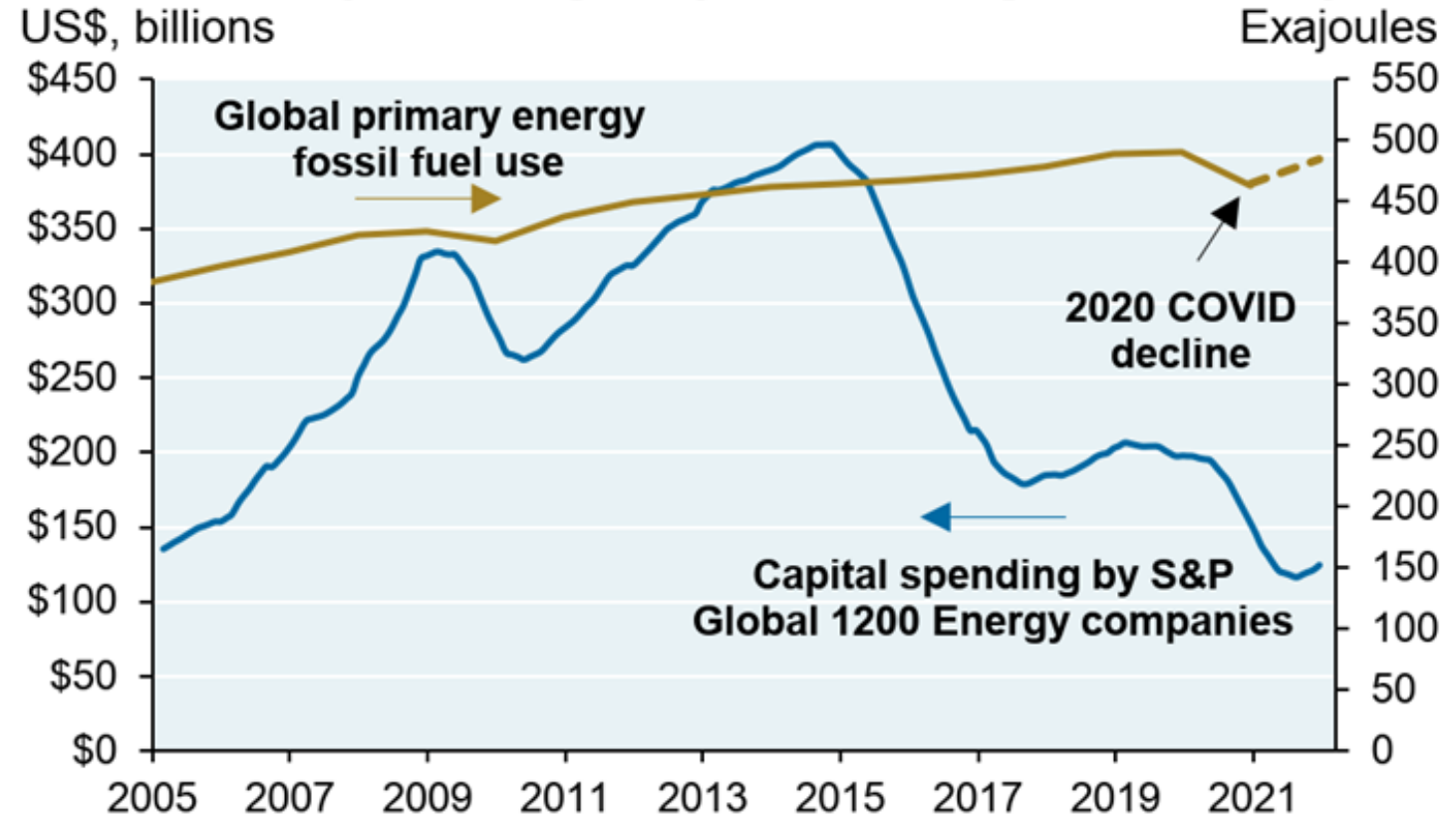
“For example, 11 oil and gas funds worldwide raised a combined \$4.6 billion in 2021, down from 59 funds that closed on a total of \$46.6 billion in 2015, according to Preqin, a London-based alternative investment research firm. During the same time period, renewable energy funds blossomed with 75 funds globally raising a total of \$72.7 billion, up, from 66 funds with a combined \$30.7 billion in 2015.”

Source: <https://www.pionline.com/alternatives/war-and-sanctions-ramp-oil-prospects>

# Divestment

"Why can't we get it through our thick skulls, that if you want to solve climate [change], it is not against climate [change] for America to boost more oil and gas?" -J.P.Morgan CEO, Jamie Dimon, August 2022

## Fossil fuel capex falling despite no change in consumption



Source: BP, Bloomberg, IEA, JPMAM. Dec 2021. Dotted lines = estimates.



Thoughts on Climate Change, Divestment,  
Energy Transition & Related Challenges

## Section II: Energy Transition

# Energy Transition

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Not *Either/Or*, but *Both/And*

*... Third, the net-zero approach acknowledges the need for an energy transition in which fossil fuel use is phased out as rapidly as possible, rather than assuming we can shut off fossil fuel investment today without any unintended impact on life's necessities such as heat, electricity, and the production of agricultural fertilizer products."*\*

\* Massachusetts Institute of Technology Investment Management Company, March 2022.

# Energy Transition

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“At this time, we actually need more oil and gas, not less,” Musk said Monday during an energy conference in Norway, adding that he’s not someone to “demonize” the fossil fuels. At the same time, “we must have a clear path to a sustainable energy future.”

Source: Bloomberg, August 29, 2022.

# Energy Transition

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*"One thing I have learned from my considerable interactions with industry, government, academia and the public is that groups of people — each armed with different knowledge and with the courage to leave their corners and seek compromise — often arrive at workable solutions to seemingly intractable problems. This common ground, what I call the 'radical middle,' is where the solution to our energy challenges lies."*

Source: Dr. Scott Tinker, Director, Bureau of Economic Geology at The University of Texas; Chairman, Switch Energy Alliance.

# Energy Transition

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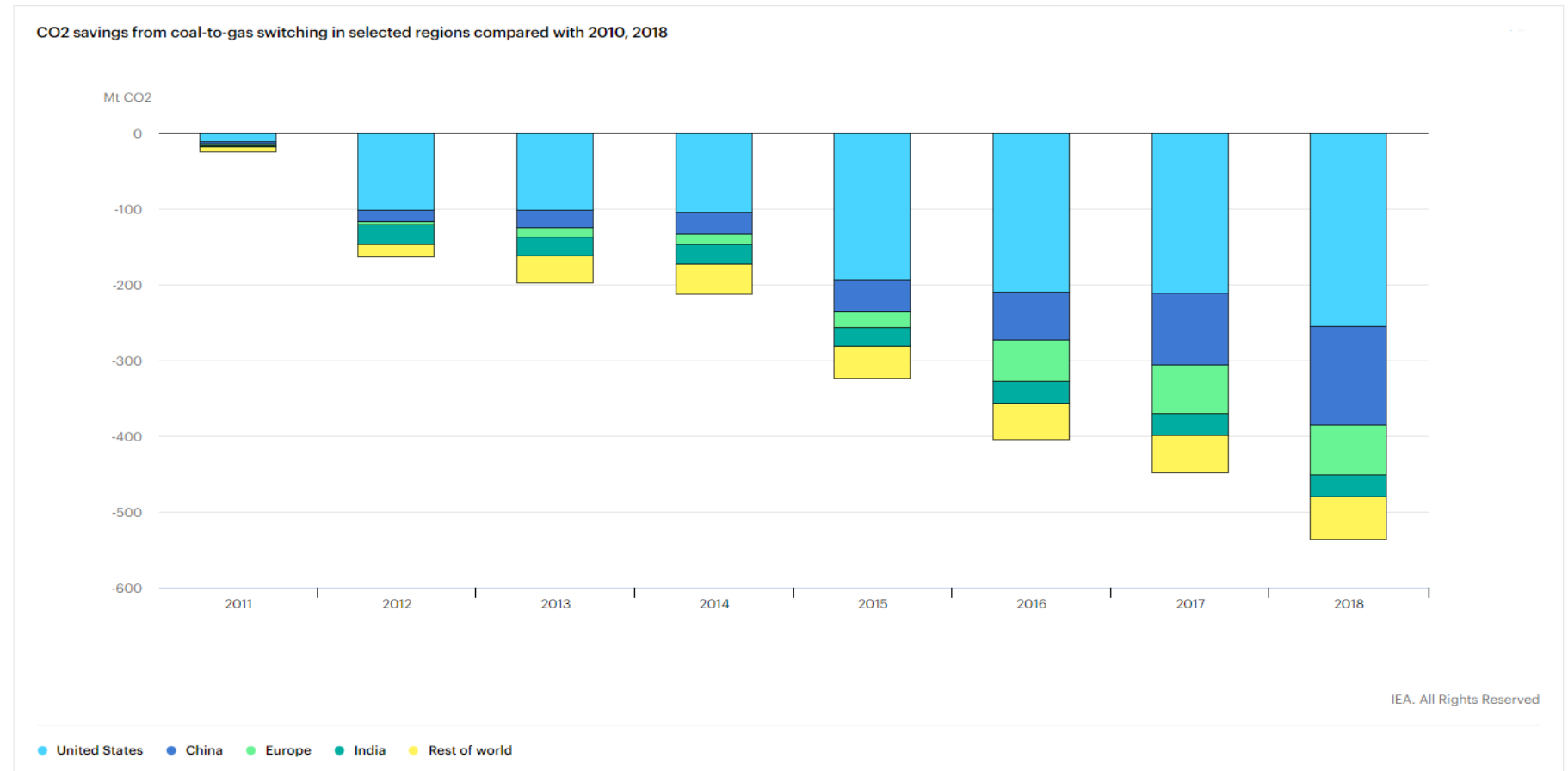
## The “Inflation Reduction Act”

- \$437B bill that includes \$369B of clean energy and climate-related spending over the next decade
- Targets 40% reduction in domestic GHG emissions from 2005 levels by 2030 with tax credits for EVs, wind, solar, nuclear, hydrogen, home heating and carbon capture technologies
- Financial support for Mountain Valley Pipeline, a natural gas pipeline connected West Virginia and Virginia
- Energy project permitting reform

# Energy Transition

“Natural gas is one of the mainstays of global energy. Where it replaces more polluting fuels, it improves air quality and limits emissions of carbon dioxide.”

Dr. Fatih Birol,  
IEA Executive  
Director



Source: IEA

# Energy Transition

## US electricity costs 2x to 5x more than natural gas

Residential electricity price per MJ divided by residential natural gas price per MJ, measured over last three winters



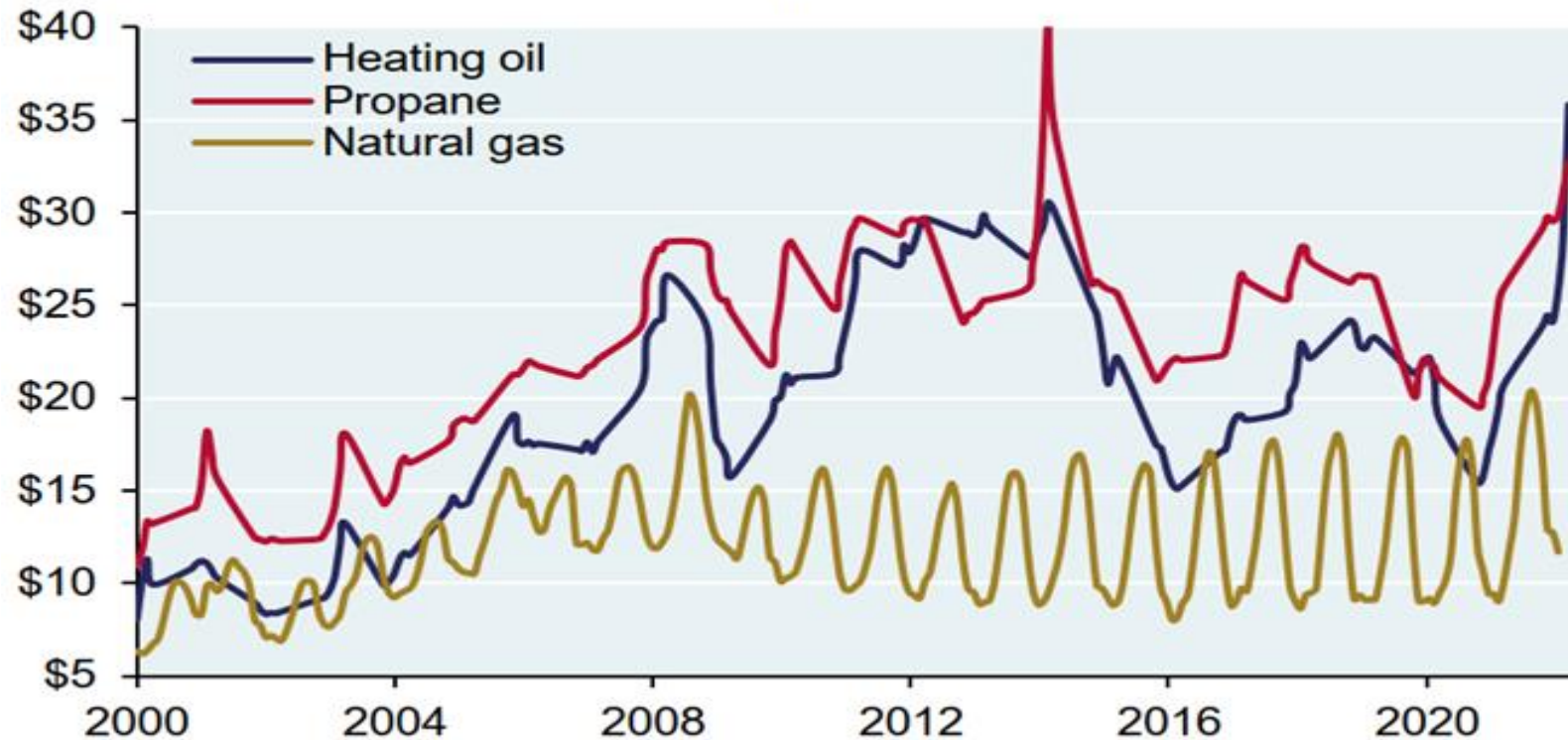
Source: EIA, JPMAM. January 2022. Top 10 states by electricity consumption.

Source: J.P. Morgan, *Eye On The Market*, 2022 Annual Energy Paper.

# Energy Transition

## Natural gas is a lot cheaper than propane or fuel oil

US\$ per million BTU, residential pricing

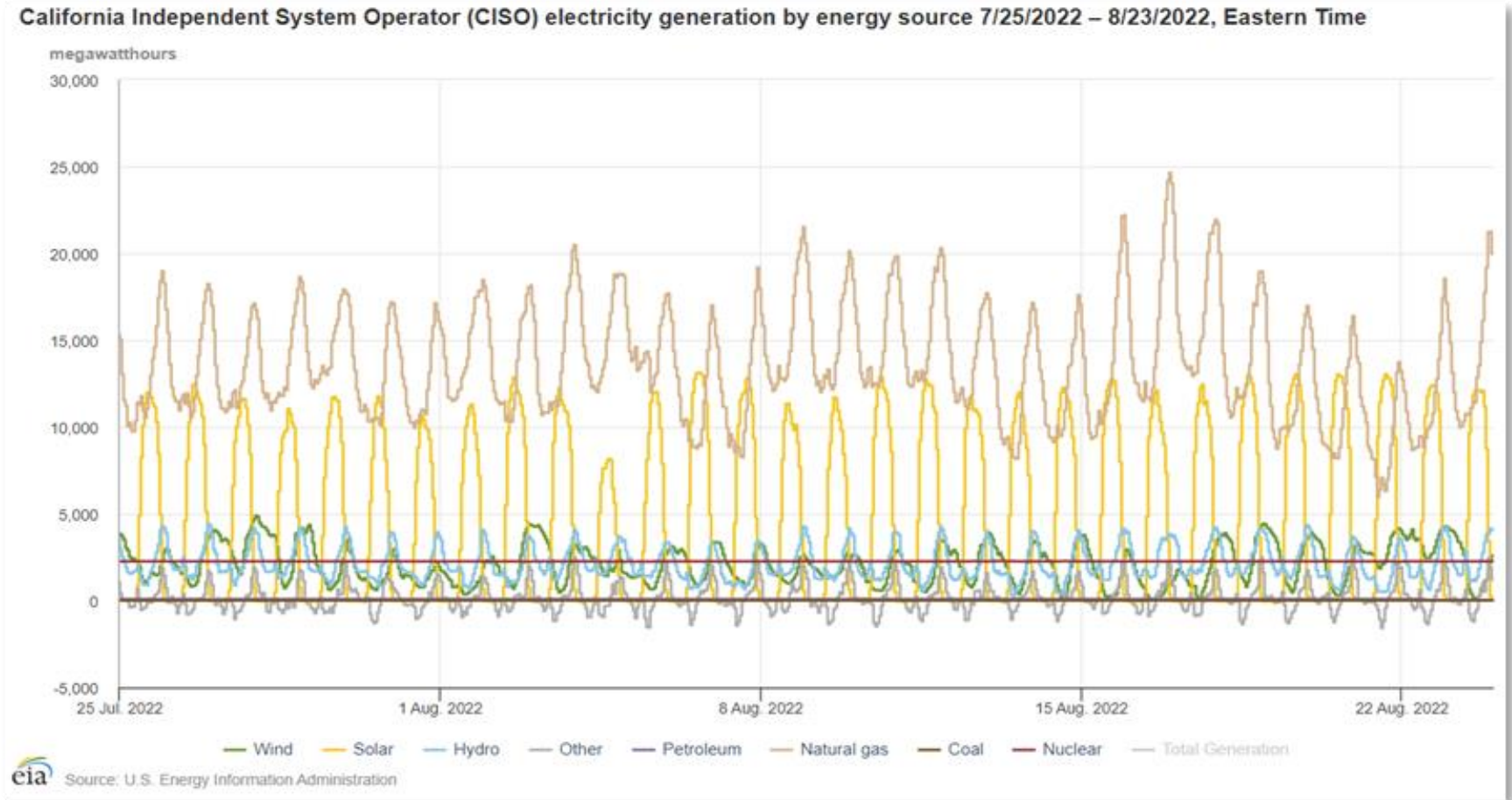


Source: EIA, JPMAM. March 2022.

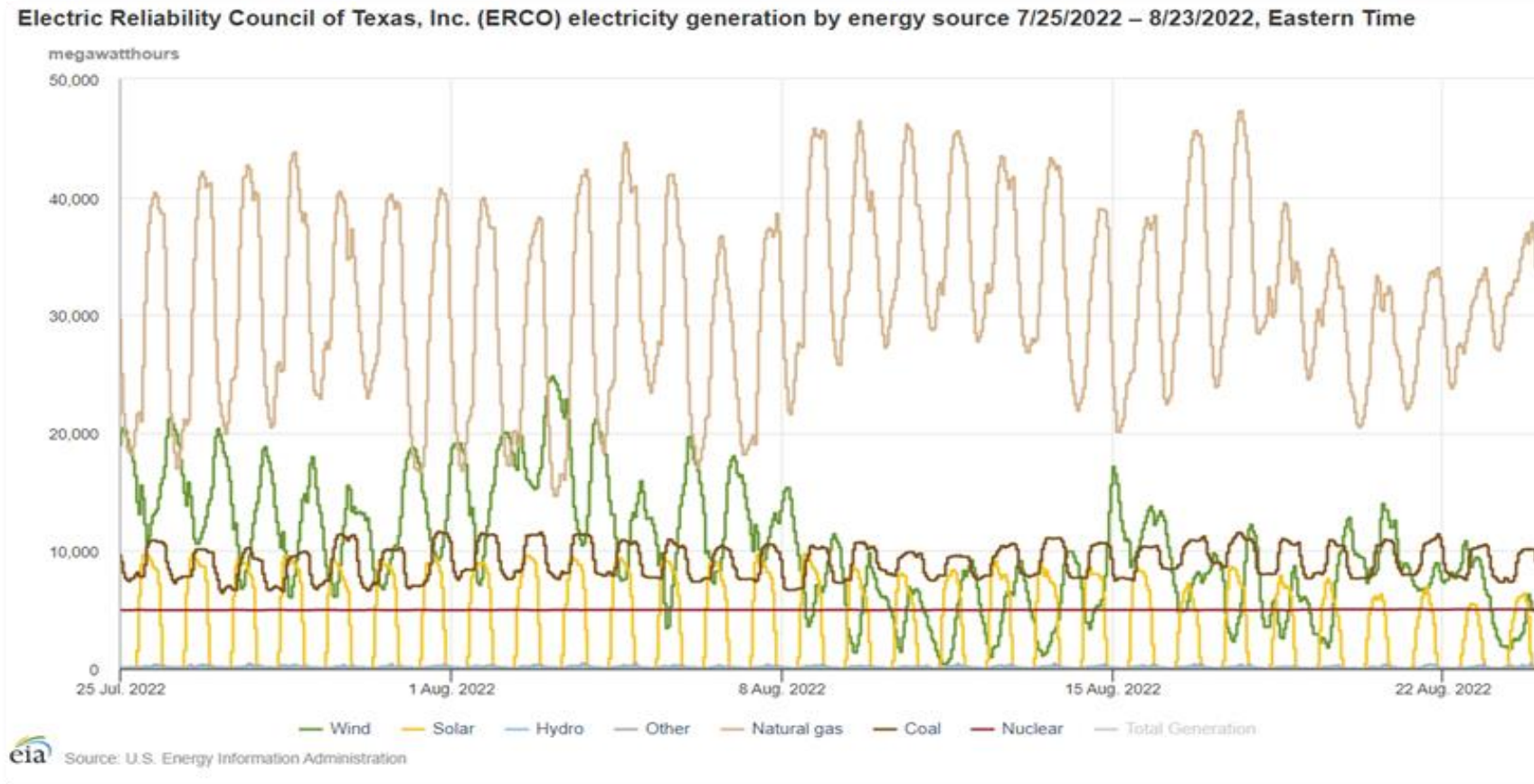
Source: J.P. Morgan, *Eye On The Market*, 2022 Annual Energy Paper.

# Energy Transition

Nat Gas  
essential to  
supporting  
the  
expansion of  
renewable  
power  
solutions.



# Energy Transition



# Energy Transition



## Fossil Fuels

- Coal
- Oil



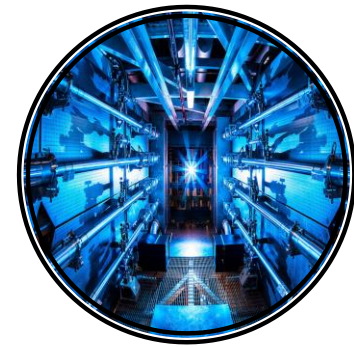
## Natural Gas

- Peaker plants
- Co-generation plants (coal or natural gas)



## Hybrid

- Renewables
- Natural Gas
- Hydrogen



## Moonshots

- Hydrogen
- Fission
- Fusion



Thoughts on Climate Change, Divestment,  
Energy Transition & Related Challenges  
**Section IV: Related Challenges**

# Related Challenges

So, they'd rather burn more coal?

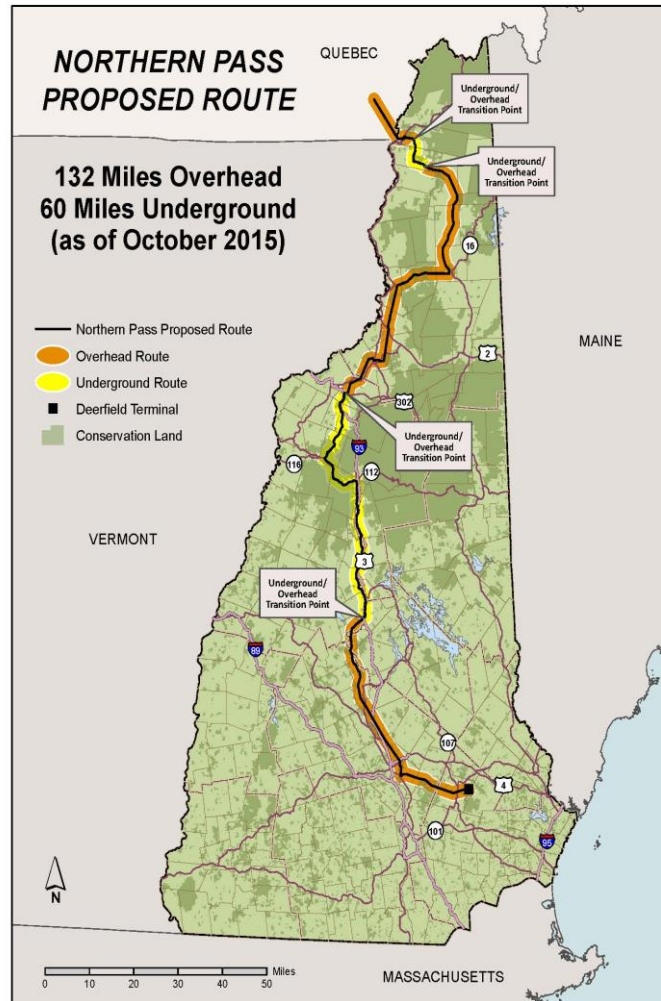


Source: Bloomberg.

276 of 435

# Related Challenges

New Hampshire and Maine blocking Massachusetts' access to Canadian hydropower.



277 of 435

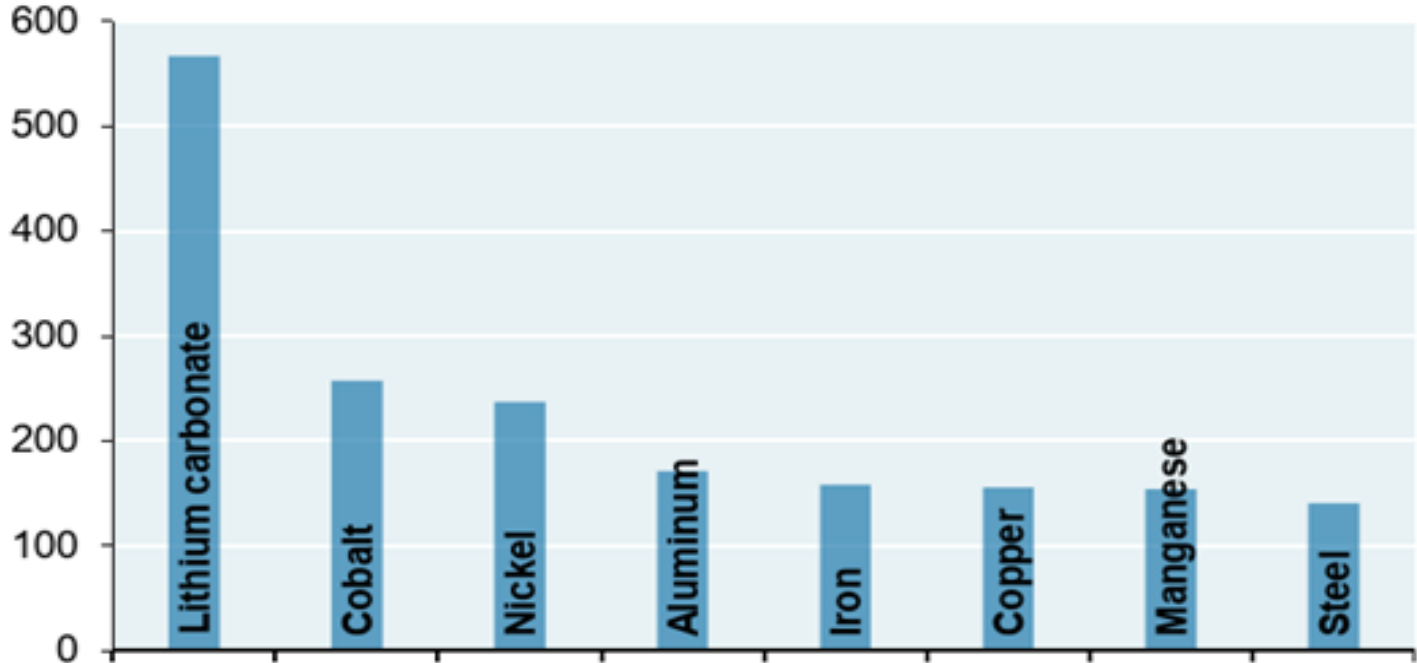


Source: Concord Monitor; AP Photo/Michael Casey.

# Related Challenges

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**EV metals prices have risen by 50% or more since 2020**  
Index value (100 = Dec 2019)

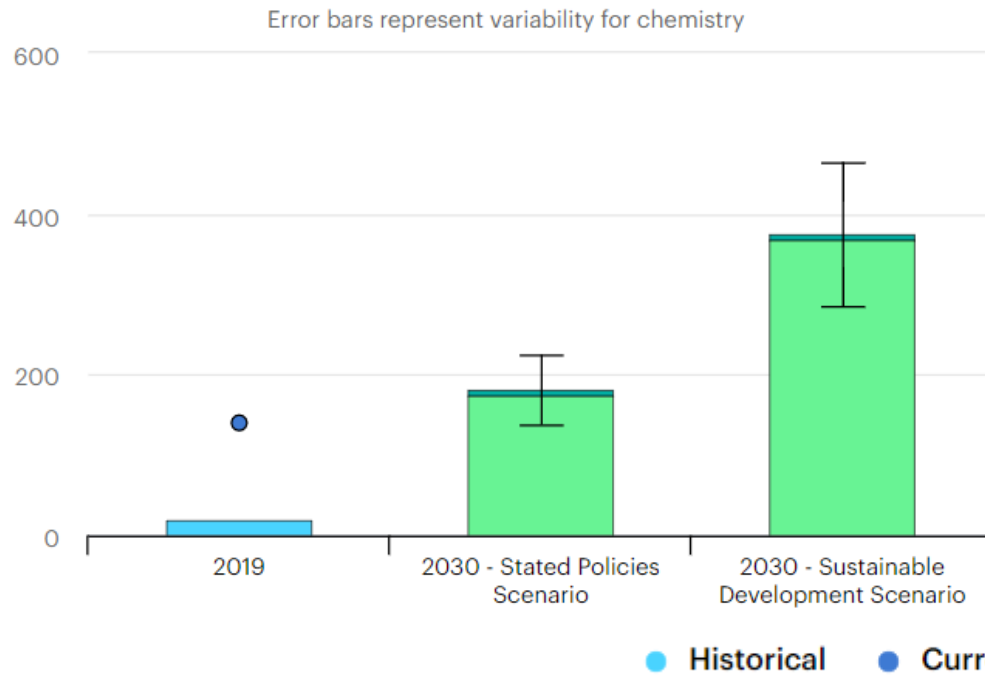


Source: Bloomberg, JPMAM. May 2, 2022.

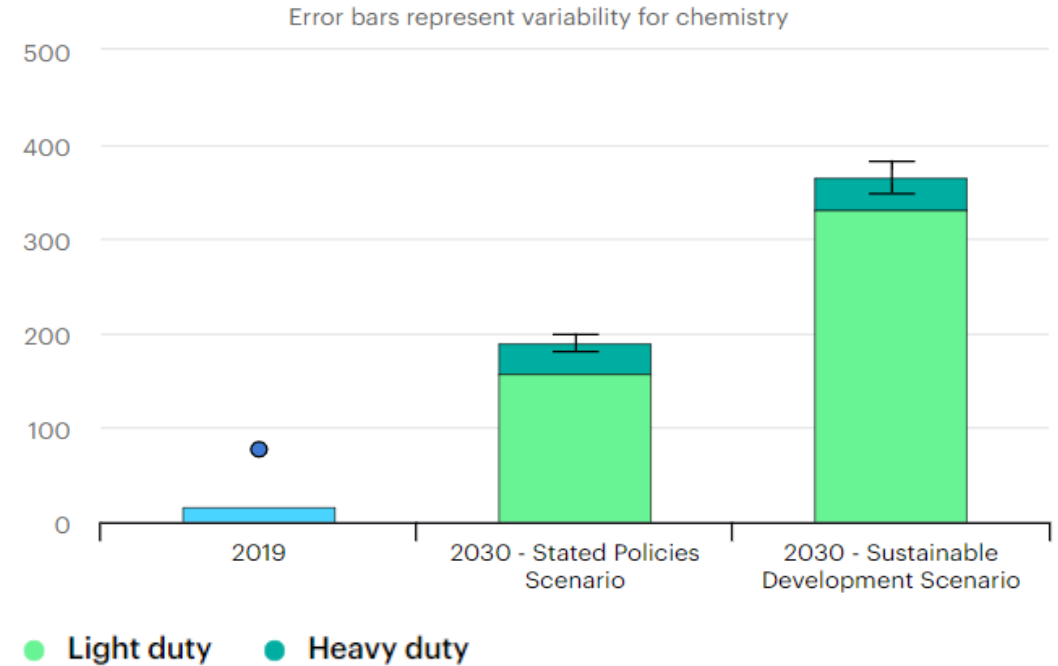
Source: J.P. Morgan, *Eye On The Market*, 2022 Annual Energy Paper.

# Related Challenges

### Annual cobalt demand for electric vehicle batteries, 2019-2030



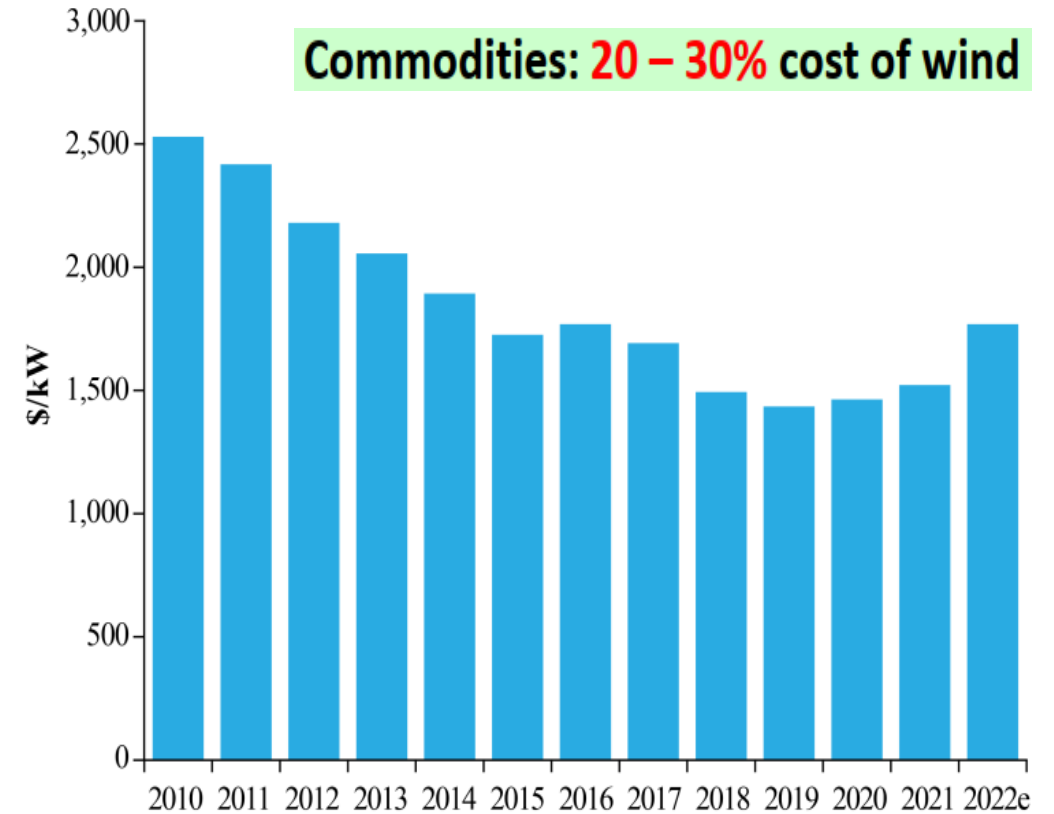
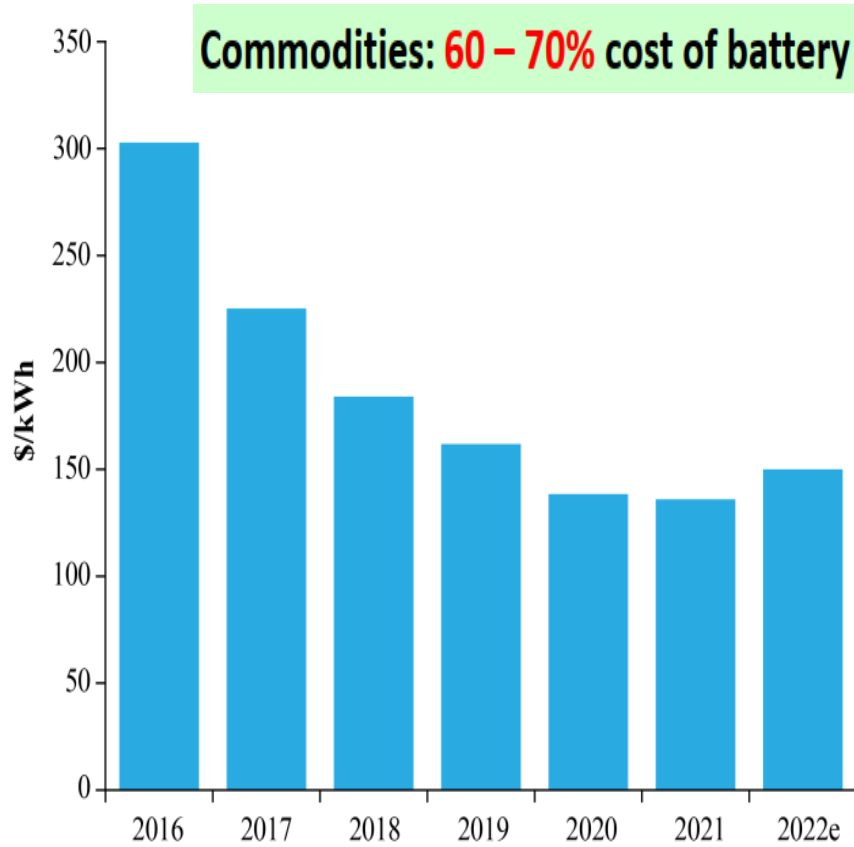
### Annual lithium demand for electric vehicle batteries, 2019-2030



Source: IEA, June 2020

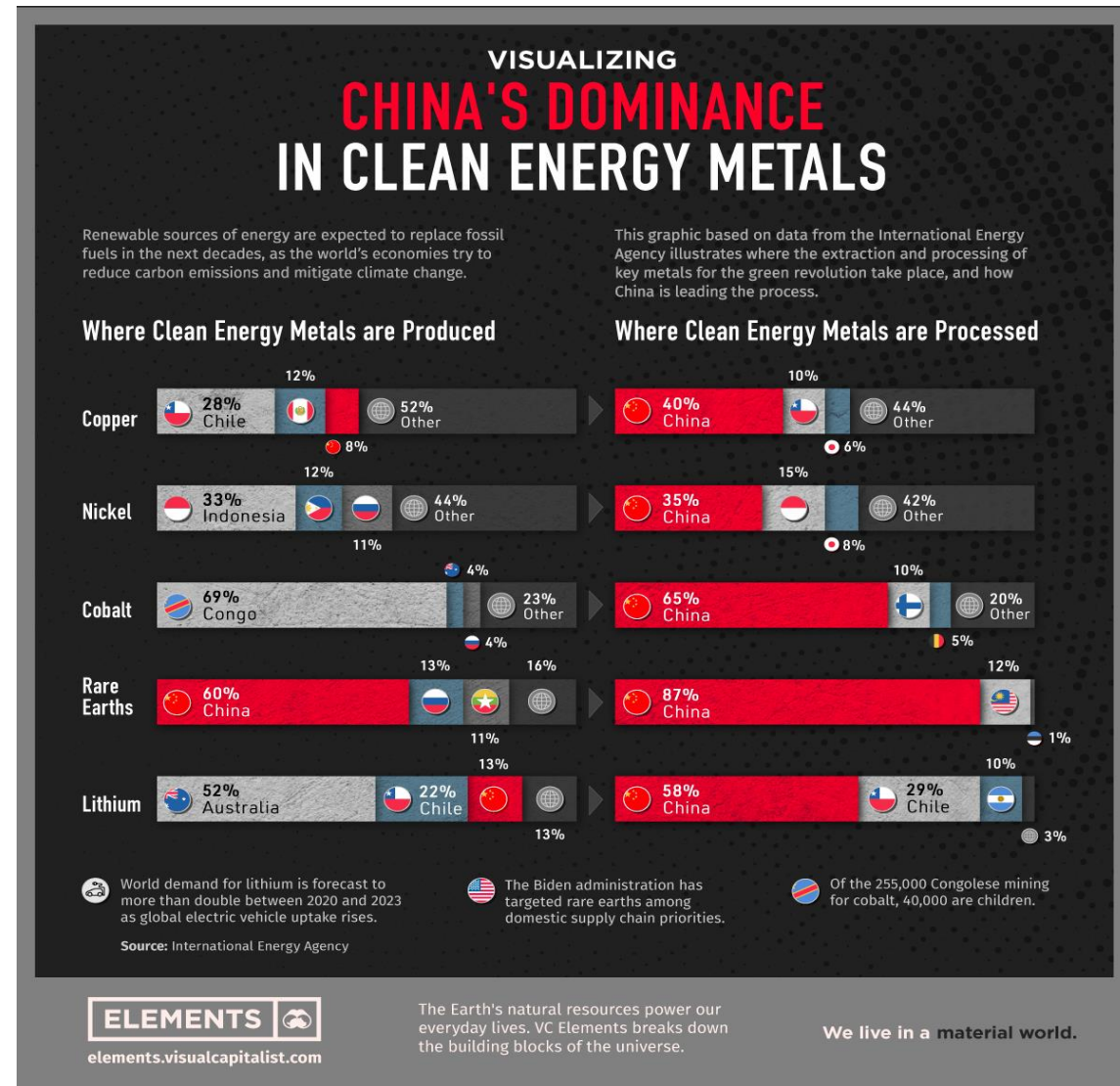
# Related Challenges

Minerals  
Price  
Inflation  
Reverses  
Battery  
Price  
Declines.

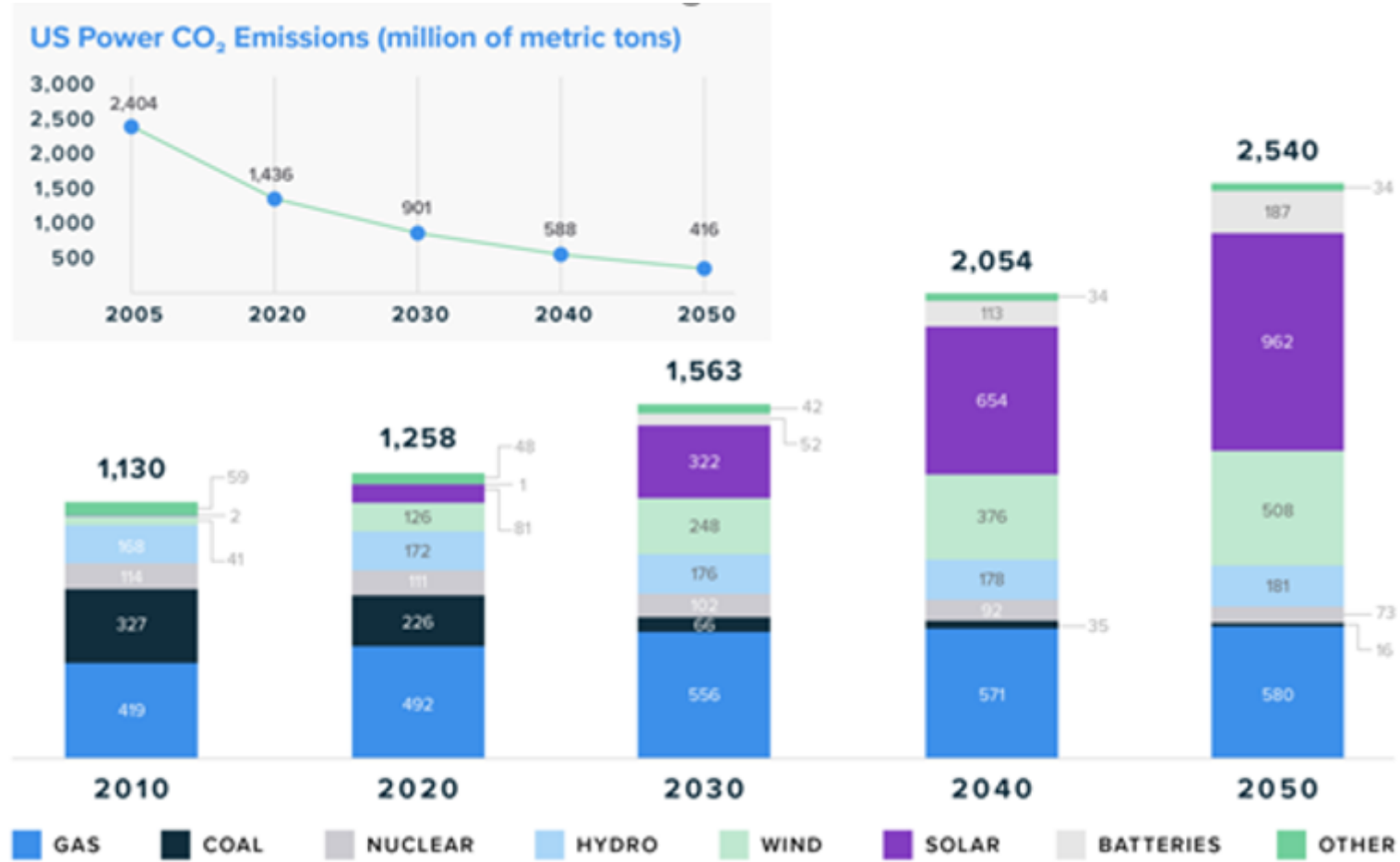


# Related Challenges

## Exacerbates Trade and Geopolitical Tensions



# Related Challenges

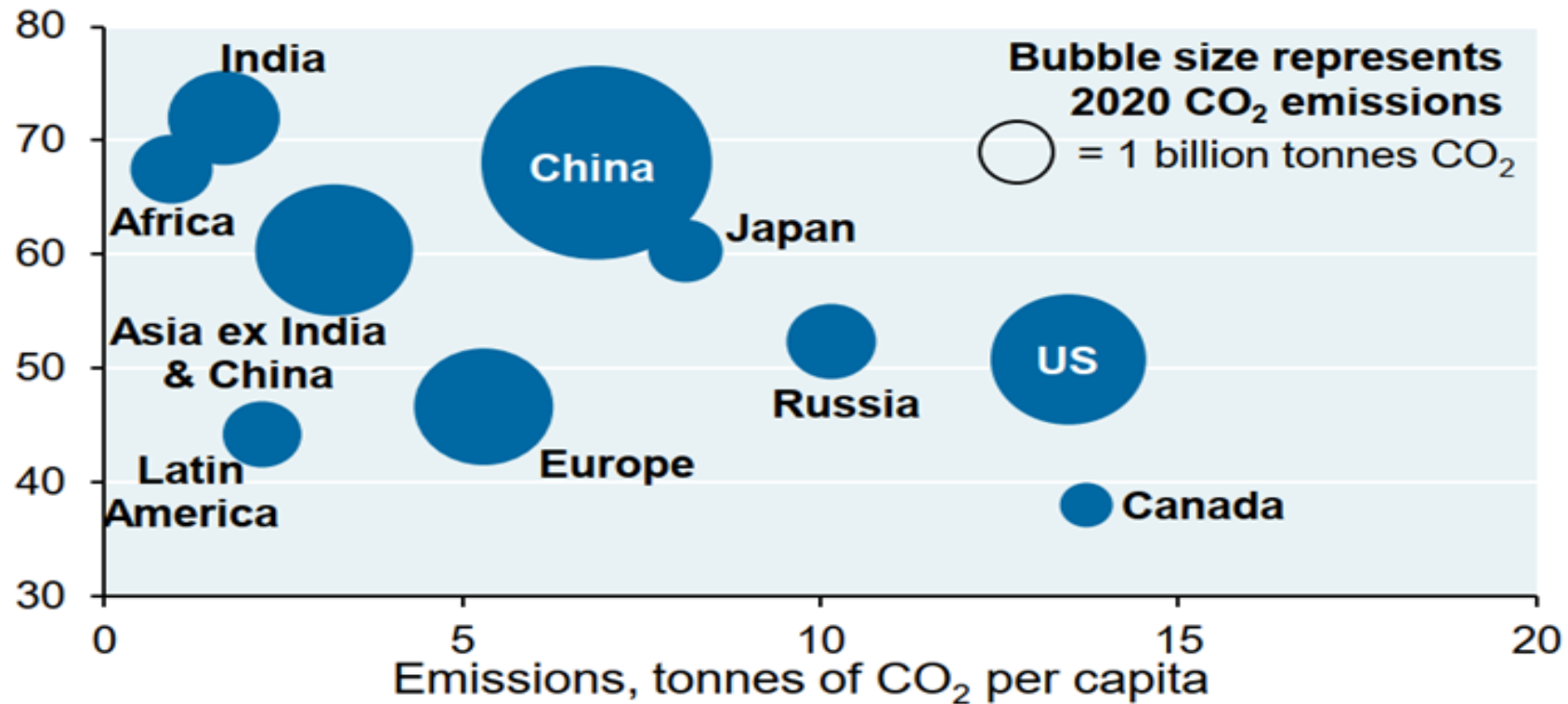


Source: 2022 IHS Markit Data

# Related Challenges

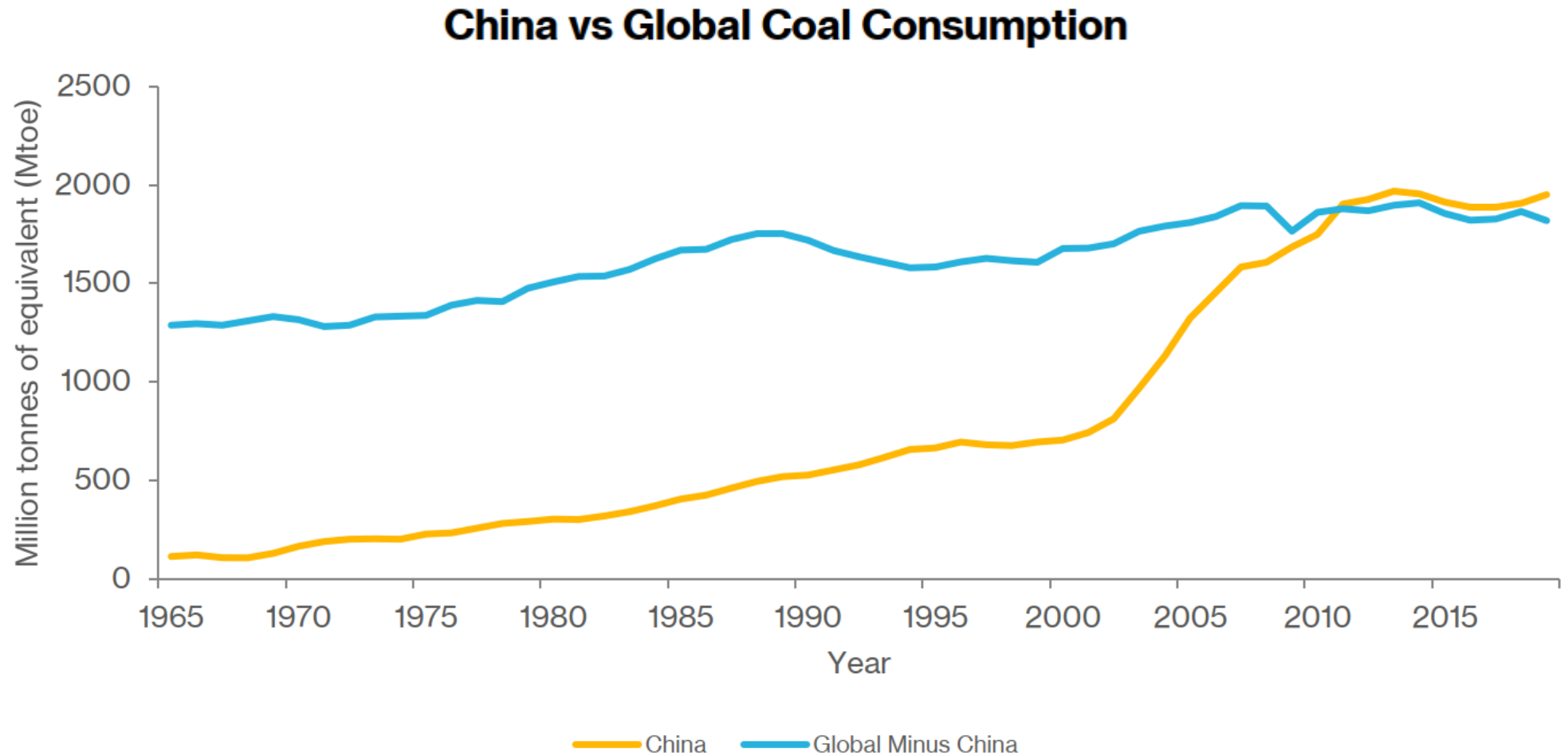
## CO<sub>2</sub> emissions by region in 2020

Carbon intensity of primary energy, million tonnes of CO<sub>2</sub> per EJ



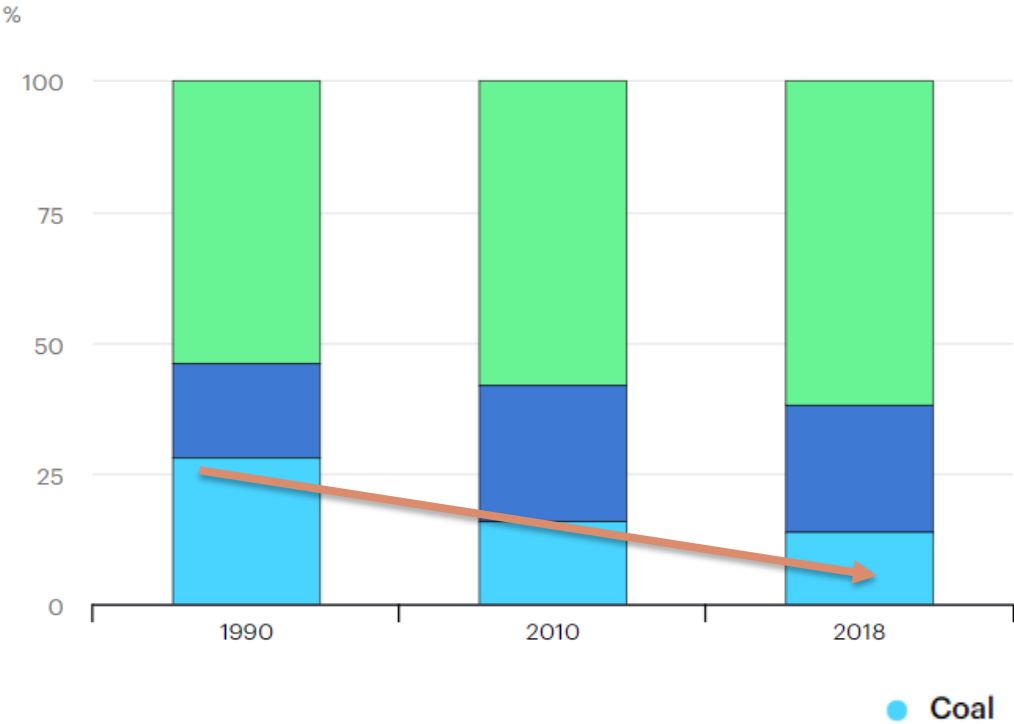
Source: BP Statistical Review of World Energy, JPMAM. 2021.

# Related Challenges

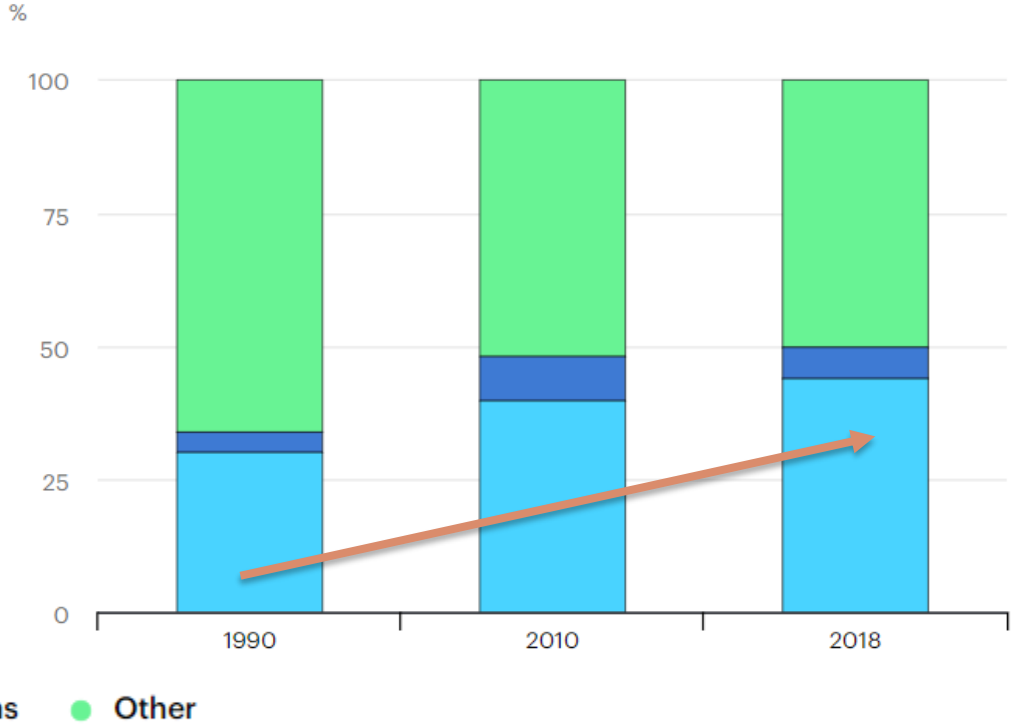


# Related Challenges


Shares of coal and gas in primary energy in Europe, 1990 to 2018



Shares of coal and gas in primary energy in India, 1990 to 2018



Source: IEA, October 2019.

The background of the slide is a solid teal color with a faint, semi-transparent image of a pine branch and its needles. The text is centered on the slide.

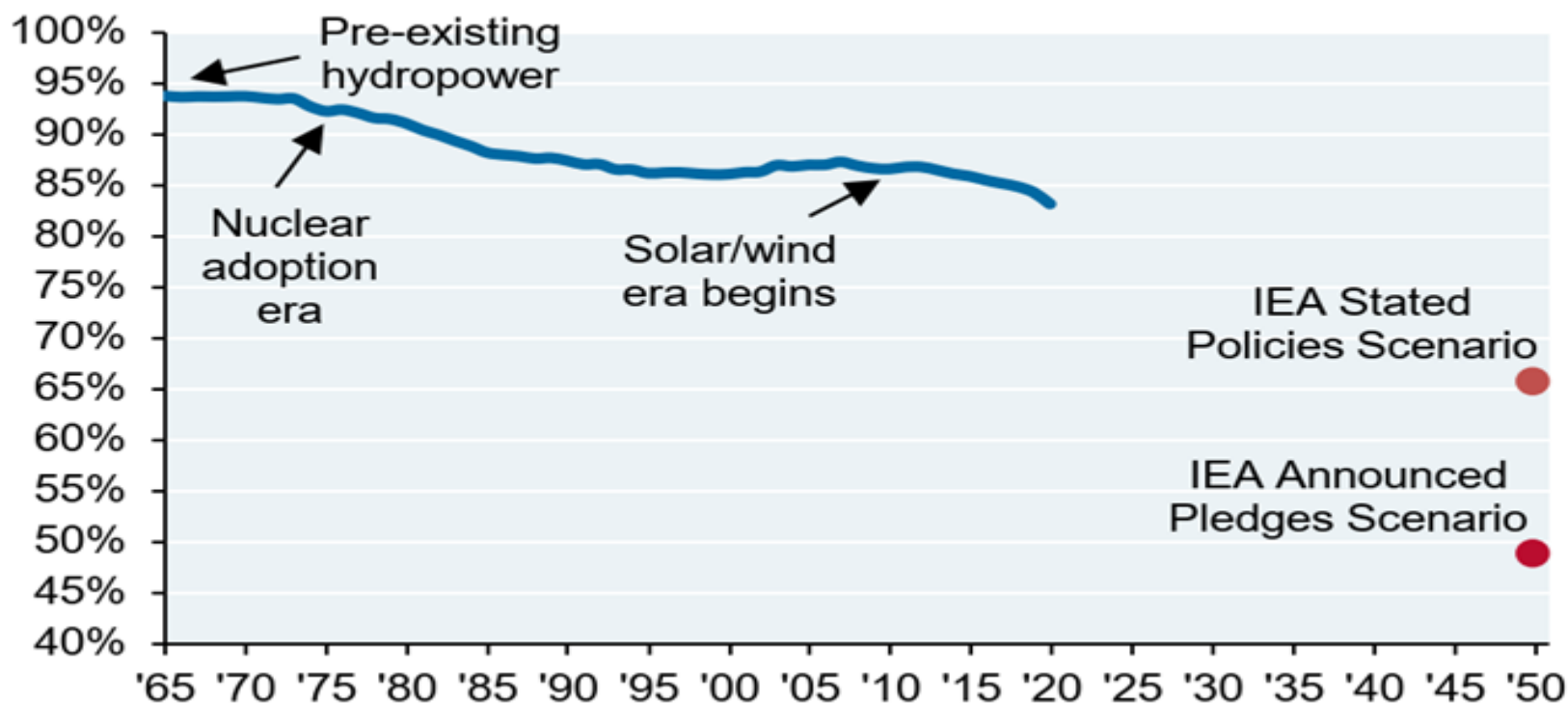
# Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges

## Section V: Conclusion

# Conclusion

## The world uses fossil fuels for ~83% of its energy

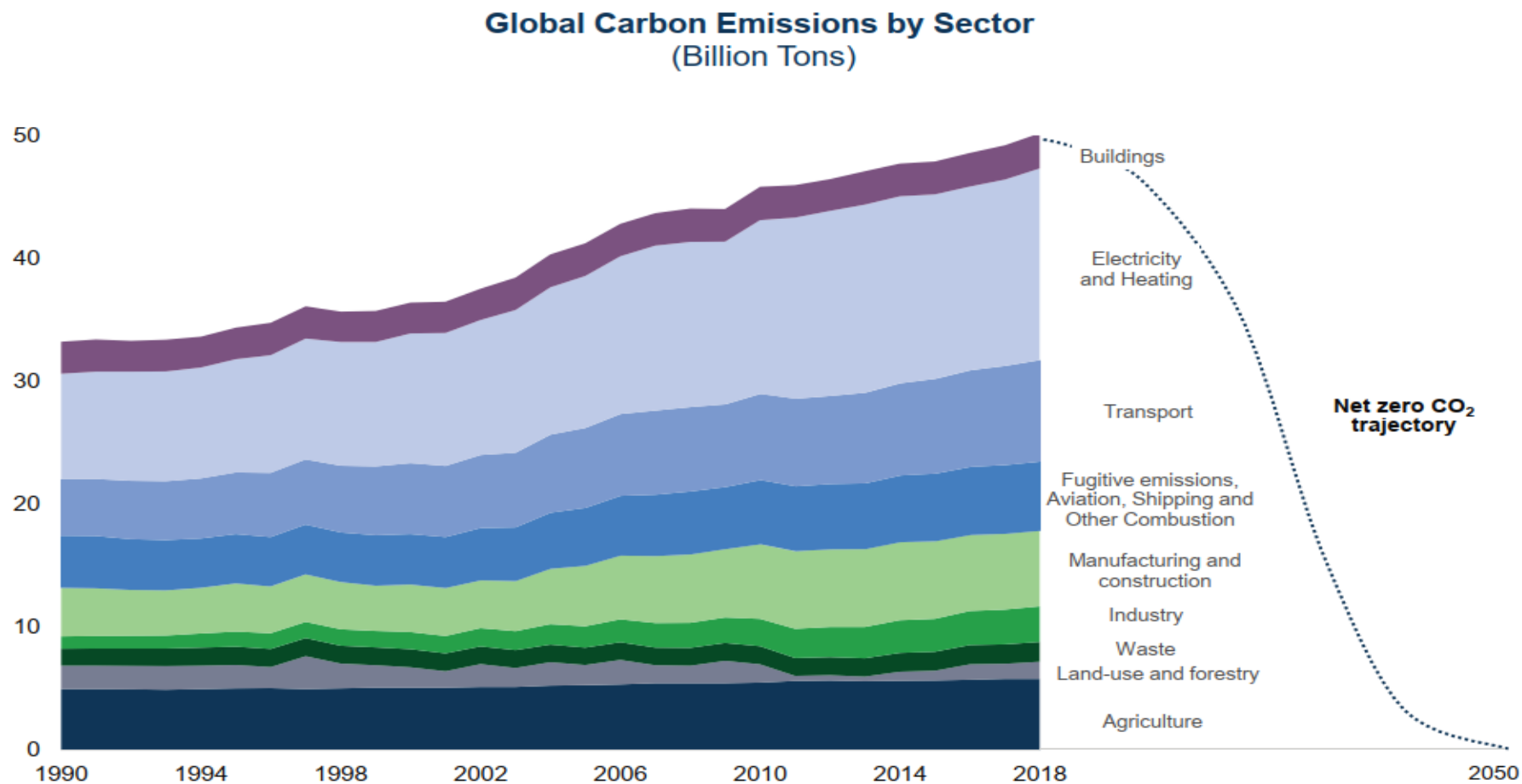
% of global primary energy consumption from coal, oil and nat gas



Source: BP Statistical Review of World Energy, IEA, JPMAM. 2021.

Source: J.P. Morgan, *Eye On The Market*, 2022 Annual Energy Paper.

# Conclusion

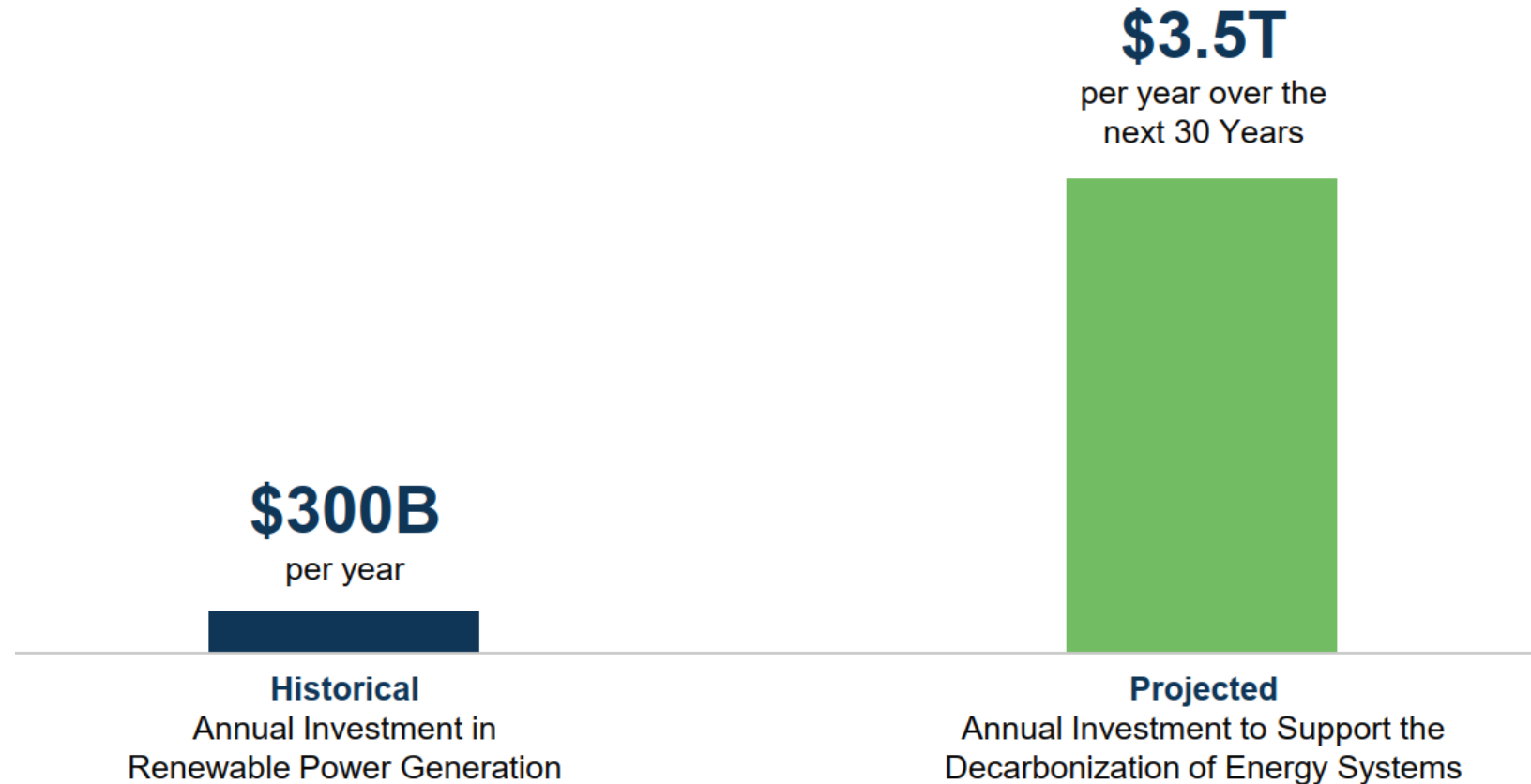


Source: Brookfield, June 2022; CAIT Climate Data Explorer via Climate Watch, Our World in Data.

# Conclusion

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The biggest investment opportunity in human history.



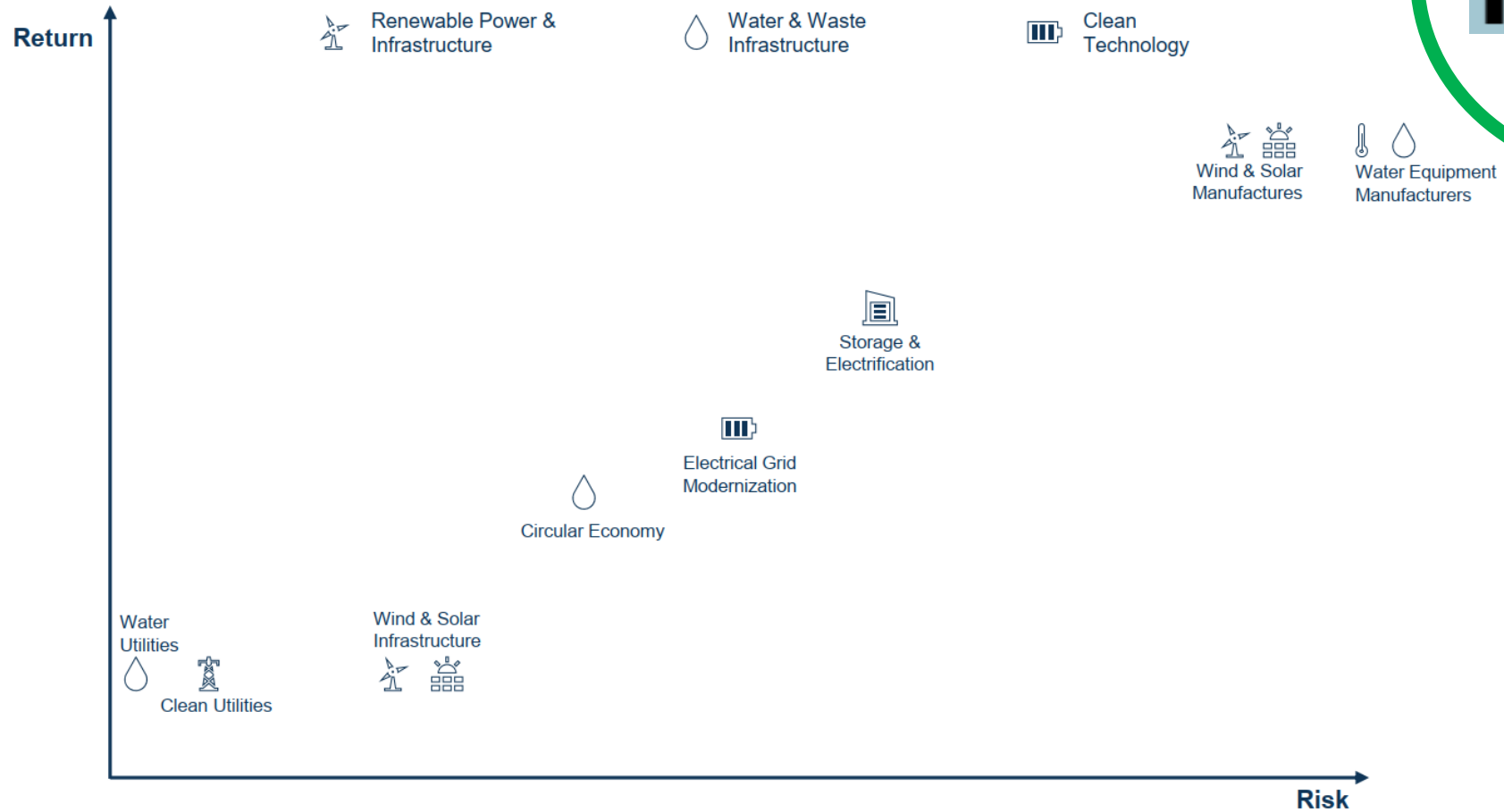
Source: Brookfield; COP26, Intergovernmental Panel on Climate Change (IPCC); IEA; December 31, 2021.

# Conclusion



Source: Brookfield Public Securities Group LLC

# Conclusion



# Conclusion

*For a successful technology, reality must take precedence over public relations, for Nature cannot be fooled.*

*-Richard P Feynman*

## Climate Change

- Now
- Faster
- More Severe?

## Divestment

- Doesn't Work, Hurts Plan Funding & Pushes Ownership into Less Responsible Hands
- Not a Solution, Part of the Problem
- Tax on the Poor

## Energy Transition

- Reliable Hydrocarbon Supply
- Hybrid Solutions
- Moonshots

## Challenges

- NIMBYism
- The Transition is Likely Inflationary
- China, India, et al



# Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges Questions?



# Thoughts on Climate Change, Divestment, Energy Transition & Related Challenges

## Appendix & Disclosures

# Appendix



## Divestment Policy Cost Analysis

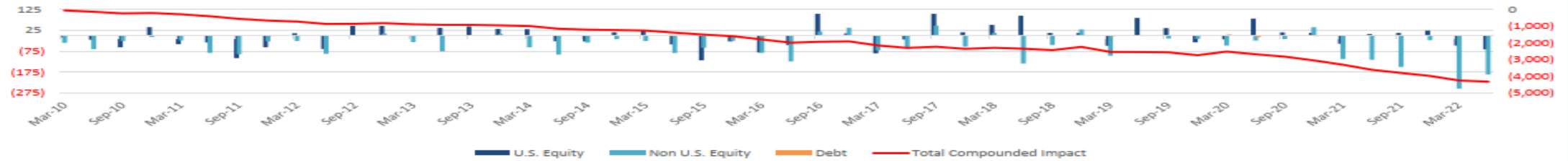
As of June 30, 2022

CalSTRS firmly believes that active and direct engagement is the best way to drive long-term value creation. CalSTRS Divestment Policy states that the consideration of divestment only comes after the CIO indicates that all efforts at engagement have been fully exhausted. In these instances, the Investment Committee will receive analysis and determine if continuing investment is imprudent and inconsistent with fiduciary duty.

CalSTRS' commitment to engagement with companies rather than divestment is based on several considerations: (i) divestment would eliminate our standing and rights as a shareowner and foreclose further engagement; (ii) divestment would be likely to have negligible impact on portfolio companies or the market; (iii) divestment could result in increased costs and short-term losses; and (iv) divestment could compromise CalSTRS' investment strategies and negatively affect investment performance.

Total Divestment Impact*	
Tobacco prior to 2010	Divestment Policy
(5,125,523,389)	(4,312,933,466)
<b>(9,438,456,856)</b>	

Quarterly Divestment Gain/Loss (\$MM)



Program Impact	Inception	Quarter			6 Months			1 Year			Divestment Period (Inception)			
		Discount = 0 \$(MM)	Discount = Total Fund** \$(MM)	%	Discount = 0 \$(MM)	Discount = Total Fund** \$(MM)	%	Discount = 0 \$(MM)	Discount = Total Fund** \$(MM)	%	Discount = 0 \$(MM)	Discount = Total Fund** \$(MM)	Cumulative	Annualized
<b>Total Fund Divestment***</b>		(247.32)	56.34	<b>-0.069%</b>	(545.70)	(339.89)	<b>-0.140%</b>	(677.83)	(712.39)	<b>-0.182%</b>	(2,412.20)	(4,312.93)	<b>-2.141%</b>	<b>-0.178%</b>
US Equity G/L	Jan-10	(65.00)	(40.26)	-0.077%	(112.12)	(70.26)	-0.119%	(73.74)	(50.50)	-0.088%	(56.38)	(363.61)	-0.587%	-0.047%
Non-US Equity G/L	Jan-10	(185.75)	91.08	-0.347%	(439.48)	(277.24)	-0.716%	(610.51)	(667.92)	-0.944%	(2,344.07)	(3,923.31)	-10.001%	-0.834%
Fixed Income G/L	Jan-10	3.43	5.51	0.010%	5.89	7.61	0.016%	6.42	6.03	0.017%	(11.75)	(26.02)	-0.058%	-0.005%
Tobacco****	Sep-00													
Firearms	May-13													
Geo Risk****	Oct-08													
US Thermal Coal	Jul-20													
Non-US Thermal Coal	Jul-20													

\* Total Divestment Impact includes the impacts of the Divestment Policy as of January 2010 and the Benchmark Modification Program (passive strategy divestment) as of March 2000 - reinvested at the return of the Total Fund  
 \*\* Assumes gains and losses would have earned the return of the Total Fund  
 \*\*\* Return impact is estimated using average market values for each period  
 \*\*\*\* Tobacco and Geopolitical Risk programs captured as of January 2010. Geo Risk includes the divestment from U.S. Prisons as of January 2019.

# Appendix

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## CalSTRS' Divestment Policy Cost Analysis

### Background:

*This cost analysis tracks the estimated gains and losses associated with CalSTRS' two divestment related programs: The Legacy Benchmark Modification program (2000 - 2009) and The Divestment Policy Program beginning in 2010. CalSTRS has divested from several companies, beginning in 2006, when certain companies were divested due to geopolitical risk concerns, but for the purposes of this analysis the cost of The Divestment Policy Program is calculated as of January 2010.*

*Prior to 2010, CalSTRS passive strategies divested from all tobacco companies, when they were removed from CalSTRS benchmarks "Benchmark Modification" (Equity as of September 2000 and Debt as of July 2002). During this time there was not a policy requiring divestment for active managers.*

*The divestment policy outlines six current divestment-related actions that are tracked in this analysis based on their implementation dates: tobacco companies (January 2010), firearms companies (May 2013), thermal coal companies (U.S. and Non-U.S. as of July 2020), U.S private prison companies (January 2019) and Iran (as of January 2010). Included in the divestment policy cost calculation is the divestment of Sudan from October 2008 until restrictions were lifted in February 2021. Additionally, in 2018, MSCI added Saudi Arabia to their benchmarks, but CalSTRS chose not to include Saudi Arabia in the custom benchmarks - therefore the cost of divestment in Saudi Arabia is captured in the Total Divestment Impact, but is not tracked separately.*

*Divestment cost is reported at The CalSTRS' Board's request, as a policy requirement.*

### Methodology:

*This cost analysis is an estimate. The gain or loss (potential cost) associated with divestment is captured at three levels: U.S. Equity, Non-U.S. Equity and Debt.*

*To calculate a gain/loss, a return difference is calculated by comparing the monthly return of each levels fully inclusive benchmark versus the CalSTRS' custom version which excludes divested assets. This return difference is applied to the levels beginning balance to understand that months gain or loss. The cumulative gain or loss is then compounded each month at the Total Fund's return, net of manager fees.*

*The Total Fund return serves as the discount rate: the rate of return we would expect had the gain been available to invest, or the return we would have lost had the loss reduced the Total Fund's value. Using a discount / re-investment rate is required to estimate the true value gained or lost over the period and is consistent with industry standard cash flow modeling.*

*The total divestment impact is captured in terms of two components:*

- 1) The Legacy Benchmark Modification Program (the removal of tobacco companies from the CalSTRS' benchmarks -passive strategy divestment), which ran from March 2000 to December 2009, compounded through the present period.*
- 2) The Divestment Policy Program, captured as of January 2010, compounded through the present period.*

# Appendix

## Bottlenecks Along the Danube

Low waters and efforts to clear the riverbed are stalling ship traffic

● Locations of key dredging operations



Source: Bloomberg News

# Appendix

## Rising River Temperatures Hamper France's Nuclear Plants

Rivers in the south of France are getting too warm to cool down reactors

☠ French nuclear plant



# Appendix

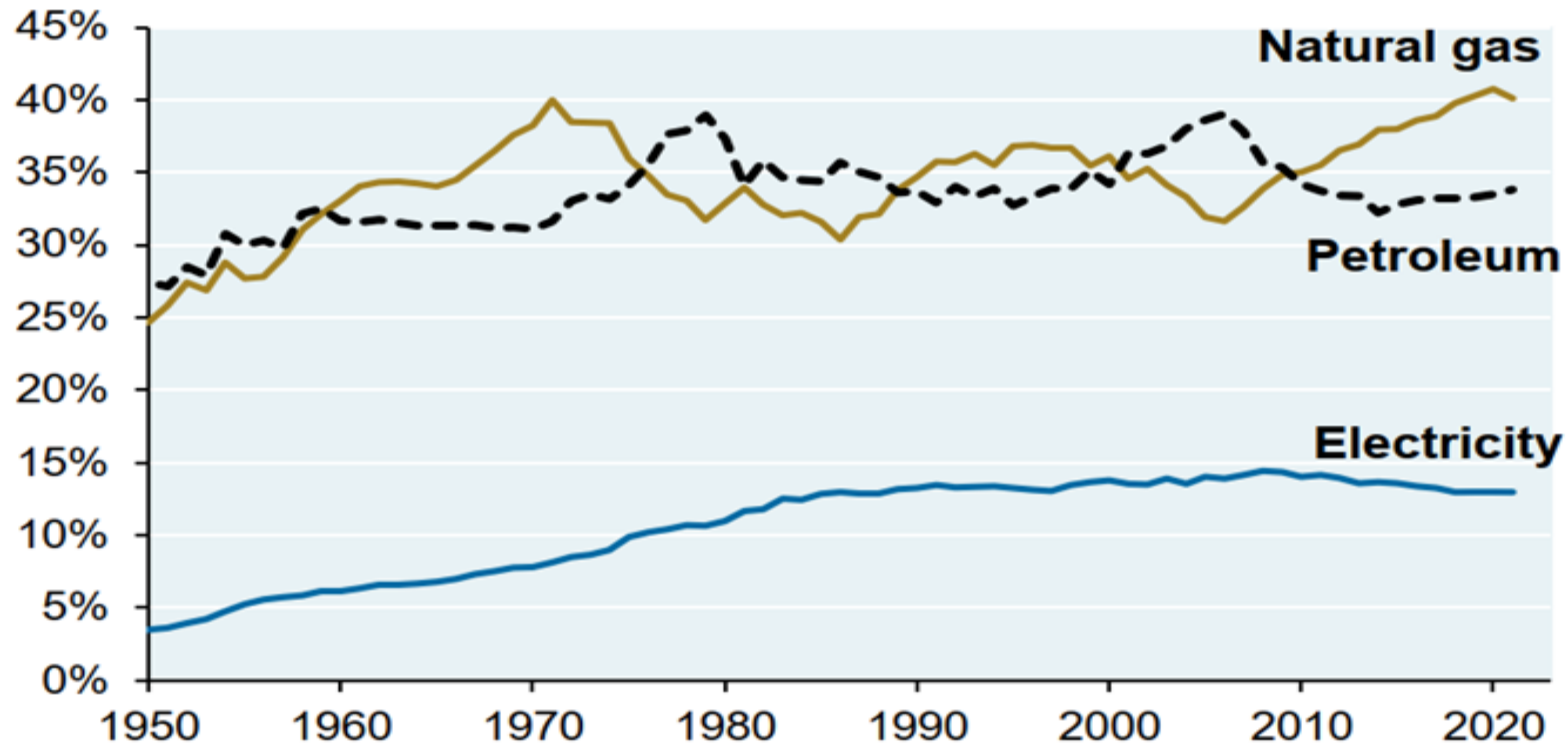
## Largest proven reserves of oil and natural gas

		Natural gas (tr cu ft)			Oil (billion barrels)
<b>1</b>	Russia	1,320	<b>1</b>	Venezuela	304
<b>2</b>	Iran	1,134	<b>2</b>	Saudi Arabia	298
<b>3</b>	Qatar	871	<b>3</b>	Canada	168
<b>4</b>	Turkmenistan	480	<b>4</b>	Iran	158
<b>5</b>	US	446	<b>5</b>	Iraq	145
<b>6</b>	China	297	<b>6</b>	Russia	108
<b>7</b>	Venezuela	221	<b>7</b>	Kuwait	102
<b>8</b>	Saudi Arabia	213	<b>8</b>	UAE	98
<b>9</b>	UAE	210	<b>9</b>	US	69
<b>10</b>	Nigeria	193	<b>10</b>	Libya	48
<b>11</b>	Iraq	125	<b>11</b>	Nigeria	37
<b>12</b>	Azerbaijan	88	<b>12</b>	Kazakhstan	30

Source: BP Statistical Review of World Energy. 2020.

# Appendix

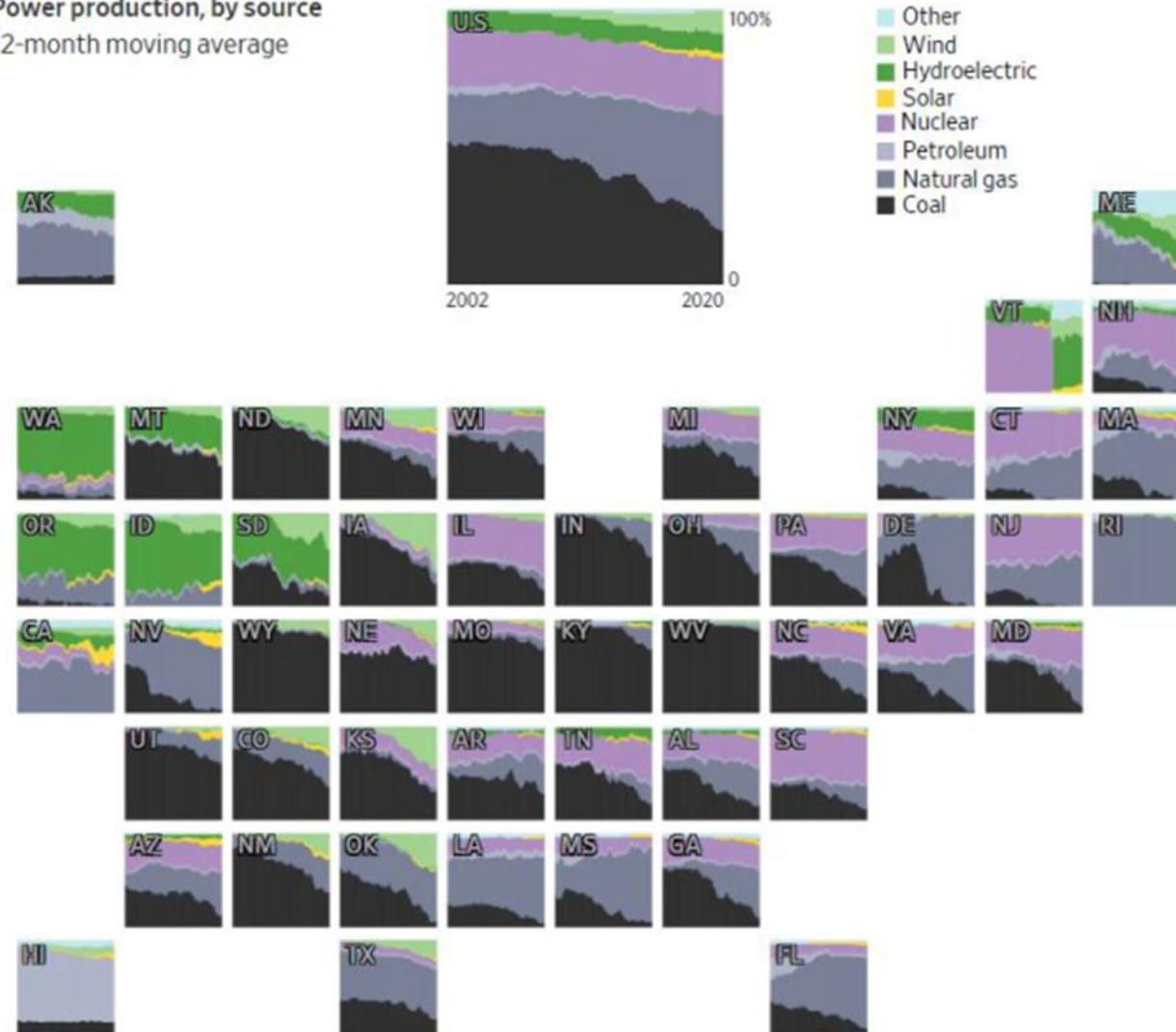
**Electricity share of US industrial energy use unchanged for decades, Share of industrial energy use**



Source: EIA. October 2021.

# Appendix

Power production, by source  
12-month moving average



Source: Environmental Protection Agency  
James Benedict/THE WALL STREET JOURNAL

# Appendix

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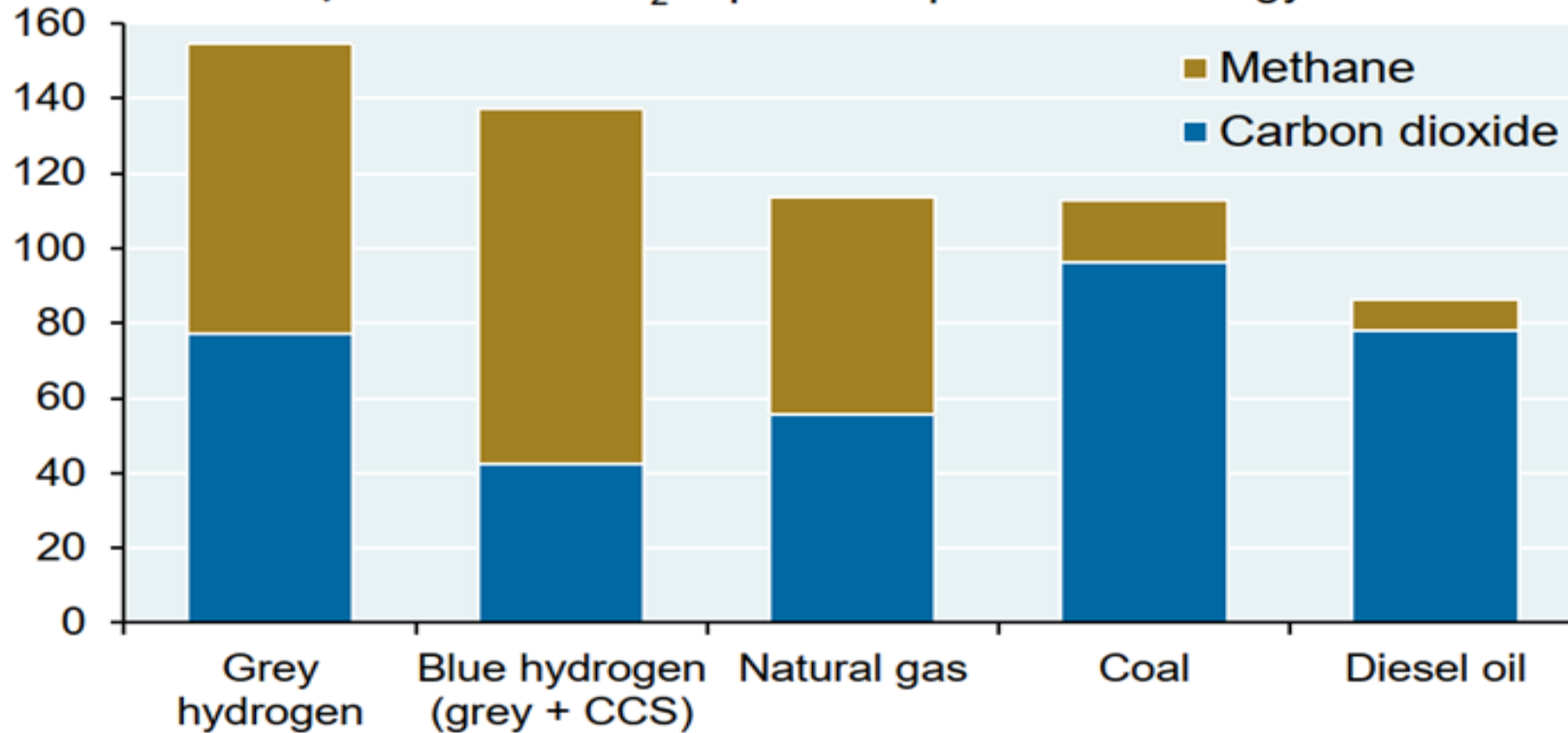
## Hydrogen color spectrum

<b>Green:</b> hydrogen produced by electrolysis of water, using electricity from renewable sources like hydropower, wind, and solar. Zero carbon emissions are produced	<b>Turquoise:</b> hydrogen produced by the thermal splitting of methane. Instead of CO <sub>2</sub> , solid carbon is produced
<b>Pink/purple/red:</b> Hydrogen produced by electrolysis using nuclear power	<b>Black/gray:</b> hydrogen extracted from natural gas using steam-methane reforming
<b>Yellow:</b> hydrogen produced by electrolysis using grid electricity	<b>Blue:</b> gray or brown hydrogen with its CO <sub>2</sub> sequestered or repurposed
<b>White:</b> hydrogen produced as a byproduct of industrial processes (i.e. fracking)	<b>Brown:</b> hydrogen extracted from fossil fuels, usually coal, using gasification

Source: North American Council for Freight Efficiency. 2020.

# Appendix

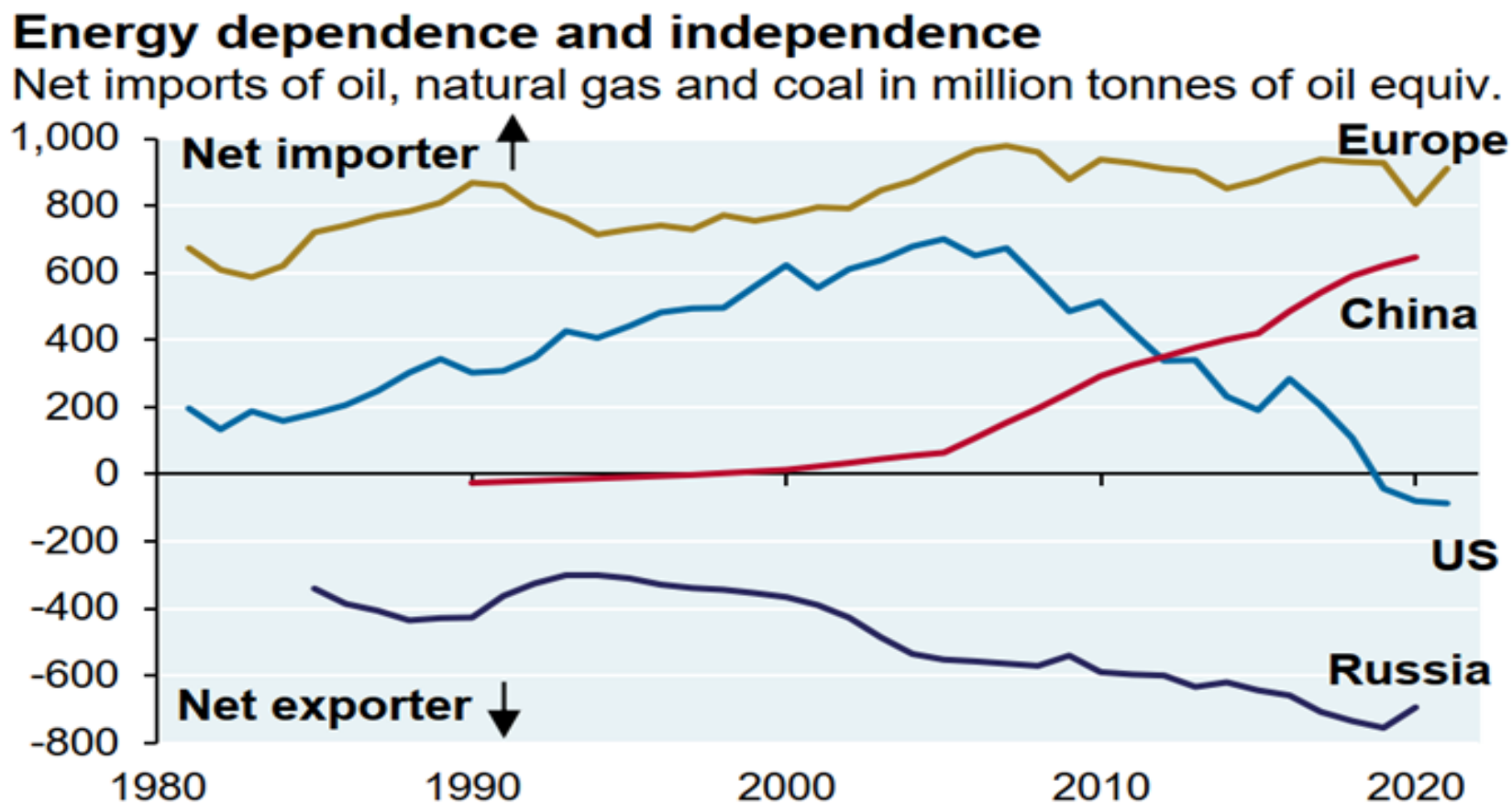
**Blue hydrogen GHG higher than direct natural gas combustion, Grams of CO<sub>2</sub> equivalent per MJ of energy**



Source: "How green is blue hydrogen?" Howarth (Cornell). July 2021.

Source: J.P. Morgan, *Eye On The Market*, 2022 Annual Energy Paper.

# Appendix

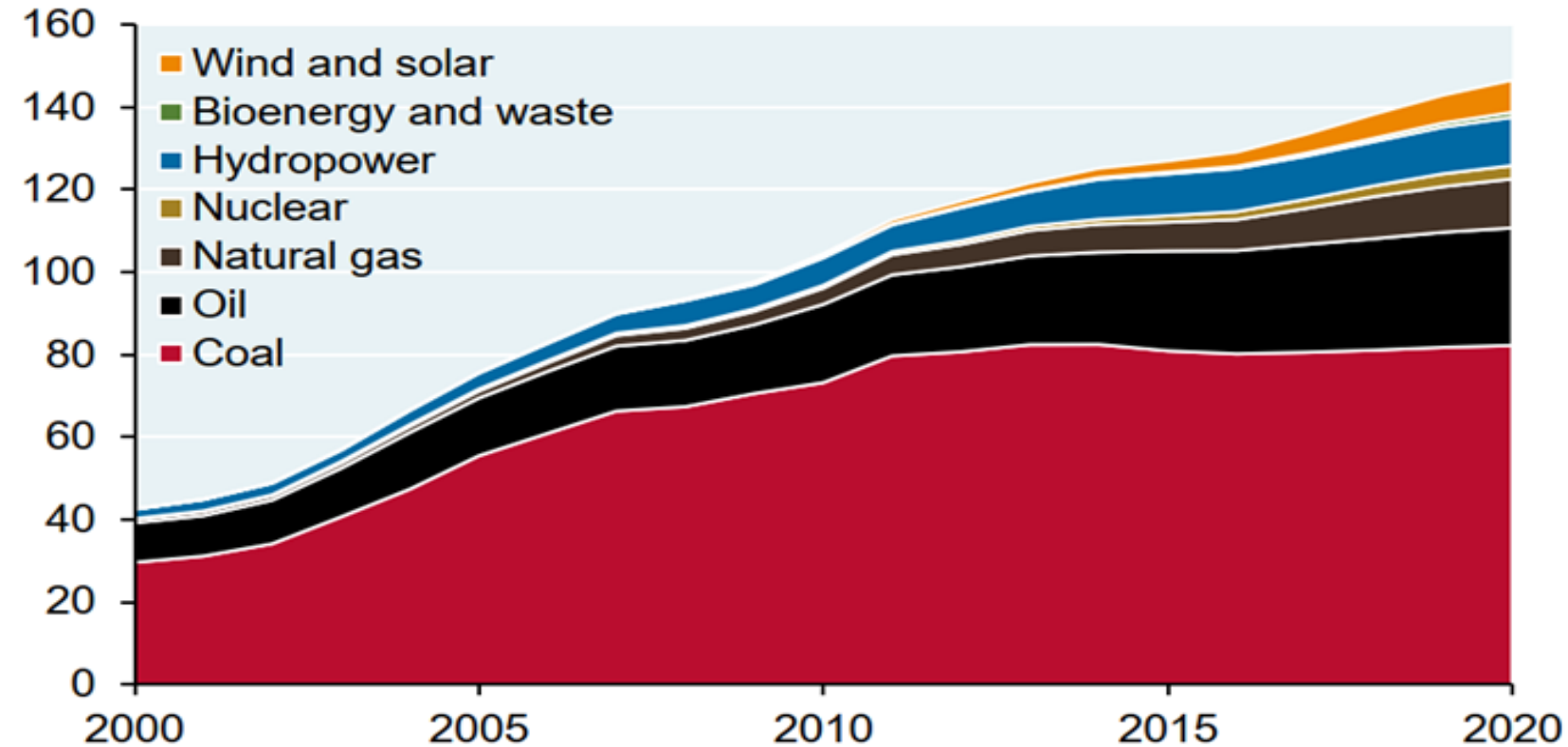


Source: BP Statistical Review, NBS China, JPMAM. 2021.

# Appendix

## China primary energy consumption by fuel

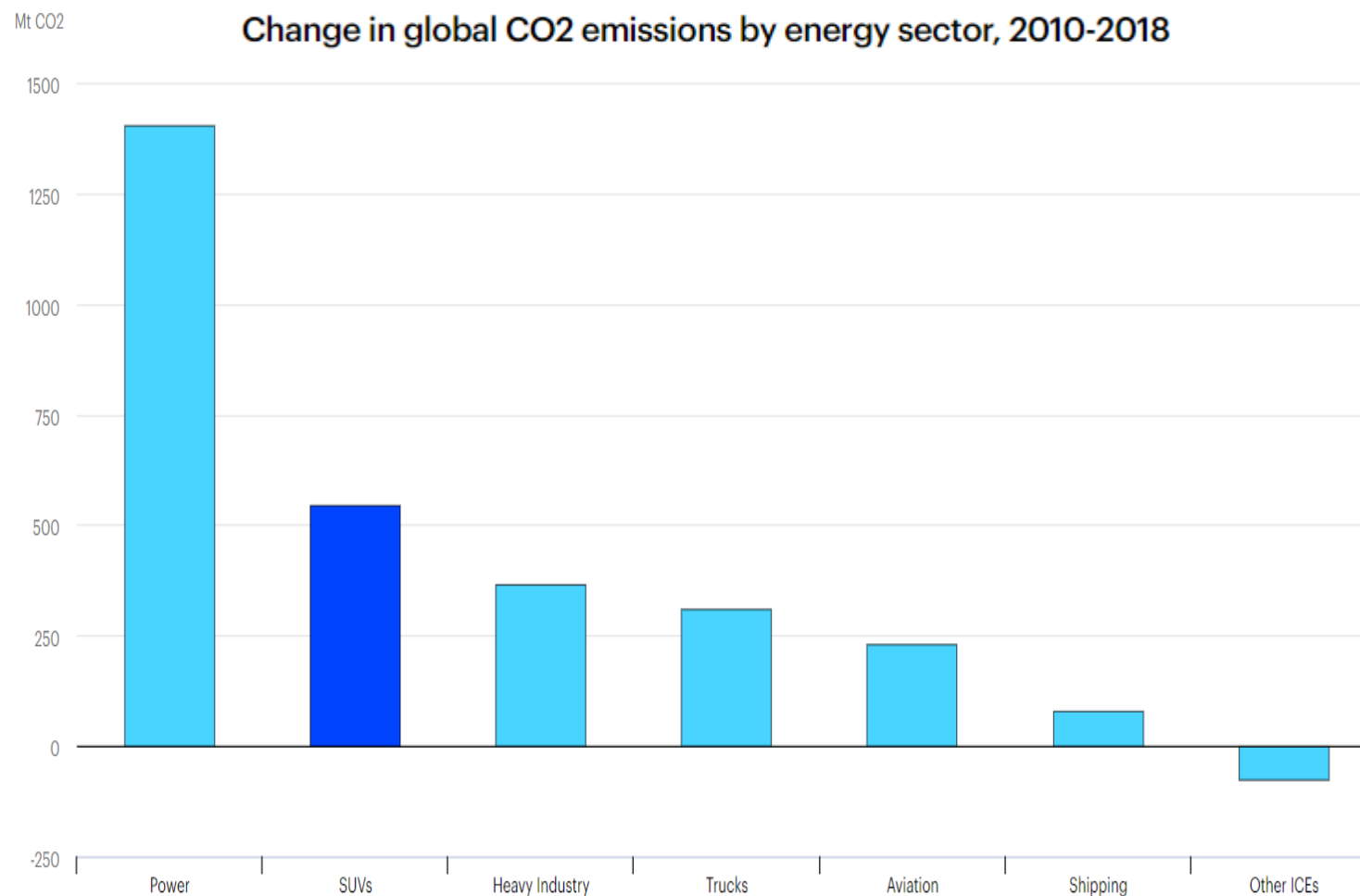
Exajoules



Source: BP Statistical Review of World Energy. 2021.

# Appendix

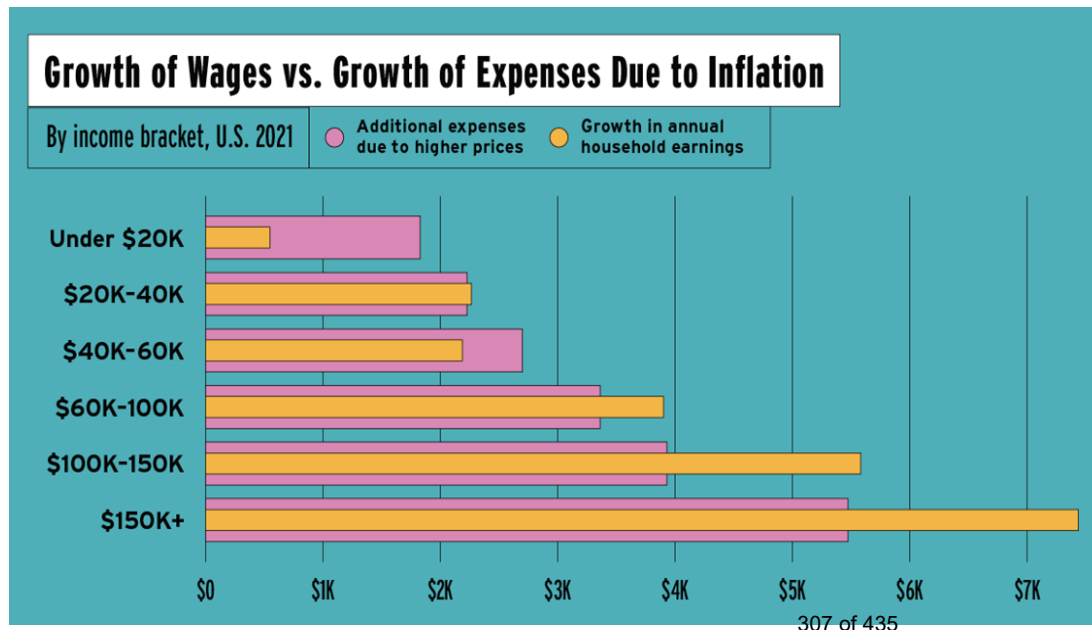
Today, almost half of all cars sold in the United States and one-third of the cars sold in Europe are SUVs.



Source: IEA, October 2019.

# Appendix

- [https://svs.gsfc.nasa.gov/vis/a000000/a004900/a004975/GISTEMP\\_Spiral\\_2022-03-06\\_2257.mp4](https://svs.gsfc.nasa.gov/vis/a000000/a004900/a004975/GISTEMP_Spiral_2022-03-06_2257.mp4)
- <https://www.washingtonpost.com/climate-environment/2022/09/06/thwaites-doomsday-glacier-antarctica-disintegrating/>
- <https://www.cnbc.com/2022/02/25/low-earners-hit-hardest-by-inflation-as-savings-and-pandemic-aid-dwindle.html>



Sources: Washington Post, Current Population Survey, Consumer Expenditure Survey, Bureau of Labor Statistics, Bureau of Economic Statistics; *Chart of the Week*, @profgalloway, March 29, 2022.

# Appendix

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- <https://www.bloomberg.com/news/articles/2022-08-18/australian-lab-turns-hydrogen-into-green-energy-with-secret-catalyst>
- [https://www.forbes.com/sites/alanohnsman/2022/08/30/bosch-to-make-fuel-cells-for-hydrogen-trucks-in-south-carolina/?utm\\_medium=browser\\_notifications&utm\\_source=pushly&utm\\_campaign=2357591&sh=b76fc432242c](https://www.forbes.com/sites/alanohnsman/2022/08/30/bosch-to-make-fuel-cells-for-hydrogen-trucks-in-south-carolina/?utm_medium=browser_notifications&utm_source=pushly&utm_campaign=2357591&sh=b76fc432242c)
- [Nuclear Power Is The Future. Tiger and Bill Gates Know It – Bloomberg](#)
- <https://www.bloomberg.com/news/articles/2022-08-08/google-chevron-sumitomo-among-companies-joining-nuclear-fusion-craze>

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- [https://www.bloomberg.com/news/articles/2022-03-22/tech-billionaires-rally-around-nuclear-as-energy-crisis-looms?cmpid=BBD032222\\_CUS&utm\\_medium=email&utm\\_source=newsletter&utm\\_term=220322&utm\\_campaign=closeamericas](https://www.bloomberg.com/news/articles/2022-03-22/tech-billionaires-rally-around-nuclear-as-energy-crisis-looms?cmpid=BBD032222_CUS&utm_medium=email&utm_source=newsletter&utm_term=220322&utm_campaign=closeamericas)
- <https://interestingengineering.com/innovation/japan-deep-ocean-turbine-limitless-renewable-energy>
- <https://www.youtube.com/watch?v=j9KgaNukwWI>
- <https://nicenews.com/environment/artificial-leaves-make-clean-energy/>

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- <https://www.popsci.com/science/crab-shell-green-batteries/>
- [Manchin Plan to Fast-Track Energy Projects Headed for Showdown - Bloomberg](#)
- <https://www.wsj.com/articles/private-equity-firms-with-oil-and-gas-focus-defend-sector-as-investment-drops-11660642202>
- <https://www.businessinsider.com/jpmorgan-jamie-dimon-oil-gas-production-not-against-climate-change-2022-8>

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SUBJECT: Fiduciary Duties and Ethics      ACTION: \_\_\_\_\_

DATE: September 22, 2022      INFORMATION:   X  

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Consistent with the objective of the Trustee Education Policy to ensure that members of the Board have access to the knowledge and information necessary to fulfill their duties as trustees of the Alaska Permanent Fund, each year the Board will receive a presentation that provides a refresher on their fiduciary duties and obligations under the Executive Branch Ethics Act.

This year the Board will receive this presentation from Richard Ashley, III of DLA Piper. Rich's practice includes advising professional asset managers, registered investment advisors, plan fiduciaries, and service providers with respect to fiduciary obligations, reporting and disclosure obligations, recordkeeping, and compliance with the prohibited transaction rules under ERISA and the Code.

Rich's presentation for this meeting has been custom built, taking into account the fiduciary obligations outlined in Alaska Statute 37.13.120, which is the specific state statute that outlines this Board's fiduciary obligations in investing and managing the assets of the Alaska Permanent Fund. Rich's presentation will also include an outline of the Executive Branch Ethics Act and the process to be used by members of this Board in identifying and disclosing potential ethics conflicts.



# APFC Trustee Fiduciary Responsibilities

Richard Ashley

September 22, 2022





# Introduction - Alaska Permanent Fund AS § 37.13.010 – § 37.13.206 (Fund Statute)

- The Alaska Permanent Fund was established in Article 9, Section 15 of the Alaska State Constitution in 1976. It is governed by the Alaska Permanent Fund Statute which sets forth:
  - The purpose of the Fund
  - Responsibilities of Trustees
  - Certain Behavioral Standards for Trustees
  - Investment Responsibilities
  - Trustee Qualifications



# Fund Statute – Legislative Findings

## Alaska Statutes § 37.13.020 - § 37.13.030

### Instructions

- The Permanent Fund is a means of conserving revenue from mineral resources **to benefit all generations of Alaskans.**
- The Permanent Fund's is to **maintain safety of principal** while **maximizing total return.**
- The Fund is to be used as a savings device managed to **allow the maximum use of disposable income from the fund for the purposes designated by law.**
- Purpose of the Fund is to **provide a mechanism for the management and investment of assets to achieve the above goals.**



# Fiduciary Obligations under Fund Statute- Summary

- Mandates the purpose of the Fund, the composition and qualification of board members, their terms of office and other practical and administrative provisions.
- Requires disclosure of conflict of interests AS § 37.13.110
- Trustees to disclose any direct or indirect interest in or control over an entity or project in which funds are invested.
- This is a matter of public record.
- **Trustee Responsibilities also set forth in Public Official Disclosure Act. AS § 39.50.010 – 200.** Within 30 days after taking office, Trustees must file a statement giving income sources and business interests, under oath and on penalty of perjury. AS § 39.50.020
- **There can be a fine of up to \$1,000 and/or imprisonment of up to six months for willful violation of disclosure requirements AS § 39.50.080**

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# Responsibility of Trustee - What is a Fiduciary

## A Trustee is a Fiduciary

1

Fiduciary duty is considered the “highest duty known to the Law” – it is higher than that of a corporate fiduciary

2

State laws pertaining to public funds are often modeled after the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)

3

Over almost 50 years, ERISA regulatory guidance, advisory opinions and court cases have created a fuller understanding of the scope of fiduciary duty

**Therefore, ERISA regulations, guidance and court cases can illuminate Alaska statutes regarding fiduciary duties.**

# Introduction – Uniform Prudent Investor Act – Addresses Responsibilities of Trustees

## Alaska Statute § 13.36.225 – § 13.36.290.

The Uniform Prudent Investor Act (“Prudence Statute) details affirmative duties of trustees such as:

- Standard of Care
- Diversification
- Loyalty

***The Fund Statute and the Prudence Statute must be read together to fully comprehend fiduciary duties of trustees***

# Fiduciary Obligations under the Prudence Statute - Summary

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The Prudent Statute requires fiduciaries to:

Manage trust assets as a prudent investor would by considering the purposes, terms, distribution requirements, and the circumstances of the trust AS § 13.36.225 - 13.36.290

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Make individual investment decisions in the context of the trust portfolio as a whole and as part of a reasonably suitable investment strategy AS § 13.36.230

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Take into account, among other considerations: general economic conditions, inflation or deflation, expected total return, need for liquidity, regularity of income and preservation or appreciation of capital AS § 13.36.230

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When delegating investment and management functions, make a reasonable effort to verify facts relevant to investment and management of assets AS § 13.36.230 and AS § 13.36.225 - 270

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***If a trustee has special skills or expertise, the trustee has a duty to use those special skills or expertise***

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# Fund Statute - Duty of Prudence

## Alaska Statute § 37.13.120

### **Prudent institutional investor must exercise –**

Judgment and care under the circumstances then prevailing that an **institutional investor of ordinary prudence, discretion, and intelligence exercises** in the delegation and management of large investments entrusted to it

**Compare to ERISA:** Must act with the care, skill, prudence and diligence under the circumstances then prevailing that **a prudent person acting in a like capacity and familiar with such matters** would use in the conduct of an enterprise of like character and with like aims 29 U.S. Code § 1104(a)(B)

### ***How to Comply:***

- ***Periodically conduct board training***
- ***Develop relevant board materials***

# Prudence Statue – Duty of Prudence

## Alaska Statute § 37.13.120(c)

### Summary

- The Board shall maintain a reasonable diversification among investments unless it is clearly not prudent to do so.
- The Board shall invest assets of the fund in in-state investments to the extent that in-state investments are available and if in-state investments:
  - (1) have a risk level and expected return comparable to alternate investment opportunities; and
  - (2) are eligible for investment of fund assets exercised as defined in the above slide.

# Prudence Statute - Duty to Diversify

## Alaska Statutes § 13.36.235 - Investment Responsibilities

The Board shall **diversify the investments of the trust the board unless, because of special circumstances, the trust is better served without diversifying.**

**Compare to ERISA:** Fiduciaries must **diversify investments** so as to minimize the risk of large losses, **unless under the circumstances it is clearly not prudent to do so.**  
29 U.S. Code § 1104

### How to Comply:

- ***Consult with Expert Advisers on diversification of investments***
- ***Periodically review diversification of assets***

# Prudence Statute - Duty of Loyalty

## Alaska Statute § 13.36.245

Fiduciaries must invest and manage the trust assets **solely in the interest of the beneficiaries**

Fiduciaries have no duty of loyalty to –

- The legislature
- Taxpayers
- The person who appointed him or her
- The union or employers

Compare to ERISA: Fiduciaries must discharge their duties . . . **solely in the interest of [plan] participants and beneficiaries** . . . for the exclusive purpose of: (i) providing benefits to participants and their beneficiaries; and (ii) defraying reasonable expenses of administering the plan 29 U.S. Code § 1104(a)(1) – Also known as **“Exclusive Benefit Rule”**

### ***How to Comply:***

***Do not take into account any interests other than those of the beneficiaries.***

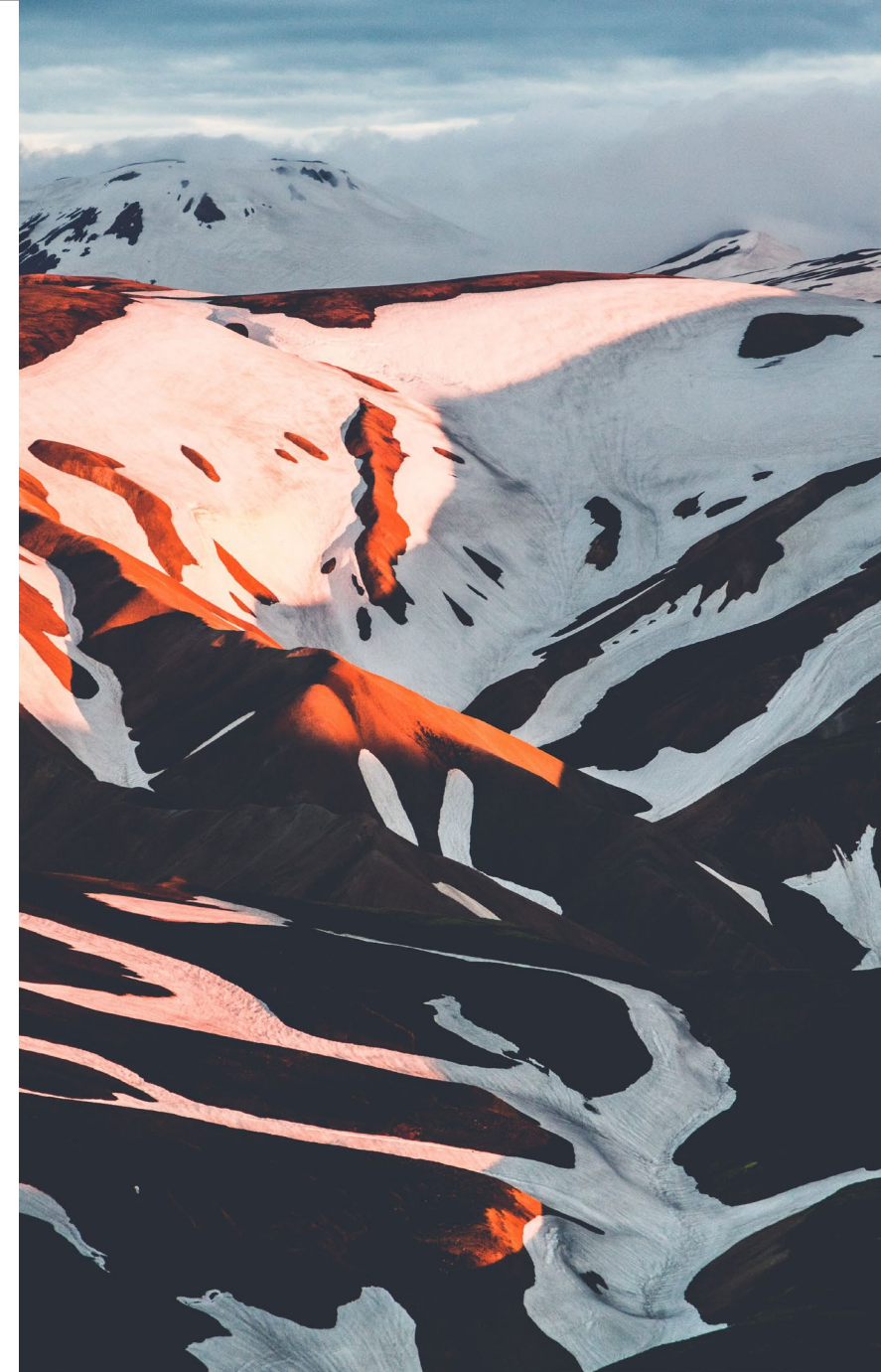
# Prudence Statute - Duty of Impartiality

In investing assets, trustees “**shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.**”

There is no identical provision under ERISA; however, the Supreme Court has opined that a duty of impartiality falls within a fiduciary’s duties. “[t]he *common law of trusts recognizes the need to preserve assets to satisfy future, as well as present, claims and requires a trustee to **take impartial account of the interests of all beneficiaries.***” *Varity v. Howe*, 516 U.S. 489, at 514 (1996)

## ***How to Comply:***

***Carefully consider needs of both current and future beneficiaries and take steps to balance them.***



# Prudence Statute - Duty to Incur only Reasonable Costs: Alaska Statute

Incur only **costs that are appropriate and reasonable** in relation to the assets, the purposes of the trust, and the skills of the trustee.

**Compare to ERISA:** Under ERISA's exclusive benefit rule, one requirement is that the fiduciary is obligated to **defray reasonable expenses** of administering the plan.  
29 U.S. Code § 1104(a)(1)(A)(ii).

## *How to Comply:*

***Carefully review all costs associated with plan investments and seek multiple bids.***

# Prudence Statute - Reviewing Compliance

## Alaska Statute



Compliance with prudent investor rule is determined in light of facts and circumstances existing at the time of a trustee's decision or action and not by hindsight



Compare to ERISA. In Field Assistance Bulletin 2015-02, the Department of Labor has recognized that “the prudence of a fiduciary decision is evaluated under ERISA based on the information available at the time the decision was made -- and not based on facts that come to light only with the benefit of hindsight.” Court cases have reached the same conclusion.



***How to Comply: Trustees must educate themselves on all relevant facts and circumstances at the time of the decision. Document that this has been done.***

# Prudence Statute- Delegation of Investment and Management Functions - Alaska Statute

- When delegating investment functions, exercise reasonable care, skill and caution in:
  - selecting agent
  - establishing scope and terms of trust, and
  - periodically reviewing agent's performance and compliance

Safe Harbor: If above three steps are followed, trustee will not be liable for the decisions or actions of agent

**Compare to ERISA:** If an investment manager has been appointed under 29 U.S. Code § 1102(c), the trustee will not be liable for the acts or omissions of the investment manager, or be under an obligation to invest or otherwise manage any assets that are subject to the management of the investment manager. 29 U.S. Code § 1105(d)

***How to Comply: The selection of an investment manager in accordance with the prudent person rule. Ongoing monitoring.***

***Compliance with these provisions will be a defense against a claim of co-fiduciary liability.***

# Executive Branch Ethics Act (Ethics Act) Alaska Statute

## As if the Permanent Fund and Prudent Investor Statutes Weren't Enough...

Trustees also subject to the Ethics Act

It proscribes ethical violations but carves out some transactions that would otherwise be prohibited:

There is no substantial impropriety if, as to a specific matter, a public officer's

(1) personal or financial interest in the matter is insignificant, or of a type that is possessed by the public or a large class of persons to which the public officer belongs; or

(2) action or influence would have insignificant or conjectural effect on the matter. Alaska Statute § 39.52.110(b).

***Stock or other ownership interest in a business is presumed insignificant if the value of the stock or other ownership interest, including an option to purchase an ownership interest, is less than \$5,000.***

***Alaska Statute § 39.52.110(d)***

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# Ethics Act Alaska Statute

## Summary

A public officer may not misuse their official position either for personal or financial benefit. Alaska Statute § 39.52.120

A public officer may not receive gifts of any sort that are a benefit to the officer's personal or financial interests if it could reasonably be inferred that the gift is intended to influence the performance of official duties, actions, or judgment.

A public officer may not disclose or use non-public information that could in any way result in the receipt of any benefit for the officer or an immediate family member. Alaska Statute § 39.52.140

Notice of receipt of a gift with a value in excess of \$150, including the name of giver and description of gift and its approximate value, must be provided to the designated within 30 days after the date of its receipt - Alaska Statute § 39.52.130

This applies to a gift received by a family member due to the officer's official duties in which case, obligation to report the gift if it would otherwise have to be reported - Alaska Statute § 39.52.130

# Ethics Act

## Alaska Statute § 39.52.150 - § 39.52.220

### Summary

- A public officer, or an immediate family member, may not attempt to acquire, receive, apply for, be a party to, or have a personal or financial interest in a state grant, contract, lease, or loan unless the state grant, contract, or lease was competitively solicited (with multiple exceptions). Alaska Statute § 39.52.150
- A public officer may not represent persons if the representation is for compensation or without compensation but would render a benefit to a personal or financial interest of the public officer. Alaska Statute § 39.52.160
- There are certain restrictions on outside employment while serving on the board and after leaving state service. Alaska Statute § 39.52.170 and Alaska Statute § 39.52.180
- A public officer may not aid anyone in any of the above prohibited transactions. Alaska Statute § 39.52.190
- A public officer who is involved in a matter that may result in a violation of the above prohibited actions must disclose the matter. Alaska Statute § 39.52.220

# Ethics Act Alaska Statute

## Summary

A person may report a potential violation of the above prohibitions by a public officer.  
Alaska Statute § 39.52.230

Those who violate the Ethics Act may be required to pay restitution.  
Alaska Statute § 39.52.410

Civil penalties of up to \$5000 may be levied.  
Alaska Statute § 39.52.440

In addition, may have to pay twice the amount of any financial benefit that was gained due to violation of the Ethics Act.  
Alaska Statute § 39.52.450

These penalties would be in addition to any criminal penalties.  
Alaska Statute § 39.52.460

The attorney general may issue advisory opinions interpreting the provisions of the Ethics Act.  
Alaska Statute § 39.52.240

# Ethics Act Alaska Statute

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## Comparison to ERISA

ERISA prohibits a wide variety of actions that would benefit either a third party or the fiduciary. 29 U.S. Code § 1106

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ERISA has a list of statutory exemptions to the prohibited transactions. 29 U.S. Code § 1108

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In addition, the DOL has issued numerous class exemptions to the prohibited transactions and has the authority to issue individual exemptions.

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***How to Comply: Become aware of any action that the fiduciary may take that could possibly be in violation of the Ethics Act.***

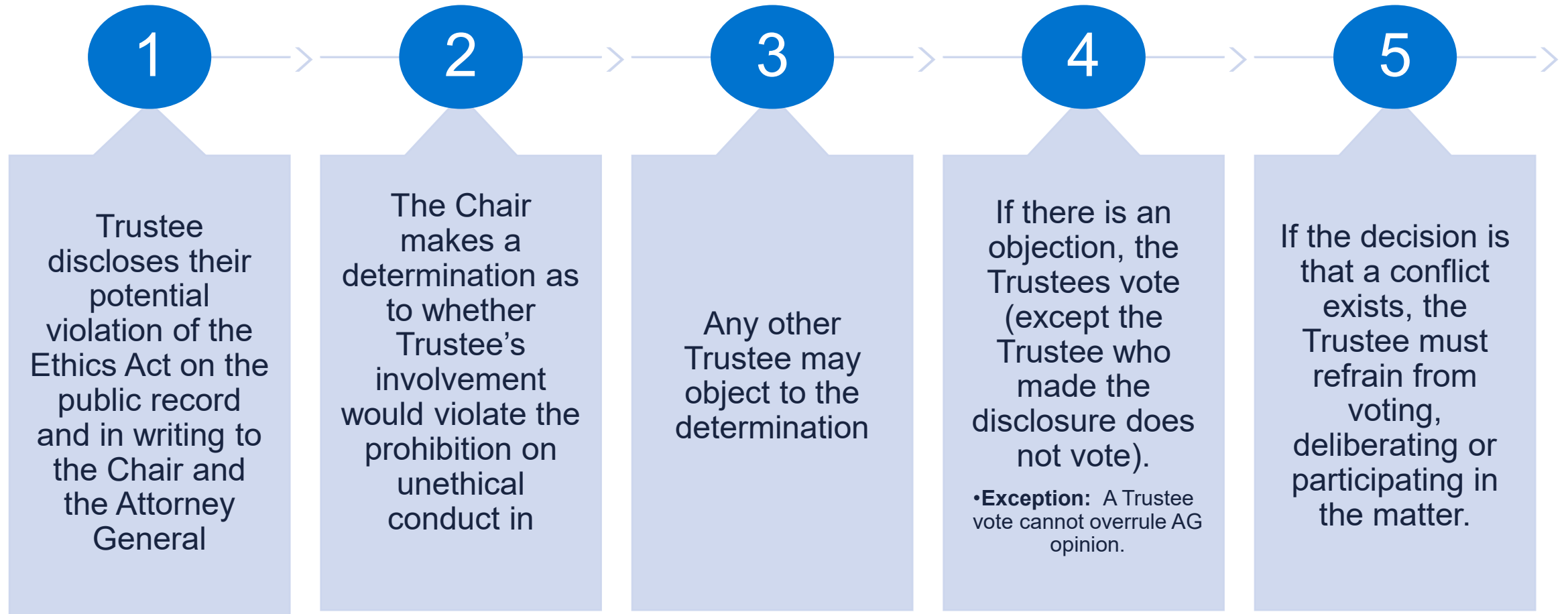
# Issue – How can I avoid conflicts of interest?

- Avoid conflicts if possible
- Disclose and recuse if unavoidable
  - Very technical, tenuous conflicts may be okay – Get advice
  - “Recusal” means abstaining from **all** consideration and voting
- Do not accept any kick-backs or anything of personal or financial value (gifts, preferential treatment in a job interview, etc.) to you or a family member



# Issue – How can I Avoid Conflicts of Interest?

## Ethics Act – Alaska Statutes § 39.52.220



# Issue – Can a trustee invest trust assets in Economically Targeted Investments

- AKA **social investing**
- Is it prudent?
- **All-else-is-equal** test ...
- Alaska Statutes § 37.13.120(c) provides that the board shall invest the assets of the Fund in in-state investments to the extent that in-state investments are available and if the in-state investments
  - have a risk level and expected return comparable to alternate investment opportunities and
  - are eligible for investment of fund assets under § 37.13.120(c)



# Issue – Can a Trustee have Co-Fiduciary Liability? .

## You may have co-fiduciary liability:

**If you knowingly** aid another public officer in an ethics violation

Alaska Statute §39.52.420

- Resigning, without disclosing the other fiduciary's breach, is **not** a solution

**If you know** of a breach by another fiduciary, but do not take reasonable steps to remedy the breach – Potential violation of your duty of prudence

**If you enable** another fiduciary to commit a breach

# Issue – How can Trustees Protect Against Claims of Breach of Fiduciary Duty?

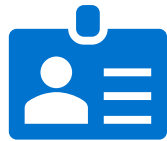
## Procedural Prudence is Best Protection Against Liability

- Become familiar with regulations regarding Fund investments. [§15 AAC 137.410](#) – [§15 AAC 137.530](#)
- Maintain and update your guidelines that:
  - Dictate how overall investment decisions are made (e.g., asset allocation)
  - Set forth procedures for assessing and hiring managers and advisers
- Hire competent advisers to educate Board about specific classes of assets
- Maintain and monitor your procedures for selection of investment managers and follow them
- Follow your procedures for periodic review of assets and investment returns
- Continue periodic training for Board members
- Seek professional guidance as necessary
- Maintain appropriate written records of processes and material decisions



# Issue - Can APFC Trustees be Personally Liable for Breach of Fiduciary Duty? Alaska Statute § 09.50.250 - Actionable Claims Act

**It depends:**



APFC Trustees are treated as “state employees” under Alaska Statutes §09.50.253(h)(2)(ii) Actionable Claims Act



The state of Alaska will be substituted for the Trustee in the lawsuit if the Attorney General or Court certifies that the Trustee was “**acting within the scope of the ... [Trustee’s] office.**” under Alaska Statutes § 09.50.253(c)

# Issue - What is “Acting within the Scope of the Trustee’s Office?” Alaska Statutes § 09.50.253(h)(1)

“Acting within the scope” of the Trustee’s office means acts or omissions by the Trustee that:



the Trustee is authorized to perform;



occur substantially within the authorized time and space limit;

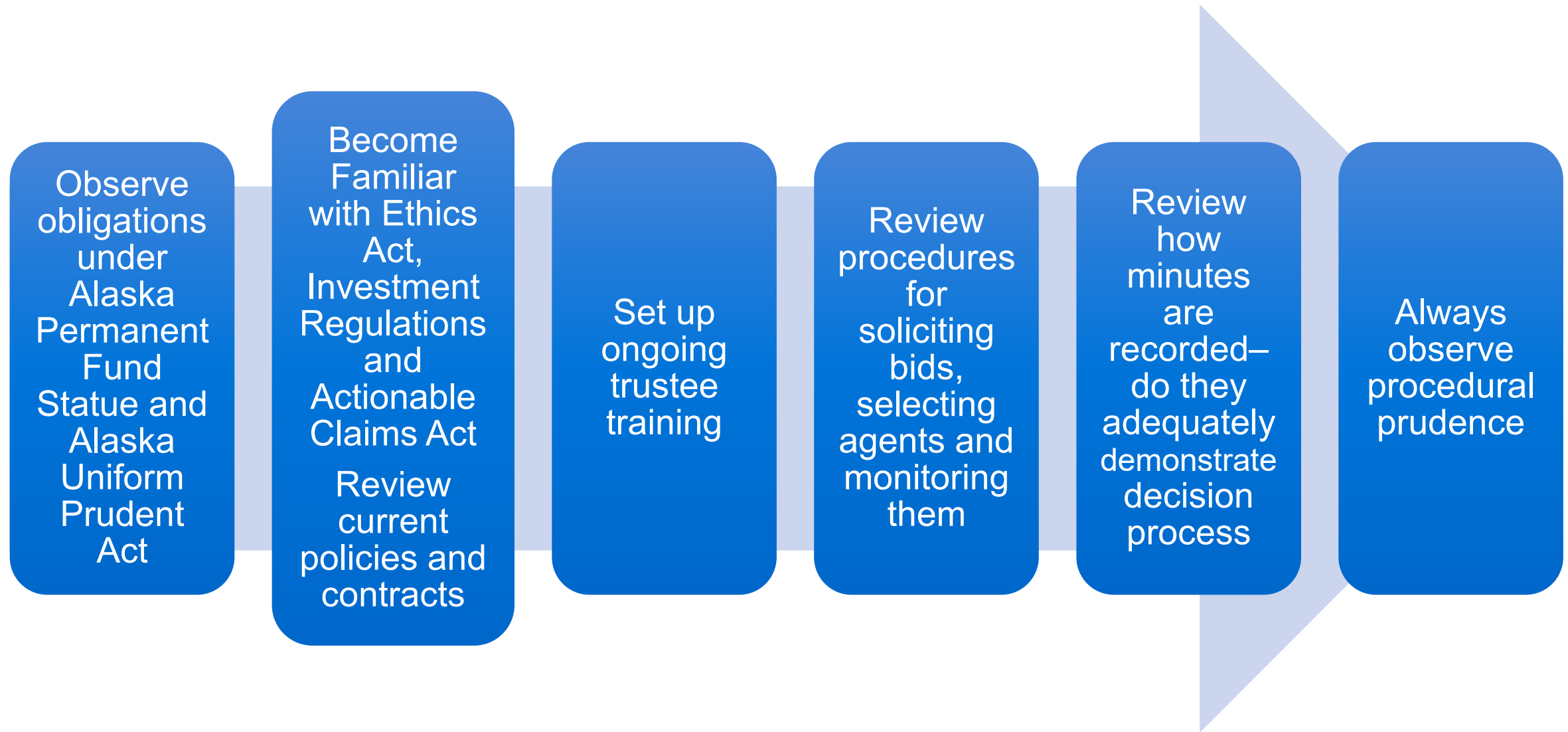


are activated by a purpose to serve the state; *and*



do not constitute acting (or failing to act) with willful, reckless, or intentional misconduct, or with gross negligence or malice.

# Summary



# Questions

Thank you

**SUBJECT:** FY2024 Proposed Budget

**ACTION:**     X    

**DATE:** September 22, 2022

**INFORMATION:** \_\_\_\_\_

This budget request acknowledges the importance of continuing to operate in a lean, efficient and effective manner in the Corporation's work to manage and invest the Alaska Permanent Fund and other funds designated by law.

Staff is requesting approval of the FY2024 budget request at this meeting. Feedback from the Board's work session on September 1<sup>st</sup> is incorporated into the proposal.

The Office of Management and Budget will review the Board's request for inclusion in the Governor's budget, which will be transmitted per the Constitution to the Legislature by December 15<sup>th</sup> for consideration during the upcoming Legislative session. Traditionally, staff returns to the Board at the May quarterly meeting with the final budget appropriated by the Legislature for implementation at the start of the fiscal year on July 1<sup>st</sup>. However, delays may occur due to extended Legislative sessions.

The Alaska Permanent Fund Corporation's operating budget appropriation is divided into two allocations: 1) Operations of the Corporation and 2) Investment Management. A detailed breakdown of these two allocations can be found in the appendix of this memo.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023**</b>	<b>FY2024</b>	<b>From FY2023</b>
APFC Operations Allocation	\$ 22,649,452	\$ 26,377,515	\$3,728,062
APFC Investment Management Fee Allocation	\$195,868,000	\$192,863,590	(\$3,004,410)
<b>Total Appropriation</b>	<b>\$218,517,452</b>	<b>\$219,241,105</b>	<b>\$ 723,652</b>

\*\*FY23 authorized includes the appropriation for 5% COLA.\*\*

**OPERATING ALLOCATION**

The Operating Allocation is separated into five objects of expenditure, each of which is discussed below.

**Personal Services –**

	Authorized	Proposed	Variance
	FY2023**	FY2024	From FY2023
<b>Personal Services</b>	<b>\$ 17,813,720</b>	<b>\$ 20,869,967</b>	<b>\$ 3,056,247</b>

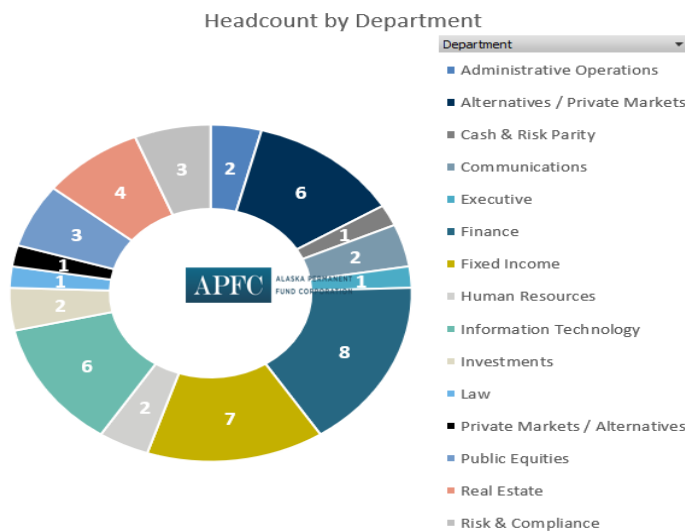
\*\*FY23 authorized includes the appropriation for 5% COLA.\*\*

APFC has 67 full-time, year-round positions, plus two summer interns. There are currently 18 vacant full-time positions (breakdown by department below). To satisfy the mandatory vacancy requirement, a minimum of 3% and a maximum of 7%, positions will be periodically held vacant.

Administrative Operations	3
Finance	3
Human Resources	1
Information Technology	1
Executive	2
Investments	8
<b>TOTAL</b>	<b>18</b>

Over the past year, a tremendous effort was put forth to successfully fill 9 positions. Although this effort is ongoing, the applicant pools have weakened. Filling these vacancies will continue to be a priority while maintaining the goal of recruiting and hiring individuals that are right for the organization, in line with our strategic priority to "enhance talent and staff."

The breakdown of full-time filled FTEs, by department, can be found in the chart below.



\*\*Chart does not include intern positions.

**New Positions**

As the Corporation continues to focus on recruitment and retention for existing positions, we are seeking no new positions for FY2024.

**Retention**

The Board of Trustees and staff have acknowledged the issues APFC is experiencing with recruiting and retaining highly qualified staff. To align our salaries with those peers with which we compete for talent, we have included a merit/performance allowance to be allocated at the managers' discretion as part of the annual evaluation process in December. In addition, work is ongoing to determine the positions whose salaries are more significantly out of line with peers. An independent consultant has been retained to update the work in this area in 2020. This project will highlight positions that may require a targeted adjustment to enhance retention.

This budget proposal has included an increment of \$914,000 to address both of these issues.

**Incentive Compensation**

In accordance with the incentive compensation policy currently in place, the maximum distribution for those staff who are presently eligible is estimated to be \$2.8 million. This request includes the maximum distribution of the FY2024 payment.

In recognition that all staff contribute to the success of the Fund, in recent board meetings, there was discussion of expanding the incentive compensation program beyond those currently eligible. This policy is now in development. Thus, a bonus pool of \$500,000 for staff indirectly related to the management of the Fund has been included in the proposal. This amount is approximately 11% of the total salaries of staff not currently eligible and has been included in this request to provide for expansion of the program.

The FY2024 personal services request includes a three percent vacancy factor, as OMB requires.

**Travel –**

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Travel</b>	<b>\$800,000</b>	<b>\$981,140</b>	<b>\$181,140</b>

Travel is an essential part of conducting business nationally and internationally. With the expectation that the portfolio continues to grow in its global exposure, investment staff travels to investigate new investment opportunities, participate in due diligence meetings, and attend industry-standard conferences and trainings. Travel is necessary across all departments to meet with business partners, attend conferences and leverage training opportunities.

As travel restrictions have lifted over the past year, travel has begun to increase significantly. While we continue leveraging technology to meet virtually, which was crucial during the COVID pandemic, staff recognizes the importance of in-person meetings when possible. In the last half of FY2022, staff travel has begun to return to pre-pandemic levels.

In the past six months, inflation has caused a notable increase in travel-related expenses. Airline tickets, hotels, rental cars, and ground transportation have, in some cases, doubled in price. In developing the FY24 travel budget, department heads considered increased costs, asset growth, and

being fully staffed.

### Contractual Services –

	Authorized	Proposed	Variance
	FY2023	FY2024	From FY2023
<b>Contractual Services</b>	<b>\$3,389,832</b>	<b>\$3,640,838</b>	<b>\$251,006</b>

Detailed comparisons for the areas discussed below are found in the appendix to this memo.

*Audit, Legal, Consulting* – Professional services, which support the broader needs of the Corporation, are contained within this group, such as audit, legal, and business consultants. This line includes an increment for the annual audit in accordance with our KPMG contract and an increase in general consulting to better align with actual expenditures in FY22.

*Public Communications* – This encompasses all layout, design, printing, web, planning, and consultation services that support the communications program. Tangibles include the Annual Report, newspaper insert, election guide, social media, website maintenance, educational outreach, photography, and brand enhancement. The consultant contract is up for renewal towards the end of FY23; the 15% increase anticipates increased fees and services associated with inflationary pressures. The growth also considers preparations under the new contract to recognize the Fund's 50<sup>th</sup> Anniversary in November 2026.

*Board Meetings* – Items related to board support and board meetings, including room and equipment rentals, refreshments, transcription services, and advisory fees, are included in this group. More frequent meetings and increasing costs related to venue rental and catering resulted in an increment of \$32,300 in the FY2024 request.

*Information Technology* – All of the IT contractual-based services related to the general support of the Corporation are in this group, including consulting services, software licensing and maintenance, and equipment repairs. In FY2024, IT will replace the fire suppression system in the data center as it does not meet code. An increase of \$150,000 is requested to fund this project.

*HR & Recruitment* – APFC has experienced unprecedented turnover in the last half of FY22. HR continually looks for new and creative ways to successfully recruit talented professionals. A \$10,000 increase is requested to allow the Corporation to advertise vacancies in higher-cost publications and expand our reach to more targeted recruiting sites.

*Training* – Training, professional certifications, and industry-standard conferences for staff are essential to ensure that APFC can continue competing in global investment markets to manage and grow the portfolio effectively. With new employees and internal advancements, ongoing educational opportunities will be crucial to their success and the value added to the Corporation. A \$9,399 increase was built into the training budget request. In-person attendance is expected to rise to take advantage of the networking opportunities lost due to COVID and resulting travel restrictions. In addition, there has been an increase in employees seeking professional certifications, which adds to their work and contributions as part of APFC's team.

*Office Support* – All of the contractual services necessary to support the shared administrative needs of the Corporation are contained within this group, including office lease costs, copier rentals, and pass-through costs from the Department of Revenue (DOR). A decrement of ~\$23,000 is included for FY2024 to reflect a reduction in these pass-through costs.

**Commodities and Equipment –**

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Commodities</b>	<b>\$195,900</b>	<b>\$435,570</b>	<b>\$239,670</b>
<b>Equipment</b>	<b>\$450,000</b>	<b>\$450,000</b>	<b>\$ -</b>

Commodities and Equipment are the final two objects of expenditure within the operating allocation and are presented together due to their similarity. These budgets include goods purchased to support the needs of the Corporation, such as workstations, servers, furniture, and office supplies. The two lines are differentiated by cost – items less than \$5,000 fall under the Commodities line, while those greater than \$5,000 fall in the Equipment line.

*Information Technology Commodities*- The budget request for IT Supplies and Workstation Equipment is increasing by \$229,000 for FY2024. Workstation equipment replacement is on a three-year cycle. All workstations are scheduled to be replaced in FY2024, causing an increase to this line. It is anticipated that expenditures on this line will decrease in the subsequent two years.

*Office Support* – The FY2024 request includes a 15% increase to provide for increased costs for office supplies and subscriptions and additional items in this area as new staff are onboarded.

*Information Technology Equipment*- Annually, \$400,000 will adequately accommodate the Juneau data center through a fiscal year with replacements and upgrades to equipment. Consistent with FY2023, an additional \$50,000 is requested to maintain the Fairbanks Disaster Recovery (DR) site, which is a much smaller data center.

**INVESTMENT MANAGEMENT ALLOCATION**

The Investment Management Allocation falls within a single expenditure object divided into four types of services.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Investment Manager Fees</b>	<b>\$179,312,910</b>	<b>\$173,151,000</b>	<b>(\$6,161,910)</b>

*Investment Manager Fees* – This budget includes all costs paid directly to firms that manage the Fund's external portfolios but does not include fees paid through net-of-fee arrangements. Two types of fees are included in the forecast, base and incentive. Base fees are related to market performance and are paid in alignment with the fiscal year. These fee projections are developed using the management contract terms in conjunction with Callan's market assumptions. Incentive fees are contracted and paid based on managers outperforming their relative benchmark on a calendar year basis. They are not directly related to market performance, making them nearly impossible to forecast.

At the end of FY2023, all external fixed income managers were terminated, and those assets were transferred to internal management, resulting in a reduction of \$8.5 million to the FY2024 budget request. This is offset by an increase of \$2.3 million for alternative assets. As that portfolio continues to grow, fees increase accordingly.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Investment Due Diligence</b>	<b>\$5,763,390</b>	<b>\$5,763,390</b>	<b>\$ -</b>

*Investment Due Diligence* – Funding for fiduciary advisors, Callan's general consulting contract, manager searches, and APFC's membership in peer groups such as the International Forum of Sovereign Wealth Funds (IFSWF) are captured in this line of expenditure. This request is being held flat over the prior year.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Investment Systems</b>	<b>\$8,891,700</b>	<b>\$11,649,200</b>	<b>\$2,757,500</b>

*Investment Systems* –All of the financial network systems, data feeds, and research portals used by APFC staff to make investment decisions, trade, confirm and account for investments, manage external accounts, and manage investment risk at various portfolio levels are included in this group. Examples of these vendors are Bloomberg, BlackRock, Tradeweb, Moody's, S&P, and Fitch.

The FY2024 request includes an increment of \$757,500. As the Corporation focuses on increasing data feeds and platforms to broaden our analytical capabilities for investment decisions and risk management, this area of the budget is anticipated to grow. Annually, we expect industry-standard growth in our existing research and subscription costs between roughly 3-10 percent. Additionally, as the portfolio grows in size and complexity, the tools needed to manage it increase and change. This increment positions the Corporation to accommodate this need to manage the Fund effectively.

In FY2022, the Corporation began a phased project to develop and implement a data strategy. The importance of data in our work is recognized across the industry and is a significant focus of time and resources among our peers. Staff handles a tremendous amount of data daily as part of investing and monitoring the Fund. The data comes from a variety of sources and is stored in a multitude of ways. Having a single source of clean information is critical to good decision-making and, therefore, effective management of the Fund. This request includes \$2 million to cover a data repository's implementation and annual costs. This amount is based upon preliminary estimates obtained from a potential vendor. A data repository will streamline workflows and provide more accessible and accurate reporting to support decision-making.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2023</b>	<b>FY2024</b>	<b>From FY2023</b>
<b>Custody Fees</b>	<b>\$1,900,000</b>	<b>\$2,300,000</b>	<b>\$400,000</b>

*Custody Fees* – This line includes the fees paid to the Bank of New York Mellon for custody services of the Fund's assets. Also included are additional fees paid for collateral management and tax advisory services required to trade in certain international markets. This increment estimates the additional funding necessary to implement an outsourced middle office solution.

**Appendix: FY2024 Budget Proposal**

<u>Corporate Operations Allocation</u>	Actual	Authorized	Proposed	Variance From	
	FY2022	FY2023	FY2024	FY2022	FY2023
Personal Services	\$13,282,969	\$17,813,720	\$20,869,967	\$7,586,998	\$3,056,246
Staff	13,258,871	17,789,277	20,838,667	7,579,796	3,049,389
Board: Honorarium	24,098	24,443	31,300	7,202	6,857
Travel	\$526,334	\$800,000	\$981,140	\$454,806	\$181,140
Staff	427,483	602,000	768,640	341,157	166,640
Trustees	25,953	18,000	26,500	547	8,500
Moving/Non-Employee	72,898	180,000	186,000	113,102	6,000
Contractual Services	\$2,825,734	\$3,389,832	\$3,640,838	\$815,104	\$251,006
Audit, Legal, Consulting	541,101	631,500	652,000	110,899	20,500
Public Communications	233,565	343,745	395,307	161,742	51,562
Board Support and Meetings	73,878	79,100	111,400	37,522	32,300
Information Technology	1,156,380	1,310,000	1,460,000	303,620	150,000
HR and Recruitment	23,778	20,000	30,000	6,222	10,000
Training/Education	53,770	150,282	159,681	105,911	9,399
Office Support	743,262	855,205	832,450	89,188	(22,755)
Commodities	\$183,150	\$195,900	\$435,570	\$252,420	\$239,670
Information Technology	117,868	125,000	354,000	236,132	229,000
Office Support	65,282	70,900	81,570	16,288	10,670
Equipment	\$538,051	\$450,000	\$450,000	\$(88,051)	\$-
Information Technology	538,051	450,000	450,000	(88,051)	-
<b>Total</b>	<b>\$17,356,238</b>	<b>\$22,649,452</b>	<b>\$26,377,515</b>	<b>\$9,021,277</b>	<b>\$3,728,062</b>
<u>Investment Management Allocation</u>	Actual	Authorized	Proposed	Variance From	
	FY2022	FY2023	FY2024	FY2022	FY2023
Investment Systems	\$6,865,883	\$8,891,700	\$11,649,200	\$4,783,317	\$2,757,500
Investment Due Diligence	\$2,987,954	\$5,763,390	\$5,763,390	\$2,775,436	\$-
Custody Fees	\$1,204,812	\$1,900,000	\$2,300,000	\$1,095,188	\$400,000
Investment Manager Fees	<b>\$115,087,845</b>	<b>\$179,312,910</b>	<b>\$173,151,000</b>	<b>\$58,063,155</b>	<b>\$(6,161,910)</b>
Public Equities	78,833,021	137,457,595	137,457,000	58,623,979	(595)
Fixed Income	6,992,671	8,464,907	-	(6,992,671)	(8,464,907)
Real Estate	3,587,282	3,594,200	3,594,000	6,718	(200)
Alternative Assets	25,674,871	29,796,208	32,100,000	6,425,129	2,303,792
<b>Total</b>	<b>\$ 126,146,494</b>	<b>\$ 195,868,000</b>	<b>\$ 192,863,590</b>	<b>\$ 66,717,096</b>	<b>\$ (3,004,410)</b>
<b>Total Appropriation</b>	<b>\$ 143,502,732</b>	<b>\$ 218,517,452</b>	<b>\$ 219,241,105</b>	<b>\$ 75,738,373</b>	<b>\$ 723,652</b>

\*\*Personal Services FY23 authorized includes an additional appropriation for 5% COLA.\*\*



ALASKA PERMANENT  
FUND CORPORATION

# FY2024 Proposed Budget

September 22, 2022


# FY24 Proposed Operating Budget

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Supporting the high level of investment management services demanded of APFC, the FY24 proposed budget aligns strategy across key areas -

- **Recruit** and **retain** top talent
- **Extract** cost efficiencies by internalizing all fixed income management
- **Ensure** cutting-edge infrastructure for data and systems, including IT security
- **Maintain** quality services pertaining to due diligence, reporting and communications, and office support

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Working together  
to manage & invest  
Alaska's renewable  
financial resource.

# FY2024 Proposed Budget

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
APFC Operations Allocation	17,356,238	22,649,452	26,377,515	9,021,277	3,728,062
APFC Investment Management Fees Allocation	126,146,494	195,868,000	192,863,590	66,717,096	(3,004,410)
<b>Total Appropriation</b>	<b>143,502,732</b>	<b>218,517,452</b>	<b>219,241,105</b>	<b>75,738,373</b>	<b>723,652</b>

# APFC Operations Budget Components

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
Travel	526,334	800,000	981,140	454,806	181,140
Contractual Services	2,825,734	3,389,832	3,640,838	815,104	251,006
Commodities	183,150	195,900	435,570	252,420	239,670
Equipment	538,051	450,000	450,000	(88,051)	
Personal Services	13,282,969	17,813,720	20,869,967	7,586,998	3,056,247
<b>Total APFC Operations</b>	<b>17,356,238</b>	<b>22,649,452</b>	<b>26,377,515</b>	<b>9,021,277</b>	<b>3,728,062</b>

# Travel APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
Travel	526,334	800,000	981,140	454,806	181,140

- The FY 2022 actual numbers continue to reflect restricted travel due to COVID
- This is evident from the higher travel expenses pre-Covid – FY 2019 Actual Travel expenses were \$577,600
- Overall staffing levels are expected to increase as we fill 18 vacancies including the new positions, this represents approximately a ~24% increase in staffing levels
- Travel and Accommodation costs have increased more than the already higher overall inflation levels - in the past year alone the Consumer Price Index for airline tickets is up 25% - and those effects on the budget are now occurring in FY23

# Contractual Services

## APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
Audit, Legal, Consulting	541,101	631,500	652,000	110,899	20,500
Public Communications	233,565	343,745	395,307	161,742	51,562
Board Support & Meetings	73,878	79,100	111,400	37,522	32,300
Information Technology	1,156,380	1,310,000	1,460,000	303,620	150,000
HR and Recruitment	23,778	20,000	30,000	6,222	10,000
Training/Education	53,770	150,282	159,681	105,911	9,399
Office Support	743,262	855,205	832,450	89,188	(22,755)
<b>Total Contractual Services</b>	<b>2,825,734</b>	<b>3,389,832</b>	<b>3,640,838</b>	<b>815,104</b>	<b>251,006</b>

# Commodities & Equipment APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
\$					
Commodities	183,150	195,900	435,570	252,420	239,670
Equipment	538,051	450,000	450,000	(88,051)	

Workstation equipment replacement is on a three-year cycle

- All workstations are scheduled to be replaced in FY2024, an increase to the commodities line
- It is anticipated that expenditures on this line will decrease in the subsequent two years

#### Commodities

- Office/IT Supplies
- Subscriptions
- IT Equipment < \$5,000

#### Equipment

- IT Equipment > \$5,000

# Personal Services APFC Operations

Support to fill vacant positions and retain professional staff within a competitive labor market.

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2022	FY 2023	FY 2024	FY 2024 (Proposed) Vs. FY 2022 (Actual)	FY 2024 (Proposed) Vs. FY 2023 (Authorized)
Personal Services	13,282,969	17,813,720	20,869,967	7,586,998	3,056,247

The main drivers of the proposed increases are:

For FY 2023

- Increase in base salary – COLA
- 7 new positions
- 3-4% merit funded
- Increase to the Incentive Comp funding pool

For FY 2024

- 8% realignment of base salary – merit/performance based and targeted data-based adjustments
- Fully funding and enhancing Incentive Compensation for those responsible for the direct investment of the Fund
- Expanding incentive compensation to all staff, albeit at lower levels for indirect investment support

# Personal Services APFC Operations

Recruitment in filling vacancies and Retention of knowledgeable staff

Personal Services	Authorized	Change	Proposed
\$	FY2023		FY2024
<b>TOTAL Funding</b>	<b>17,813,720</b>	<b>3,056,247</b>	<b>20,869,967</b>
<b>Salaries</b>	11,506,561	914,000	12,420,561
<b>Benefits</b>	5,161,290	496,520	5,657,810
<b>Incentive Comp currently eligible</b>	1,600,000	1,200,000	2,800,000
<b>Incentive Comp expanded</b>	-	500,000	500,000
<b>Board Honorarium</b>	24,443	6,857	31,300
<b>Vacancy 3%</b>	(478,574)	(61,130)	(539,704)

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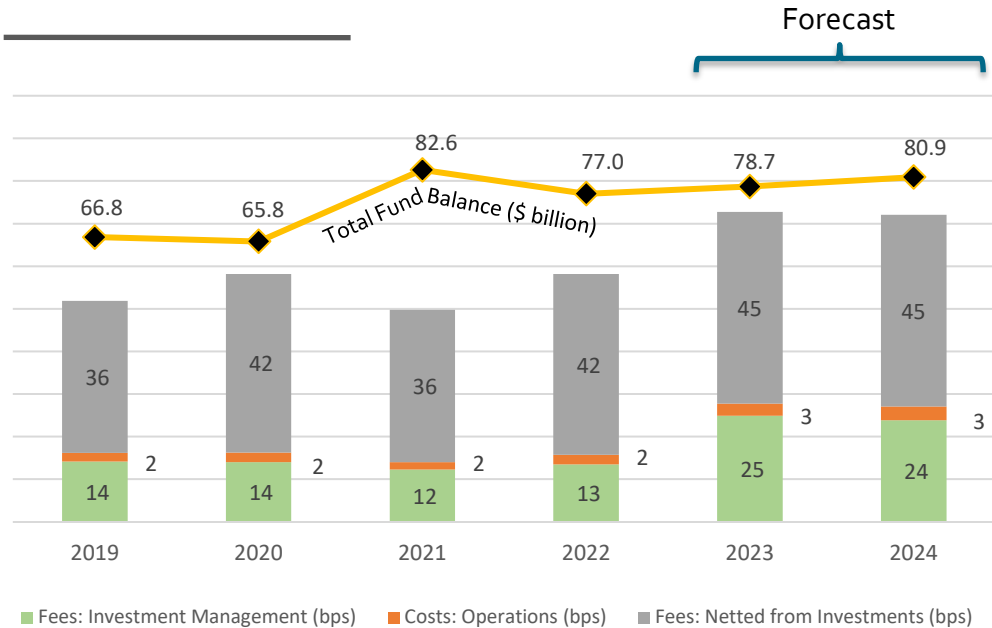
## Increments FY23 to FY24

- 8% realignment of base salary \$914,000
  - 6% merit/performance based
  - 2% for targeted data based adjustments
- Fully funding Incentive Compensation \$1,200,000
  - Brings funding to \$2,800,000 for bonus payments to those responsible for direct investment
- Expanding incentive compensation to all staff \$500,000
  - Recognition for indirect investment support
- Board Honorarium for additional meetings \$31,300
- Increased benefits associated with salary increments
- Adjusted vacancy factor of 3%

# Investment Management Fees Allocation

Investment Management Fees	Actual	Authorized	Proposed	Variance	Variance
	FY2022	FY2023	FY2024	From FY2022	From FY2023
<b>TOTAL INVESTMENT MANAGEMENT FEES</b>	<b>\$115,087,845</b>	<b>\$ 179,312,910</b>	<b>\$ 173,151,000</b>	<b>\$58,063,155</b>	<b>\$(6,161,910)</b>
Public Equity	\$78,833,021	\$137,457,595	<b>\$ 137,457,000</b>	\$58,623,9797	\$ (595)
Fixed Income Plus	\$6,992,671	\$ 8,464,907	\$ -	\$(6,992,671)	\$(8,464,907)
Real Estate	\$3,587,282	\$ 3,594,200	<b>\$ 3,594,200</b>	\$6,718	\$ (200)
Alternative Investments	\$25,674,871	\$ 29,796,208	<b>\$ 32,100,000</b>	\$6,425,129	\$ 2,303,792
Investment Due Diligence	\$2,987,954	\$ 5,763,390	<b>\$ 5,763,390</b>	\$2,775,436	\$ -
Investment Systems	\$6,865,883	\$ 8,891,700	<b>\$ 11,649,200</b>	\$4,783,317	\$ 2,757,500
Custody Fees	\$1,204,812	\$ 1,900,000	<b>\$ 2,300,000</b>	\$1,095,188	\$ 400,000
<b>TOTAL INVESTMENT MNGMNT ALLOCATION</b>	<b>\$126,146,494</b>	<b>\$195,868,000</b>	<b>\$ 192,863,590</b>	<b>\$66,717,096</b>	<b>\$(3,004,410)</b>

# Basis Points



FY24 Proposed Budget

APFC Operations 3 bps

APFC Investment Management 24 bps

- Profit Sharing/Performance fees are not included in the above

# Data System

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Developing and implementing a sound data strategy will require resources, primarily Talent and Technology

- An effective data platform will marry all proprietary data with external data in an efficient and seamless manner that will enable easy retrieval and usage
- The data platform is envisaged to be a living, growing system - adapting to APFC's changing needs
- It will require continuous maintenance and upgrade



Good data, an advantage previously, is now a requisite for investment management.

The key components of a data platform are:

Proprietary Data  
Relevant External/Market Data.

# APFC Return on Investment

	Proposed Operating Budget	FY22 Statutory Net Income	FY23 Projection Statutory Net Income
	FY2024	\$4,543,600,000 avg. \$18.0 M per day *	\$5,122,000,000 ** avg. \$20.2 M per day *
Operating	\$26,377,515	1.5 days	1.3 days
Investment Management	\$192,863,590	10.7 days	9.5 days
<b>Total Appropriation</b>	<b>\$219,241,105</b>	<b>12.2 days</b>	<b>10.8 days</b>

\*Based on 253 active trading days per fiscal year.

\*\* Callan projection.



Questions?

SUBJECT: Annual APFC BCDR Presentation    ACTION:

DATE: September 22, 2022

INFORMATION: X

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**BACKGROUND:** Please find attached the Annual Business Continuity and Disaster Recovery (BCDR) APFC Board presentation slide deck. This information is presented annually to inform board members of the BCDR plan and all updates/changes.

**STATUS:** The BCDR plan document has been adjudicated and approved for 2022 by acting CEO and Emergency Management Team Chair Valerie Mertz.



APFC

ALASKA PERMANENT  
FUND CORPORATION

# Business Continuity and Disaster Recovery

Board of Trustees

# Objective

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The goal today is to provide each trustee with an understanding of:

- What has been developed?
- Why it is important?
- How staff has been prepared to respond to a Business Continuity and Disaster Recovery (BCDR) event?
- What is the role of Board of Trustees?

# Road Map

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# Key Definitions

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Business Continuity Management (BCM) is a holistic management process that:

- identifies potential threats to an organization and its potential impact on business operations.
- provides a framework for building organizational resilience, aiming to ensure continuity of business operations, safeguarding the interests of its key stakeholders, reputation, brand and value-creating activities.

Disaster recovery focuses on technology, involves a set of policies, tools and procedures to enable the recovery or continuation of vital technology infrastructure and systems following a natural or human-induced disaster.

# Program Mission

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The Emergency Management Team (EMT) is empowered to provide the organization with a rapid recovery process to assure high availability of critical operations based on the business needs of APFC.

Technology

Process

Performance

Gain control of problem situations early;  
Minimize the impact of an operational outage on the APFC;  
Gather critical information into a central repository;  
Reduce risks to essential information resources;  
Make decisions in advance of a crisis; and  
Test regularly.

# Program Goals

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- Establish governance
- Identify critical processes
- Create a plan
- Communicate
- Test and facilitate BCDR policies annually

# Program Governance

**BCM Steering Committee** (*Risk Officer/CRCO, Director of IT, Director of Business Operations*)

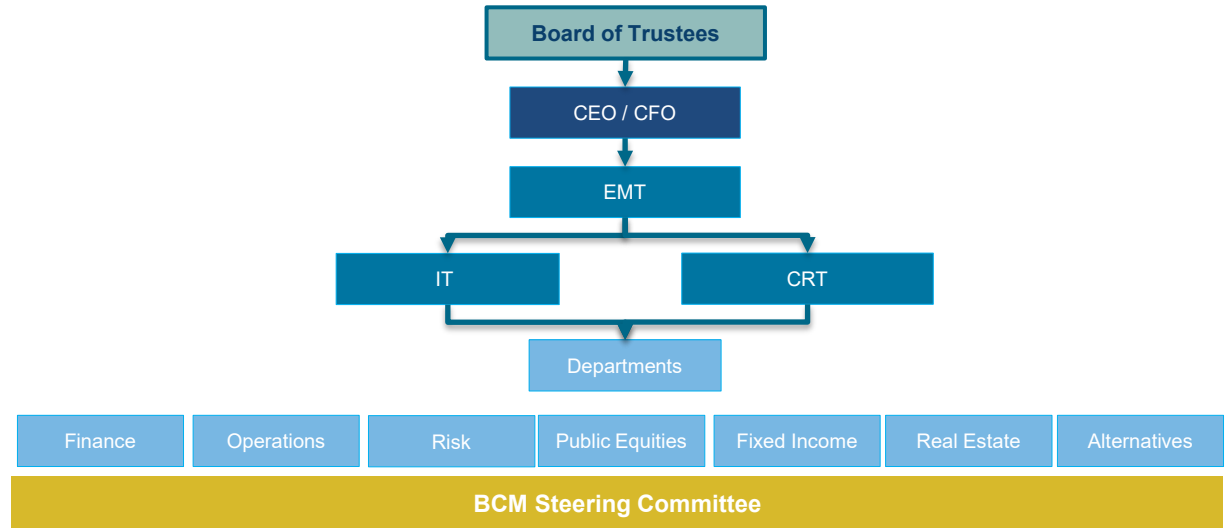
- Responsible for policy development, implementing changes, training, and oversight with input from the EMT

**Emergency Management Team (EMT)** (*CEO (Chair) CFO (Deputy Chair), CIO, CRCO & General Counsel*)

- Retains the authority and responsibility to safeguard APFC's business continuity.

**Crisis Response Team (CRT)** (*Team Varies depending on BCDR Event*)

- May be activated by the EMT to implement and communicate recovery strategies.



# Common Threats Identified in APFC's Plan

Risk / Threat	Potential Consequences	Impact on Operations
Natural Disaster / Weather	Roadways (or bridge) impassable Building damage Infrastructure Failure (phone, electric, power lines)	Staff unable to commute to office Physical Office unusable Inability to function due to compromised infrastructure
Cyber Attack	Damage / loss of data Virus, worm, etc. Computer / network damage	Hardware / software becomes inoperable and staff lose functionality Analysis hindered due to loss of data integrity
Network / Power Outage	Loss of electricity Telephone / cellular service down	All power-dependent functions become inoperable Staff cannot communicate and tele-trading is disrupted
Public Health Emergency	Health and well-being of staff is affected	In-person meetings are restricted Increased sick leave / lower staff availability
Government Shutdown	Loss of work authorization for APFC	APFC is unable to continue any operations

# Policy

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Documents are in BambooHR (Cloud available):

- Evacuation Plan (Emergency Procedures Manual)
- IT How-To Guides (BambooHR)
- Organizational Chart (BambooHR)
- Employee Contact Information

Microsoft Teams (Cloud Available with DLP)

- BCDR Document (Full Access to Staff)
- Appendices (limited access)

# Disaster Recovery Infrastructure

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The Disaster Recovery (DR) Infrastructure, in its current iteration, exists in a highly secure Fairbanks datacenter. The technologies employed represent a smaller iteration of the Juneau data center. The DR site will accommodate the entire staff and is designed to bring online all services utilized at the primary site within an hour of the disaster (Recovery Time Objective) with no less than 15 minutes of data loss (Recovery Point Objective).

# Training and Acknowledgement

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Initial and reoccurring training will require reading the policy to allow all staff to have a deeper understanding of the various scenarios and the role they play within those.

New employees will:

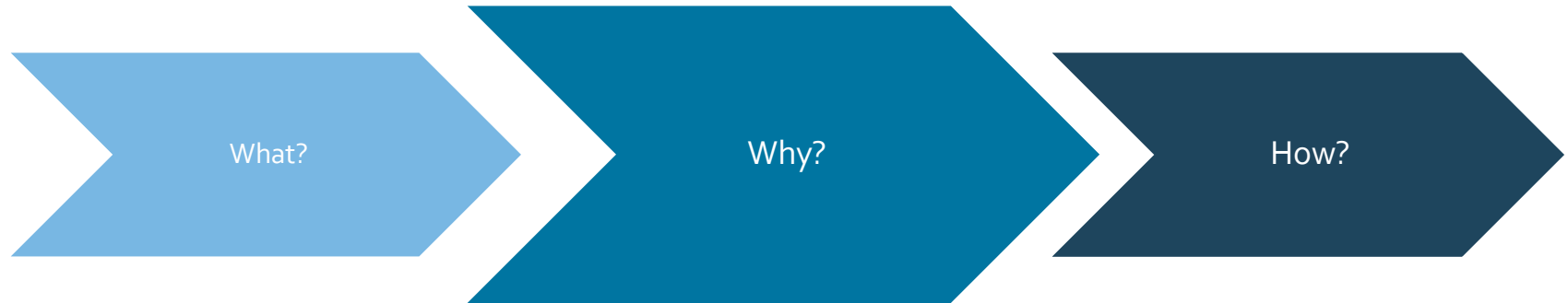
- receive the BCDR 101 training.
- be provided with details relating to job specific functions by their direct supervisor.
- be required to sign an acknowledgement form.

Existing employees will:

- be required to review the BDCR policy and sign an acknowledgment form annually.

# Road Map

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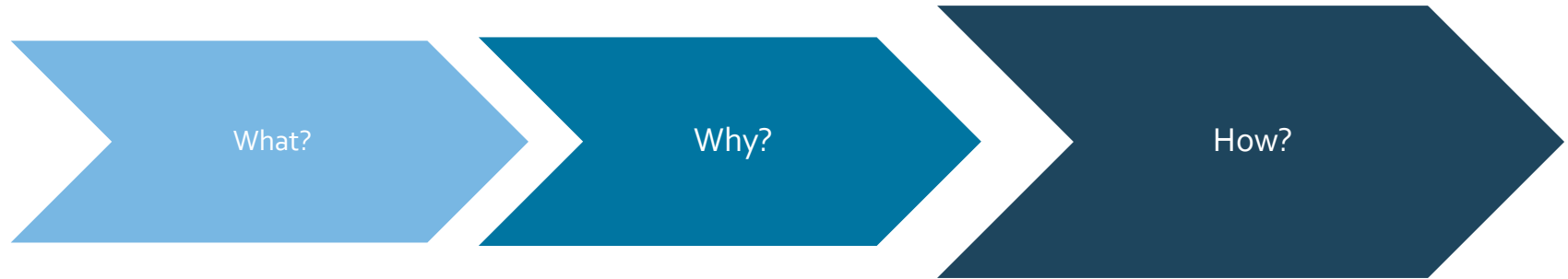


# Benefits of BCDR Program

Corporation			Employee
Reduces the time to identify, contain, communicate, and resolve disruptive events.	<b>Faster Recovery</b>		Provides all staff with a clear, familiar roadmap in times that may cause distress.
Prioritizes safety of key resource: Staff, while ensuring staff have the tools to continue performing key duties	<b>Safety &amp; Accountability of Staff</b>		Defines the role that you, your supervisor, and your peers play during an event.
Mitigates down time reducing the impact on fund performance.	<b>Cost Reduction</b>		Reduces costs associated with resolving the situation
Improves the quality of communication to internal and external stakeholders.	<b>Improved Communication</b>		Provides guidance on how to respond, recover, and communicate.

# Road Map

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# BCM Process Lifecycle



# Staff Preparedness

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Responding to a BCDR event will vary depending on event. However, in most scenarios the following steps will occur:

1. Anyone that becomes aware of an event should directly or through their supervisor, if possible, notify the EMT.
2. EMT will convene to; evaluate the severity of the situation, implement notification plans if applicable, and identify key staff members to determine the appropriate recovery action plan.
3. Managers and supervisors will be responsible for communicating and facilitating the recovery action plans with their staff.
4. Frequent communication will be important throughout the event.
5. Documenting significant impacts or actionable tasks throughout the event will be crucial for updating the BDCR Policy.

# Role of the Board of Trustees

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- Depending on the event, the role of the Board, primarily the Board Chair, will be to maintain frequent communication with the CEO and CFO. In the event of a complete Government shutdown, where no APFC staff members are allowed to act on behalf of APFC, the Board Chair will receive additional instructions.
- The continued support and encouragement to build a strong BDCR program will be key as this program matures.

# Maintenance of the Program

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- The BCDR Steering Committee will conduct a review bi-annually, but updates will occur as hardware, software, systems, procedures, and personnel changes are known.
- A complete policy review will be conducted annually. If amendments are incorporated into the document, the EMT must approve and vote to adopt the updated version before it becomes effective.
- Planned and unannounced testing will occur no less than once every two years as initiated by the EMT. This may be dependent on how often software, systems, and procedures are changing.
- All staff are *expected* to contact the BCDR Committee should any changes come to light at any point during the year.

# Sources

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- International Standards Organization (ISO), The Business Continuity Institute (BCI), CEB Analysis
- Gartner, Definition: Business Continuity Management, 2015, CEB Analysis
- Gartner, *Use Business Impact Analysis to Enable Effective Business Continuity and Disaster Recovery Programs*, 2016, CEB Analysis

SUBJECT: Incentive Compensation Policy      ACTION:

DATE:      September 22, 2022                      INFORMATION: X

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### BACKGROUND

During the July board meetings regarding staff recruitment and retention, some potential modifications to the current incentive policy were discussed to better align APFC's policy with peers. Staff was asked to revise the policy to address these items. McLagan has been retained to provide insight on industry standard and an objective review of the revised policy.

### STATUS

Marcus Frampton, Chief Investment Officer, will provide an overview of the proposed changes to the current policy.

Maureen Reilly and Mike Oak from McLagan will provide information on incentive compensation policies generally as well as specific metrics found in peer plans.

Staff will continue to work with McLagan to complete a draft policy for the board to consider at the December quarterly meeting.

**AON**

# **Incentive Plan Practices within Public Funds**

**Alaska Permanent Fund  
Corporation**

**September 2022**



# Overview

- Alaska Permanent Fund Corporation (APFC) asked McLagan to assemble information on incentive compensation practices at other public funds.
- This report contains high-level summary of overall plan frameworks and mechanics found in:
  - Other leading US public funds
  - Canadian public funds
  - US endowment and foundations.
- Importantly, designing and calibrating incentive compensation plans to align pay with performance is extremely nuanced - “*the devil is in the details.*” What works for one fund may not work and/or be inappropriate based on the individual fund’s investment policy, asset allocation, risk tolerance, and implementation approach.
  
- Overall, 14 of 23 APFC’s US public fund peers have an incentive plan.
- All 8 APFC’s Canadian fund peers have an incentive plan.
- Nearly all private sector (including endowments and foundations) offer incentive compensation.

# Peer Practice – A “Typical” US Public Fund Incentive Plan

All values are illustrative

## Near the Beginning of Each Year:

1. Identify/Re-Confirm Maximum Award
  - Example: 60% of salary, or \$100,000.
2. Weight Maximum Award to Plan Components

Plan Component	Incentive Weighting	Weighted Portion of Max Incentive
<b>Quantitative Component</b>		
Total Fund	40%	\$40,000
Asset Class	20%	20,000
Avg. of Asset Classes	20%	20,000
<b>Qualitative Component</b>	20%	20,000
<b>Total</b>	<b>100%</b>	<b>\$100,000</b>

Asset class / portfolio performance is typically only seen in funds with internal / direct management. Funds with manager-of-manager measure performance on a total fund basis only.

## 3. Establish Performance Criteria/Scales:

- Total fund.
- Asset class.
- Qualitative.

Quantitative Perf-Award Scale	
Multi-Year BPS Outperformance	Performance Multiplier
60	100%
:	:
30	50%
:	:
0	0%
<i>Intermediate points interpolated</i>	

Qualitative Perf-Award Scale	
Performance vs Goals & Objectives	Performance Multiplier
Far Exceeds	100%
:	:
Meets	50%
:	:
Does Not Meet	0%
<i>Intermediate points interpolated</i>	

## After the End of Each Year:

1. Determine Multipliers for each Plan Component

Plan Component	Performance Illustrative	Performance Multiplier
<b>Quantitative Component</b>		
Total Fund	60 bps	→ 100%
Asset Class	30 bps	→ 50%
Avg. of Asset Classes	45 bps	→ 75%
<b>Qualitative Component</b>	"meets"	→ 50%

## 2. Determine Initial Awards

Plan Component	Weighted Portion of Max Incentive	Performance Multiplier	Earned Award
<b>Quantitative Component</b>			
Total Fund	\$40,000	x 100%	= \$40,000
Asset Class	20,000	x 50%	= 10,000
Avg. of Asset Classes	20,000	x 75%	= 15,000
<b>Qualitative Component</b>	20,000	x 50%	= 10,000
<b>Total</b>	<b>\$100,000</b>		<b>\$75,000</b>

## 3. Payout Award

# Summary and Comparison of Peer Practice

Key Features	US Public Funds	Canada Pension Funds	US Endowments & Foundations
<b>Overall Pay Philosophy</b>	Pay system generally mandated by the government agency / state. Leading funds have generally received autonomy or special salary scales for some or all positions.	Be competitive for all positions in the labor markets that the fund competes with for talent. View themselves as world class investment firms that happen to be public sector funds.	Be competitive for all positions in the labor markets that the fund competes with for talent. View themselves as world class investment offices that are also mission-driven non-profits.
<b>Peer Groups / Benchmarking</b>	For investment staff, combination of other leading US public funds and broad-based private sector investment firms. For operations staff, broader financial services and/or general industry often with geographic adjustments.	Generally, include other pensions and a wide range of commercial-based investment organizations. Local data for junior roles, national and international data for senior.	Primary focus on other E&Fs for investment talent while considering the broader labor market. Operations positions generally benchmarked against broader investment industry.
<b>Incentive Plan Participation</b>	Nearly all larger funds offer incentive pay. All investment and generally fund executives. Most (but not all) also offer incentives to operations staff. However, funding and opportunity varies.	Generally, all employees are eligible to participate. Opportunity level and structure may vary.	Generally, all employees are eligible to participate. Opportunity level and structure may vary.

# Summary and Comparison of Peer Practice

Key Features	US Public Funds	Canada Pension Funds	US Endowments & Foundations
<b>Incentive Opportunity (STI + LTI)</b>	<p>Generally, establish a max, as percentage of salary.</p> <p>Typical inv. staff maximums:            Analyst/Junior: 10-25%            Senior Analyst: 25-50%            Manager: 50-75%            Senior Leader: 75%-100%</p>	<p>Generally, establish a target, as percentage of salary. Maximum can be 2-3x target.</p> <p>Typical inv. staff maximums:            Analyst: 20-50%            Senior Analyst: 50-100%            Manager: 150-200%+            Senior Leader: 300%+</p>	<p>Generally, establish a target, as percentage of salary. Maximum typically is 2x target.</p> <p>Typical inv. staff maximums:            Analyst: 15-30%            Senior Analyst: 50-75%            Manager: 100-200%+            Senior Leader: 200%+</p>
<b>Component Weightings</b>	<p>The majority, if not all, of incentive compensation is determined formulaically. However, many funds do include a discretionary component (especially for executives and operations).</p>	<p>Mix of total fund, portfolio, corporate, and individual measures. Mix may vary by function / level. Quantitative measures generally represent 40-60% of target for STI and 100% formulaic for LTI.</p>	<p>For senior staff, the majority of incentives is based on quantitative total fund results. Increased use of discretionary component for mid and junior staff.</p>
<b>Quantitative Component</b>	<p>25% one-year, 75% three-year relative to policy benchmark. Generally nothing earned below benchmark. Max around 40-60bps above benchmark. Total fund and portfolio performance.</p>	<p>Mix of absolute and relative measures. Absolute generally measured on longer-term (4-10 years) basis. Relative to policy benchmark generally measured on both one- and four-year basis. Total fund and portfolio performance.</p>	<p>Three- and, often five-year total fund performance. Target typically earned around 100bps and maximum around 200bps above benchmark. Some funds also use relative peer performance.</p>

# Summary and Comparison of Peer Practice

Key Features	US Public Funds	Canada Pension Funds	US Endowments & Foundations
<b>Qualitative Component</b>	Qualitative measures less common. Generally based on annual performance review scores (e.g., rating of 4 out of 5 yields an 80% of max payout) and/or based on a balanced scorecard which could include fund-wide strategic objectives.	May include individual performance as well as fund-wide strategy and leadership-based objectives.	May include individual performance as well as fund-wide strategy and leadership-based objectives.
<b>Risk Adjustments</b>	Risk is considered when establishing performance objectives (e.g., alignment with benchmarks and the relative alpha required to earn incentives).	Some funds have explicit risk measures such as Sharpe ratio or volatility. Risk considered when establishing performance objectives.	Risk is considered when establishing performance objectives (e.g., alignment with benchmarks and the relative alpha required to earn incentives).
<b>LTI &amp; Deferrals</b>	Some funds have policies in place where earned incentives are reduced, cancelled, or deferred if one-year absolute returns are negative. These were generally knee-jerk reactions to the GFC and some funds have since removed.	Some funds defer a portion of earned STI. Deferrals vest over three years and “earn interest” at fund’s return. Almost all funds offer an additional LTI program which is generally a forward-looking with similar quantitative standards of STI.	Small and mid-sized funds pay all incentives current. Larger funds often have a two- to three-year carve out deferral. Earns interest at the fund’s rate of return over the deferral period.



ALASKA PERMANENT  
FUND CORPORATION

# Status of Incentive Compensation Plan

September 2022

# Executive Summary

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APFC's original incentive compensation plan (the "Plan") was designed in 2018. Now, with the market for investment and operational talent increasingly competitive, Staff is working with the Board's compensation consultant (McLagan) to revise and update the Plan

The following pages summarize changes to the current plan Staff is reviewing with McLagan

- *Final version of a revised Plan for Board consideration will be based on McLagan's analysis of proposed changes and recommendations rooted in the range of market norms presented at the December Board Meeting*

# Key Features of Revised Plan

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## Recommended Maintenance of Current Plan

1. While peer plans have higher maximum (and target) % of salary bonus opportunities for Investment Staff, we are leaving 50% of salary as the maximum bonus opportunity for senior Investment Staff
2. While peer plans typically have a qualitative element to incentive compensation formulae, maintaining 100% focus on investment performance to make more palatable to stakeholders

# Key Features of Revised Plan (cont'd)

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## Recommended Changes to Current Plan

1. Adjusted outperformance thresholds to conform with CalSTRS precedent (see page 6 of Appendix A)
2. Eliminated annual cap on total compensation for a given employee that was set at 1.5x prior year total compensation
3. Aligning % of salary bonus opportunities for Portfolio Managers and Senior Portfolio Managers + Analysts and Senior Analysts to eliminate the currently large jumps at those positions
4. Eliminating provision where bonuses are zeroed out in year with a negative Total Fund return and backdating provision to apply to FY 2022
5. Provide flexibility for managers to assign sub-portfolios (under Asset Class) in lieu of Asset Class return to certain staff to provide more targeted incentives provided that Executive Director and CIO approve
6. Eliminate provision where new employees essentially inherit strong (or weak) historical performance (in a new employee's first year, performance is 100% based on one year returns)
7. Delete content providing direction on budgeting for incentive compensation (based on reality that budgeting has been done year-to-year based on various stakeholders' inputs)

# Key Features of Revised Plan (cont'd)

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## Additions to Current Plan

1. Expand employees included in Plan to all Staff - including those with Indirect Investment Responsibility (IIR)
2. IIR proposed bonus range % will be based on Consultant analysis
3. IIR Staff incentive compensation (along with CIO) based on Total Fund Performance

# Appendix A – Summary of Peer Plans

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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 dark teal color with a faint, semi-transparent image of a modern building with many windows.

APFC

ALASKA PERMANENT  
FUND CORPORATION

Incentive Compensation Plan  
*Summary of Peer Plans & Implications for APFC*  
August 2022, by Marcus Frampton, CIO

# Executive Summary

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- Four peer Incentive Compensation plans were reviewed to assist in understanding overall landscape in the industry
  - The four plans that were reviewed include: (a) CalSTRS, (b) UTIMCO, (c) Texas ERS, and (d) TRS (Teachers Retirement System of Texas)
  - Constraint on analyzing more than these four has simply been time and competing projects; these four have not been “cherry-picked”, they are just the first four reviewed; impression is that SWIB and CalPERS may be more lucrative (and these two plans have poached APFC Investments and Operations staff in the past)
- This presentation addresses key learnings from peer plans on relevant topics:
  1. What are relevant hurdles for outperformance to fully earn incentive comp in peer plans?
  2. What happens in years of negative absolute return for these peer plans?
  3. What departments and titles are included in peer plans?
  4. What are the various % of salary bonus levels at peer plans?
  5. Is there a qualitative element to the incentive compensation at peer plans and, if so, how much?

# Goals for this Presentation and Discussion

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1. Provide information to Trustees in the interest of everyone being as informed as possible on the current state-of-play in our industry
2. Discuss views on key variables to aid in guiding amendments to current incentive compensation plan
3. Long term goal – maintain APFC's competitive position for talent versus plans that we compete with in the market for skilled professionals

# Possible Next Steps for Modifying APFC Plan

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## Option A: Remove Contingencies and General “Clean-up”

- Maintain 50% of salary maximum
- Smooth % of salary bonus targets to smooth “cliffs” from PM to Sr. PM and Analyst to Sr. Analyst
- Eliminate the handful of contingencies that do not appear in peer plans
- Review total fund and asset class hurdles
- Cost assuming full earning under program is \$2.4 mm; APFC current incentive compensation policy indicates that program should be fully budgeted for (vs. \$1.6 mm last year and in current draft budget which represents a haircut to being fully budgeted)
- Discuss approach to including Operations in new plan (size, positions eligible, criteria for earning)

## Option B: Create a New Plan Similar to Peers, but Likely Near- term Underfunded

- Recognizing that peer plans (at least the four that Staff has had time to review in detail) are significantly different from APFC in terms of (a) qualitative elements of incentive compensation calculation, and (b) % of salary incentive compensation opportunity
- Create a new plan that is more like peers, recognizing that at current funding levels bonus awards would be haircut from calculated levels for the foreseeable future

# What are Relevant Performance Hurdles?





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- The following page summarizes total fund and asset class outperformance hurdles for APFC's current plan as well as peers
- CalSTRS has significantly lower outperformance hurdles than APFC, while UTIMCO has significantly higher hurdles; however, the reader should keep in mind that these plans both have material qualitative bonus metrics to complement the quantitative and both plans have significantly higher % of salary bonus opportunities
- Texas ERS' plan does not lay out total fund or asset class performance hurdles but rather notes: "Before the beginning of each Plan Year, the CIO and other applicable ERS division directors shall recommend the Performance Goals for the upcoming plan year for each Participant."

## Recommendations

- If APFC continues to have zero qualitative inputs to the incentive compensation calculation and continues having an underfunded incentive compensation program and/or an incentive compensation program with materially lower % of salary opportunities than peers, it would be appropriate to use the low end of the range of peers (CalSTRS) for outperformance hurdles
- Further it would be appropriate to lower Fixed Income's current 50 bps hurdle in the APFC plan given that we have eliminated equities (REITs & Listed Infrastructure) and high yield + EM debt from the mandate since the program was first published

# What are Relevant Performance Hurdles? (cont'd)

				
Total Fund	1.00%	0.40%	2.00%	1.00%
Public Equity	1.00%	0.30%	1.50%	1.00%
Fixed Income	0.50%	0.15%	0.50%	1.00%
Private Equity	2.00%	0.70%	2.50%	2.00%
Real Estate	1.00%	0.70%	2.50%	1.25%
Private Income <sup>(1)</sup>	1.00%	0.50%	2.50%	1.25%
Absolute Return <sup>(2)</sup>	0.50%	0.20%	3.00%	NA
Risk Parity (Asset Allocation)	0.50%	NA	NA	0.25%

1. For CalSTRS, represents Inflation Sensitive Portfolio. For UTIMCO represents Infrastructure portfolio. For TRS represents Energy, Natural Resources, Infrastructure Portfolio.

2. For CalSTRS, represents Risk Mitigating Strategies Portfolio.

# What Happens in Years of Negative Return?

- Of the four peer plans reviewed none feature the provision that APFC's Incentive Compensation plan has whereby all incentive compensation awards are zeroed out for any fiscal year with a negative absolute return
  - CalSTRS' Board retains the option to **defer** bonuses in the case of negative return years, but this option is not mandatory
  - UTIMCO's plan features a **one year delay** on payouts earned in years with negative returns
  - Both Texas ERS and TRS plans stipulate that earned bonuses in years with negative returns shall be **deferred until a future year where the plan's return is positive**
- Detailed language from each of the four plans is provided on the following pages

## Recommendations

- APFC's Board should move to pay out bonuses earned for FY 2022 in spite of the Fund's negative return for the fiscal year given that this provision in APFC's Incentive Compensation plan is off market
- Staff recommends that APFC's Incentive Compensation plan be amended to eliminate the provision that zeroes out bonuses in the event of a negative performance year (on absolute return basis)

# What Happens in Years of Negative Return? (cont'd)

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CALSTRS

## Deferral in the Case of One-Year Negative Total Fund or Asset Class Return

- “If the Board elects to defer payment of all or a portion of an employee’s performance award for the fiscal year to a later date due to a one-year negative absolute return of the Total Fund or of an Asset Class, payment to current employees and to voluntarily separated employees who were employed by the System and substantially performing their duties on the performance year end date will be made not more than 90 days beyond the end of the first later fiscal year in which the on-year absolute return on the Total Fund or the respective Asset Class net-of-fees equals or exceeds zero percent”
- 



## Extraordinary Circumstances

- “If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Award attributable to such Performance Period for each Affected Participant will be treated as an “Extraordinary Nonvested Deferral Award” for such Affected Participant... such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period.”

# What Happens in Years of Negative Return? (cont'd)

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- “If Global Composite Performance for the one-year Performance Period in the current plan year is not positive, then all Incentive Compensation Awards that otherwise would have been paid on the next Payment Date... shall not be paid until the first Payment Date immediately following the next plan year in which the one-year Performance Period for Global Composite Performance is positive.”
- 



## Earning Performance Payments

- “No Potential Awards will become Earned Awards following a Performance Period in which the Fund experiences a total return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1.”

# What Departments and Titles are Included?

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- CalSTRS incentive compensation program currently covers senior investment personnel (Associate Portfolio Managers and up) and only the five most senior operations personnel (CEO, COO, CFO, System Actuary, Director of Investment Operations)
- UTIMCO incentive compensation program current covers the entire investment department (analyst up to CIO) and senior members of “Support and Control Professionals” with titles of Director on up
- Texas ERS’ personnel structure includes significant “operations” personnel within the investment dept reporting up to the CIO; these “investment operations” staff are included along with legal personnel in incentive compensation as well as all investment personnel analyst on up, but doesn’t include areas like IT and Finance
- TRS’ incentive compensation program only covers the investment department, however, administrative assistants within the investment department are included; senior “operations” personnel (e.g., COO, CFO) are not included

## Recommendations

- Staff recommends that the entire investment department continue to be covered by the incentive compensation program at APFC; this is consistent with three of the four peer plans reviewed (inconsistent with CalSTRS)
- While there is lack of a clear precedent for which operations staff are included or not included in an incentive compensation plan, broad operations inclusion at APFC may result in a more cohesive culture

# What Departments and Titles are Included? (cont'd)

CALSTRS

## Eligibility

- “Currently, the incentive plan covers the CEO, COO, CFO, System Actuary, CIO, Deputy CIO, Investment Directors, Portfolio Managers, Associate Portfolio Managers, and Director of Investment Operations. The General Counsel is not eligible to participate in the incentive plan.”



- “Eligible Positions for a Performance Period include senior management, investment employees, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period.”
- Investment Professionals covered range from Analysts to “CEO, Chief Investment Officer & President”
- Operations personnel covered by the plan include the following:
  - Chief Operating Officer
  - General Counsel
  - Chief Technology Officer
  - Corporate Counsel & Chief Compliance Officer
  - Managing Director
  - Senior Investment Counsel
  - Senior Director
  - Senior Director - Compliance
  - Director
  - Director – Compliance
  - Director – Security, Information Services

# What Departments and Titles are Included? (cont'd)



- “The Employee Retirement System of Texas (ERS) hereby establishes the Employees Retirement System of Texas Incentive Compensation Plan (Plan) to provide meaningful incentives for key leadership and professional employees who are providing high-level, discretionary services related to the investment of ERS’ assets.”
- The plan covers administrative and operations personnel within ERS’ Investment Department (ERS’ structure has these elements reporting up through the Investment Department to CIO) and outside of the investment department only includes legal personnel (General Counsel; Investments and Securities, Attorney; Investments and Securities, Paralegal)
- Below is a complete listing of titles included in ERS’ incentive compensation program

<b>Operations</b>	<b>ERS Investments Department (Including Positions that would be considered "Operations" at APFC)</b>
Executive Director	Chief Investment Officer
General Counsel	Deputy Chief Investment Officer
Investments and Securities, Attorney	Asset Class Director
Investments and Securities, Paralegal	Director of Risk Management & Applied Research
	Director of Investment Services
	Supervising Portfolio Manager
	Portfolio Manager IV, V & VI
	Portfolio Manager I, II & III
	Chief Trader I & II

# What Departments and Titles are Included? (cont'd)



- TRS' incentive compensation covers investment department personnel (analyst up to CIO) and has administrative assistants included; the lack of any other operations personnel would lead one to believe that these administrative assistants that are covered are within the investments department
- "Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential Award calculation, the investment area or areas to which a Participant is assigned or interacts with during a Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A."
- In the table to the right are the positions included in Section 4.3(f)

<b>ELIGIBLE POSITION TITLE</b>	<b>MAXIMUM POTENTIAL AWARD</b>
Chief Investment Officer	175%
Deputy CIO	175%
Senior Managing Director	175%
Managing Director	175%
Senior Director	150%
Director	150%
Senior Investment Manager	150%
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

# % of Salary Bonus Targets at Peer Plans

- Maximum incentive compensation at the four peer plans reviewed are materially higher than for APFC (summarized in table below)

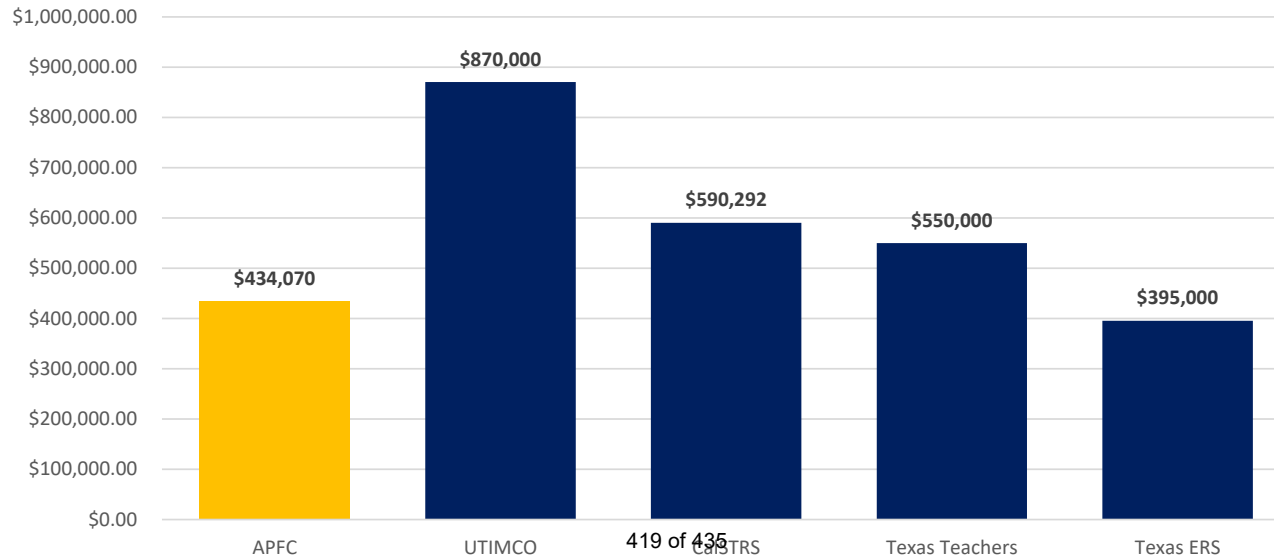
% of Salary Bonus Opportunity	APFC	CALSTRS	UTIMCO 1996	ERS <sup>®</sup>	TRS TEACHER RETIREMENT SYSTEM OF TEXAS
Highest Investor	50%	200%	450%	100%	175%
Lowest Investor	15%	50%	75%	35%	15%

## Recommendations

- No specific recommendation, however, its worth noting that APFC's incentive compensation opportunities as a % of salary is materially lower than peer plans reviewed
- Highlights need to follow policy around fully budgeting for APFC's program and eliminating contingencies that make APFC's incentive compensation plan a higher risk proposition (in addition to materially smaller)

# Salary of Highest Paid Employee

- The following chart outlines the salary of the highest paid employee of each plan reviewed here based on public information
- It is worth noting as we discuss % of salary incentive comp, that the multiplier (salary) we are talking about is lower at APFC than peers; looking at highest paid employee given time limitations of surveying all positions



# % of Salary Bonus Targets at Peer Plans (cont'd)

## CALSTRS

- As discussed previously, CalSTRS' incentive compensation program is limited to "C Level" operations staff (totaling five individuals) and investment staff with titles of Associate Portfolio Manager and up
- CalSTRS' incentive comp range for investments ranges from 50% for Associate Portfolio Managers up to 200% of salary for the Chief Investment Officer
- CalSTRS' incentive comp range for senior operations staff ranges from 30% of salary for System Actuary to 150% of salary for CEO

Position	Incentive Opportunity Minimum	Incentive Opportunity Maximum
CEO	0%	150%
COO	0%	50%
CFO	0%	50%
System Actuary	0%	30%
CIO	0%	200%
Deputy CIO	0%	175%
Senior Investment Directors <sup>1</sup>	0%	150%
Investment Directors	0%	125%
Senior Portfolio Managers <sup>1</sup>	0%	125%
Portfolio Managers	0%	125%
Director Invest Opns	0%	75%
Assoc Portfolio Manager	0%	50%

# % of Salary Bonus Targets at Peer Plans (cont'd)



- UTIMCO's entire investment department is eligible for incentive compensation with a range of 75% of salary for analysts up to 450% of salary for the high end of the range
- UTIMCO's operational staff at titles of Director and up are eligible for incentive compensation at a range of 50% of salary for IT Director up to 90% of salary for the COO
- UTIMCO's risk function sits within investments while Compliance sits within "Support & Control Professionals"

## *Investment Professionals*

<u>Title</u>	<u>% of Salary Opportunity</u>
CEO, CIO & President	450%
Chief Investment Officer	450%
Deputy CIO	450%
Sr. Managing Director	300%
Managing Director - Investments	250%
Managing Director - Risk Management	200%
Senior Director - Investments	185%
Senior Director - Risk Management	185%
Director	175%
Associate Director	155%
Associate	145%
Senior Analyst	110%
Analyst	75%

## *Support & Control Professionals*

<u>Title</u>	<u>% of Salary Opportunity</u>
Chief Operating Officer	90%
General Counsel	75%
Chief Technology Officer	75%
Corporate Counsel and CCO	70%
Managing Director	70%
Senior Investment Counsel	70%
Senior Director	60%
Director - General	60%
Director - Compliance	50%

# % of Salary Bonus Targets at Peer Plans (cont'd)



- As discussed previously, Texas ERS' incentive compensation program is geared towards their investments department with only Executive Director and legal staff earning incentive awards outside the investment department
- Within the investments department % of salary incentive comp ranges from 5% for administrative assistants that report up through investments to 100% of salary for the Chief Investment Officer
- Legal staff ranges from 35% of salary for ERS' paralegal up to 65% of salary for General Counsel
- ERS' Executive Director has a 100% of salary incentive comp opportunity

Plan Groups	Maximum Incentive Award Percentages
Executive Director	100%
Chief Investment Officer	100%
Deputy Chief Investment Officer	100%
Asset Class Director	100%
Director of Risk Management & Applied Research	100%
Director of Investment Services	90%
Supervising Portfolio Manager	90%
Portfolio Manager IV, V & VI	80%
Portfolio Manager I, II & III	70%
Chief Trader I & II	70%
Investment Analyst V	70%
Trader I, II & III	65%
Investment Analyst III & IV	58%
Investment Operations Manager	50%
Operational Due Diligence Manager	50%
Investment Analyst I & II	35%
Performance Specialist	35%
Investment Operations Specialist	25%
Operational Due Diligence Specialist	25%
Investment Administrative Support	5%
General Counsel	65%
Investments and Securities, Attorney	65%
Investments and Securities, Paralegal	35%

# % of Salary Bonus Targets at Peer Plans (cont'd)

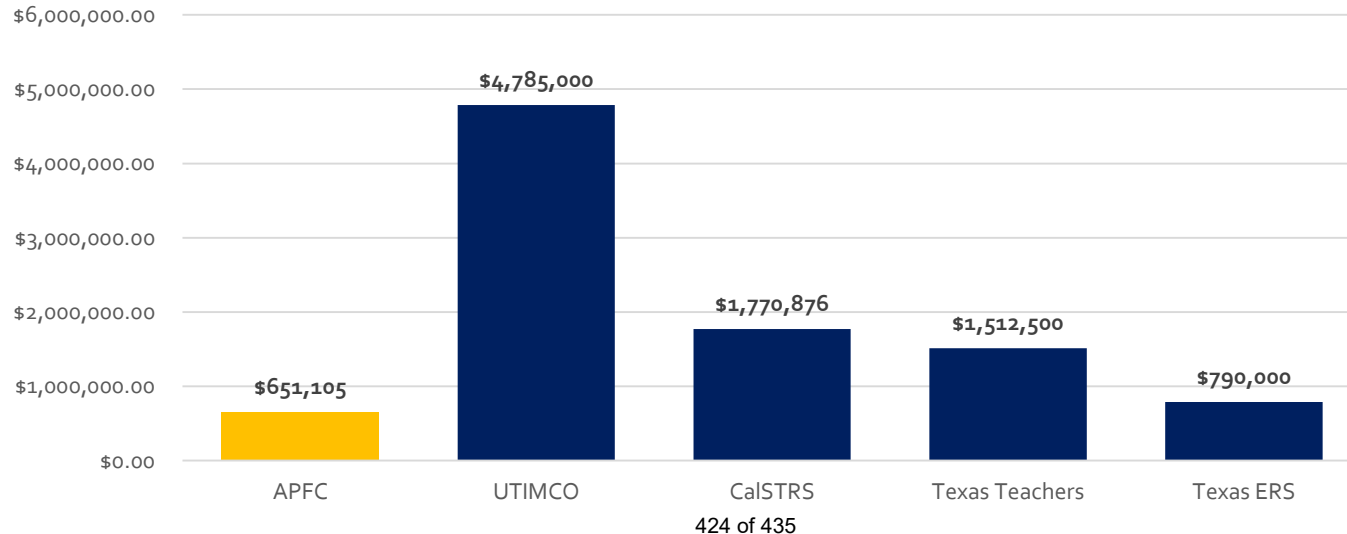


- TRS' incentive compensation plan opportunities ranges from 175% of salary for their Chief Investment Officer to 5% of salary for administrative assistants that support the investment team's activities

<b>ELIGIBLE POSITION TITLE</b>	<b>MAXIMUM POTENTIAL AWARD</b>
Chief Investment Officer	175%
Deputy CIO	175%
Senior Managing Director	175%
Managing Director	175%
Senior Director	150%
Director	150%
Senior Investment Manager	150%
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

# Max Annual Compensation for Highest Paid Employee

- With higher salaries at the peers reviewed and higher % of salary incentive compensation maximums, the maximum earnings potential at the peer plans is significantly higher than at APFC
- These earnings are also lower risk than at APFC given qualitative elements to incentive comp (reviewed in the next section) and fewer contingencies



# Is There a Qualitative Element to Calculations?

- All four peer plans have material qualitative components to incentive compensation calculations
- The range for investment personnel is 20-50% with higher percentages for operations staff in the two plans (UTIMCO and CalSTRS) where senior operations personnel are eligible for incentive awards (as high as 100% of the bonus opportunity derived from qualitative inputs)
- Many of these peer plans have significantly higher bonus opportunities as a % of salary than APFC currently does (e.g., CIO bonus opportunity of 200% of salary at CalSTRS and 450% of salary at UTIMCO); with the implication being that at these plans a senior investment officer could earn a bonus based purely on qualitative inputs that exceeds the commensurate positions' total bonus opportunity at APFC

## Recommendations

- While it appears that APFC Trustees prefer a 100% quantitative bonus calculation it is worth noting that none of the four plans reviewed here ultimately elected that route
- At a minimum, having a qualitative component to complement the quantitative, is valuable to participants because it diversifies the drivers / variables that determine a year end bonus
- If APFC's Board elects to go with a fully quantitative approach to incentive compensation, it would be reasonable to gravitate to the lower end of the range for variables like outperformance hurdles vs. peers like UTIMCO where investment professionals may earn a significant year end bonus based purely on qualitative factors

# Is There a Qualitative Element to Calculations? (cont'd)



- “The Qualitative Component links incentive payouts to the achievement of (1) individual or personal goals and objectives; and (2) other contributions not necessarily reflected in near-term investment results. In addition, for the CEO and CIO, a portion of their maximum incentives is weighted to the achievement of System-related strategic goals and objectives. For the CEO, the overall Qualitative Component has a relatively high weighting (i.e., 70%) to reinforce the achievement of strategic and business objectives.”
- At CalSTRS senior operations professionals have qualitative contributions ranging from 70% to 100% with investment professionals incentive compensation 20-50% based on qualitative factors

## CalSTRS Qualitative Component Contribution by Position

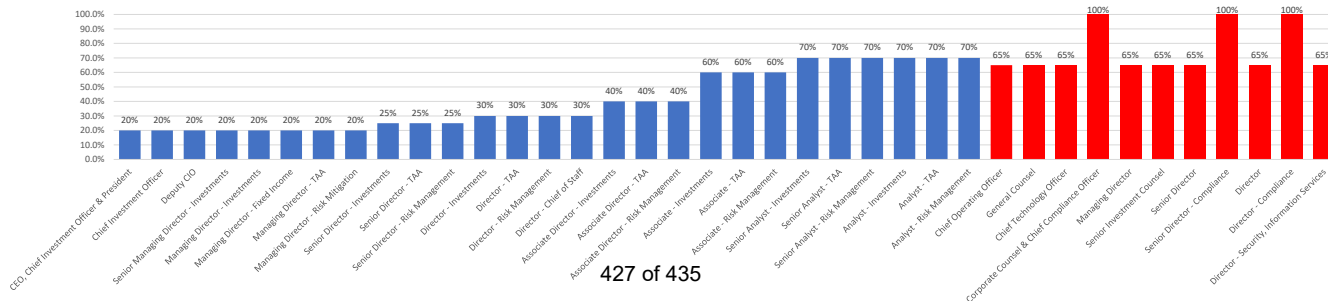
Title	Personal Performance	Long-term Strategic Performance	Total Qualitative
CEO	30%	40%	70%
COO	50%	35%	85%
CFO	50%	30%	80%
System Actuary	100%	0%	100%
CIO	25%	0%	25%
Deputy CIO	20%	0%	20%
Investment Director, PM, APM (Most Asset Classes)	20%	0%	20%
Investment Director, PM, APM (Innovation/Diversity/Investment Services/Strategy & Risk)	40%	0%	40%
Investment Director, PM, APM (Risk Mitigating Strategies)	50%	0%	50%
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# Is There a Qualitative Element to Calculations? (cont'd)



- “The level of a Participant’s Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, or maximum) of the Participant’s Qualitative Performance Standards for the Performance Period. In the case of the CEO, the level of the CEO’s Qualitative Performance will be measured by the Compensation Committee subject to review and approval by the Board.”
- At UTIMCO senior operations professionals have qualitative contributions ranging from 65% to 100% with investment professionals incentive compensation 20-70% based on qualitative factors

## UTIMCO Qualitative Component Contribution by Position



# Is There a Qualitative Element to Calculations? (cont'd)

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- “All Investment Professionals shall be evaluated on qualitative and quantitative Performance Goals. Qualitative Performance Goals shall compromise 25% of each Investment Professional’s overall Participant goals, and quantitative Performance Goals shall be the remaining 75% of overall Participant goals, with a minimum of 25% of overall Participant goals to be based on Relative Global Composite Performance. To the extent that any Investment Professional does not have meaningful quantitative measures, such as comparisons to Benchmarks or other quantitative measures, the default will be to Relative Global Composite Performance for the entire 75% quantitative portion.”

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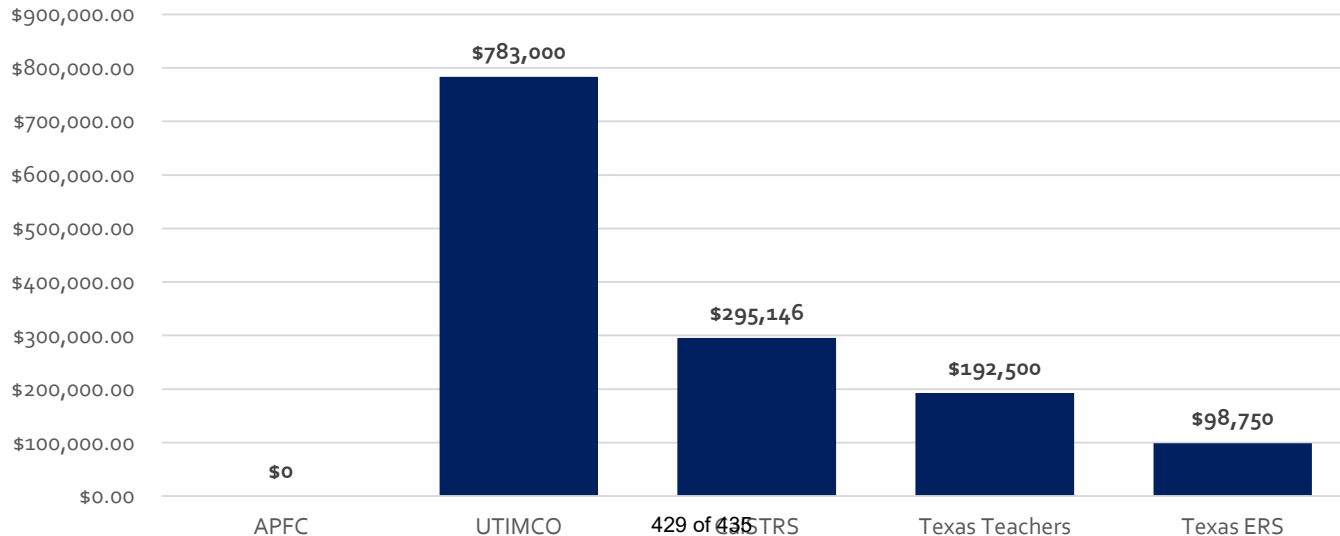
## Performance Components; Potential Awards

- “Participants’ Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.”
- “To encourage appropriate organizational behaviors, the qualitative performance rating for all Eligible Positions will be weighted at 20% of the Potential Award.”



# Highest Paid Employee Bonus (Assuming Qualitative Earned and Return-based Missed)

- The chart below summarizes the bonus earned by the highest earning employee of APFC and the four peer plans assuming that all return-based incentive compensation is missed, but that the employee in question fully earns their qualitative elements
- APFC with 100% of incentive comp based on returns is a higher risk program for staff (compounded by various off market contingencies in the plan and the fact that APFC's plan has been historically without adequate funding)



# Concluding Thoughts

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- The institutional investment / institutional allocator space has perhaps as wide a range of compensation structures as any professional field; this analysis reviewed four plans (including the three big Austin, TX plans) to provide context around other incentive compensation programs in the industry
- APFC's policy of zeroing out bonuses in a year of negative absolute performance lacks precedent in the industry; additionally McLagan has remarked that it is a poor policy
  - APFC should be careful about perhaps being arbitrary in its implementation of its incentive compensation policy (following some policy provisions and ignoring others)
  - APFC has not followed its own policy about budgeting for investment dept incentive comp and appears to be headed toward another year of not following its policy with the proposed \$1.6 mm FY 2024 investments incentive comp budget vs. the \$2.4 mm required
  - Page 2 of policy: "For budgeting purposes, the annual total Plan Participants' incentive compensation pool is equal to 50% of the prior fiscal year's total base salaries of the Plan Participants"

SUBJECT: Election of Corporate Officers      ACTION:     X    

DATE: September 22, 2022                      INFORMATION: \_\_\_\_\_

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**BACKGROUND:**

Section 6 of Article II of the APFC Bylaws states that the election of the Chair and Vice Chair of the Board of Trustees shall occur at the annual meeting of the Corporation, and those officers shall hold office for one year or until their successors are elected and qualified. In accordance with APFC Board of Trustees Charters and Governance Policy the following, the election of corporate officers and the committee assignments are noted below.

**Charter of the Chair of the Board (excerpts)**

1. Alaska Law, Article 01, Section 37.13.050 requires the Board of Trustees to elect a Chair annually from among its members.
2. The Chair will perform the duties and responsibilities and exercise the powers as specified below:
  - (a) Appoint the members of the committees of the Board and the committee chairs (other than the chair of the Governance Committee);

**Charter of the Vice Chair of the Board (excerpt)**

1. The Bylaws of the APFC establish the Vice Chair as an officer of the Board. The Vice Chair is elected annually.

**Charter of the Governance Committee of the Board (excerpt)**

2. The Vice Chair of the Board will serve as the Chair of the Governance Committee. The Vice Chair may act on behalf of the Governance Committee in performing the following duties with the approval of the full Board.

**Charter of the Audit Committee of the Board (excerpt)**

7. The Committee will consist of at least three Trustees, each of whom must have a basic understanding of finance and accounting and be able to read and understand financial statements.

**RECOMMENDATION:**

- Elect a Board of Trustees Chair
- Elect a Board of Trustees Vice-Chair
- Vice Chair to serve as Chair of the Governance Committee
- Chair to Appoint at least two additional Trustees to the Governance Committee
- Chair to Appoint at least three Trustees to the Audit Committee

SUBJECT: Board of Trustees Meetings

ACTION: X

DATE: September 22, 2022

INFORMATION:

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BACKGROUND:

APFC's Board of Trustees holds quarterly meetings to review and evaluate the investment performance of the portfolio, the asset allocation and investment risk of the Fund, and the compliance program in relation to applicable laws, regulations, and governance policies. Special meetings of the Board of Trustees are scheduled as required.

STATUS:

In September, 2021, the Board approved the attached 2023 Board of Trustees meeting schedule. Please note that this schedule includes two one-day meetings in April and July and shortens the February meeting to one day. Given the replacement of three Trustees since this approval, the Board may want to consider whether these extra meetings are still desired for 2023.

The schedule for 2023 will need to be approved due to a necessary shift to the audit committee/budget work session meetings.

Two calendars are included here for 2024 for consideration and approval. One contains the two additional meetings and one reflects the regularly quarterly schedule.

RECOMMENDATION:

- Review of 2023 Board of Trustees Meeting Schedule
- Approve Change(s) to 2023 Board of Trustees Meeting Schedule
- Consider and approve 2024 Board of Trustees Meeting Schedule

### 2023 ADOPTED BOARD OF TRUSTEES MEETINGS

DATE	LOCATION	TYPE OF MEETING
February 15, 2023 (Wednesday)	Juneau	Regular
April 12, 2023 (Wednesday)	Anchorage	Regular
May 17-18, 2023 (Wednesday/Thursday)	Kenai	Regular Audit Committee
July 12, 2023 (Wednesday)	Anchorage	Regular
August 31, 2023** (Thursday)	Juneau	Audit Committee Budget Planning Session
September 20-21, 2023 (Wednesday/Thursday)	Anchorage	Annual Meeting
December 13-14, 2023 (Wednesday/Thursday)	Juneau	Regular

Committee Meetings and Special or additional APFC board meetings will be scheduled as needed.

\*The Audit Committee Meeting in September must be scheduled in advance to coordinate with the release date for the Audited Statements and the Annual Report as required in statute.

**\*New date due to deadlines for the Annual Report following the Audit Committee Meeting**

PROPOSED 2024 BOARD OF TRUSTEES MEETING SCHEDULE A

DATE	LOCATION	TYPE OF MEETING
February 14-15, 2024 (Wednesday/Thursday)	Juneau	Regular
May 15-16, 2024 OR May 22-23, 2024 (Wednesday/Thursday)	Anchorage	Regular Audit Committee
September 3, 2024* (Tuesday)	Juneau	Audit Committee Budget Planning Session
September 25-26, 2024 (Wednesday/Thursday)	Anchorage	Annual Meeting
December 11-12, 2024 (Wednesday/Thursday)	Juneau	Regular

Committee Meetings and Special or additional APFC board meetings will be scheduled as needed.

\*The Audit Committee Meeting in September must be scheduled in advance to coordinate with the release date for the Audited Statements and the Annual Report as required in statute.



2024 PROPOSED BOARD OF TRUSTEES MEETING SCHEDULE B

DATE	LOCATION	TYPE OF MEETING
February 15, 2024 (Thursday)	Juneau	Regular
April 10, 2024 (Wednesday)	Anchorage	Regular
May 15-16, 2024 OR May 22-23, 2024 (Wednesday/Thursday)	Juneau	Regular Audit Committee
July 17, 2024 (Wednesday)	Anchorage	Regular
September 3, 2024* (Tuesday)	Juneau	Audit Committee Budget Planning Session
September 25-26, 2024 (Wednesday/Thursday)	Anchorage	Annual Meeting
December 11-12, 2024 (Wednesday/Thursday)	Juneau	Regular

Committee Meetings and Special or additional APFC board meetings will be scheduled as needed.

\*The Audit Committee Meeting in September must be scheduled in advance to coordinate with the release date for the Audited Statements and the Annual Report as required in statute.