



Board of Trustees

Audit Committee Meeting

September 7, 2023

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Board of Trustees Audit Committee Meeting

September 7, 2023

Michael J. Burns Building
David Rose Board Room
(3rd Floor)

801 W 10th Street, Juneau, AK 99801

Webinar Access (click link to join webinar)

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

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

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Numeric Password (if needed): 27322834

***Please sign-up for public testimony by
emailing jloesch@apfc.org by noon September 6***

AGENDA

THURSDAY, SEPTEMBER 7, 2023

- | | |
|-----------|---|
| 1:00 p.m. | CALL TO ORDER |
| | ROLL CALL (Action) |
| | APPROVAL OF AGENDA (Action) |
| | APPROVAL OF MINUTES (Action) |
| | <ul style="list-style-type: none"> • Audit Committee Minutes – May 17, 2023 |
| | SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION |
| 1:15 p.m. | KPMG AUDIT REPORT (Information)
Beth Stuart, Engagement Partner, KPMG
Melissa Beedle, Engagement Manager, KPMG |
| 1:45 p.m. | EXECUTIVE SESSION – KPMG (Information)
Discuss integrity of financial statements/controls |
| 2:15 p.m. | DETAILED REVIEW OF FY23 YEAR-END FINANCIAL STATEMENTS (Information)
Valerie Mertz, Chief Financial Officer
Jacki Mallinger, Senior Portfolio Accountant II |
| | <ul style="list-style-type: none"> • FY23 Management’s Discussion & Analysis • FY23 Financial Statements • FY23 Financial Statements Notes |
| 2:45 p.m. | BREAK |

- 3:00 p.m. AUDIT COMMITTEE ADVISOR DISCUSSION (Information)
Committee Chair Crum
- 3:30 p.m. UPDATE ON LEGAL MATTERS (Information)
Chris Poag, General Counsel
- 3:45 p.m. INTERNAL AUDIT (Information)
Byron Williams, former Chief Audit Executive for Oregon Office of the State Treasurer
Beth Stuart, Engagement Partner, KPMG
- 4:45 p.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 5:00 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 7, 2023

INFORMATION:

BACKGROUND:

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

- May 17, 2023 Audit Committee Meeting

RECOMMENDATION:

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

**ALASKA PERMANENT FUND CORPORATION
AUDIT COMMITTEE MEETING
WEBEX/TELECONFERENCE**

May 17, 2023
8:15 a.m.

Originating at:
Soldotna City Hall
177 North Birch Street
Soldotna, Alaska 99669

Trustees Present:

Adam Crum, Chair
Jason Brune
Ellie Rubenstein

Ethan Schutt
Steve Rieger

Trust Staff Present:

Val Mertz, CFO
Mike Barnhill, COO
Chris Poag, Attorney
Pauly Swanson
Sebastian Vadakumcherry
Adam Kane
Valeria Buschfort
Alexander Smith
James Wilkey
Simba Blackman

Deven Mitchell, CEO
Marcus Frampton, CIO
Jennifer Loesch
Larissa Murray
Julia Mesdag
Luke Kirkham
Chad Brown
Sarah Struble
Rachel Zepp
Norix Mangual

Other Participants:

Beth Stuart, KPMG
Steve Center, Callan
Ed Martin, Jr.
Kim Vermilyea

Melissa Beedle, KPMG
Greg Allen, Callan
Charla Brown
R. Kevin Tune

PROCEEDINGS

CALL TO ORDER

CHAIR CRUM called the Audit Committee Meeting to order and began with a roll call

MS. LOESCH stated that Trustee Brune was en route, and there was a quorum. She noted that Trustee Rieger was also in attendance.

CHAIR CRUM asked for an approval of the agenda.

APPROVAL OF AGENDA

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

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes of September 1, 2022, was made by TRUSTEE SCHUTT.

CHAIR CRUM moved to public comment, and recognized Mr. Martin.

MR. MARTIN stated that his name was Ed Martin, Jr., and he resides at 702 Lawton Street in Kenai. He greeted the members, trustees of the Alaska Permanent Fund Board and thanked each of them for their service. He read from a prior, before statehood, Alaskan generation, comments made in 1999, 21 years ago, by his dad, Ed Martin, Sr., now resting at the Soldotna Veteran's Cemetery. He asked to please invest in the people of Alaska. He thanked all for the opportunity to voice both first- and second-generation Alaskans.

CHAIR CRUM thanked Mr. Martin and asked for any other public comment. Seeing none, he closed the public comment period.

FY23 KPMG AUDIT PLAN AND RISK ASSESSMENT

CHAIR CRUM moved to the KPMG Audit Plan Risk Assessment and recognized Melissa Beedle and Beth Stuart from KPMG. He asked them to state their names for the record, and then to proceed with the presentation.

MS. STUART stated that she was Beth Stuart, an audit partner with KPMG in the Anchorage office. She also serves as the office managing partner of their office in Alaska operations. She stated her appreciation for the flexibility to join remotely for logistics.

MS. BEEDLE stated that she was Melissa Beedle, an audit senior manager with KPMG. She continued that she has been involved with the Permanent Fund audit for about 11 or 12 years, and looked forward to another successful year.

MS. STUART stated that the presentation they prepared describes the audit plan strategy and the initial risk assessment associated with the June 30, 2023, upcoming audit. One of the areas the audit really focuses on is continuous improvement. At the end of every audit cycle, the management team meets internally to discuss the improvements for the next year. She moved to a summary of some of the required communications, and that they would be performing the audit

following Generally Accepted Auditing Standards, as well as Government Auditing Standards. That does not include performing an audit of internal control over financial reporting, which is not required. Considered are internal controls as they relate to the overall financial statement audit. She talked a bit about materiality in the timeline as well as the risk assessment, the preliminary risk assessment and how to involve others in the audit. She covered a few of the standard independence and responsibility matters. After the Permanent Fund closes their books about the third week of July, we will begin the remaining substantive audit procedures, follow-up on confirmations and on information received from third parties and from other data analysis performed, and then review the financial statements. Finally, the results will be reported to the staff and board of directors, perform required communications, and we expect to issue the audit reports on September 1st. She spent some time talking about the risk assessment procedures. She added that the audit procedures are designed to identify if there were any material adjustments posted outside the normal course of business. She asked for any questions on the risk assessment. There being none, she asked Melissa Beedle to continue.

MS. BEEDLE stated that specialists are involved for alternative investment and the real estate portfolio for the risk assessment. She continued that the Bank of New York Mellon is also involved as part of the audit. They are relied on as a service organization, and we receive a lot of reports from them. The internal control report provided to management is also reviewed. She explained the process with the appraisals, which are sent to their real estate specialists and reviewed.

TRUSTEE SCHUTT asked if there was a more robust plan to test and be prepared for the write-downs within the private equity investments or other private assets in the timing of the audit and the timing of potential write-downs.

MS. BEEDLE replied that they do get the detail of those write-downs occurring from management, and we look at those in accordance with the risk factors indicated. She continued to some of the information about their independence policies which are required to be independent of all of their audits. She also talked about management responsibilities and KPMG responsibilities as it relates to the audit process. She stressed that KPMG's responsibilities are that they are engaged by the Audit Committee and not management, and they use management to help reach the goals and objectives. She also noted that they had a new team member, the engagement quality reviewing partners; the second partner review is retiring, and there is a new second partner doing the reviewing. She continued that the Audit Committee Institute did a lead partner survey, and she went through some of the things asked about during audit committees and what was of interest to audit committees throughout the country. She also pointed out the links to the audit quality reports, the transparency reports, for reference. She mentioned about the new auditing standard that they were adopting, which was related to the risk assessment process discussed earlier.

MS. STUART continued that the purpose of the change in audit standard was to require auditors to do a more thorough risk assessment for KPMG. It was not a large change in the audit approach; just a big change in the documentation internally.

CHAIR CRUM asked CFO Mertz if this would affect the way documentation would be prepared.

CFO MERTZ replied that she did not think so. We try to be prepared for just about anything during the audit.

MS. BEEDLE explained that the information requests were built into the audit request list on a centralized portal where the audit request list is posted. She added that the APFC team does a great job of filling the requests fulfilled, organized and on time.

CHAIR CRUM asked for any other comments. There being none, he moved to the Internal Audit Discussion. He stated that this was about the possible items looked at in improving the overall governance structure of the Permanent Fund Corporation. He recognized Chief Operating Officer Mike Barnhill.

INTERNAL AUDIT DISCUSSION

COO BARNHILL stated that the Board recently hired Funston Advisory Services to do a governance assessment. One of the recommendations for the Board's consideration was to think about internal audit. He added that he was not an internal auditor and had no internal audit training. He described himself as a semi-paranoid lawyer/bureaucrat that worried about things that could go wrong. He talked about some of the positions he held within the State of Alaska, and he had the opportunity to serve on the Alaska Housing Finance Corporation Board, and their Audit Committee. They had an internal audit department with staff that would prepare a yearly work plan. His understanding of the Funston report is that internal audit, particularly in large pension organizations, is becoming more a standard practice. He continued that an internal auditor picked up at the end of the financial audit and looked at internal controls. An internal auditor looked at the risks and made sure there was an effective control to mitigate those risks. The other important part about internal audit is that it was independent. He explained that the internal audit would be reported directly to the Audit Committee Chair; then staff would be evaluated and supervised by the Chair. He added that the Audit Committee would be in charge of procuring the contract. He did not see any problem having KPMG as an external internal auditor.

MS. STUART replied that they could serve in an internal audit-type role but, as your external auditor, could not do risk assessment. She stated that it would not be appropriate to design the internal audit plan or perform all of the risk assessment. That would need to be the responsibility of management, which would need to also determine what areas the internal audit focus should be.

COO BARNHILL determined that the relationship of the internal audit to risk management would be a collaborative relationship with all stakeholders evaluating risks. Both internal auditor and the risk manager would collaborate on how risks should be mitigated, the controls, and then the risk manager would implement and monitor them. The internal auditor would assess whether they were working, and independently report that to the Audit Committee. He then explained the different risks.

CHAIR CRUM noted that Trustee Brune was present.

COO BARNHILL continued that the purpose of the documents in the Board's packet was to

illustrate internal audit, how it worked and how it functioned.

CHAIR CRUM pointed out that it was key to “clarify internal audit’s role in connection with risk management, which is to not manage risk, but to provide added assurance regarding the adequacy of risk management processes.” He noted that that was an important distinction.

COO BARNHILL agreed that it was an independent assessment and reporting. He distinguished this method of doing internal audit from something that was implemented in the Federal Government called the Inspector General function. They both served similar purposes, but the Inspector General function was less collaborative and could be fairly aggressive. He then went through an example of the UTIMCO internal audit, which was a general compliance audit. He concluded his presentation and stated that an internal audit was important in this kind of an organization, and he found it to be a value-add.

CHAIR CRUM asked if this would be a full-time or external position staffed out.

COO BARNHILL replied that he would start externally sourcing, and that would be the best place to start.

CHAIR CRUM stated appreciation for doing this on short notice. He moved to the next agenda item, the FY23 year-to-date financial statement review by CFO Valerie Mertz.

FY23 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW

CFO MERTZ noted that Jacki Mallinger was on-line and was responsible for the financial reporting for the Fund. She is also the lead on audit. She gave a shout-out to Ms. Mallinger for recently implementing a new accounting system with the support of the others on the implementation team. It was a huge effort, and she acknowledged and stated appreciation for her work. She talked about the financial statements as the only place to get a holistic view of the financial health of the Fund. She went through some key takeaways as of the end of the third quarter for the fiscal year. She noted that there were two main statements in looking at the financial statements: the balance sheet and the statement of revenues, expenses, and changes in Fund balance. She continued that the first section of the balance sheet are the assets, what the Fund owns. The second part shows the liquidity within the portfolio and some of the issues around the earnings reserve. This shows where the unrealized gains were within the portfolio by asset class. She then explained the real estate portfolio in reply to Trustee Brune’s question about real estate unrealized gains and losses. She stated that she would follow-up on the percentage of commercial space as opposed to residential space. She also provided a breakdown on the vacancy rates of commercial real estate. She moved to the liabilities section of the balance sheet which represented what the Fund owes. The two categories were Accounts Payable and income distributable to the State of Alaska. She added that Fund balances were what is left over.

TRUSTEE SCHUTT pointed out the importance of the inflation-proofing and the rigor in always trying to set that aside so that the Fund maintains its constitutional obligation and purpose of intergenerational wealth for Alaskans. He added that failing to keep up with the inflation-proofing would be a failure of that aspect of the duties.

CFO MERTZ continued through her presentation, explaining the statement of revenues, expenses and changes in Fund balance. She pointed out that, although performance for the private-markets assets are lagging, the most up-to-date information in terms of valuations for the financial statements were recorded.

TRUSTEE BRUNE asked Mr. Poag about a legislation to get passed for Amerada Hess.

MR. POAG stated that CEO Mitchell has been focused on the issue and pointed out to the Legislature that the ring-fence could be moved if they chose. He continued that it was a State law and requires a State law change. It has been a number of years since that litigation, and theoretically that ring-fence could be removed. He added that it is a Legislative prerogative.

TRUSTEE BRUNE asked if this group could make a recommendation.

CHAIR CRUM recognized CEO Mitchell.

CEO MITCHELL stated that this is an interesting issue. He explained there was a different fact set existing after the percent of market value statute was approved that the Permanent Fund earnings were no longer just used for the Permanent Fund Dividend. He continued that they were now used for a broader swath of funding needs of the state. It is arguable that the facts that led to the segregation of the moneys from the Amerada Hess settlement would not have the same legal argument today. He thought that there was cause for consideration of incorporating that balance into the trust. That money was not being inflation-proofed. That 424 was static, and has been since the creation of the Alaska Capital Income Account in the early 2000s. He added that it is something that could be a Board priority or consideration for requesting policymakers to consider rolling the Amerada Hess balance into the corpus balance of the Permanent Fund. It is already there, but to eliminate the ring-fence around it. He stated that the history of the Amerada Hess portion of the Permanent Fund was the lawsuit filed by the State against 15 companies. Amerada Hess was the first one, and the defense argued that the jury would be biased because the settlement would go into the Permanent Fund and be able to provide earnings that would pay Permanent Fund Dividends, and, therefore, the case should be removed from the jurisdiction. That was offset by the ring-fencing of the money by the Court. He continued that it is a matter of a review of the legal analysis that went into the requirement for ring-fencing. He thought that there is an argument that the requirement no longer exists based on the use of the Fund at this point. He added that it would be a matter of insuring that those same arguments that would be the basis of eliminating the ring-fence would be provided in any future litigation.

CHAIR CRUM stated that it would be appropriate to do a quick presentation on this for the September meeting, as well as where the money on the Amerada Hess would go and who is the appropriating authority over those dollar amounts. He continued that it is important to get it out there and discuss as a committee a possible recommendation on that to bring to the Full Board at the annual meeting for possible legislative action.

MR. POAG noted that the money goes into the Alaska Capital Income Account and is annually used for capital projects. He continued that the Legislature would need to consult with them. He added that there was litigation about royalty payment, which ended up in the CBR. Since the creation of CBR, he was not sure that this issue would ever present itself that way again. In the

interim, Ms. Swanson could reach out to the Finance Committee and see what they think.

CFO MERTZ moved to expenditures and then statutory net income. She stated that the concept of statutory net income was still on the books and those calculations continue every month. Statutory net income does not include the unrealized gains and losses earned by the Fund, and also excludes that portion of the realized earnings of the Amerada Hess balance that, ultimately moved to the Alaska Capital Income Fund.

TRUSTEE BRUNE asked about the statutory language that increased the royalty from 25 to 50 percent of royalties for new fields.

MR. POAG stated that Alaska Statute 37.13.010, subsection (a) (1), 25 percent for leases on or before December 1, 1979, and 50 percent for leases issued after December 1, 1979.

TRUSTEE BRUNE asked if that was for all royalties paid to the State.

MR. POAG replied that there were Federal mineral revenue sharing payments which are calculated differently that come to the Permanent Fund, but they go through a different process.

TRUSTEE BRUNE asked if the Permanent Fund would be receiving royalties from the pore space that was used.

CHAIR CRUM replied, yes, for carbon sequestration projects.

CFO MERTZ described what is done around cash flows in the private markets. When the events in the banking industry unfolded in March, some additional procedures to mitigate that risk were implemented. She continued that there was a lot of communication internally and with the external partners from which an internal watch list was developed of the banks that may be at a particular risk. These procedures are in place even today. Money is not being wired out until there is verbal confirmation that the instructions in place are still accurate and relevant. To date, there have been no failures on outgoing wires. There had been cancellations and changes, but there were no wires that had not landed in an unsafe place. She continued that there have been no problems receiving money that was expected. There is a lot of ongoing work as the partners change their banks out of necessity. The private markets team was busy working with the partners to make sure there are updated wire instructions, as needed. She acknowledged one of the finance team members who is retiring at the end of the month. Valeria Buschfort had been leading the private finance team for the last six years and was super instrumental in bringing a lot of automation, consistency and a lot of structure to the processes and procedures. She is a wizard at Excel, and is a data geek. She stated appreciation for all of her work and support over the last six years. She agreed to stay on a project basis for the summer to help get through audit. She continued that Jacki Mallinger agreed to step into that lead role on the private side. This will be a good opportunity for her to get some supervisory experience. She would continue to be responsible for the financial statements and be the lead on the audit, but would be stepping away from her public role. She added that they were working through the recruitment process to backfill her position at a more entry-level, bringing someone new onto the public team.

CHAIR CRUM thanked CFO Mertz and moved to the Audit Committee Self-Assessment. He asked CFO Mertz to continue.

AUDIT COMMITTEE SELF-ASSESSMENT

CFO MERTZ stated that one of the requirements of the Audit Committee charter is that the committee do an annual self-assessment, which is typically done at the May meeting. She continued that the form used was put out by KPMG. It was from their recommendations that the committee should be evaluating themselves. The survey was distributed to the Audit Committee members several weeks ago; she compiled the results and added some notes.

CHAIR CRUM stated that Item No. 2, the continuing education program, stood out. He asked staff to work on putting together a plan on appropriate courses or items to help with that. He asked what could be done for the Audit Committee meetings with the role served with the Permanent Fund Corporation and with regard to education.

CFO MERTZ replied that had been on her mind especially as the results of the survey came in. She stated that KPMG had an Audit Committee Institute, and we will work with them.

MS. STUART replied that KPMG does have an Audit Committee Institute, and we work closely with the National Association of Corporate Boards of Directors and put out various materials or webcasts which tend to be very focused toward committee members of public companies. She forwards information that seems relevant to the Permanent Fund Corporation, and would continue to expand the efforts there.

CHAIR CRUM stated that the next item was talking about some other matters, future agenda items, and trustee comments.

OTHER MATTERS/FUTURE AGENDA ITEMS/TRUSTEE COMMENTS

CHAIR CRUM stated that for the September meeting he would like to discuss the internal audit, what that looked like, the process needed in order to reach out for an external vendor to cover that. That would be a discussion as a committee, and to possibly bring that forward to the Full Board at the annual meeting as an item to do. He stated appreciation to Funston for bringing that forward and for COO Barnhill's ongoing comments on that.

CFO MERTZ stated that John Skjervem's comments at the Governance Committee Meeting were about how important it is to consider that and asked if he could suggest an entity that was more like us.

CHAIR CRUM stated that Mr. Skjervem's comments were poignant and asked for any other items to bring up. He moved to comments and stated appreciation to staff and for the overall presentation layout. He stated that the Audit Committee was adjourned.

(Audit Committee adjourned at 10:05 a.m.)



SUBJECT: Report of Annual Audit

ACTION: _____

DATE: September 7, 2023

INFORMATION: _____ X _____

BACKGROUND:

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

STATUS:

The financial audit for fiscal year 2023 will be completed by KPMG with a report date of September 7th following the committee’s review. Beth Stuart, engagement partner, and Melissa Beedle, engagement manager, will present a summary of the audit results. A copy of the presentation is included here.



Alaska Permanent Fund Corporation

Discussion with those charged with governance

Audit results and strategy for the year ending June 30, 2023

September 7, 2023



Audit results required communications and other matters

Matters to communicate		Response
Significant unusual transactions	X	
Uncorrected audit misstatements	✓	Page 6
Corrected audit misstatements	X	
Financial statement presentation and disclosure omissions	X	
Non-GAAP policies and practices	X	
Auditors' report	X	
Changes to our risk assessment and planned audit strategy	X	
Significant accounting policies and practices	X	
Significant accounting estimates	✓	Pages 4-5
Significant financial statement disclosures	X	

Matters to communicate		Response
Related parties	X	
Going concern	X	
Other information	✓	Page 7
Subsequent events	X	
Noncompliance with laws and regulations	X	
Significant difficulties encountered during the audit	X	
Significant findings or issues discussed, or the subject of correspondence with management	X	
Management's consultation with other accountants	X	
Difficult or contentious matters for which the auditor consulted	X	
Disagreements with management	X	
Other significant matters	X	

✓ = Matters to report X = No matters to report

Audit results required communications and other matters

Matters to communicate

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.
Written communications	Management representation letter, including summary of uncorrected misstatements, to be distributed under separate covers.
Independence	We hereby affirm that as of September 7, 2023, the engagement team and others in the firm as appropriate, the firm and its affiliated firms, have complied with relevant ethical requirements regarding independence.
Inquiries	See page 9

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 to manage the appraisals of the directly held real estate assets. Each property is valued quarterly by third-party advisors and annually through a third-party appraisal.

Significant assumptions used that have a high degree of subjectivity

- Assumptions used in the determination of value that have a degree of subjectivity include management estimates related to vacancy and renewal probability, rent growth, and expense growth.

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 values recorded by management were 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 values recorded by management are reasonable and not affected by indicators of management bias.

Uncorrected audit misstatements

Please see the slide at the end of this packet

To be provided at meeting

Other information

Other information	Procedures to be performed
Annual Report	When it is available, the audit team will obtain a draft of the annual report and review for consistency with the audited financial statements.



Questions?

Beth Stuart
Audit Partner
emstuart@kpmg.com

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

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

DATE: September 7, 2023 INFORMATION: _____ X _____

BACKGROUND:

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

STATUS:

The financial audit for fiscal year 2023 will be completed by KPMG with a report date of September 7th. The reports were still being finalized at the packet deadline. A draft of management’s discussion and analysis, the financial statements and the footnotes are included here. Significant changes, if any, will be highlighted during the presentation of FY2023 year-end results.



FY23 Year End Financial Statement Review

September 7, 2023

Key Takeaways

as of June 30th

- Accounting net income: \$4.3b
- Statutory net income: \$2.5b
- Mineral revenues deposited to corpus: \$754m
- POMV transfers to General Fund: \$3.4b
- Total return 5.18%



Total Assets (millions)

	FY23 as of 6/30	FY22 as of 6/30
Cash	\$3,247.7	\$4,050.4
Receivables	766.7	617.0
Investments	<u>75,276.0</u>	<u>73,009.9</u>
Total assets	\$79,290.4	\$77,677.3

Investments (millions)

Fair value	FY23 as of 6/30	FY22 as of 6/30
Marketable debt securities	\$13,204.0	\$13,968.3
Preferred and common stock	26,769.5	25,778.8
Real estate	8,263.3	7,099.5
Absolute return	5,334.4	5,075.6
Private credit	2,690.3	2,527.9
Private equity	15,321.2	15,544.8
Infrastructure	3,693.3	3,015.0
Total investments	\$75,276.0	\$73,009.9

Unrealized Gains (Losses) (millions)

Asset Class	FY23 as of 6/30	FY22 as of 6/30	FY23 as of 3/31
Marketable debt securities	\$(855.5)	\$(1,182.6)	\$(712.6)
Preferred and common stock	3,105.3	854.1	2,589.0
Real estate	2,170.3	2,511.1	2,303.2
Absolute return	1,338.3	1,273.4	1,376.7
Private credit	333.7	346.2	285.5
Private equity	5,687.8	6,324.6	5,432.1
Infrastructure	1,047.7	868.3	986.4
Derivatives & Currency	(2.3)	39.7	(43.8)
Total unrealized gains	\$12,825.3	\$11,034.8	\$12,216.5

Liabilities (millions)

	FY23 as of 6/30	FY22 as of 6/30
Accounts payable	\$1,264.2	\$1,316.1
Income distributable	<u>14.3</u>	<u>24.0</u>
Total liabilities	\$1,278.5	\$1,340.1

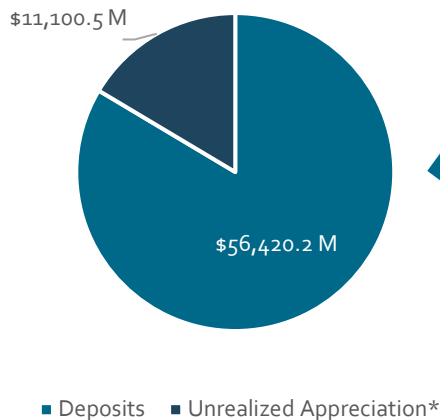
Fund Balances (millions)

	FY23 as of 6/30	FY22 as of 6/30
Nonspendable	\$67,520.7	\$60,187.6
Committed	3,526.1	3,360.6
Assigned	<u>6,965.1</u>	<u>12,789.0</u>
Total fund balances	<u>\$78,011.9</u>	<u>\$76,337.2</u>
Total liabilities and fund balances	\$79,290.4	\$77,677.3

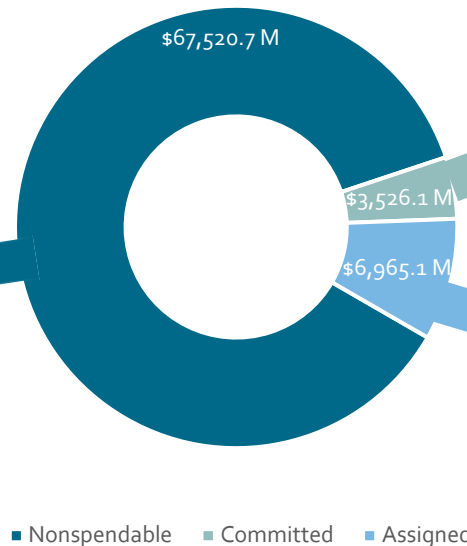
Structure

Principal

Principal:
Nonspendable

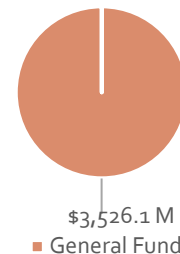


Alaska Permanent Fund

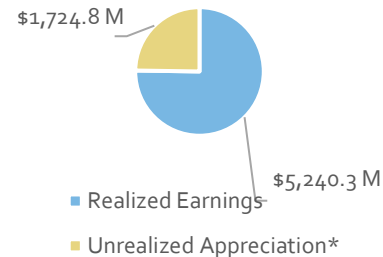


Earnings Reserve Account

ERA: Committed



ERA: Assigned



*Unrealized appreciation on invested assets is allocated proportionately between Principal and ERA

General Fund Transfer

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2023 (millions)

FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2018	64,894	424	64,470
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,473
2022	76,337	424	75,913
Average market value			70,522
PERCENTAGE from AS 37.13.140(b)			5.00%
Amount available for appropriation per AS 37.13.140(b)			3,526.1

General Fund Transfer

ALASKA PERMANENT FUND GENERAL FUND COMMITMENT FISCAL YEAR ENDING JUNE 30, 2024 (millions)

FISCAL YEAR	GAAP MARKET VALUE	STATE vs AMERADA HESS	APFC MARKET VALUE
2019	66,300	424	65,876
2020	65,302	424	64,878
2021	81,897	424	81,473
2022	76,337	424	75,913
2023	78,012	424	77,588
Average market value			73,145
PERCENTAGE from AS 37.13.140(b)			5.00%
Amount available for appropriation per AS 37.13.140(b)			3,657.3

Revenues (millions)

	FY23	FY22
Interest	\$502.7	\$456.1
Dividends	671.6	696.8
Real estate and other income	<u>462.9</u>	<u>531.2</u>
Total interest, dividends & other income	\$1,637.2	\$1,684.1
Total increase (decrease) in fair value of investments	<u>2,830.1</u>	<u>(4,547.8)</u>
Total revenues	\$4,467.3	\$(2,863.7)

Net Change in Investments Value

(millions)

Asset Class	FY23	FY22
Marketable debt securities	\$(229.6)	\$(2,467.7)
Preferred and common stock	3,049.1	(4,851.6)
Real estate	(278.9)	947.5
Absolute return	144.3	294.4
Private credit	47.2	105.8
Private equity	(4.8)	1,000.4
Infrastructure	272.2	485.3
Derivatives & currency	<u>(169.4)</u>	<u>(61.9)</u>
Total net increase (decrease)	\$2,830.1	\$(4,547.8)

Expenditures (millions)

	FY23	FY22
Operating expenditures	\$(161.7)	\$(142.2)
Other legislative appropriations	<u>(9.7)</u>	<u>(9.3)</u>
Total expenditures	<u>\$(171.4)</u>	<u>\$(151.5)</u>
Excess (deficiency) of revenues over expenditures	\$4,295.9	\$(3,015.2)

Statutory Net Income (millions)

	FY23	FY22
Accounting (GAAP) net income	\$4,295.9	\$(3,015.2)
Unrealized (gains) losses	(1,790.5)	7,582.8
ACIF realized income	<u>(14.3)</u>	<u>(24.0)</u>
Statutory net income	\$2,491.1	\$4,543.6

Realized Earnings by Asset Class (millions)

Asset Class	FY23	FY22
Marketable debt securities	\$(64.5)	\$(300.4)
Preferred and common stock	1,404.8	2,719.9
Real estate	234.9	58.1
Absolute return	79.3	11.9
Private credit	159.5	172.0
Private equity	863.2	1,796.3
Infrastructure	102.4	281.4
Derivatives & currency	(128.3)	(71.9)
Other	<u>25.6</u>	<u>51.8</u>
Total	\$2,676.9	\$4,719.1

Changes in Fund Balances

(millions)

Other financing sources (uses)	FY23	FY22
Transfers in	\$753.6	\$548.9
Transfers out	<u>(3,374.8)</u>	<u>(3,093.3)</u>
Net change in fund balances	\$1,674.7	\$(5,559.6)
Beginning of period	\$76,337.2	\$81,896.8
End of period	\$78,011.9	\$76,337.2

Components of Change (millions)

↑	Accounting Net Income	\$4.29 billion
↑	Mineral Deposits	\$0.75 billion
↓	POMV Transfer	\$3.37 billion
↑	Net Change	\$1.67 billion

Adjustments for hard close

Adjustment	Impact
Lagged valuations on private assets →	\$134m net increase in fair value of investments
Revised estimate of royalty deposits from DNR →	\$47k decrease to corpus

FY23 Fun Facts

4 new team members

564k transactions

1 retirement

840+ accounts

Offsite strategic planning

PCE reporting

Clean audit

2500+ cash flows

42 currencies

90 countries

60 new BNYM accounts

ERP implementation

1 internal promotion

Weekly team meetings



Questions?

ALASKA PERMANENT FUND

Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Trustees
Alaska Permanent Fund Corporation
(A Component Unit of the State of Alaska):

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying balance sheets of the Alaska Permanent Fund (the Fund), a governmental fund of the State of Alaska, as of June 30, 2023 and 2022, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Alaska Permanent Fund and do not purport to, and do not, present fairly the financial position of the State of Alaska as of June 30, 2023 and 2022, or the changes in its financial position for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2022 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

 (signed) KPMG LLP

Anchorage, Alaska

Date

Management’s Discussion and Analysis

The Alaska Permanent Fund Corporation (“APFC”) management is pleased to provide this Management’s Discussion and Analysis (“MD&A”) of the financial activities of the Alaska Permanent Fund (“Fund” or “Permanent Fund”) for the fiscal years ended June 30, 2023 and June 30, 2022. This narrative is intended to provide management’s insight into the results of operations from the past two fiscal years and highlight specific factors that contributed to those results. The MD&A is comprised of three sections: financial highlights, discussion regarding use of the financial statements, and analysis of the financial statements; the sections should be reviewed together with the financial statements and related notes that follow it.

Financial Highlights

- The volatility in public markets experienced in FY2022, though not as extreme, continued through FY2023. The Fund ended the fiscal year (“FY”) at a total return of 5.18 percent. This represents a significant recovery from the total return for FY2022 of –1.32 percent, though lags behind median projections. The fund underperformed the performance benchmark by 56 basis points in FY2023 and outperformed by 192 basis points in FY2022.
- FY2023’s excess of revenues over expenditures (net income) was \$4.3 billion. As with total return, this is a nice recovery from the \$3 billion loss experienced in FY2022 and is significantly lower than FY2021’s net income of \$19.4 billion.
- During FY2018, legislation was passed which, subject to appropriation, provides for a transfer from the Earnings Reserve Account to the General Fund to help balance the State’s budget. The amount of the transfer is based upon a percentage of the average market value of the Fund at the end of the first five of the preceding six fiscal years. The funding for the Alaska Permanent Fund dividend is then transferred from the General Fund. The June 30, 2023 balance sheet reflects a \$3.5 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2024. The June 30, 2022 balance sheet reflects a \$3.4 billion commitment of fund balance for the appropriation that was transferred in FY2023.
- The portion of dedicated State of Alaska revenues deposited into the principal (or “corpus”) of the Fund is based on mineral prices and production. In FY2023, this amount came in at \$754 million, which includes \$198 million in payments from prior years that were not appropriated at the time. Deposits recorded in FY2022 were \$549 million.
- Inflation proofing of the Fund’s corpus is outlined in Alaska Statute and, like the transfer to the General Fund, is subject to appropriation. In FY2023, the statutory inflation rate was 8.00 percent, which resulted in a transfer of \$4.2 billion. In FY2022, the statutory inflation rate was 4.70 percent and would have resulted in a transfer of \$2.4 billion, but because there was no appropriation included in the FY2022 budget, no transfer was made. There was also no appropriation for inflation proofing for FY2016 – FY2018 and FY2021. If appropriated, the transfers for all five years would have totaled \$4.4 billion.
- During FY2021, legislation was passed to transfer \$4 billion from the Earnings Reserve Account to the corpus in FY2022. The transfer was completed on July 1, 2021.

Using the Financial Statements

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

Balance Sheets

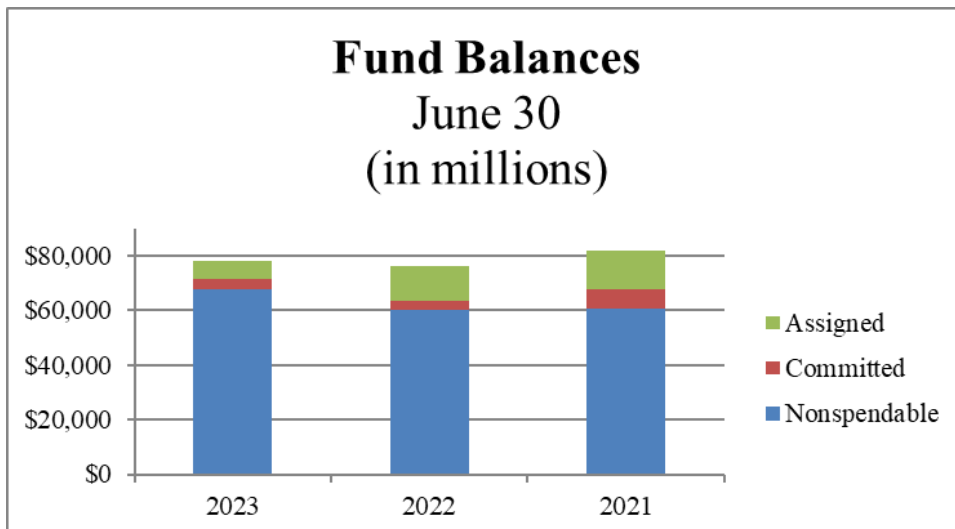
The Balance Sheets present all assets, liabilities and fund balances of the Fund as of June 30, 2023, as well as the prior fiscal year’s ending balances at June 30, 2022.

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

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

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

- The largest category is nonspendable (87 percent as of June 30, 2023) which is not available for government appropriation by the State of Alaska.
- Committed fund balance (5 percent as of June 30, 2023) represents amounts that have been signed into law before the end of the fiscal year for transfer to another account or purpose during the subsequent fiscal year. In both years, this includes the legislation which took effect at the beginning of FY2019, which provides for a percent-of-market-value transfer from the Earnings Reserve Account to the General Fund.
- The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance decreased by 45 percent from FY2022 to FY2023, from \$12.8 billion to \$7.0 billion. Generally, five factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses (statutory net income); the State of Alaska General Fund transfer; inflation proofing (a transfer of assets from the assigned to the nonspendable fund balance); special appropriations out of the Earnings Reserve Account; and the change in unrealized gains and losses allocated to the assigned fund balance. During FY2023, the amounts contributing to the net decrease of approximately \$5.8 billion in the assigned fund balance were:
 - (i) realized income of \$2.5 billion;
 - (ii) the commitment of \$3.5 billion for transfer to the General Fund;
 - (iii) inflation proofing of \$4.2 billion; and
 - (iv) the allocation of a portion of unrealized gains and losses, which decreased from FY2022 to FY2023 by \$610 million, to a balance of \$1.7 billion.



Statements of Revenues, Expenditures and Changes in Fund Balances

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the 12 months in FY2023 and FY2022.

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

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

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

Notes to the Financial Statements

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

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double-digit ratios, the nonspendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund and provides a comparison of the change between balances at June 30, 2023 and 2022.

Balance Sheets	June 30		Net change	Percent
	2023	2022		
Assets				
Cash and temporary investments	\$ 3,247,712,000	4,050,405,000	(802,693,000)	(20)%
Receivables and other assets	766,653,000	616,955,000	149,698,000	24%
Investments	75,275,973,000	73,009,953,000	2,266,020,000	3%
Securities lending collateral	1,791,238,000	4,576,507,000	(2,785,269,000)	(61)%
Total assets	\$ 81,081,576,000	82,253,820,000	(1,172,244,000)	(1)%
Liabilities				
Accounts payable	1,264,176,000	1,316,140,000	(51,964,000)	(4)%
Income distributable to the State of Alaska	14,265,000	24,002,000	(9,737,000)	(41)%
Securities lending collateral	1,791,238,000	4,576,507,000	(2,785,269,000)	(61)%
Total liabilities	\$ 3,069,679,000	5,916,649,000	(2,846,970,000)	(48)%
Fund balances				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	56,420,233,000	51,487,347,000	4,932,886,000	10%
Unrealized appreciation on invested assets	11,100,466,000	8,700,308,000	2,400,158,000	28%
Total nonspendable	67,520,699,000	60,187,655,000	7,333,044,000	12%
Committed:				
General Fund appropriation	3,526,088,000	3,360,567,000	165,521,000	5%
Total committed	3,526,088,000	3,360,567,000	165,521,000	5%
Assigned for future appropriations:				
Realized earnings	5,240,347,000	10,454,488,000	(5,214,141,000)	(50)%
Unrealized appreciation on invested assets	1,724,763,000	2,334,461,000	(609,698,000)	(26)%
Total assigned	6,965,110,000	12,788,949,000	(5,823,839,000)	(46)%
Total fund balances	\$ 78,011,897,000	76,337,171,000	1,674,726,000	2%
Total liabilities and fund balances	\$ 81,081,576,000	82,253,820,000	(1,172,244,000)	(1)%

The value of the Fund’s assets, excluding securities lending collateral, increased slightly between June 30, 2022 and June 30, 2023. The value of the Fund’s assets is most significantly impacted by investment performance. Comparative performance for each asset class is shown below:

	FY2023	FY2022
Public equity	14.16%	-14.32%
Fixed income	1.63%	-10.82%
Private equity & special opportunities	-2.08%	17.60%
Real estate	-2.47%	23.41%
Private income	4.20%	16.20%
Absolute return	3.84%	7.98%
Risk parity	not available	-17.93%
Cash	9.36%	-0.83%
TOTAL FUND	5.18%	-1.32%

The ending values of securities lending collateral invested and the related liability are dependent upon the amount of securities out on loan on any particular day. The counterparty lending the security has the option of pledging cash or non-cash collateral. The cash collateral amount is presented on the Balance Sheets. The average value of assets on loan during FY2023 was \$8.5 billion, with a low of \$8.1 billion and a high of \$10.0 billion. The Fund had earnings from securities lending of \$24 million during FY2023, a significant decrease from \$29 million received in FY2022.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due but not yet settled on securities purchased. The open transactions can vary widely from day to day and are usually the largest portion of Fund payables, representing 98 percent in both FY2023 and FY2022.

The sole amount due to the State of Alaska at the end of FY2023 and FY2022 is the transfer to the Alaska Capital Income Fund (ACIF). This amount is calculated based on realized earnings and was \$14 million for FY2023 and \$24 million for FY2022. The \$10 million dollar decrease from the prior year is caused by much lower realized returns in FY2023 versus FY2022.

Total fund balance increased by 2 percent from FY2022 to FY2023, or \$1.6 billion, consistent with the 5.18 percent total return for the year and the net transfers out of the Fund. Components of this increase were \$1.6 billion in stock dividends, bond interest, and cash flow income from other investments, \$754 million in dedicated mineral deposits, increase in the fair value of investments of \$2.8 billion, offset by operating expenses and other appropriations of \$171 million, and the General Fund transfer of \$3.4 billion.

In comparison, total fund balance decreased from FY2021 to FY2022 by 7 percent, or \$5.6 billion, due to net loss of the Fund of \$3.0 billion and transfers out (General Fund of \$3.1 billion and ACIF of \$24 million) partially offset by transfers in (State dedicated mineral revenues of \$549 million).

The table below is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY2023 as compared to FY2022 are shown in both dollars and percentages.

Statements of Revenues, Expenditures and Changes in Fund Balances	Year Ended June 30		Net change	Percent
	2,023	2,022		
Revenues				
Total interest, dividends, real estate and other income	\$ 1,637,212,000	1,684,102,000	(46,890,000)	(3)%
Total net increase (decrease) in the fair value of investments	2,830,108,000	(4,547,805,000)	7,377,913,000	162%
Total revenues	\$ 4,467,320,000	(2,863,703,000)	7,331,023,000	256%
Expenditures				
Operating expenditures	(161,647,000)	(142,258,000)	(19,389,000)	14%
Other legislative appropriations	(9,725,000)	(9,281,000)	(444,000)	5%
Total expenditures	\$ (171,372,000)	(151,539,000)	(19,833,000)	13%
Excess (deficiency) of revenues over expenditures	\$ 4,295,948,000	(3,015,242,000)	7,311,190,000	242%
Other financing sources (uses)				
Transfers in – dedicated				
State revenues	753,610,000	548,916,000	204,694,000	37%
Transfers out – appropriations	(3,374,832,000)	(3,093,298,000)	(281,534,000)	9%
Net change in fund balances	\$ 1,674,726,000	(5,559,624,000)	7,234,350,000	130%
Fund balances				
Beginning of period	76,337,171,000	81,896,795,000	(5,559,624,000)	(7)%
End of period	\$ 78,011,897,000	76,337,171,000	1,674,726,000	2%

During FY2023, cash flow revenue from interest, dividends, real estate, and other sources was slightly lower than FY2022 levels at \$136 million per month on average, down from \$140 million per month on average in FY2022. Cash flow income for both FY2023 and FY2022 was higher than the average in FY2021 of \$127 million per month.

The change in the fair value of investments increased by 162 percent from -\$4.5 billion in FY2022 to \$2.8 billion in FY2023. The public equity portfolio experienced the biggest gains during FY2023 following the downturn during FY2022. FY2022's change in fair value of investments was a 125 percent decrease from the \$18.1 billion gain in FY2021, reflective of the market losses in FY2022.

Operating expenditures increased from FY2022 to FY2023 by 14 percent. This increase is in contrast with the decrease experienced between FY2021 and FY2022 of 13 percent. The volatility between years is mainly caused by fluctuations in amounts paid in investment management fees. Investment management fees depend upon the value of assets under management by external managers and their performance relative to their benchmarks. Market volatility and changes to asset allocation cause fees to fluctuate.

Transfers in of dedicated State revenues increased significantly from FY2022 to FY2023 by 37 percent (\$205 million), totaling \$754 million in FY2023 compared to \$549 million in FY2022. These transfers totaled \$320 million in FY2021. Included in the FY2023 deposits are \$198 million in payments from prior years that were not appropriated at the time. The Alaska Constitution requires that at least 25% of mineral royalties and related payments received by the State be transferred to the Permanent Fund. State statutes mandate an additional 25% on select leases be deposited. Transfers in of dedicated state revenues under these statutes are subject to legislative appropriation.

Transfers out of the Fund are for two purposes: 1) an appropriation to the General Fund and 2) an appropriation to fund the Alaska Capital Income Fund (ACIF). The General Fund and ACIF transfers are subject to legislative appropriation. The total transfer amount is shown as committed fund balance at the end of the year in which the appropriation is made, and the commitment is released when the transfers are made. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of \$14 million in FY2023 and \$24 million in FY2022. The earnings for FY2021 were \$50 million.

Economic, Investment, and Political Factors

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

Additional Information

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

Alaska Permanent Fund

Balance sheets

	<i>June 30,</i>	
	2023	2022
Assets		
Cash and temporary investments	\$ 3,247,712,000	4,050,405,000
Receivables and other assets	766,653,000	616,955,000
Investments:		
Marketable debt securities	13,204,001,000	13,968,307,000
Preferred and common stock	26,769,518,000	25,870,083,000
Real estate	8,263,284,000	7,099,497,000
Absolute return	5,334,364,000	5,075,585,000
Private credit	2,690,337,000	2,527,914,000
Private equity	15,321,168,000	15,453,580,000
Infrastructure	3,693,301,000	3,014,987,000
Total investments	75,275,973,000	73,009,953,000
Securities lending collateral	1,791,238,000	4,576,507,000
Total assets	\$ 81,081,576,000	82,253,820,000
Liabilities		
Accounts payable	1,264,176,000	1,316,140,000
Income distributable to the State of Alaska	14,265,000	24,002,000
Securities lending collateral	1,791,238,000	4,576,507,000
Total liabilities	\$ 3,069,679,000	5,916,649,000
Fund balances		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	56,420,233,000	51,487,347,000
Unrealized appreciation on invested assets	11,100,466,000	8,700,308,000
Total nonspendable	67,520,699,000	60,187,655,000
Committed:		
General Fund appropriation	3,526,088,000	3,360,567,000
Total committed	3,526,088,000	3,360,567,000
Assigned for future appropriations:		
Realized earnings	5,240,347,000	10,454,488,000
Unrealized appreciation on invested assets	1,724,763,000	2,334,461,000
Total assigned	6,965,110,000	12,788,949,000
Total fund balances	\$ 78,011,897,000	76,337,171,000
Total liabilities and fund balances	\$ 81,081,576,000	82,253,820,000

See accompanying notes to the financial statements.

Alaska Permanent Fund

Statements of revenues, expenditures and changes in fund balances

	<i>Year Ended June 30,</i>	
	2023	2022
Revenues		
Interest	\$ 502,731,000	456,146,000
Dividends	671,564,000	696,785,000
Real estate and other income	462,917,000	531,171,000
Total interest, dividends, real estate and other income	1,637,212,000	1,684,102,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	(229,610,000)	(2,467,669,000)
Preferred and common stock	3,049,111,000	(4,812,661,000)
Real estate	(278,850,000)	947,527,000
Absolute return	144,325,000	294,355,000
Private credit	47,152,000	105,756,000
Private equity	(4,815,000)	961,453,000
Infrastructure	272,249,000	485,323,000
Foreign currency forward exchange contracts and futures	103,260,000	188,421,000
Currency	(272,714,000)	(250,310,000)
Total net increase (decrease) in the fair value of investments	2,830,108,000	(4,547,805,000)
Total revenues	\$ 4,467,320,000	(2,863,703,000)
Expenditures		
Operating expenditures	(161,647,000)	(142,258,000)
Other legislative appropriations	(9,725,000)	(9,281,000)
Total expenditures	(171,372,000)	(151,539,000)
Excess (deficiency) of revenues over expenditures	4,295,948,000	(3,015,242,000)
Other financing sources (uses)		
Transfers in - dedicated State revenues	753,610,000	548,916,000
Transfers out - statutory and legislative appropriations	(3,374,832,000)	(3,093,298,000)
Net change in fund balances	1,674,726,000	(5,559,624,000)
Fund balances		
Beginning of period	76,337,171,000	81,896,795,000
End of period	\$ 78,011,897,000	76,337,171,000

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

1. ENTITY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Cash and temporary investments

The amounts shown on the balance sheets as cash and temporary investments include cash on deposit at the custodian bank, cash swept to overnight investment funds, cash collateral held at derivatives brokers, U.S. Treasury bills, commercial paper, and the net fair value of foreign exchange forward contracts. The APFC’s asset allocation includes approximately two percent in cash. The APFC investment policy specifies that funds dedicated to this portion of the asset allocation will be invested in money market funds or fixed income securities with weighted-average maturities of no greater than 24 months.

General Fund appropriations

In FY2018 the Legislature passed Senate Bill 26, which created a percent of market value draw on the Earnings Reserve Account for transfer to the General Fund. Alaska Statute 37.13.140 was amended to specify the formula for percent of market value as 5% of the average market value of the fund as of June 30 for the first five of the preceding six fiscal years, including the fiscal year just ended. The average market value of the fund includes the Earnings Reserve Account, but not the principal attributed to the settlement of *State v. Amerada Hess, et al.* This legislation took effect for FY2019 and replaced the appropriation to the Dividend Fund. The amount appropriated prior to year-end as transferrable to the General Fund for the next fiscal year is shown as committed fund balance on the financial statements at June 30.

Inflation proofing

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to offset the effect of inflation on Fund principal during the fiscal year. Based on advice from the Alaska Department of Law, an annual intra-fund inflation proofing transfer (from the assigned to the nonspendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total nonspendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rates for the years ended June 30, 2023 and 2022 were 8.0 percent and 4.7 percent, respectively. The transfer would have been \$2.4 billion for FY2022; however, the necessary appropriation was not included in the budget authorization, so no transfer was made. The transfer for FY2023, which was appropriated, was \$4.2 billion.

Fund balance

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

Forward exchange contracts

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

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

Futures

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

Income taxes

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

Investments and related policies

Carrying value of investments

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

State investment regulations

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

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund’s investment portfolio. To help achieve this goal, the Trustees allocate the Fund’s investments among various asset classes. At June 30, 2023, the APFC’s strategic asset allocation targets were as follows:

<u>Asset Class</u>	<u>Asset Class Target</u>
Public equity	36%
Fixed income	20%
Private equity & special opportunities	17%
Real estate	9%
Infrastructure & private income	9%
Absolute return	6%
Risk parity	1%
Cash	2%

To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each asset class, the APFC’s Chief Investment Officer has discretionary authority to permit target deviations within one specified range (referred to as the “green zone” in the investment policy), the APFC’s Executive Director can approve target deviations for up to 90 days within a broader range (the “yellow zone”), and the Board can approve operating for longer than 30 days within a third range (the “red zone”). For example, the target dollar allocation for the public equities class is 36 percent, with the green zone range set at plus or minus five percent, the yellow zone range set at zero to five percent beyond the green zone, and red zone range set at greater than five percent beyond the green zone. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio’s risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

Concentration of credit risk

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

Credit risk

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

Custodial credit risk

Custodial credit risk is the risk that in the event of a bank failure the Fund's deposits may not be returned. The APFC generally requires that all investment securities at custodian banks be held in the name of the Fund or the APFC (on behalf of the Fund). For the Fund's non-domestic securities held by most sub-custodians, the APFC's primary custodian provides contractual indemnities against sub-custodial credit risk. Excess cash in custodial accounts is swept daily to a money market fund. Late deposits of cash which miss the money market sweep deadline are deposited to an interest-bearing account at the custodian. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, balances in individual accounts exceed this limit.

Foreign currency risk

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

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The APFC manages the Fund's exposure to interest rate risk in part through tracking error guidelines set forth in the APFC investment policy.

Duration is an indicator of a portfolio's market sensitivity to changes in interest rates. In general, the major factors affecting duration are, in order of importance, maturity, prepayment frequency, level of market interest rates, size of coupon, and frequency of coupon payments. Rising interest rates generally translate into the value of fixed income investments declining, while falling interest rates are generally associated with increasing value. Effective duration attempts to account for the price sensitivity of a bond to changes in prevailing interest rates, including the effect of embedded options. As an example, for a bond portfolio with a duration of five years, a one percentage point parallel decline in interest rates would result in an approximate price increase on that bond portfolio of five percent.

The fund held fixed income investments with floating, variable, and step interest rates valued at \$817 million at June 30, 2023 and \$649 million at June 30, 2022. The current annual interest rates range from 0 to 9.7 percent.

Transfers in

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

Transfers out

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

Reclassifications

APFC made certain reclassifications to the FY2022 balances in the accompanying statements to make them consistent with the FY2023 presentation.

3. CASH AND TEMPORARY INVESTMENTS

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

	<u>2023</u>	<u>2022</u>
Cash	\$ 187,170,000	152,106,000
Pooled funds	1,077,259,000	1,642,066,000
Commercial paper	19,593,000	39,558,000
U.S. Treasury bills	1,960,759,000	2,174,013,000
FX forward exchange contracts	2,931,000	42,662,000
Total cash and temporary investments	\$ 3,247,712,000	4,050,405,000

Uninvested cash was held at the custodian, sub-custodian, or derivatives broker banks, primarily in interest-bearing accounts. All pooled funds were invested in a money market fund. U.S. Treasury bills are explicitly guaranteed by the U.S. government. Late deposits of cash which miss the money market sweep deadline and foreign currency are deposited in an interest-bearing account at the custodian. Deposit amounts that exceeded the FDIC insurance limit were \$117,041,000 on June 30, 2023 and \$134,831,000 on June 30, 2022.

4. RECEIVABLES AND OTHER ASSETS

Receivables and other assets at June 30 are as follows:

	<u>2023</u>	<u>2022</u>
Interest receivable	\$ 109,110,000	94,834,000
Dividends receivable	82,258,000	65,832,000
Sales receivable	502,663,000	344,411,000
Dedicated State revenues receivable	72,622,000	111,878,000
Total receivables and other assets	\$ 766,653,000	616,955,000

5. MARKETABLE DEBT SECURITIES

Marketable debt securities categorized by debt instrument type at June 30 are summarized as follows:

2023	Cost	Fair value	Unrealized gains (losses)
U.S. Treasury and government notes/bonds	\$ 1,876,966,000	1,831,296,000	(45,670,000)
Mortgage-backed securities	2,389,469,000	2,280,689,000	(108,780,000)
U.S. corporate bonds	6,005,204,000	5,494,218,000	(510,986,000)
Commercial mortgage and asset-backed securities	570,923,000	530,881,000	(40,042,000)
Non-U.S. government bonds	2,130,200,000	2,018,929,000	(111,271,000)
Non-U.S. corporate bonds	941,371,000	894,551,000	(46,820,000)
Exchange traded funds	151,955,000	153,437,000	1,482,000
Total marketable debt securities	\$ 14,066,088,000	13,204,001,000	(862,087,000)
2022			
U.S. Treasury and government notes/bonds	\$ 2,370,389,000	2,250,552,000	(119,837,000)
Mortgage-backed securities	1,972,826,000	1,901,040,000	(71,786,000)
U.S. corporate bonds	5,952,642,000	5,334,084,000	(618,558,000)
Commercial mortgage and asset-backed securities	682,365,000	627,443,000	(54,922,000)
Non-U.S. government bonds	1,947,074,000	1,723,348,000	(223,726,000)
Non-U.S. corporate bonds	808,325,000	734,486,000	(73,839,000)
Exchange traded funds	1,417,264,000	1,397,354,000	(19,910,000)
Total marketable debt securities	\$ 15,150,885,000	13,968,307,000	(1,182,578,000)

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating of BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organization (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Accounts with high yield mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds). For purposes of this note, if credit ratings differ among the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2023, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO quality ratings	Domestic	Non-domestic	Total fair value	Percentage of holdings
AAA	\$ 320,127,000	279,036,000	599,163,000	4.54%
AA	354,904,000	439,120,000	794,024,000	6.01%
A	1,588,698,000	399,639,000	1,988,337,000	15.06%
BBB	2,730,798,000	504,589,000	3,235,387,000	24.50%
BB	736,175,000	204,080,000	940,255,000	7.12%
B	232,016,000	63,543,000	295,559,000	2.24%
CCC	—	4,078,000	4,078,000	0.03%
CC	—	—	—	0.00%
C	—	—	—	0.00%
D	—	93,481,000	93,481,000	0.71%
Total fair value rated debt securities	\$ 5,962,718,000	1,987,566,000	7,950,284,000	60.21%
Exchange traded funds	129,026,000	24,411,000	153,437,000	1.16%
Not rated	55,913,000	956,280,000	1,012,193,000	7.67%
U.S. government explicitly backed by the U.S. government	2,332,110,000	—	2,332,110,000	17.66%
U.S. government implicitly backed by the U.S. government	1,755,977,000	—	1,755,977,000	13.30%
Total fair value debt securities	\$ 10,235,744,000	2,968,257,000	13,204,001,000	100.00%

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio duration in comparison to established benchmarks. At June 30, 2023, the effective duration by investment type, based on fair value, is as follows:

	Percentage of holdings	Duration
Domestic bonds		
Treasury and government notes/bonds	17.89%	6.04
Mortgage-backed securities	22.28%	6.50
Corporate bonds	53.68%	7.59
Commercial mortgage and asset-backed securities	4.89%	1.74
Exchange traded funds	1.26%	—
Total domestic bonds	100.00%	6.69
Non-domestic bonds		
Treasury and government notes/bonds	68.02%	7.72
Corporate bonds	30.14%	7.13
Commercial mortgage and asset-backed securities	1.02%	1.15
Exchange traded funds	0.82%	—
Total non-domestic bonds	100.00%	7.41

8. PREFERRED AND COMMON STOCK

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

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows, which include the net fair value of equity index futures of \$6.8 million as of June 30, 2023 and -\$1.4 million as of June 30, 2022:

	Cost	Fair value	Unrealized gains (losses)
2023			
Direct investments			
Domestic stock	\$ 11,481,670,000	13,998,864,000	2,517,194,000
Non-domestic stock	11,969,717,000	12,566,345,000	596,628,000
Commingled funds	212,824,000	204,309,000	(8,515,000)
Total preferred and common stock	\$ 23,664,211,000	26,769,518,000	3,105,307,000
2022			
Direct investments			
Domestic stock	\$ 12,377,124,000	13,666,399,000	1,289,275,000
Non-domestic stock	12,339,879,000	12,008,546,000	(331,333,000)
Commingled funds	207,742,000	195,138,000	(12,604,000)
Total preferred and common stock	\$ 24,924,745,000	25,870,083,000	945,338,000

9. FOREIGN CURRENCY EXPOSURE

Foreign currency risk arises when a loss could result from adverse changes in foreign currency exchange rates. Foreign currency risk is managed by the international investment managers in part through their decisions to enter into foreign currency forward contracts. Foreign currency risk is also managed through the diversification of assets in various countries and currencies.

At June 30, 2023, the Fund's cash holdings, foreign currency forward exchange contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

Foreign currency	Cash and cash equivalents	Foreign exchange forward contracts	Equity, private debt, real estate, infrastructure	Marketable debt	Total foreign currency exposure
Australian Dollar	\$ 2,559,000	(61,133,000)	348,078,000	44,041,000	333,545,000
Brazil Real	891,000	-	161,207,000	-	162,098,000
Canadian Dollar	3,954,000	(53,994,000)	646,962,000	46,892,000	643,814,000
Chilean Peso	325,000	-	7,975,000	-	8,300,000
Chinese Yuan Renminbi	(1,711,000)	(226,622,000)	340,239,000	224,868,000	336,774,000
Colombian Peso	93,000	(6,116,000)	1,361,000	5,655,000	993,000
Czech Koruna	64,000	(8,157,000)	1,433,000	7,765,000	1,105,000
Danish Krone	1,402,000	(15,550,000)	167,326,000	15,134,000	168,312,000
Euro Currency	54,590,000	(743,036,000)	3,896,081,000	629,185,000	3,836,820,000
Hong Kong Dollar	5,619,000	(13,120,000)	821,933,000	-	814,432,000
Hungarian Forint	168,000	(1,145,000)	7,179,000	1,130,000	7,332,000
Indian Rupee	1,122,000	-	410,146,000	-	411,268,000
Indonesian Rupiah	674,000	(24,604,000)	87,457,000	23,961,000	87,488,000
Israeli Shekel	593,000	(11,111,000)	35,657,000	11,009,000	36,148,000
Japanese Yen	(5,029,000)	(525,287,000)	1,383,014,000	527,576,000	1,380,274,000
Kuwaiti Dinar	22,000	-	1,515,000	-	1,537,000
Malaysian Ringgit	577,000	(18,316,000)	23,033,000	18,015,000	23,309,000
Mexican Peso	840,000	(15,873,000)	73,370,000	15,339,000	73,676,000
New Taiwan Dollar	1,626,000	(366,000)	434,927,000	-	436,187,000
New Zealand Dollar	292,000	(5,044,000)	9,236,000	4,924,000	9,408,000
Norwegian Krone	477,000	(7,929,000)	59,933,000	8,027,000	60,508,000
Pakistan Rupee	3,000	-	235,000	-	238,000
Peruvian Sol	59,000	(13,975,000)	-	12,540,000	(1,376,000)
Philippines Peso	102,000	-	8,511,000	-	8,613,000
Polish Zloty	874,000	-	59,219,000	-	60,093,000
Pound Sterling	15,292,000	(240,257,000)	1,235,876,000	148,736,000	1,159,647,000
Qatari Riyal	711,000	-	18,481,000	-	19,192,000
Russian Ruble	-	-	3,327,000	-	3,327,000
Saudi Arabian Riyal	(1,199,000)	-	102,992,000	-	101,793,000
Singapore Dollar	(942,000)	1,502,000	83,610,000	-	84,170,000
South African Rand	308,000	(24,000)	61,508,000	-	61,792,000
South Korean Won	1,284,000	(59,662,000)	404,052,000	59,550,000	405,224,000
Swedish Krona	54,000	(129,000)	214,143,000	-	214,068,000
Swiss Franc	988,000	(34,529,000)	364,304,000	18,388,000	349,151,000
Thailand Baht	190,000	(16,191,000)	43,768,000	16,073,000	43,840,000
Turkish Lira	912,000	(506,000)	34,808,000	-	35,214,000
UAE Dirham	145,000	-	18,785,000	-	18,930,000
Total foreign currency exposure	\$ 88,007,000	(2,101,174,000)	11,572,795,000	1,838,808,000	11,398,436,000

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

10. REAL ESTATE

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

The APFC periodically reviews real estate investments for other than temporary impairment. During FY2023, no real estate holdings were determined to be impaired. In FY2022, one real estate holding was impaired with a related write-down of \$219.5 million. Real estate investments at June 30 are summarized as follows:

2023	Cost	Fair value	Unrealized gains
Real estate investment trusts	\$ 826,820,000	890,984,000	64,164,000
Real estate funds and notes	2,015,032,000	2,291,346,000	276,314,000
American Homes 4 Rent II	88,660,000	123,910,000	35,250,000
Directly owned real estate -			
Retail	778,026,000	1,533,849,000	755,823,000
Office	1,597,195,000	1,744,301,000	147,106,000
Hotel	59,409,000	66,121,000	6,712,000
Industrial	186,723,000	844,681,000	657,958,000
Multifamily	131,102,000	293,749,000	162,647,000
Development	410,020,000	474,343,000	64,323,000
Total real estate	\$ 6,092,987,000	8,263,284,000	2,170,297,000
2022			
Real estate investment trusts	\$ 875,976,000	987,913,000	111,937,000
Real estate funds and notes	1,248,987,000	1,552,958,000	303,971,000
American Homes 4 Rent II	101,659,000	170,433,000	68,774,000
Directly owned real estate -			
Retail	714,005,000	1,704,483,000	990,478,000
Office	1,077,572,000	1,362,502,000	284,930,000
Hotel	59,403,000	67,993,000	8,590,000
Industrial	110,952,000	662,664,000	551,712,000
Multifamily	168,734,000	349,120,000	180,386,000
Development	231,092,000	241,431,000	10,339,000
Total real estate	\$ 4,588,380,000	7,099,497,000	2,511,117,000

As of June 30, 2023, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$400 million for real estate fund investments.

11. ALTERNATIVE INVESTMENTS

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

Absolute return strategies are investments in specialized funds that seek to deliver returns that are largely uncorrelated with traditional market driven asset classes. The Fund invested in two absolute return limited partnerships in which the Fund was the only limited partner ("fund-of-one"); both are currently in liquidation. The Fund also holds direct hedge fund investments, in which the Fund is one of many limited partners. External investment management services for this strategy are provided by institutional investment managers who have acknowledged their status as fiduciaries to the Fund. Because of the off-exchange and private nature of many absolute return strategies, investments may have no readily determinable fair value, and the estimated fair values could differ significantly from values that would be obtained in a market transaction for the assets. Each manager provides the Fund with fair value estimates of partnership interests and undergoes an annual independent audit.

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

During FY2023 and FY2022, no private credit funds were determined to be impaired.

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

During FY2023, it was determined that 19 private equity funds were impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, \$99.4 million of unrealized losses were realized through a write-down of cost to fair value. In FY2022, nine private equity funds were impaired with a related write-down of \$38.6 million. These impairments have no impact on the carrying value of investments or on the net increase in the fair value of private equity investments.

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

and the estimated fair values may differ significantly from values that would be obtained in a market transaction for the assets.

During FY2023 and FY2022, no infrastructure funds were determined to be impaired.

Alternative investments at June 30 are summarized as follows:

	Cost	Fair value	Unrealized gains
2023			
Absolute return	\$ 3,996,041,000	5,334,364,000	1,338,323,000
Private credit	2,356,648,000	2,690,337,000	333,689,000
Private equity	9,633,323,000	15,321,168,000	5,687,845,000
Infrastructure	2,645,590,000	3,693,301,000	1,047,711,000
Total alternative investments	\$ 18,631,602,000	27,039,170,000	8,407,568,000
2022			
Absolute return	\$ 3,802,233,000	5,075,585,000	1,273,352,000
Private credit	2,181,719,000	2,527,914,000	346,195,000
Private equity	9,220,244,000	15,453,580,000	6,233,336,000
Infrastructure	2,146,698,000	3,014,987,000	868,289,000
Total alternative investments	\$ 17,350,894,000	26,072,066,000	8,721,172,000

As of June 30, 2023, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$100 million for absolute return, \$1.5 billion for private credit, \$4.3 billion for private equity, and \$1.4 billion for infrastructure investments. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

12. SECURITIES LENDING

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

Cash collateral received for loaned securities is reported on the Fund’s balance sheets and invested by the Bank on behalf of the Fund. As of June 30, 2023, such investments were in overnight repurchase agreements that had a weighted-average maturity of one day. The average term of the loans was also one day. At June 30, the value of securities on loan is as follows:

	<u>2023</u>	<u>2022</u>
Fair value of securities on loan, secured by cash collateral	\$ 1,755,665,000	4,444,929,000
Cash collateral	1,791,238,000	4,576,507,000
Fair value of securities on loan, secured by non-cash collateral	6,227,202,000	5,734,690,000
Non-cash collateral	6,847,010,000	6,341,254,000

The Fund receives 80 percent of earnings derived from securities lending transactions and the Bank retains 20 percent. During the years ended June 30, 2023 and 2022, the Fund incurred no losses from securities lending transactions. The Fund received income of \$23.8 million and \$29.0 million from securities lending for the years ended June 30, 2023 and 2022, respectively, which is included in the real estate and other income line on the Statements of Revenues, Expenditures and Changes in Fund Balances.

13. ACCOUNTS PAYABLE

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

	<u>2023</u>	<u>2022</u>
Accrued liabilities	\$ 24,716,000	25,650,000
Securities purchased	1,239,460,000	1,290,490,000
Total accounts payable	\$ 1,264,176,000	1,316,140,000

14. STATUTORY AND LEGISLATIVE APPROPRIATIONS

Beginning with FY2019, legislation requires that, upon appropriation, a portion of the realized earnings be transferred to the State’s General Fund instead of the Dividend Fund, based upon a percent-of-market-value calculation. The amount transferred to the General Fund was \$1,680,284,000 in FY2023. An additional \$1,680,284,000 was appropriated and transferred to the Dividend Fund. For FY2024, the amount appropriated is \$3,526,088,000 to the General Fund. This amount is shown as committed as of June 30, 2023.

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

	<u>2023</u>	<u>2022</u>
Income distributed during the year:		
General Fund	\$ 1,680,284,000	3,069,296,000
Dividend Fund	1,680,283,000	—
Income distributable at year end:		
Alaska Capital Income Fund	<u>14,265,000</u>	<u>24,002,000</u>
Total statutory and legislative appropriations	\$ 3,374,832,000	3,093,298,000

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

15. FUND BALANCES

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

	<u>2023</u>	<u>2022</u>
Nonspendable		
Balance, beginning of year	\$ 60,187,655,000	60,748,410,000
Dedicated State revenues	753,610,000	548,916,000
Inflation proofing transfer from assigned	4,179,276,000	-
Commitment to principal	-	4,000,000,000
Change in unrealized appreciation on invested assets	2,400,158,000	(5,109,671,000)
Balance, end of year	\$ 67,520,699,000	60,187,655,000
Committed		
Balance, beginning of year	\$ 3,360,567,000	7,069,296,000
General Fund transfer to liability	(3,360,567,000)	(3,069,296,000)
Commitment to principal	-	(4,000,000,000)
Balance, end of year	\$ 3,526,088,000	3,360,567,000
Assigned		
Balance, beginning of year	\$ 12,788,949,000	14,079,089,000
Inflation proofing transfer to nonspendable	(4,179,276,000)	
General Fund commitment	(3,526,088,000)	(3,360,567,000)
Settlement earnings payable to the ACIF	(14,265,000)	(24,002,000)
Realized earnings, net of operating expenditures	2,505,488,000	4,567,645,000
Change in unrealized appreciation on invested assets	(609,698,000)	(2,473,216,000)
Balance, end of year	\$ 6,965,110,000	12,788,949,000
Total		
Balance, beginning of year	\$ 76,337,171,000	81,896,795,000
Dedicated State revenues	753,610,000	548,916,000
General Fund transfer	(3,360,567,000)	(3,069,296,000)
Settlement earnings payable to the ACIF	(14,265,000)	(24,002,000)
Excess (deficiency) of investment revenues over expenditures	4,295,948,000	(3,015,242,000)
Balance, end of year	\$ 78,011,897,000	76,337,171,000

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

	<u>2023</u>	<u>2022</u>
Dedicated State revenues	\$ 19,218,699,000	18,465,090,000
Special appropriations	14,885,906,000	14,885,906,000
Inflation proofing	22,162,717,000	17,983,440,000
Settlement earnings	152,911,000	152,911,000
Total contributions and appropriations	\$ 56,420,233,000	51,487,347,000

On June 16, 2009, the Alaska Attorney General issued a legal opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, proportionate values of the unrealized appreciation or depreciation of invested assets should be allocated to nonspendable fund balances and assigned fund balances. As of June 30, 2023, the Fund's net unrealized gain was \$12,825,229,000, of which \$11,100,466,000 was allocated to the nonspendable fund balance and \$1,724,763,000 was allocated to the assigned fund balance. As of June 30, 2022, the Fund's net unrealized gain was \$11,034,769,000, of which \$8,700,308,000 was allocated to the nonspendable fund balance and \$2,334,461,000 was allocated to the assigned fund balance.

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (*State v. Amerada Hess, et al.*). Accumulated settlement related activity, included in the contributions and appropriations balance of the Fund at June 30, is \$424,399,000. By statute, realized earnings from these settlement payments are to be treated in the same manner as other Fund income, except that these settlement earnings are excluded from the calculation of the transfer to the General Fund and are not subject to inflation proofing. Since 2005, the Legislature has appropriated these settlement earnings to the Alaska Capital Income Fund (ACIF). Prior to 2005, the statute required such earnings to be appropriated to Fund principal. The Fund realized earnings on settlement principal of \$14,265,000 during FY2023 and \$24,002,000 during FY2022.

16. FAIR VALUE MEASUREMENT

Various inputs are used in valuing the investments held by the Fund. U.S. Generally Accepted Accounting Principles (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These input levels are summarized as follows:

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

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

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

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

2023	Measured using input levels			Measured using NAV	Total
	Level 1	Level 2	Level 3		
Marketable debt securities					
U.S. Treasury and government notes/bonds	\$ 1,817,802,000	13,494,000	—	—	1,831,296,000
Mortgage-backed securities	—	2,280,689,000	—	—	2,280,689,000
U.S. corporate bonds	—	5,494,218,000	—	—	5,494,218,000
Commercial mortgage and asset-backed securities	—	530,881,000	—	—	530,881,000
Non-U.S. government bonds	—	2,018,929,000	—	—	2,018,929,000
Non-U.S. corporate bonds	4,000	894,128,000	419,000	—	894,551,000
Exchange traded funds	153,437,000	—	—	—	153,437,000
Total marketable debt securities	\$ 1,971,243,000	11,232,339,000	419,000	—	13,204,001,000
Preferred and common stock					
Domestic stock	13,981,943,000	16,921,000	—	—	13,998,864,000
Non-domestic stock	12,566,336,000	—	9,000	—	12,566,345,000
Commingled funds	204,309,000	—	—	—	204,309,000
Total preferred and common stock	\$ 26,752,588,000	16,921,000	9,000	—	26,769,518,000
Real estate					
Real estate investment trusts	890,984,000	—	—	—	890,984,000
Real estate funds and notes	—	—	—	2,291,346,000	2,291,346,000
American Homes 4 Rent II	—	—	—	123,910,000	123,910,000
Directly owned real estate	—	—	—	4,957,044,000	4,957,044,000
Total real estate	\$ 890,984,000	—	—	7,372,300,000	8,263,284,000
Absolute return	—	—	—	5,334,364,000	5,334,364,000
Private credit	—	—	—	2,690,337,000	2,690,337,000
Private equity	—	—	—	15,321,168,000	15,321,168,000
Infrastructure	—	—	—	3,693,301,000	3,693,301,000
Total investments	\$ 29,614,815,000	11,249,260,000	428,000	34,411,470,000	75,275,973,000

2022	Measured using input levels			Measured using NAV	Total
	Level 1	Level 2	Level 3		
Marketable debt securities					
U.S. Treasury and government notes/bonds	\$ 2,216,837,000	33,715,000	—	—	2,250,552,000
Mortgage-backed securities	—	1,901,040,000	—	—	1,901,040,000
U.S. corporate bonds	14,000	5,320,885,000	13,185,000	—	5,334,084,000
Commercial mortgage and asset-backed securities	—	627,443,000	—	—	627,443,000
Non-U.S. government bonds	—	1,723,348,000	—	—	1,723,348,000
Non-U.S. corporate bonds	4,000	731,763,000	2,719,000	—	734,486,000
Exchange traded funds	1,397,354,000	—	—	—	1,397,354,000
Total marketable debt securities	\$ 3,614,209,000	10,338,194,000	15,904,000	—	13,968,307,000
Preferred and common stock					
Domestic stock	13,666,399,000	—	—	—	13,666,399,000
Non-domestic stock	12,008,533,000	—	13,000	—	12,008,546,000
Commingled funds	195,138,000	—	—	—	195,138,000
Total preferred and common stock	\$ 25,870,070,000	—	13,000	—	25,870,083,000
Real estate					
Real estate investment trusts	987,913,000	—	—	—	987,913,000
Real estate funds and notes	—	—	—	1,552,958,000	1,552,958,000
American Homes 4 Rent II	—	—	—	170,433,000	170,433,000
Directly owned real estate	—	—	—	4,388,193,000	4,388,193,000
Total real estate	\$ 987,913,000	—	—	6,111,584,000	7,099,497,000
Absolute return	—	—	—	5,075,585,000	5,075,585,000
Private credit	—	—	—	2,527,914,000	2,527,914,000
Private equity	—	—	—	15,453,580,000	15,453,580,000
Infrastructure	—	—	—	3,014,987,000	3,014,987,000
Total investments	\$ 30,472,192,000	10,338,194,000	15,917,000	32,183,650,000	73,009,953,000

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

Publicly traded real estate investment trusts are valued using prices quoted in active markets and are reported as level 1. Directly held real estate, private real estate funds, and real estate debt investments are reported at the NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions made prior to the balance sheet date. The underlying directly owned real estate investments are subject to annual appraisals and audits.

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

Private credit investments are reported at NAV of the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions made prior to the balance sheet date. Private credit investments undergo annual independent financial statement audits. Redemptions are not allowed and the usual life of these investments is 57 years.

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

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

17. STATUTORY NET INCOME

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

The APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than cost over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment’s remaining estimated holding period. If an other than temporary impairment is determined to exist for an investment, a realized loss will be recorded which will replace the previously recorded unrealized loss. Carrying value will not be affected, but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Fund. During FY2023, approximately \$99 million of net impairments were recorded. During FY2022, approximately \$258 million of net impairments were recorded.

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

	2023	2022
Excess (deficiency) of revenues over expenditures	\$ 4,295,948,000	(3,015,242,000)
Unrealized (gains) losses	(1,790,460,000)	7,582,887,000
Settlement earnings	(14,265,000)	(24,002,000)
Statutory net income	\$ 2,491,223,000	4,543,643,000

18. INVESTMENT INCOME BY SOURCE

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

	<u>2023</u>	<u>2022</u>
Interest		
Marketable debt securities	\$ 428,286,000	448,266,000
Short-term	<u>74,445,000</u>	<u>7,880,000</u>
Total interest	<u>\$ 502,731,000</u>	456,146,000
Total dividends	<u>\$ 671,564,000</u>	<u>696,785,000</u>
Real estate and other income		
Directly owned real estate	97,390,000	89,821,000
Real estate investment trusts	37,777,000	28,373,000
Real estate funds and notes	43,519,000	42,925,000
Absolute return	93,000	10,000
Private credit	99,977,000	69,981,000
Infrastructure	4,008,000	43,200,000
Private equity	154,074,000	204,730,000
Class action litigation	1,557,000	22,664,000
Security lending, commission recapture, and other	<u>24,522,000</u>	<u>29,467,000</u>
Total real estate and other income	<u>\$ 462,917,000</u>	<u>531,171,000</u>

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

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2023 ranged between one and 100 days.

The counterparties to the FX forward contracts consist of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of non-performance by these counterparties. The Fund's market risk as of June 30, 2023 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

FX forward contracts during the years ended June 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Fair value of FX forward contracts, beginning of year	\$ 42,662,000	24,695,000
Net change in fair value of FX forward contracts	<u>(39,731,000)</u>	<u>17,967,000</u>
Fair value of FX forward contracts, end of year	<u>\$ 2,931,000</u>	<u>42,662,000</u>
Notional amount of FX forward contracts	<u>\$ 5,909,068,000</u>	<u>1,867,092,000</u>

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

Futures in equity accounts during the years ended June 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Fair value of equity index futures, beginning of year	\$ (1,366,000)	9,131,000
Net change in fair value of equity index futures	<u>8,120,000</u>	<u>(10,497,000)</u>
Fair value of equity index futures, end of year	<u>\$ 6,754,000</u>	<u>(1,366,000)</u>
Notional amount of equity index futures	<u>\$ 87,593,000</u>	<u>(1,996,000)</u>

Futures in fixed income accounts during the years ended June 30 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Fair value of U.S. Treasury index futures, beginning of year	\$ 3,556,000	(5,717,000)
Net change in fair value of U.S. Treasury index futures	<u>(11,219,000)</u>	<u>9,273,000</u>
Fair value of U.S. Treasury index futures, end of year	<u>\$ (7,663,000)</u>	<u>3,556,000</u>
Notional amount of US Treasury index futures	<u>\$ 29,843,000</u>	<u>36,314,000</u>

20. EXPENDITURES

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

	<u>2023</u>	<u>2022</u>
Corporate expenditures		
Salaries and benefits	\$ 15,046,000	13,300,000
Communications and subscriptions	6,945,000	6,979,000
Consulting	3,455,000	3,071,000
Training, supplies, and other	1,086,000	1,029,000
Rent	520,000	509,000
Travel	591,000	508,000
Legal and audit fees	1,017,000	944,000
Property and equipment	551,000	635,000
Subtotal corporate expenditures	\$ 29,211,000	26,975,000
Investment management and custody fees		
Investment management fees	131,188,000	114,089,000
Custody and safekeeping fees	1,248,000	1,194,000
Subtotal investment management and custody fees	\$ 132,436,000	115,283,000
Total operating expenditures	\$ 161,647,000	142,258,000
Other legislative appropriations from corporate receipts		
Department of Natural Resources	6,611,000	6,493,000
Department of Law	2,923,000	2,688,000
Department of Revenue	191,000	100,000
Total other legislative appropriations	\$ 9,725,000	9,281,000
Total expenditures	\$ 171,372,000	151,539,000

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

21. PENSION PLANS

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

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

As an integrated cost sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent of eligible employee salaries for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2023 and 2022 amounted to \$10,712,000 and \$9,023,000, respectively.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or honoraria, up to a specified maximum, to SBS-AP. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honoraria for individuals subject to SBS-AP for the years ended June 30, 2023 and 2022 amounted to \$7,300,000 and \$7,908,000, respectively.



SUBJECT: Audit Committee Advisor

ACTION: _____

DATE: September 7, 2023

INFORMATION: _____ X _____

BACKGROUND:

Chair Crum requested that staff explore the idea of retaining an advisor to the Audit Committee in a similar arrangement to that of the Investment Advisory Group. The advisor would provide training to existing committee members and to new members on an ongoing basis. They would also serve as a resource to members at and between committee meetings.

STATUS:

This is an opportunity for the committee to discuss the idea as a group and provide direction to staff.

SUBJECT: Internal Audit ACTION: _____

DATE: September 7, 2023 INFORMATION: _____ X _____

BACKGROUND:

The Audit Committee heard a presentation from the Chief Operations Officer at its May meeting regarding the potential benefits of incorporating an internal audit function into APFC’s governance structure. The committee requested that staff include further discussion on the agenda for the September meeting.

STATUS:

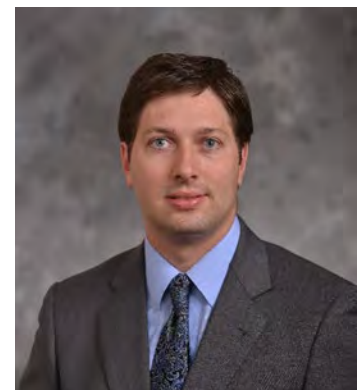
Byron Williams, formerly Chief Audit Executive for the Oregon Office of the State Treasurer, will present his experiences and insight with regard to internal audit.

Beth Stuart, KPMG Partner, will follow to discuss the KPMG’s approach to internal audit and how APFC might incorporate best practices into its existing enterprise risk management framework.

Attached are bios for Byron and Beth.

**Byron Williams
Chief Administrative Officer
Oregon Office of the State Treasurer**

Byron Williams is the chief administrative officer with the Oregon Office of the State Treasurer with over 15 years of experience with the State of Oregon. After graduating from Oregon State University in 2006, he started working for the State of Oregon Audits Division. While working for the state auditor’s office, he focused on a variety of investment related audits including the Oregon Short Term Fund and Oregon Public Employee Retirement Fund. In 2011 he was hired by the Oregon Office of the State Treasurer to be the Chief Audit Executive. As the CAE Byron oversaw a variety of investment and organizational audit and consulting engagements. He increased the use of external audit and consulting firms on engagements and conducted the programs first governance audit. In 2016 he moved into his current role as Chief Administrative Officer. Byron oversees a variety of functions including accounting, budget, procurement, facilities, emergency operations, and business continuity functions.





Beth Stuart

Office managing partner

KPMG LLP
701 West 8th Avenue
Suite 600
Anchorage, AK 99501

Tel 907-265-1248
Fax 907-865-2434
Cell REDACTED

Function and specialization

Beth is a partner in KPMG's Audit practice and the office managing partner of KPMG's Anchorage office. She specializes in audit and accounting services.

Representative clients

- Alaska Permanent Fund Corporation
- Alaska Railroad Corporation
- State of Alaska, Division of Retirement and Benefits
- Alyeska Pipeline Service Company
- Chugach Electric Association

Professional associations

Member, American Institute of Certified Public Accountants

Member, Alaska Society of Certified Public Accountants

Education, licenses & certifications

- BBA degree, University of Alaska, Anchorage
- Licensed CPA- Alaska

Background

Beth is an audit partner and the managing partner of KPMG's Anchorage office. She has nearly 30 years of experience providing audit and accounting services to both public and nonpublic entities.

Professional and industry experience

Over her career, Beth has provided accounting and auditing services to a broad range of clients in a wide variety of industries, including state government agencies, local governments, regulated entities, public utilities, and commercial companies. She has significant experience auditing complex investment portfolios, including alternative investments; serves as the lead audit partner on numerous retirement plans; and works regularly on engagements with multiple stakeholders and reporting interests.

Beth completed a rotation in KPMG's Audit Quality and Professional Practice Group (AQPPG), where she assisted audit engagement teams and clients with the resolution of technical accounting issues, including lease accounting and revenue recognition.

Other activities

- Member, State of Alaska Board of Accountancy
- Board of directors, United Way of Anchorage
- Advisory board member, University of Alaska Anchorage College of Business and Public Policy



Internal Audit's Role In Public Investment Funds



AUDIT



Auditors Don't Resolve Problems, They Help Facilitate Needed Discussions



Investment Operational Review Audit Scope

- Are the practices prudent – that is, do they comply with state requirements and with accepted fiduciary standards?
- Do the practices promote effectiveness – that is, do they compare favorably to accepted industry guidance and best practices?



Audit Results

- Investment operations management – Opportunities exist to reduce reliance on external consultants and managers by increasing internal investment and operations management activities.



Impact of Business Process Changes

Operational Impact – Data Quality and Controls

New risk mitigation and data analytic capabilities have helped uncover significant reporting errors by external service providers. In some cases, these errors date back several years. The recent identification and rectification of reporting errors led to a one-time, material adjustment that increased OPERF investment performance from 0.26% to 1.39% in the second quarter of 2016. Had this particular discrepancy gone undiscovered, investment performance and fund valuation would have been understated resulting in erroneous participant crediting rates and an inaccurate measure of the pension plan's funded status. **The overall estimated impact equated to more than \$790 million.**

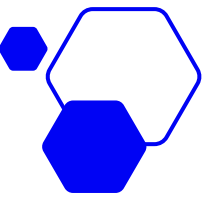
Oregon Investment Audit Statutes



- **ORS 293.776 Examination and audit of investment program; report :** The Oregon Investment Council shall provide for an examination and audit of the investment funds investment program, and for submission to the council of a report based on the examination and audit, at least once every four years and at other times as the council may require. The examination and audit, and the report based thereon, shall include an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds



- **ORS 184.360 Internal audits in state government; policy; reports; rules** (4) Each agency of the executive department required to have an internal audit function shall produce a risk assessment of the entire agency..The agency shall use its risk assessment as the basis for the selection and performance of at least one internal audit per calendar year.



2011 Public Investment Fund Staffing Analysis

As part of an internal audit that started in 2011, we contracted for a benchmarking analysis. The analysis looked at peer public pension and public investment funds across a number of practices. This included internal audit staffing levels.

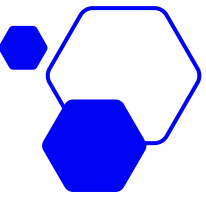
Table 4: Staffing Levels By Function

Function										
	Asset Size (\$m as of jun 30/11)	Internally managed Assets (%)	Total Staff	Executive	Investment (Note 4)	Finance / Accounting	Risk & Compliance	Info.Tech	Internal audit	Other
Investment Boards										
Alaska PFC	\$45,240	12%	35	2	13	9	0	4	0	7
Mass PRIM	\$50,677	0%	29	2	11	12	2	0	0	2
New Jersey SIC (Note 1)	\$88,685	81%	Data not provided							
Oregon IC (Note 1)	\$75,507	17%	84 (Note 3)	1	19	4	2	4	1	0
Washington SIB	\$79,639	34%	79	2	36	19	4	7	2	9
West Virginia IMB	\$12,850	0%	26	2	8	9	0	3	2	2
SWIB (Note 2)	\$87,864	53%	154	2	72	19	4	20	3	31
Average	\$62,923		68	2	27	12	2	6	1	9

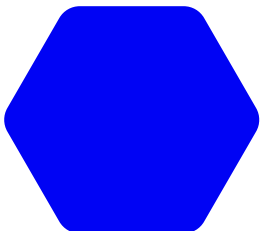
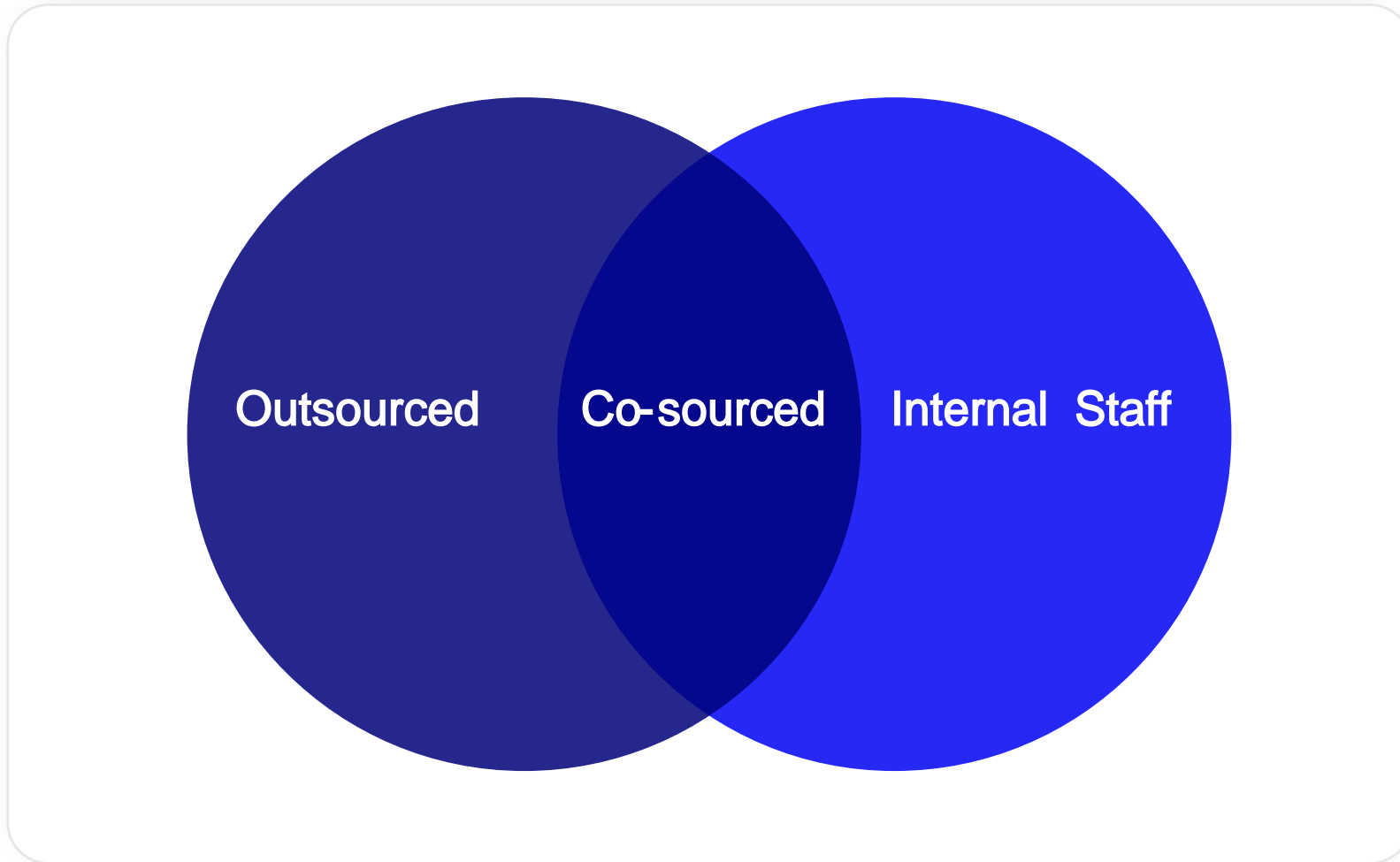
Note 1: The New Jersey and Oregon investment councils do not have their own staff. Instead, both councils receive support and recommendations from a branch of the state treasury. For purpose of this and the following tables, however, we have included treasury staff that provide support to the respective investment councils.

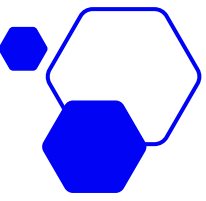
Note 2: In addition to the four risk management and compliance staff persons at SWIB, three of the 72 investment staff are devoted to investment risk management.

Note 3: Of the OST's 84 staff members, approximately 31 full time equivalents are involved in the administration of the Oregon Funds



Internal Audit Staffing Models





Staffing Model Comparison

- Outsourced

Strengths



- Greatest flexibility to contract for a variety of expertise
- Ability to scale the scope and number of audits performed

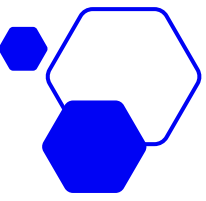


Weaknesses



- Single engagement teams gain limited organizational understanding
- Longer term contracts help provide continuity, but limited to audit firms
- More expensive





Staffing Model Comparison

– Internal Staffing

Strengths



- Improved understanding of organizational environment
- Provides internal resources for ad-hoc consulting
- Provides cross-functional lens
- Can partner with others in national organizations such as APPFA and P2F2

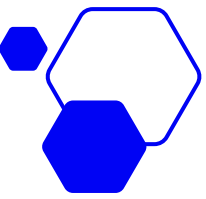


Weaknesses



- Recruitment & Retention are a challenge, especially investment auditors
- More difficult to scale up or down





Staffing Model Comparison

– Co-sourced

Strengths



- Provides greatest flexibility by allowing Outsourced, Internal Staffing, or Co-sourced model decisions to be made at the engagement level instead of the function level.
- Balances strengths and weaknesses from the Outsourced and Internal Staffing models.
- Can help navigate independence issues when utilizing external audit firm on engagements



Weaknesses



- Increased recruitment and retention impacts as fewer staff on the team compared to the Internal Staff model.



Internal Audits Performed

2012



2013



2014



2015



2016

- IT Service Management
- Real Estate Investment Management

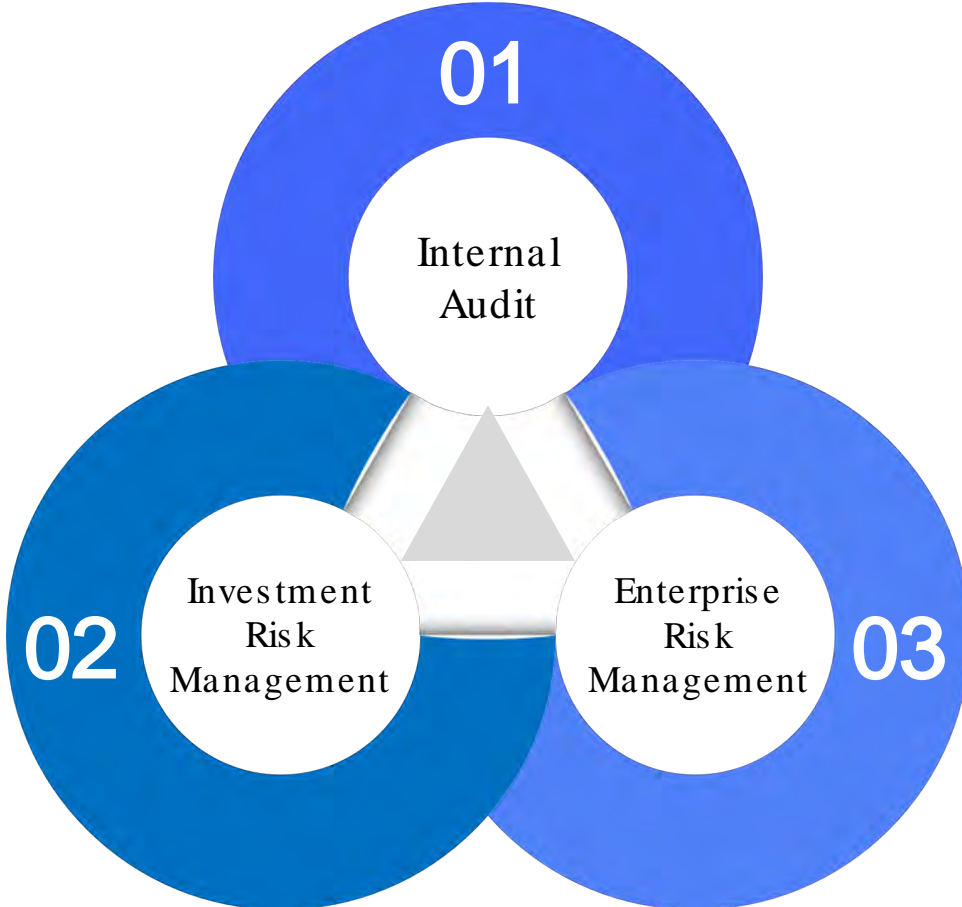
- Investment Operational Review
Cortex Applied Research, Cutter Associates, Hewitt Ennis Knupp
- ISO 27001 Information Security Management System Gap Assessment
Securastar
- Network Penetration Testing
Netragard
- Purchase Card Audit
- Investment Tax Reclaim
GlobeTax, Deloitte

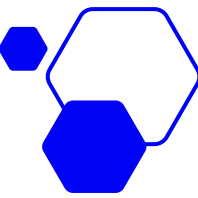
- Contracting Audit
- COBIT 5 Audit
- Internal Investment Management Capabilities
Wilshire Associates

- Aladdin Implementation Support
Deloitte, Cutter Associates

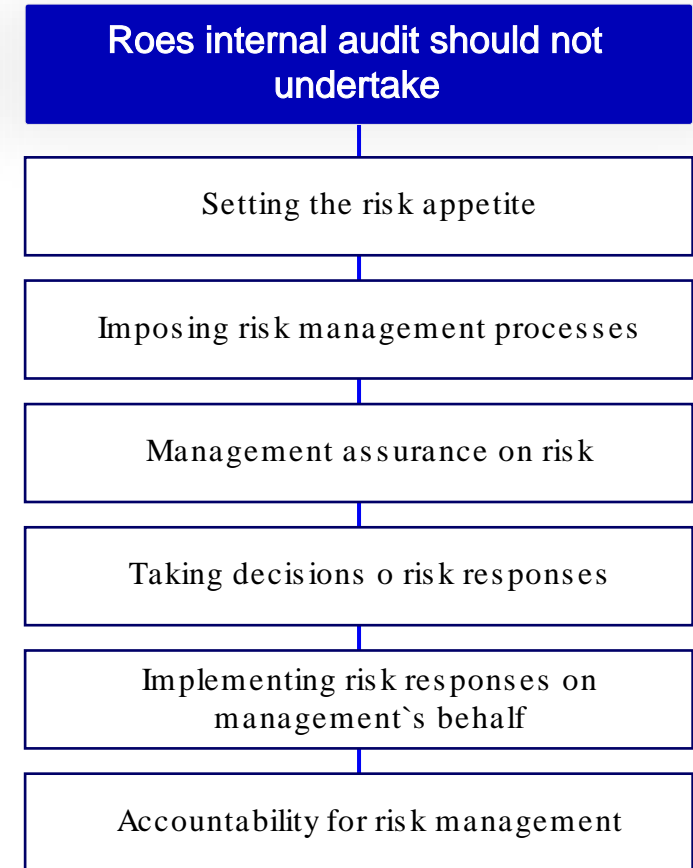
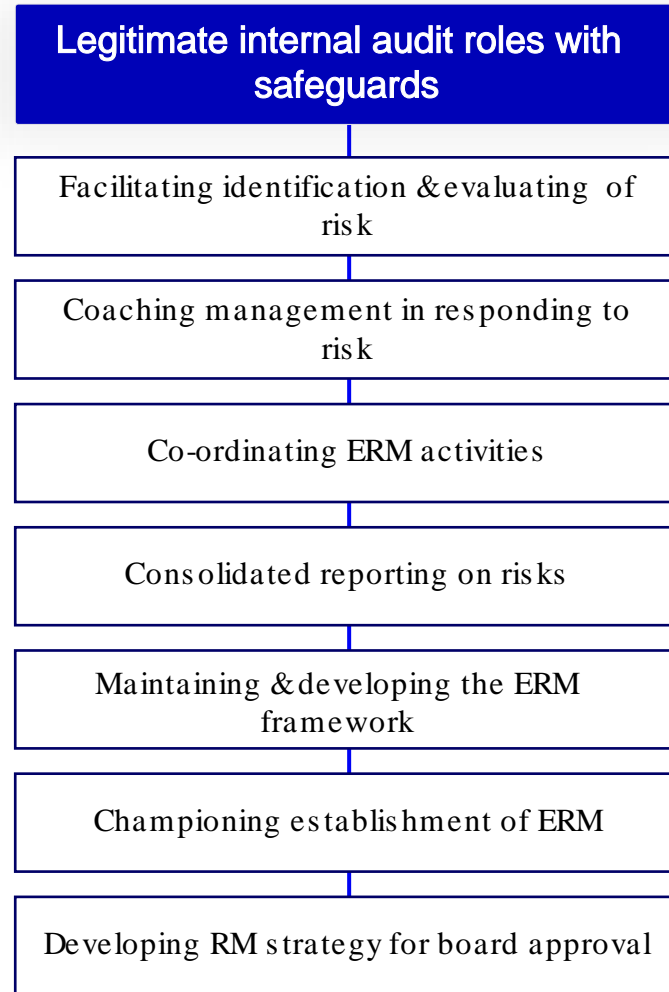
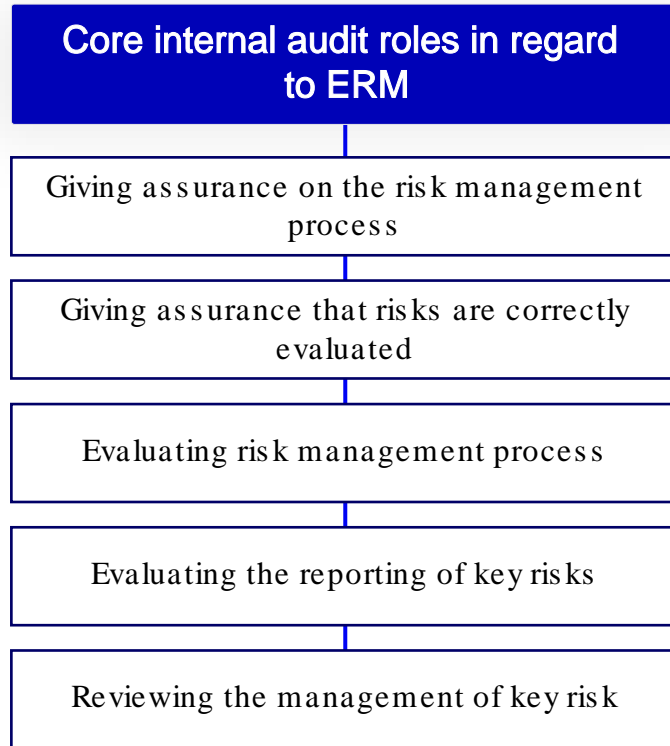
- Human Resources Audit
Deloitte
- Information Security Audit
Deloitte
- Network Penetration Testing
Deloitte
- Vendor Management Audit
Deloitte
- Investment Operational Review
KPMG
- Organizational Culture Review
Denison Consulting

Internal Audit And Risk Management

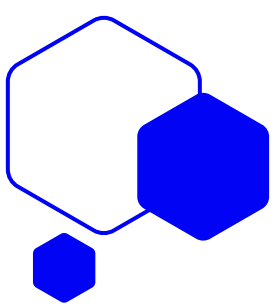




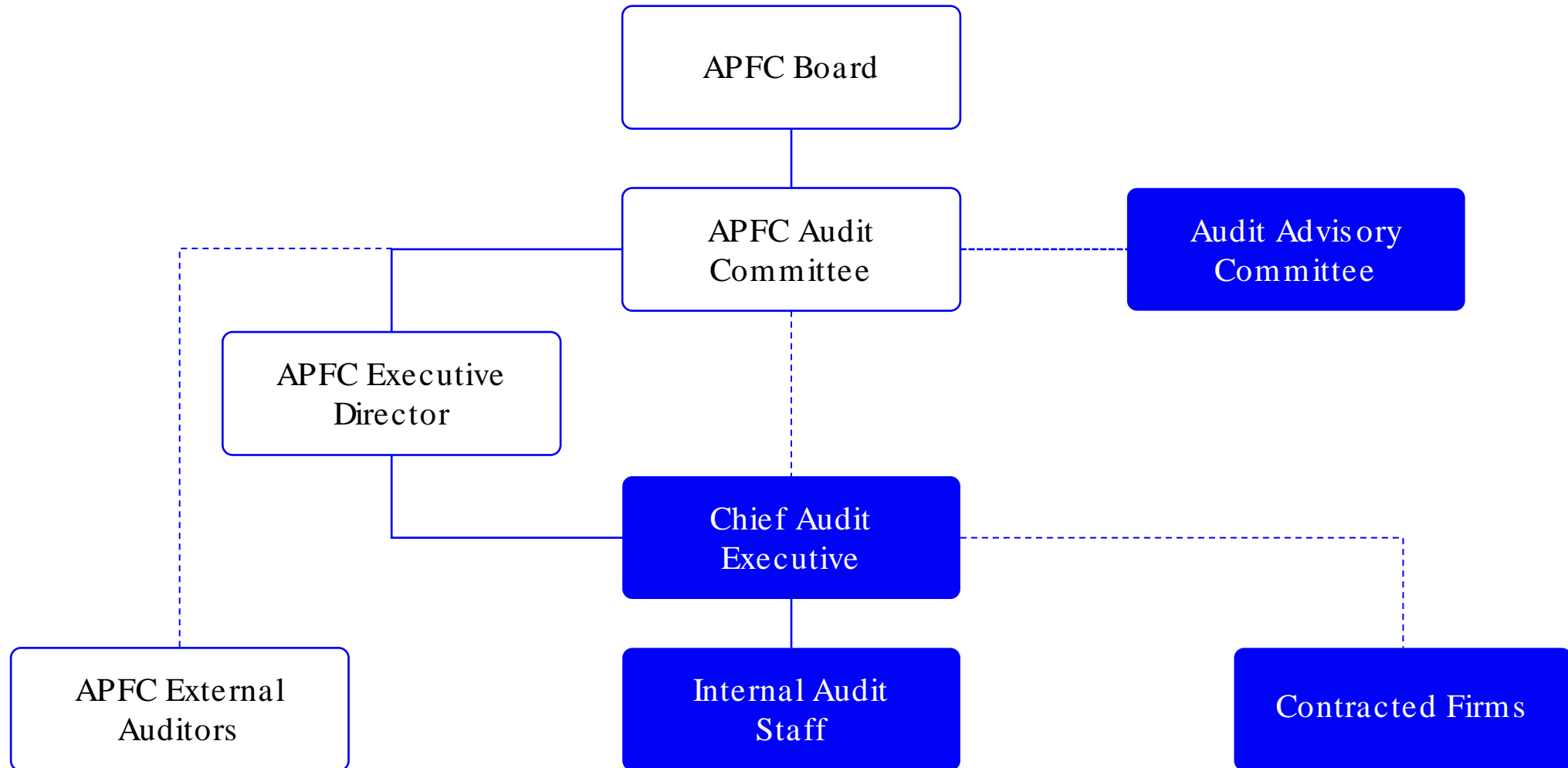
Internal Audits Role In ERM



<https://www.theiia.org/globalassets/documents/resources/the-role-of-internal-auditing-in-enterprise-wide-risk-management-january-2009/pp-the-role-of-internal-auditing-in-enterprise-risk-management.pdf>



Example Co-sourced Internal Audit Model





Enterprise Risk Management

KPMG's approach



September 7, 2023

1

KPMG's Enterprise Risk Management Framework

KPMG uses the framework below as a benchmark to understand where organizations are in their ERM journey.

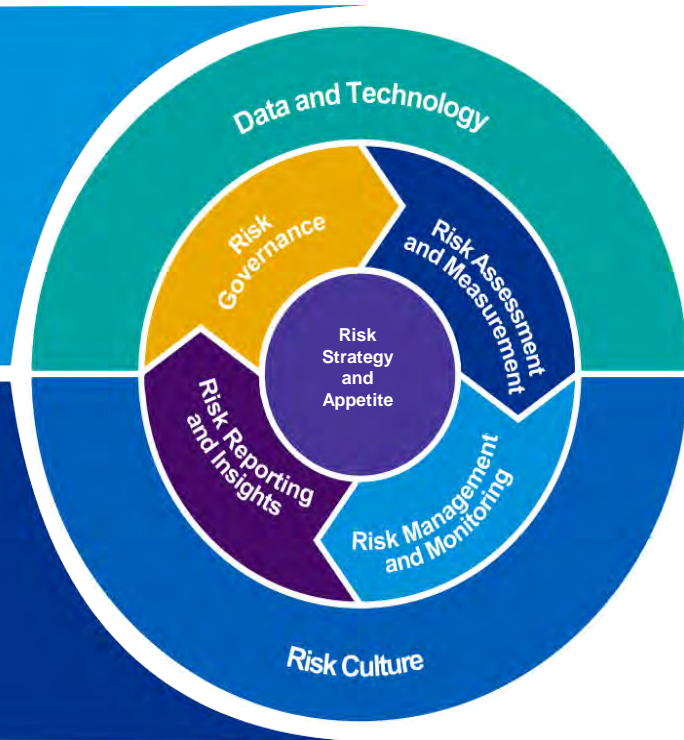
ERM is a system of processes for the identification, analysis, evaluation and economic control of existing and potential risks (both threats and opportunities) intended to enhance quality/ safety, protect reputation, and increase the likelihood of achieving corporate / performance objectives.

Our ERM Framework looks to whether **strategy, processes, people, technology and knowledge** are aligned and integrated in order to reliably evaluate and manage the risks that an organization faces.

A governance framework is key to establishing an effective ERM program.

KPMG's ERM Framework consists of seven elements and provides structure to programmatically address risk across the organization. Implementation and adherence to a "right-sized" framework:

- Improves risk strategy and informs risk decisions
- Defines roles and responsibilities for risk oversight that is sustainable and actionable
- Enhances operational performance by monitoring and reducing variability
- Breaks down silos



Delivering on Process and Content

In practice, an ERM program must deliver on two things:

Process - A risk management framework commensurate with an entity's size, nature of business, risk appetite, and tolerance. Guiding Principles should form the basis of how an organization approaches ERM:

- Risk governance structure meets management and stakeholder expectations
- Leverage existing governance structures to avoid creating unnecessary bureaucracy
- Accountability through defined roles and responsibilities
- Risk awareness and acceptance developed organically
- Duplication of efforts reduced and opportunities identified to standardize processes
- Open and honest communication
- Prioritize activities based on enterprise needs and capacity pressures

Content - “Content” is the portfolio of risks that are facing the organization and how the organization manages these risks. The key question to answer is: What process have we designed, that fits within the culture of the organization, that will keep our risk portfolio current and relevant?

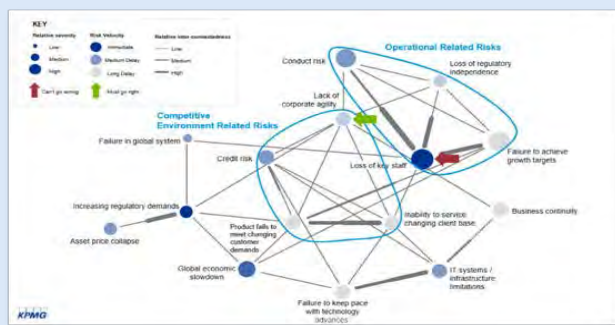
KPMG's ERM Approach

ERM Maturity Assessment & Program Foundations

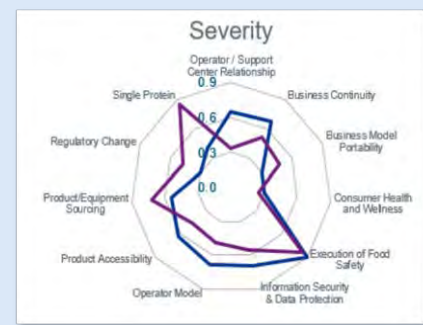


Focus Areas	Expected Outputs
<ul style="list-style-type: none"> — Interview senior leaders from across the organization to identify top risks — Review existing strategy and governance documents — Workshop to present risk themes that emerged from interviews and collectively select top risks — Distribute Dynamic Risk Assessment (DRA) survey to solicit subject matter expert views on risk severity, likelihood, velocity, and interconnectivity — Analyze survey results and create risk network report 	<ul style="list-style-type: none"> — Risk Profile (with mitigations where possible) — DRA Risk Report of findings including: <ul style="list-style-type: none"> — Risk Network — Risk Clusters, including: <ul style="list-style-type: none"> — Most influential risks — Most vulnerable risks — Risk Aggregation — Risk Contagion — Centrality (top risks by cause and effect)

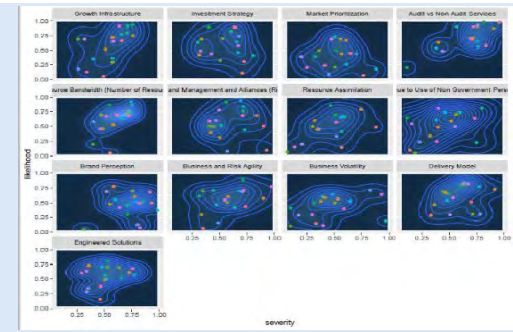
Sample Outputs



Risk Network



Risk Alignment



Risk View Comparison

KPMG's ERM Approach

ERM Maturity Assessment & Program Foundations

Dynamic Risk Assessment

Linking ERM to Strategy & the Internal Audit Plan

Risk Measurement & Monitoring

Risk Management & Reporting

Social Media Intelligence Monitoring at KPMG

Governance, risk, and compliance working together

Focus Areas

- Embed ERM in Strategic Planning
 - Add sections to the annual strategic planning process to specify:
 - Major assumptions and uncertainties in achieving plan
 - Actions to manage possible threats and monitor uncertainties
 - Build framework / documentation to aid in evaluating strategic initiatives before approval (e.g., business case review and formal input from the Risk Function)
 - Define active role in monitoring risks related to strategic initiatives
- DRA and Strategy
 - DRA identifies the most influential risks to optimize resource and capital allocation to achieve strategy, and the most vulnerable risks that the organization can least afford to occur to implement ongoing monitoring
 - Bowtie Analyses facilitates the identification of root causes of the most influential and vulnerable risks to enable active management and monitoring
 - Ongoing risk management and monitoring (Social Media Intelligence) allows the organization to make timely adjustments to achieve strategic objectives
- Risk to Strategy Linkage
 - Perform a mapping exercise between risks identified through DRA and the organization's larger strategic priorities to identify potential points of failure in achieving long and short-term objectives

Expected Outputs

- Updated Strategic Planning policies and procedures (including budgeting)
- Framework for review and approval of strategic initiatives (e.g., business case)
- Updated business case templates to reflect risk considerations and review with the ERM team
- DRA Results
- Risk to Strategy Linkage

Sample Outputs



Risk to Strategy Linkage

APFC's identified enterprise risks

Market risk

The possibility of loss from changes in value of financial instruments, resulting from an adverse change in market factors. (equity risk, interest rate risk, currency risk).

Credit risk

The risk of economic loss that might arise from the failure of a counterparty to fulfill its contractual obligations.

Liquidity risk

The possibility investments cannot be traded at fair value and/or funds cannot be raised, at reasonable costs, to meet obligations.

Inflation risk

The potential loss of purchasing power due to the value of investments not keeping up with an increase in prices.

Operational risk

The risk of loss resulting from inadequate or failed processes, people, or systems, either internally or externally, and unexpected significant and unusual one-time events.

Illustrative operational risks



Information technology

Cyber security

User controls

Data transfer

Digitalization

Business resilience



Third-party management

Procurement and due diligence

Vendor solvency

Contract compliance

Investment policy compliance

User controls



Accounting and finance

Segregation of duties

Financial planning and analysis

Reporting

Purchasing

Process automation



Human capital

Skills mapping and forecasting

Hiring, onboarding, terminating

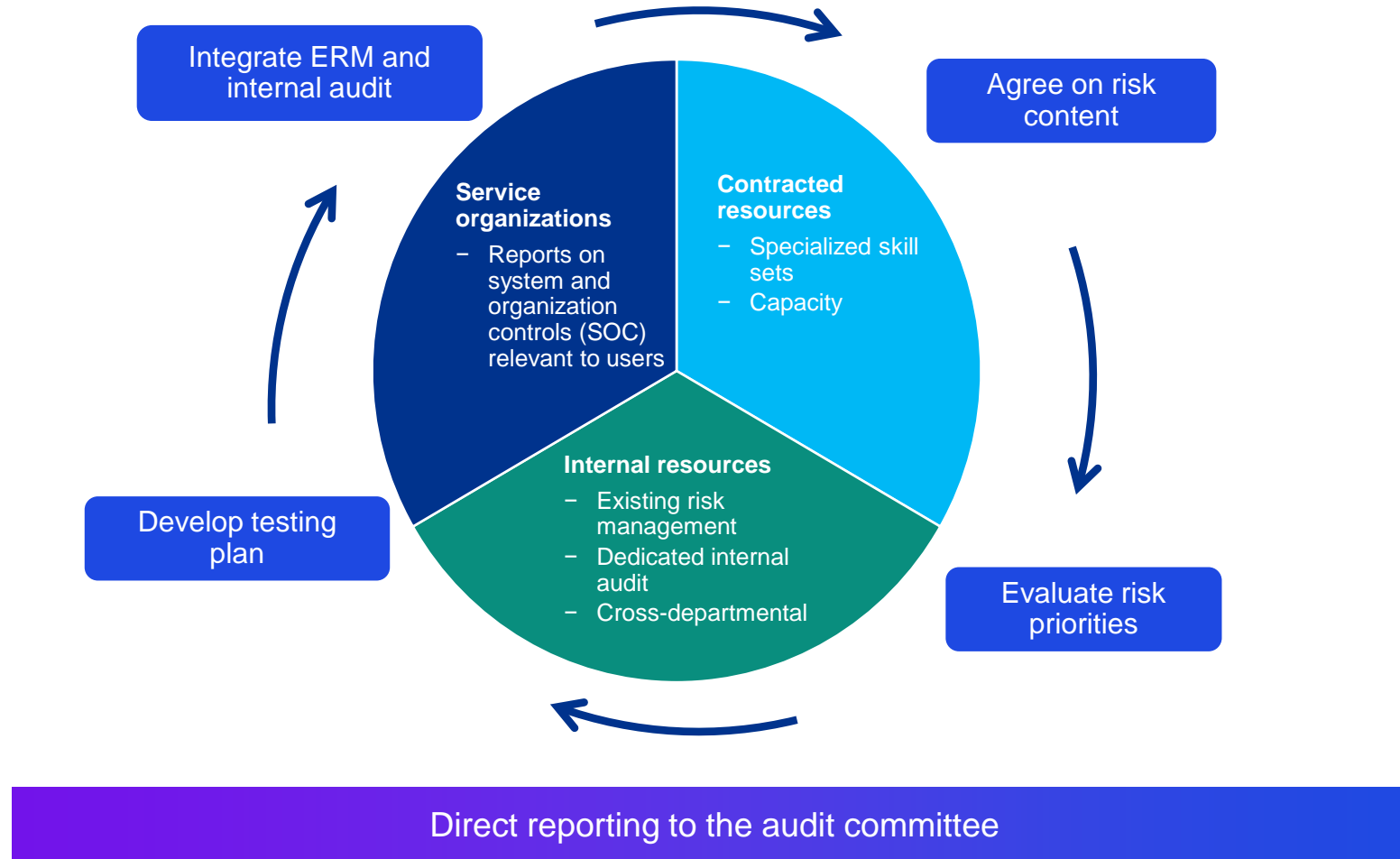
Culture

Performance management

Succession planning

Compliance and regulation

Accomplishing risk management goals





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kpmg.com/socialmedia

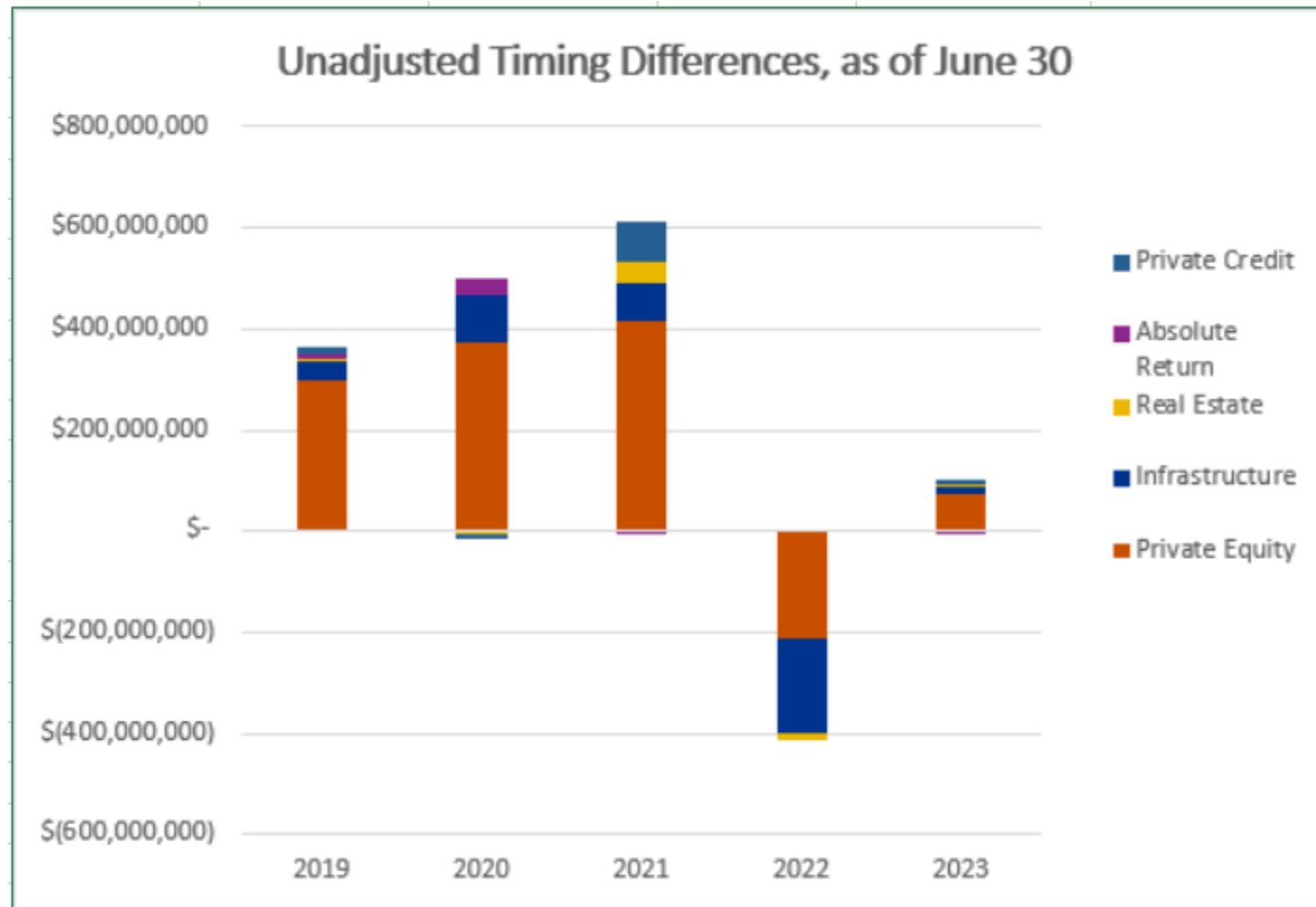
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Uncorrected audit misstatements



This slide was presented during the Audit Committee Meeting and is from page 20 of 104