



Board of Trustees

Special Meeting

September 6-7, 2023

Table of Contents

- Agenda
- FY24 Budget Authority Memo – Office Rent/Lease
- FY25 Proposed Budget
 - Budget Proposal Memo
 - Budget Proposal Appendix
 - Presentation: FY25 Proposed Budget
- Trustee Paper #10
 - Memo
 - Dr. Malan Rietveld CV
- Modeling of the Fund
 - Callan Presentation
 - APFC ERA & Statutory Net Income Presentation
- Strategic Plan Memo
 - Memo
 - KMD Summary
 - UTIMCO Strategic Plan



SPECIAL MEETING OF THE BOARD OF TRUSTEES September 6-7, 2023

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

***Please sign-up for public testimony by
emailing jloesch@apfc.org by noon September 5***

Wednesday, September 6, 2023

1:30 p.m. – 5:00 p.m.

Day 1 Webinar Access:

<https://apfc.org/bot-meeting-day1>

Event Password: APFCDay1

Teleconference Option

Phone: 415-655-0003
Access Code: 2634 871 9901
Numeric Password: 27323291

Thursday, September 7, 2023

8:30 a.m. – 12:00 p.m.

Day 2 Webinar Access:

<https://apfc.org/bot-meeting-day2>

Event Password: APFCDay2

Teleconference Option

Phone: 415-655-0003
Access Code: 2630 402 5784
Numeric Password: 27323292

AGENDA

WEDNESDAY, SEPTEMBER 6, 2023

- 1:30 p.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
- 1:45 p.m. FY25 BUDGET OVERVIEW (Information)
Deven Mitchell, Chief Executive Officer
Val Mertz, Chief Financial Officer
Julia Mesdag, Administrative Officer
- BREAK (when needed)
- 4:45 p.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 5:00 p.m. RECESS FOR THE DAY

Thursday, September 7, 2023

8:30 a.m. MEETING RECONVENES

ROLL CALL (Action)

8:35 a.m. DISCUSSION OF TRUSTEE PAPER #10 (Information)
Trustees and Staff

INTRODUCTION OF DR. MALAN RIETVELD

MODELING OF THE FUND

Greg Allen, Callan

Marcus Frampton, Chief Investment Officer

10:15 a.m. BREAK

10:30 a.m. DISCUSSION OF STRATEGIC PLAN (Information)
Trustees and Staff

INTRODUCTION OF KEVIN M. DEE, PRESIDENT, KMD SERVICES & CONSULTING
llc

WORKING GROUP TOPICS

Trustees and Staff

11:45 a.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS

12:00 p.m. ADJOURNMENT

1:00 p.m. **Audit Committee (See Separate Agenda)**

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

SUBJECT: FY2025 Proposed Budget

ACTION: _____

DATE: September 6, 2023

INFORMATION: X

This budget request acknowledges the importance of APFC’s continuing success in providing benefits for generations of Alaskans as the largest sovereign wealth fund in the US and the 2nd largest per capita globally.

Budget resources are essential in ensuring the Alaska Permanent Fund and other funds designated by law are effectively managed and invested, and in ensuring that the Corporation can fulfill our vision of delivering outstanding returns for the benefit of all current and future generations of Alaskans. Accomplishing this vision requires skilled and capable professional staff, discipline in adhering to long-term strategies, and durable resources.

The timeline for the budget approval process begins with this work session and a preliminary budget based on director and manager input. With the Board's review of the proposed budget, any direction, additional analysis, or requested modifications will be incorporated. Staff will then bring a final proposal before the Board for approval at the Annual Meeting on September 27th and 28th.

Staff acknowledges that the upcoming strategic planning process may result in changes to the FY2025 budget request. This proposal is based on current staffing levels and asset allocation. Staff will work with the Office of Management and Budget (OMB) to incorporate any changes into the request that the Board approves after the Annual Meeting.

OMB will review the Board's request for inclusion in the Governor's budget for all public agencies, which will be transmitted to the Legislature by December 15th for consideration during the upcoming Legislative session. Traditionally, staff reports back to the Board at the May quarterly meeting with the final budget approved by the Legislature to be implemented on July 1st. However, delays may occur due to extended Legislative sessions.

The Alaska Permanent Fund Corporation's operating budget appropriation is divided into two allocations: 1) operations and 2) investment management. A detailed breakdown of these two allocations can be found in the appendix to this memo.

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
APFC Operations Allocation	\$25,933,797	\$28,628,017	\$9,323,380	\$2,694,220
APFC Investment Management Allocation	\$195,363,600	\$198,163,600	\$54,193,604	\$2,800,000
Total Appropriation	\$221,297,397	\$226,791,617	\$63,516,985	\$5,494,220

OPERATING ALLOCATION

The Operating Allocation is separated into five objects of expenditure, each is discussed below.

Personal Services –

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Personal Services	\$20,547,397	\$22,382,348	\$7,198,175	\$1,834,951

APFC has 67 full-time, year-round positions, plus two summer interns. There are currently 11 vacant full-time positions (breakdown by department below). To satisfy the mandatory vacancy requirement, a minimum of 3% be periodically held vacant.

Administrative Operations	2
Investment Operations	1
Human Resources	1
Information Technology	2
Investments	5
TOTAL	11

Over the past year, a tremendous effort was put forth to fill 16 positions successfully. Filling these vacancies will continue to be a priority while maintaining the goal of recruiting and hiring individuals that are right for the organization, in line with our strategic priority to "enhance talent and staff."

New Positions

As the Corporation continues to focus on recruitment and retention for existing positions, we are seeking no new positions for FY2025.

Retention

The Board of Trustees and staff have acknowledged the issues APFC is experiencing with recruiting and retaining highly qualified staff. We are working on two strategies to address these issues.

To keep pace with rising inflation and better align our salaries with peers with whom we compete for talent, we have included a merit allowance of 6% of total salaries to be allocated at the managers' discretion. This would result in an increment of approximately \$700,000.

1. The process to open the satellite office in Anchorage in a temporary location is underway. Staff is working with DEC and DOT/PF to secure space in the Cordova Building through an MOU with DEC. Subject to board approval, staff plans to seek a supplemental authorization to the FY24 budget to cover the current year expenses, which are estimated to be:
 - \$30,000 for rent
 - \$22,500 for relocation
2. This budget request anticipates that a permanent space will be established during FY2025. Included in the proposed budget is the following related to a permanent Anchorage office:
 - \$200,000 for rent

- \$100,000 for office furniture
- \$200,000 for buildout
- \$200,000 for wireless conference equipment
- \$20,000 for temporary Juneau housing for new Anchorage employees
- \$38,000 for relocation

Incentive Compensation

In accordance with the incentive compensation policy currently in place, the maximum distribution for those staff who are currently eligible is estimated to be \$3.7 million, which reflects \$3.3 million for investments staff and \$445,000 for operations staff. The FY2025 request includes an increment of \$915,000 to achieve full funding.

Travel –

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Travel	\$800,000	\$1,022,850	\$426,042	\$222,850

Travel is an essential part of conducting business nationally and internationally. With the expectation that the portfolio will grow in its global exposure, investment staff travels to investigate new investment opportunities, participate in due diligence meetings, and attend industry-standard conferences and trainings. Travel is necessary across all departments to meet with business partners, attend conferences, and leverage training opportunities.

A large part of the increment to the travel request is in Alaska travel. This is driven by the anticipation of managers traveling to Anchorage to work with employees in that office. An increment is also included to support all remote workers returning to headquarters as mandated by the work remote policy. Also included is an amount to support temporary housing in Juneau for 90 days for new employees based in Anchorage if their managers require it.

Contractual Services –

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Contractual Services	\$3,700,830	\$4,296,899	\$1,398,929	\$596,069

Detailed comparisons for the areas discussed below are found in the appendix to this memo.

Audit, Legal, Consulting – Professional services that support the Corporation's broader needs are contained within this group, such as audit, legal, and business consultants. This line includes an increment for the annual audit in accordance with our KPMG contract and an increase in general consulting to better align with actual expenditures in FY2023. This line also includes \$20,000 for an

advisor to the Audit Committee.

Public Communications –This encompasses all contractual support for the communications program, including meeting statutory publication requirements, educational outreach, brand enhancement, digital communications, website maintenance, media relations, crisis communications, and youth program development. This line is being held flat as funding is anticipated to be sufficient to meet FY2025 programmatic needs. The significant variance with FY2023 actuals is due to a change in the billing cycle with our new consultant, Yuit.

Board Meetings – Items related to board support and board meetings, including room and equipment rentals, refreshments, transcription services, and advisory fees, are included in this group. A small increment of \$3,500 is included in this request.

Information Technology- All IT contractual-based services related to the general support of the Corporation are in this group, including consulting services, software licensing and maintenance, and equipment repairs. The \$50,000 increment from FY2024 consists of an increase of \$200,000 for wireless and conference equipment in the Anchorage office, offset by a \$150,000 decrease in the amount earmarked for the fire suppression project, which will be completed in the current year.

HR & Recruitment – HR continually looks for new and creative ways to successfully recruit talented professionals. With fewer vacancies currently than during FY2024 budget development, recruitment expenses are expected to be less. There is a \$2,000 decrement on this line.

Training – Training, professional certifications, and industry-standard conferences for staff are essential to ensure that APFC can continue competing in global investment markets to effectively manage and grow the portfolio. With new employees and internal advancements, ongoing educational opportunities will be crucial to their success and the value added to the Corporation. Training is also an area of focus for Board members. The \$17,000 increase in this area includes an \$18,000 increase for Board member training and a small decrement to the budget for staff to better align with FY2023 actuals.

Office Support – All of the contractual services necessary to support the shared administrative needs of the Corporation are contained within this group, including office lease costs, copier rentals, and pass-through costs from the Department of Revenue (DOR). The bulk of the increase on this line is a provision for rent and buildout of the permanent Anchorage office, representing \$400,000 of the \$434,000 increment.

Commodities and Equipment –

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Commodities	\$435,570	\$325,920	\$147,272	\$(109,650)
Equipment	\$450,000	\$600,000	\$152,963	\$150,000

Commodities and Equipment are the final two objects of expenditure within the operating allocation, and due to their similarity, are presented together. These budgets include goods purchased to support the needs of the Corporation, such as workstations, servers, furniture, and office supplies. The two lines are differentiated by cost – items less than \$5,000 fall under the Commodities line, while those greater than \$5,000 fall in the Equipment line.

Information Technology Commodities- The budget request for IT Supplies and Workstation Equipment is returning to the level experienced in the second year of the three-year workstation replacement cycle. All workstations are scheduled to be replaced in FY2024, allowing for a

decrement of \$228,000 for FY2025.

Office Support – The FY2025 request includes a \$118,000 increase to Office Furniture/Equipment, \$100,000 of which is earmarked for the Anchorage office.

Information Technology Equipment- Annually, \$400,000 will adequately accommodate the Juneau data center through a fiscal year with replacements and upgrades to equipment. We are requesting an increment of \$150,000 as we relocate our Disaster Recovery site from Fairbanks to Anchorage. The Anchorage site will be much larger and more reliable than the previous Fairbanks site.

INVESTMENT MANAGEMENT ALLOCATION

The Investment Management Allocation falls within a single object of expenditure that is divided into four types of services.

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Investment Manager Fees	\$175,651,000	\$178,251,000	\$45,860,698	\$2,600,000

Investment Manager Fees – This budget includes all costs paid directly to firms that manage the Fund's external portfolios but does not include fees paid through net-of-fee arrangements. Two types of fees are included in the forecast: base and incentive. Base fees are related to market performance and are paid in alignment with the fiscal year. These fee projections are developed using the management contract terms in conjunction with Callan's market assumptions. Incentive fees are contracted and paid based on managers outperforming their relative benchmark on a calendar year basis. They are not directly related to market performance, making them nearly impossible to forecast.

The only increment that is being requested on this line is \$2.6 million for alternative investments. Fees paid on this line are based upon committed capital. As that portfolio continues to grow, fees increase accordingly.

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Investment Due Diligence	\$5,763,400	\$5,763,400	\$2,785,588	\$-

Investment Due Diligence – Funding for fiduciary advisors, Callan's general consulting contract, manager searches, and APFC's membership in peer groups such as the International Forum of Sovereign Wealth Funds (IFSWF) are captured in this line of expenditure. This request is being held flat over prior year.

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Investment Systems	\$11,649,200	\$11,649,200	\$4,306,898	\$-

Investment Systems – This group includes all of the financial network systems, data feeds, and research portals used by APFC staff to make investment decisions, trade, confirm and account for investments, manage external accounts, and manage investment risk at various portfolio levels. These vendors include Bloomberg, BlackRock, Tradeweb, Moody's, S&P, and Fitch. This request is being held flat over prior year.

	Authorized	Proposed	Variance	
	FY2024	FY2025	From FY2023	From FY2024
Custody Fees	\$2,300,000	\$2,500,000	\$1,240,420	\$200,000

Custody Fees – This line includes the fees paid to the Bank of New York Mellon for custody services of the Fund's assets. Also included are additional fees paid for collateral management and tax advisory services required to trade in specific international markets. The increment on this line is to accommodate other reconciliation services currently being put in place and increased tax advisory services in certain international markets.

Appendix: FY2025 Budget Proposal

<u>Corporate Operations Allocation</u>	Actual	Authorized	Proposed	Variance From	
	FY2023	FY2024	FY2025	FY2023	FY2024
Personal Services	\$15,184,173	\$ 20,547,397	\$ 22,382,348	\$7,198,175	\$1,834,951
Staff	15,163,942	20,516,097	22,351,048	7,187,107	1,834,951
Board: Honorarium	20,232	31,300	31,300	11,068	-
Travel	\$596,808	\$ 800,000	\$ 1,022,850	\$426,042	\$222,850
Staff	473,937	602,000	842,850	368,913	240,850
Trustees	34,506	18,000	40,000	5,494	22,000
Moving/Non-Employee	88,365	180,000	140,000	51,635	(40,000)
Contractual Services	\$2,897,970	\$ 3,700,830	\$ 4,296,899	\$1,398,929	\$596,069
Audit, Legal, Consulting	637,651	712,000	805,000	167,349	93,000
Public Communications	110,687	395,300	395,300	284,613	-
Board Support and Meetings	50,143	111,400	114,900	64,757	3,500
Information Technology	1,294,525	1,490,000	1,540,000	245,475	50,000
HR and Recruitment	20,652	30,000	28,000	7,348	(2,000)
Training/Education	51,889	159,680	177,003	125,114	17,323
Office Support	732,423	802,450	1,236,696	504,273	434,246
Commodities	\$178,648	\$ 435,570	\$ 325,920	\$147,272	\$(109,650)
Information Technology	115,253	354,000	126,000	10,747	(228,000)
Office Support	63,395	81,570	199,920	136,525	118,350
Equipment	\$447,037	\$ 450,000	\$ 600,000	\$152,963	\$150,000
Information Technology	447,037	450,000	600,000	152,963	150,000
Total	\$19,304,637	\$ 25,933,797	\$ 28,628,017	\$9,323,380	\$2,694,220
<u>Investment Management Allocation</u>	Actual	Authorized	Proposed	Variance From	
	FY2023	FY2024	FY2025	FY2023	FY2024
Investment Systems	\$7,342,302	\$11,649,200	\$11,649,200	\$4,306,898	\$-
Investment Due Diligence	\$2,977,812	\$5,763,400	\$5,763,400	\$2,785,588	\$-
Custody Fees	\$1,259,580	\$2,300,000	\$2,500,000	\$1,240,420	\$200,000
Investment Manager Fees	\$132,390,302	\$175,651,000	\$178,251,000	\$45,860,698	\$2,600,000
Public Equities	101,898,045	139,157,000	139,157,000	37,258,955	-
Fixed Income	219,062	-	-	(219,062)	-
Real Estate	3,120,550	3,594,000	3,594,000	473,450	-
Alternative Assets	27,152,645	32,900,000	35,500,000	8,347,355	2,600,000
Total	\$ 143,969,996	\$ 195,363,600	\$ 198,163,600	\$ 54,193,604	\$ 2,800,000
Total Appropriation	\$ 163,274,632	\$ 221,297,397	\$ 226,791,617	\$ 63,516,985	\$ 5,494,220



ALASKA PERMANENT
FUND CORPORATION

FY2025 Proposed Budget FY2024 Supplemental Budget

September 7, 2023

FY25 Proposed Operating Budget

Supporting the high level of investment management services demanded of APFC, the FY25 proposed budget aligns strategy across key areas -

- **Recruit and Retain** top talent
 - ❖ Merit/inflation salary adjustments
 - ❖ Fully funded incentive compensation
 - ❖ An Anchorage office to bolster opportunities

- **Ensure** cutting-edge infrastructure for data and systems, including IT security and business continuity support

- **Maintain** quality services pertaining to due diligence, reporting and communications, and office support

APFC MISSION

To manage and invest the assets of the Permanent Fund and other funds designated by law.

APFC VISION

Our vision is to deliver outstanding returns for the benefit of all current and future generations of Alaskans.

FY2025 Proposed Budget

	Actual	Authorized	Proposed	Variance	Variance
	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
	\$				
APFC Operations Allocation	19,304,637	25,933,797	28,628,017	9,323,380	2,694,220
APFC Investment Management Fees Allocation	143,969,996	195,363,600	198,163,600	54,193,604	2,800,000
Total Appropriation	163,274,632	221,297,397	226,791,617	63,516,985	5,494,220

APFC Operations Budget Components

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
Travel	596,808	800,000	1,022,850	426,042	222,850
Contractual Services	2,897,970	3,700,830	4,296,899	1,398,929	596,069
Commodities	178,648	435,570	325,920	147,272	(109,650)
Equipment	447,037	450,000	600,000	152,963	150,000
Personal Services	15,184,173	20,547,397	22,382,348	7,198,175	1,834,951
Total APFC Operations	19,304,637	25,933,797	28,628,017	9,323,380	2,694,220

Anchorage Office

In maximizing total returns and supporting the needs of Alaska through annual revenues, it is necessary for APFC to be fully staffed with professional talent.

Recruitment and retention of employees has been a challenge, made worse by national and global trends. Opening an Anchorage satellite office provides APFC with an additional Alaska-based advantage.

Phase 1 – opening in the coming months
MOU for Cordova Building space
Seek FY24 Supplemental Funding
\$52,500

Phase 2 -
Seek FY25 Proposed Operating Budget Funding
Secure and build out permanent space
\$758,000

15 of 59

Part of the 2020-2025 strategic plan and publicly discussed over the past four years.



Travel APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
\$					
Travel	596,808	800,000	1,022,850	426,042	222,850

Increase in travel request is to support –

- Supervisors’ travel to Anchorage to support employees working there
- Return to headquarters for employees working remotely
- Temporary Juneau housing for new Anchorage based employees
- Increase in Board travel to training and conferences

Contractual Services

APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
\$	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
Audit, Legal, Consulting	637,651	712,000	805,000	167,349	93,000
Public Communications	110,687	395,300	395,300	284,613	-
Board Support & Meetings	50,143	111,400	114,900	64,757	3,500
Information Technology	1,294,525	1,490,000	1,540,000	245,475	50,000
HR and Recruitment	20,652	30,000	28,000	7,348	(2,000)
Training/Education	51,889	159,680	177,003	125,114	17,323
Office Support	732,423	802,450	1,236,696	504,273	434,246
Total Contractual Services	2,897,970	3,700,830	4,296,899	1,398,929	596,069

Commodities & Equipment APFC Operations

	Actual	Authorized	Proposed	Variance	Variance
	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
\$					
Commodities	178,648	435,570	325,920	147,272	(109,650)
Equipment	447,037	450,000	600,000	152,963	150,000

- Workstation Equipment (\$228,000)
- Anchorage Office Furniture \$100,000
- Data Center Transition \$150,000

- Commodities
- Office/IT Supplies
 - Subscriptions
 - IT Equipment < \$5,000
- Equipment
- IT Equipment > \$5,000

Personal Services APFC Operations

Support to fill vacant positions and retain professional staff within a competitive labor market.

	Actual	Authorized	Proposed	Variance	Variance
	FY 2023	FY 2024	FY 2025	FY 2025 (Proposed) Vs. FY 2023 (Actual)	FY 2025 (Proposed) Vs. FY 2024 (Authorized)
Personal Services	15,184,173	20,547,397	22,382,348	7,198,175	1,834,951

The main drivers of the proposed increases are:

- 6% merit/inflation adjustments
- Full funding of Incentive Compensation for all staff in accordance with the board approved policy

Personal Services APFC Operations

Recruitment in filling vacancies and Retention of knowledgeable staff

Personal Services	Authorized	Change	Proposed
\$	FY2024		FY2025
TOTAL Funding	20,547,397	\$1,834,951	\$22,382,348
Salaries	12,466,366	699,430	13,165,796
Benefits	5,774,110	272,515	6,046,625
Incentive Comp Investments	2,800,000	470,000	3,270,000
Incentive Comp Operations	-	445,000	445,000
Board Honorarium	31,300	-	31,300
Vacancy 3%	(\$524,379)	(\$51,994)	(\$576,373)

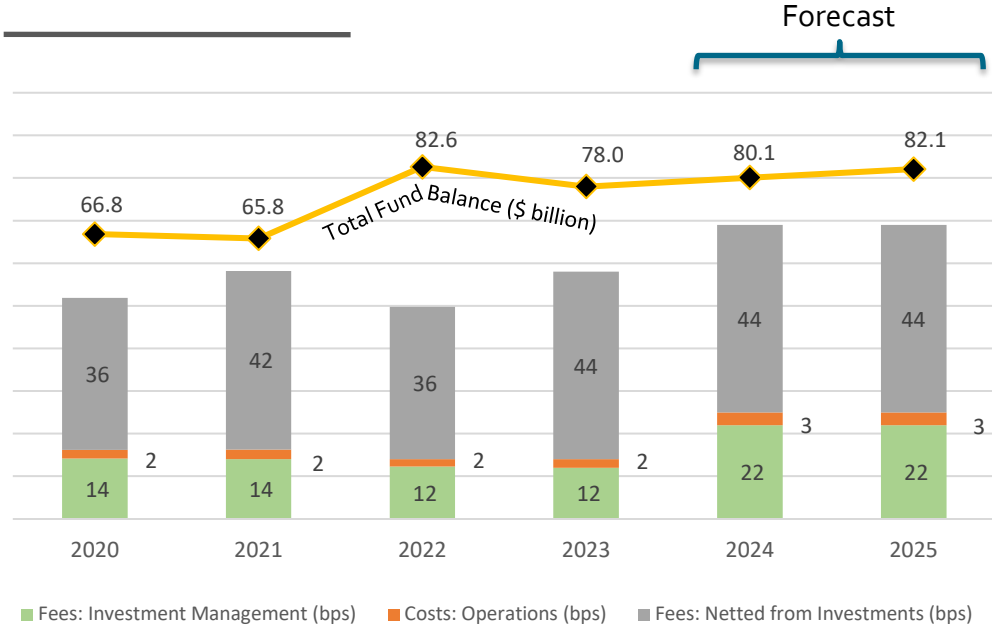
Increments FY24 to FY25

- 6% merit/inflation adjustments
- Fully funding Incentive Compensation
 - \$3,270,000 for Investments
 - \$445,000 for Operations
- Board Honorarium for additional meetings
- Increased benefits associated with salary increments
- Adjusted vacancy factor of 3%

Investment Management Fees Allocation

Investment Management Fees	Actual	Authorized	Proposed	Variance	Variance
	FY2023	FY2024	FY2025	From FY2023	From FY2024
TOTAL INVESTMENT MANAGEMENT FEES	\$132,390,302	\$175,651,000	\$178,251,000	\$45,860,698	\$2,600,000
Public Equity	101,898,045	139,157,000	139,157,000	37,258,955	-
Fixed Income Plus	219,062	-	-	(219,062)	-
Real Estate	3,120,550	3,594,000	3,594,000	473,450	-
Alternative Investments	27,152,645	32,900,000	35,500,000	8,347,355	2,600,000
Investment Due Diligence	2,977,812	5,763,400	5,763,400	2,785,588	-
Investment Systems	7,342,302	11,649,200	11,649,200	4,306,898	-
Custody Fees	1,259,580	2,300,000	2,500,000	1,240,420	200,000
TOTAL INVESTMENT MNGMNT ALLOCATION	\$143,969,996	\$195,363,600	\$198,163,600	\$54,193,604	\$2,800,000

Basis Points



FY25 Proposed Budget

APFC Operations 3 bps

APFC Investment Management 24 bps

- Profit Sharing/Performance fees are not included in the above



Questions?



SUBJECT: Trustee Paper Number 10

ACTION: _____

DATE: September 7, 2023

INFORMATION: X

BACKGROUND:

At the July 12 board meeting direction was provided to move forward with development of a Trustee Paper. In addition to history and over-arching structure the primary focus of the paper should be the Earnings Reserve Account (ERA) durability and alternatives to address the potential of depletion. The board also requested that additional modelling be conducted to determine the current durability of the ERA and requested that Callan update their model and that CIO Frampton update a model he had previously presented.

STATUS:

In July staff issued a solicitation for proposals to act as author of the proposed Trustee Paper. The successful candidate of this procurement is Dr. Malan Rietveld. Dr. Rietveld wrote the last Trustee Paper and is exceptionally qualified for the task, his CV is included in the Board packet and he will provide a brief introduction and project outline.

Callan has updated slides related to their model which are included in the board packet. CIO Frampton is prepared to provide additional information on the model that he developed and will have handouts at the board meeting.

Additional work will be conducted in the coming months to generate the final Trustee Paper. A working group of the Board is expected to be directly involved in this process along with staff and other members of the Board as required.

Malan Rietveld, PhD

Curriculum Vitae

Date of birth 15 December 1981
Nationality South Africa and Netherlands (dual citizen); Canada (permanent resident)
Email REDACTED

Recent Employment History

Sovereign Wealth Fund, Pension and Institutional Investment Consult
Jan 2016 - current

- Senior Expert Consultant to Asian Development and Mongolian Ministry of Finance on the development of the Mongolian sovereign wealth fund (2018 – current)
- Consultant to the Bank of Botswana on the adoption of fiscal rules for deposits and withdrawals to/from the country's Sovereign Wealth Fund, the Pula Fund (2023)
- Consultant to Board of Trustees of The Alaska Permanent Fund Corporation Trustee Paper No. 9 “*The Role of Sovereign Wealth Funds in Saving, Stabilization and Generating Income*” (2019-20)
- Consultant to Board of Trustees of The Alaska Permanent Fund on common practices in Board composition, compensation and terms of employment (2019-20)
- Advisor to the Alaskan Office of the Governor and Department of Revenue on sovereign wealth fund reforms, including public testimony before Legislature (2016-17 and 2021)

Director: Kalytix Partners
April 2016 – Dec 2019

- Senior consultant on all advisory projects for major global institutional investment clients, including Australian Superannuation (US\$100bn AUM), FirstState Super (US\$70bn AUM), the Construction and Building Unions Superannuation (US\$25bn AUM), and OPSEU Pension Trust (US\$20bn)
- Engagement with senior Executives and Boards of public and private pension funds, sovereign wealth funds, foundations and endowments

Director: The Investment Institute, Investec Asset Management
February 2011 – January 2016

- Director of The Investment Institute, a research and advisory team within Investec Asset Management
- Head of the firm's sovereign wealth fund research and advisory capability
- Writing and commissioning Institute publications, including papers, journals and reports.
- Designing capacity-building and Board-level programs for Sovereign Wealth Fund and central bank clients

Other Positions and Consulting Engagements

- Consultant to the Asian Development Bank on central bank reserve management (2011) and private-sector pension sector development and regulation (2019 – 2021)
- Editor of *Central Banking* quarterly journal (2007-09)
- Design and operations of 30+ annual training courses for public sector policymakers (2005-09)
- Director of central bank training courses and Board programs on monetary, governance and reserves management for Bank of Angola, Central Bank of Nigeria and Bank of Namibia (2011-17)

Education

Ph.D in Economics, University of Stellenbosch, South Africa (January 2012 – October 2016)

M.Sc in Economic History (cum laude), London School of Economics, United Kingdom (September 2005 – August 2007)

M.Sc in Economics, University of Leuven, Belgium (August 2004 – July 2005)

B.A. in Politics, Political Philosophy and Economics (Honors: Economics, cum laude), University of Stellenbosch, South Africa (February 2000 – March 2004)

Investment Management Theory & Practice, Executive Program, Yale School of Management, United States (January 2020 – June 2020).

Academic Affiliations

Stellenbosch University, Department of Economics
Research Associate (2021 – current)

Columbia University, The Earth Institute & Columbia Law School
Fellow, Columbia Center for Sustainable Investment (2014-19)

Harvard University, Kennedy School of Government
Fellow, Center for International Development (2015-16)

Authored Books

Rietveld, M. and Alswellem, K. (2017). [Sovereign Wealth Funds in Resource Economies: Institutional and Fiscal Foundations](#), Columbia University Press: New York.

Edited Books

Rietveld, M. & Toledano, P. (2017). [The Frontiers of Sovereign Investment](#), Columbia University Press: New York.

Rietveld, M. (2009). [Sovereign Risk Management](#), RiskBooks: London.

Rietveld, M. (2008). [New Perspectives on Sovereign Asset Management](#), RiskBooks: London.

Johnson-Calari, J. & Rietveld, M. (2007). [Sovereign Wealth Management](#), Central Banking Publications: London.

Book Chapters (selected)

Rietveld, M. (2017). "North America's Sovereign Wealth funds: Origins, Models and Lessons," *The Frontiers of Sovereign Investment*, M. Rietveld and P. Toledano. (eds.), Columbia University Press: New York.

Rietveld, M. (2008). "Three Things We Have Learned about Sovereign Investors", *New Perspectives on Sovereign Asset Management*, M. Rietveld (ed.), Central Banking Publications: London.

Rietveld, M. and Pringle, R. (2007). "The Evolution of Sovereign Wealth Management", *Sovereign Wealth Management*, M. Rietveld and J. Johnson-Calari (eds.), Central Banking Publications: London.

Rietveld, M. (2007). "Reserve Management – 2006 in Review", *Reserve Management Trends*, R. Pringle and N. Carver (eds.) Central Banking Publications: London.

Academic Papers (selected)

Alswellem, K., Kritzman, M. and Rietveld, M. (2022). "Optimal Multi-Horizon Portfolios with Forward-Looking Expectations and Loss Aversion: An Application To Sovereign Wealth Funds", MIT Golub Center for Finance and Policy, Massachusetts Institute of Technology.

Alswellem, K., Cader, M. and Rietveld, M. (2022). "Productive Capabilities, Economic Fitness and the Role of Sovereign Development Funds," MIT Golub Center for Finance and Policy, Massachusetts Institute of Technology.

Alswellem, K., Cader, M. and Rietveld, M. (2022). "Economic Fitness As a Tool for Sovereign Development Funds, Stanford Long-Term Investment Initiative, Working Paper No. 37, Stanford University.

Alswellem, K., Cummine, A. Rietveld, M. and Tweedie, K. (2015). "[A Comparative Study of Sovereign Investor Models: Institutions and Policies for Managing Sovereign Wealth](#)", Kennedy School Discussion Paper, Harvard Kennedy School, April 2015.

Du Plessis, S. and Rietveld, M. (2014). "Should inflation targeting be abandoned in favor of nominal income targeting?" *Journal of Studies in Economics and Econometrics*, Vol. 38(2): 1-18.

Reports and Conference Papers (selected)

"Towards a Sustainable Fiscal Framework for the Pula Fund, Liquid Reserves and Diamond Revenues in Botswana," internal advisory report for the Bank of Botswana, May 2023.

"The Role of Sovereign Wealth Funds in Saving, Stabilization and Generating Income", Trustees Paper, Volume 9, Alaska Permanent Fund Corporation, January 2020.

"The Role of Sovereign Wealth Funds in Economic Development and Diversification in Africa," African Central Bank Governors and Finance Combined Forum, MEFMI, Lima, Peru, 5 October 2015.

"The Role of Sovereign Wealth Funds in Economic Stability," African Central Bank Governors Forum, MEFMI, BIS Annual Meetings, Basel, Switzerland, 28 June 2015.

"Institutional Structure of Natural Resource Funds", Policy Brief, Natural Resource Governance Institute and Columbia Center on Sustainable Investment, Columbia University (with Andrew Bauer)

"Managing the public trust: How to make natural resource funds work for citizens", Natural Resource Governance Institute and Columbia Center on Sustainable Investment, Columbia University (with Andrew Bauer and Perrine Toledano).

"Rules-based Investment for Natural Resource Funds" Natural Resource Governance Institute and Columbia Center on Sustainable Investment, Columbia University.

"Sovereign Wealth Funds: a Useful or Inappropriate Model for Managing Resource Revenues in Africa?", Development Dialogue, Institute of Social Studies, The Hague, 4-5 October 2012.

August, 2023



Permanent Fund Simulation Model Output

Gregory C. Allen
CEO, Chief Research Officer
Callan LLC

Steven Center, CFA
Senior Vice President

Simulation Model Results

Outline

- **Review Accounting Concepts and History**
 - Statutory Net Income
 - Earnings Reserve Account and Principal
- **Review Spending Rule and Appropriation History**
- **Projected Key Financial Variables under Different Appropriation Scenarios**
- **Range of Outcomes using Monte Carlo Simulation**
 - Range of outcomes for key financial variables
 - *Market Value*
 - *Earnings Reserve Balance*
 - *Statutory Net Income*
 - *Probability of an impaired POMV draw*
 - *Probability of impaired inflation proofing*
 - *Principal Balance*

Statutory Net Income (Realized Return)

Five Year History

- Statutory Net Income (SNI) in each year is the the sum of total income (dividends, coupon payments, real estate income, etc.), plus realized capital gains minus realized capital losses.
- Gains are realized when assets are sold for an amount above their purchase price (cost basis).
- Gains realization events include, annual turnover in equity and bond accounts, rebalancing related turnover, sales to fund distributions, distributions from private market investments, etc.

	Income	Realized Gain	Statutory Income
2019	1,555	1,914	3,469
2020	1,403	1,852	3,255
2021	1,525	6,662	8,187
2022	1,684	3,035	4,719
2023	1,637	1,040	2,677

Income has been relatively stable over last five years. Realized gains have been more volatile

Realized Gain by Asset Class

Five Year History

	2019	2020	2021	2022	2023
Public Equity	1,006	1,056	5,643	2,023	733
Public Debt	37	329	125	(757)	(567)
Real Estate	(101)	(91)	14	(103)	56
Private Credit	(33)	37	28	102	60
Infrastructure	243	160	6	238	98
Private Equity	614	639	1,551	1,592	709
Abosolute Return	522	(13)	34	12	79
Currency	(447)	(226)	(706)	(244)	(274)
Other	73	(39)	(32)	172	146
Total	1,914	1,852	6,662	3,035	1,040

- Orange cells highlight exceptionally positive years, blue cells exceptional negative years.
- Volatility of realized gains can be driven by portfolio activity
 - Absolute return in 2019
 - Public equity rebalancing in 2021
- It can also be driven by cyclical trends (in private equity in particular)

Current Unrealized Gains by Asset Class

As of June 30, 2023 (unaudited)

- Current unrealized gains are relatively healthy at roughly 17% of the total fund balance.
- Gains are concentrated in the private market asset classes where gains realization is more cyclical.
- Private market asset class valuations are slow to adjust to current market conditions which may overstate current value of unrealized gains.
- Realization of unrealized losses in fixed income will mute the impact of realized gains in other asset classes.

Current Unrealized Gains

Asset Class	6/30/2023
Cash	\$ 2,069,147
Bonds	\$ (856,984,239)
Global Equity	\$ 3,098,934,203
Private Equity	\$ 5,131,008,521
Real/Infra/Credit	\$ 3,139,687,443
Absolute Return	\$ 1,372,534,328
	\$ 11,887,249,404

Earnings Reserve Account

Fiscal Year 2023

- Earnings Reserve Account is equal to total cumulative Statutory Net Income minus total cumulative spending minus total cumulative appropriations to Principal plus a pro-rata share of unrealized gains or losses.
- ERA receives a pro-rata share of unrealized gains or losses based on the size of the ERA relative to the size of Principal.
- ERA receives 100% of SNI if SNI is positive.
- ERA receives pro-rata share of SNI if SNI is negative.

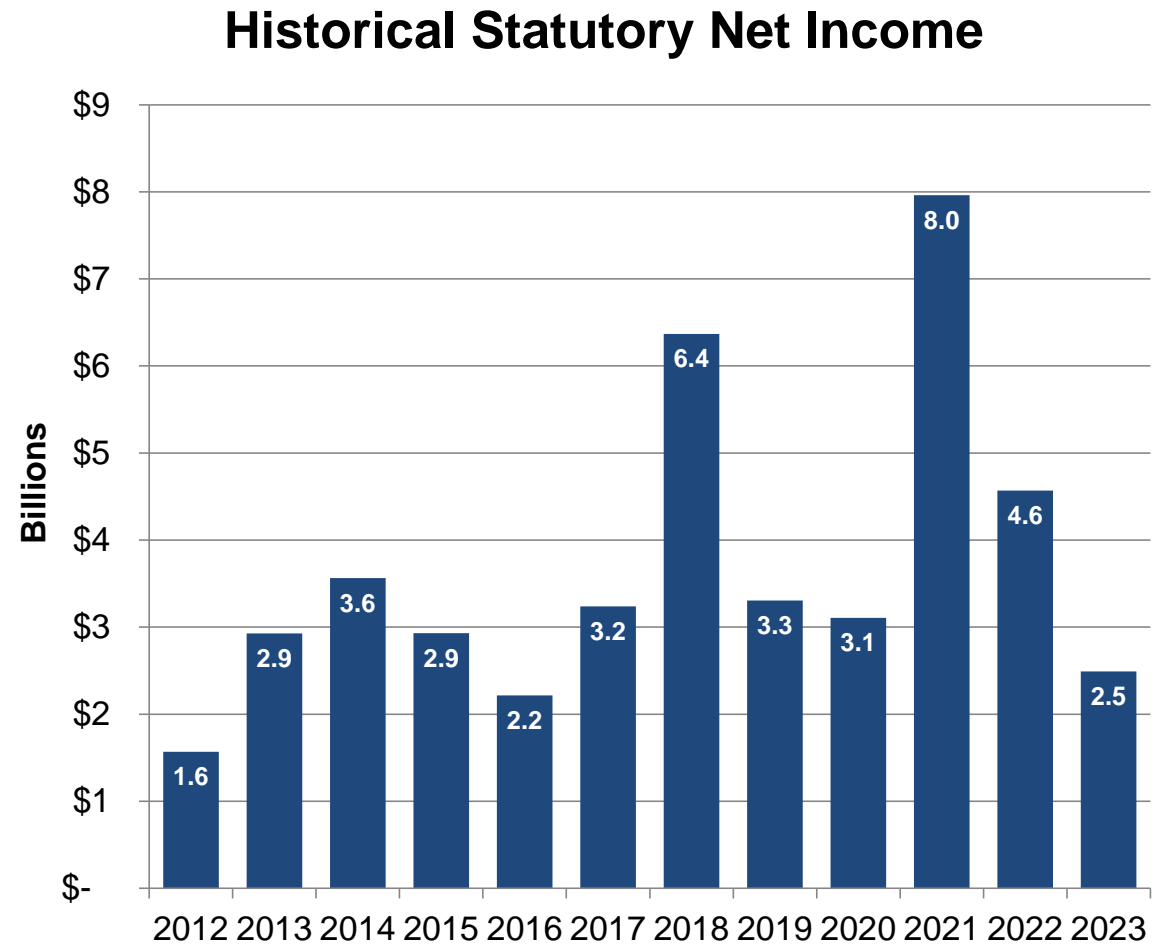
$$\begin{aligned} & \text{Beginning Realized ERA } \$13.8\text{B} + \\ & \text{Statutory Net Income } \$2.5\text{B} - \\ & \text{Appropriations to Principal } \$4.18 \text{ B} - \\ & \text{Distribution } \$3.4\text{B} = \\ \hline & \text{Ending Realized ERA } \$8.7\text{B} + \\ & \text{Pro Rata Unrealized Gains } \$1.4\text{B} = \\ \hline & \text{Ending ERA Balance } \$10.1\text{B} \end{aligned}$$

Model assumes Unrealized Losses are also allocated pro-rata between ERA and Principal.

Historical Statutory Net Income

Last Twelve Years

- Statutory Net Income has been positive in all of the last ten years.
- “Normal” years have been in the \$3 - \$4 billion range.
- 2018 and 2021 experienced outsized Statutory Net Income due to:
 - Strong equity markets;
 - High beginning unrealized gains balances;
 - Increased rebalancing activity resulting in equity sales;
 - Private markets transactions.
- Average Statutory Net Income over last 10 years has been approximately \$3.9 billion.

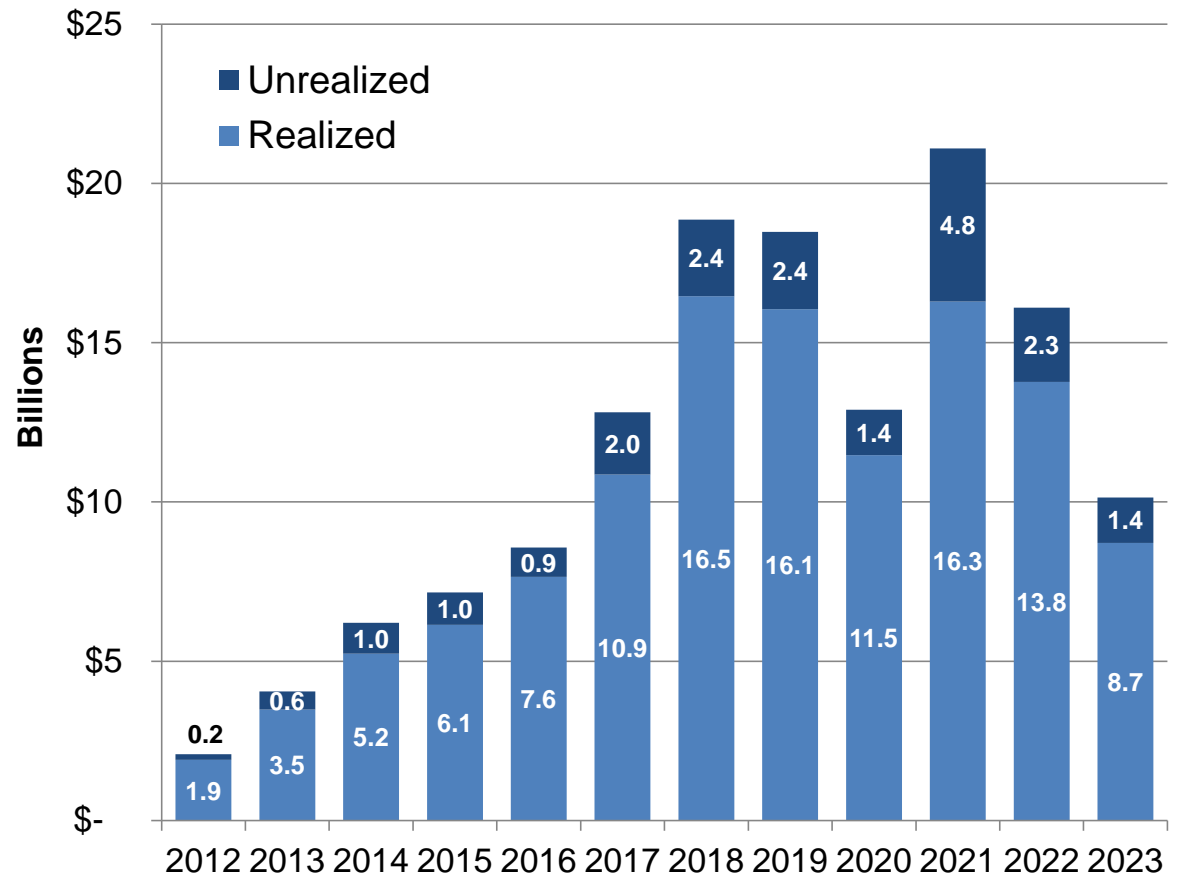


Historical Earnings Reserve Account Balance

Last Twelve Years

- With healthy Statutory Net Income levels exceeding Distributions and Appropriations, Earnings Reserve balance grew consistently from 2012 to 2018.
- When ERA balance grows faster than Principal proportion of unrealized gains allocated to ERA increases.
- In 2020 and 2022 \$4 billion of ERA was appropriated to Principal. This had the knock-on effect of reducing the percent of unrealized gains allocated to ERA.
- Inflation Proofing of \$4.2 billion in 2023 further reduced ERA balance.

Historical Earnings Reserve Account

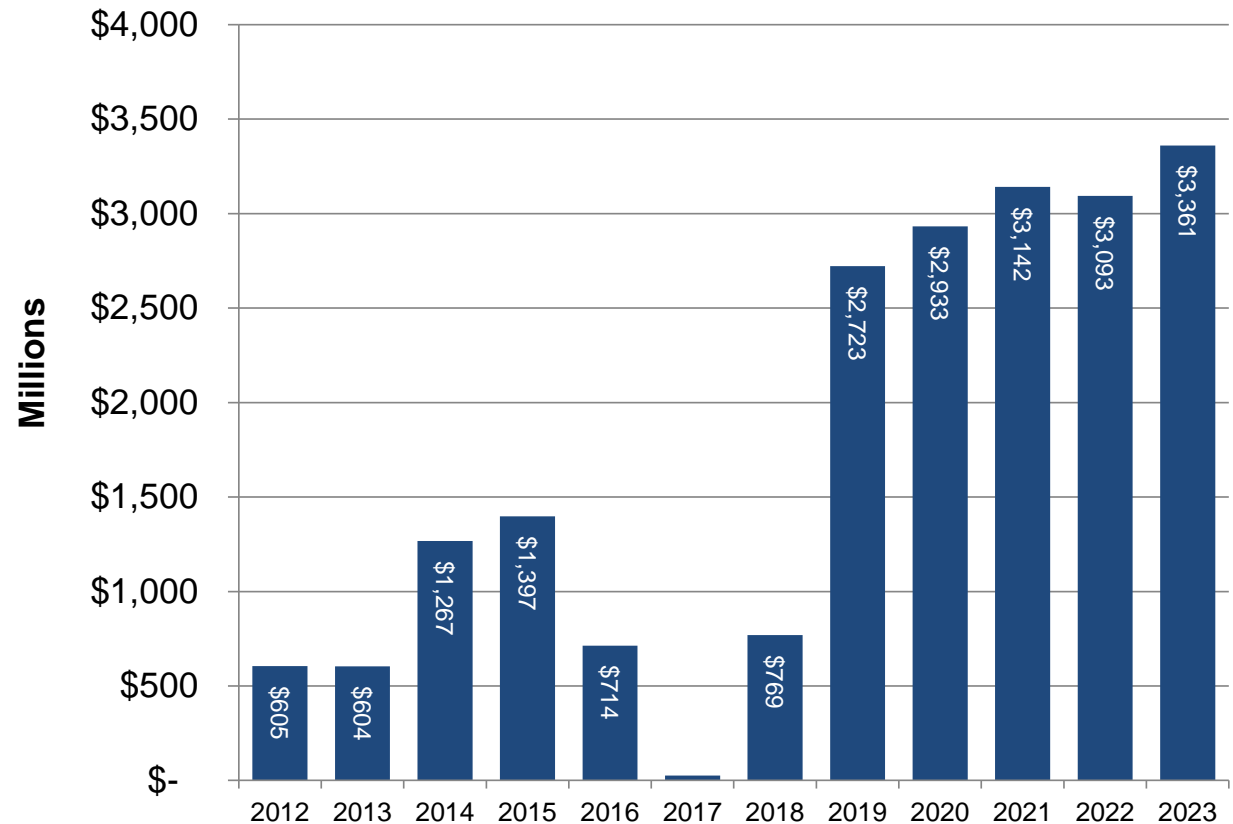


Historical Distributions

Last Twelve Years

- Chart contrasts distribution levels under dividend formula (pre-2019) with levels under POMV formula.
- POMV formula results in relatively smooth and predictable growth in distributions.
- Distributions under POMV formula are below the average Statutory Net Income over last 10 years of \$3.9 billion.

Historical Distributions

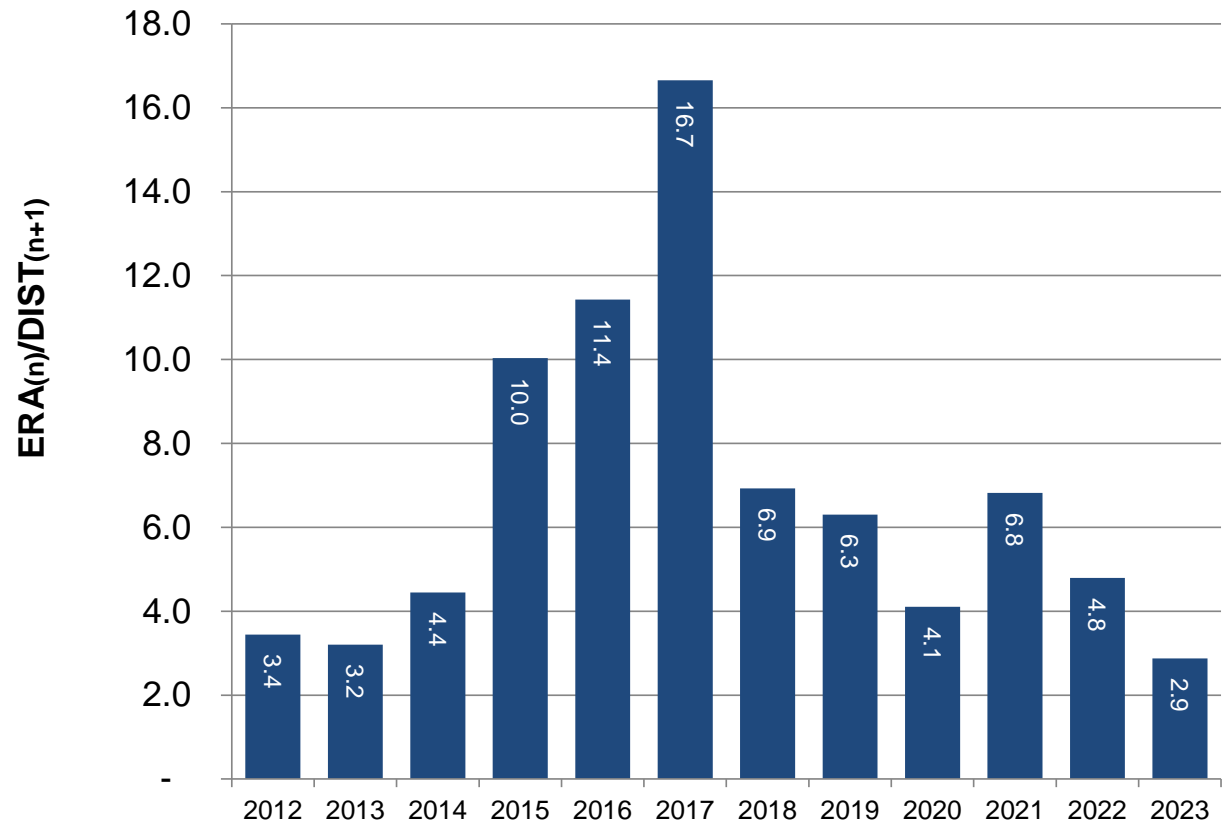


Historical ERA/Distribution Ratio

Last Twelve Years

- FY24 Beginning ERA to Distribution Ratio is 2.9.
- Over the last five years it has ranged between 6.9 and 4.1.
- Prior to the adoption of the POMV distribution policy it had been as high as 16.7 due to a combination of a relatively low distribution and a number of strong years in a row in the equity markets.
- Appropriations in 2020, 2022, and 2023, combined with POMV distributions have reduced this ratio.

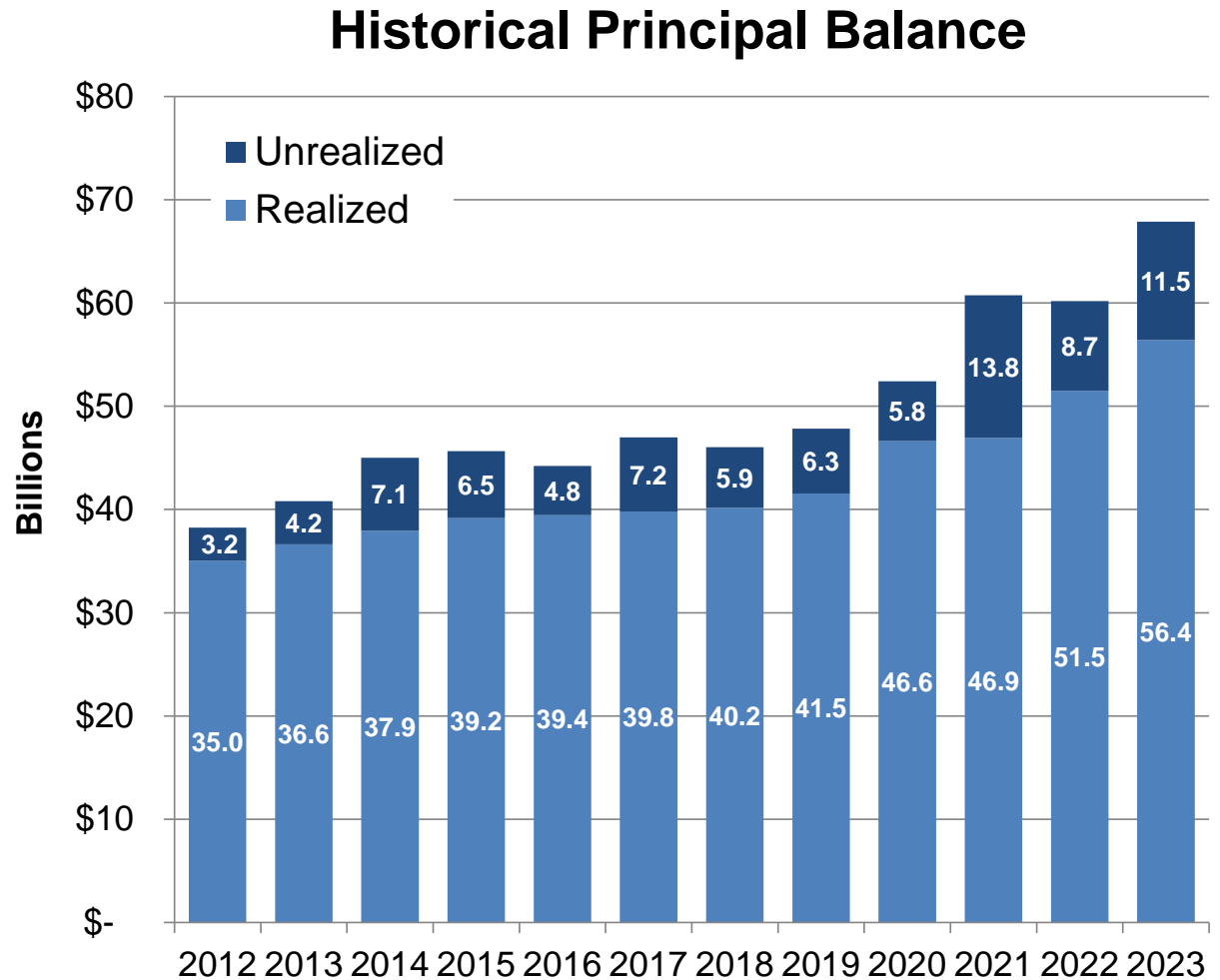
Historical ERA to Distribution Ratio



Historical Principal Account Balance

Last Twelve Years

- The Principal Account balance has grown steadily over time as a result of oil revenue and inflation proofing appropriations.
- \$4 billion appropriations to Principal in 2020 and 2022, and large inflation proofing appropriation in 2023 caused relatively large increases.
- The 2023 unrealized gains allocation to Principal as a percent of Principal is relatively large compared with history.



Stochastic versus Simulation Modelling

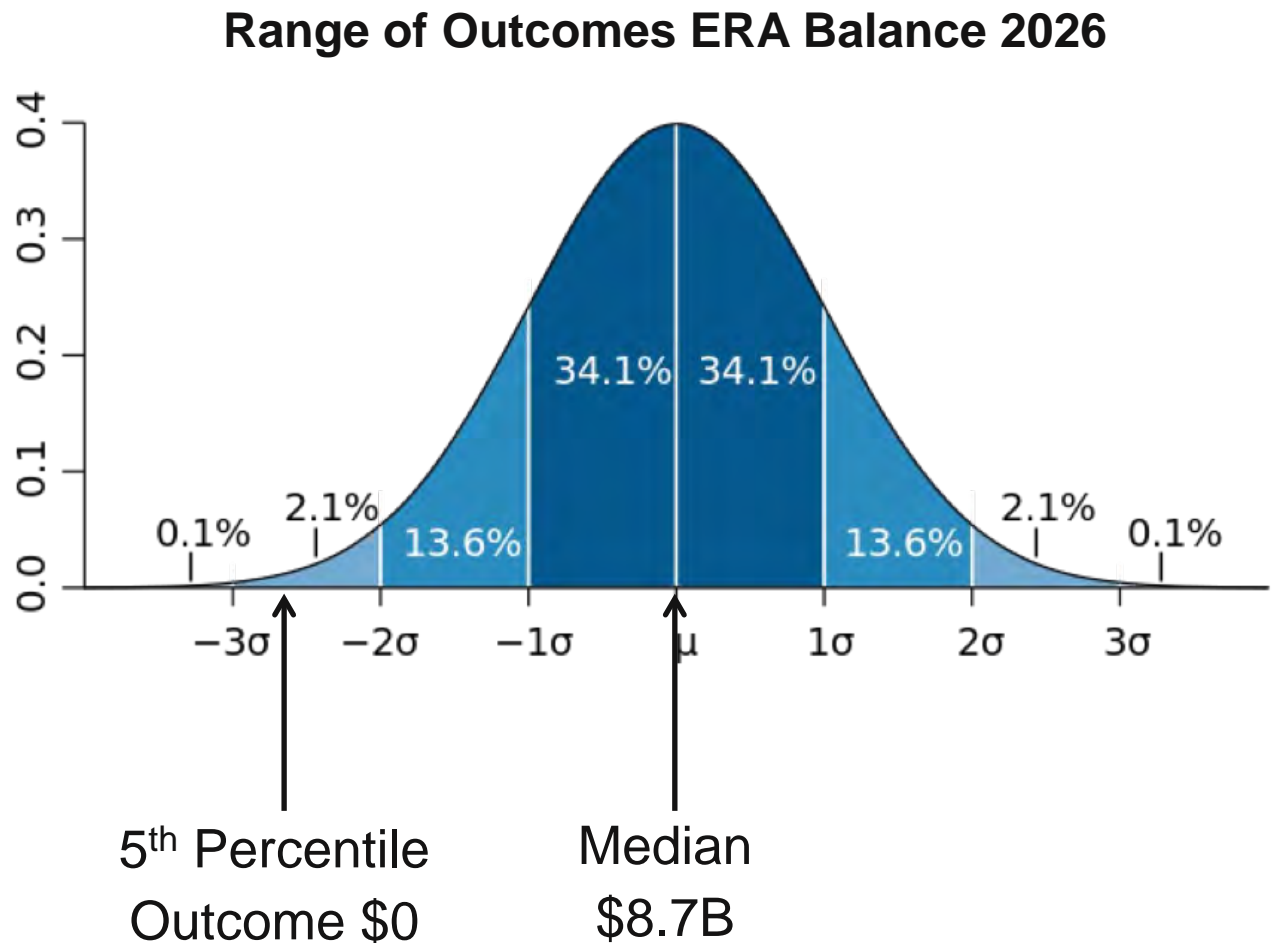
Monte Carlo Simulation

- Stochastic modelling assumes median market outcomes in each year.
- Results are generally intuitive and the models are easier to build.
- No need to consider “corner cases” or things that happen at the limits.
- Lend themselves to graphical representations of variables over time.
- Simulation modelling assumes a range of potential market outcomes in each year.
- Captures the impact of volatility.
- Requires you to consider things that happen at the limits (negative SNI, zero ERA, net unrealized losses (cost basis below market value), etc.).
- Results are less intuitive and more difficult to represent graphically over time.
- Assigns probabilities to various ranges of outcomes for variables of interest (versus point estimates).
- Requires multi-dimensional assumptions for market variables (return, standard deviation, correlation, auto-correlation, etc.).

Monte Carlo Simulation

Range of Outcomes

- Simulation output describes range of possible outcomes for each variable with associated probabilities.
- 50% of outcomes are above median and 50% below.
- Probability of a \$8.7 billion balance is roughly 50% assuming POMV draw and formulaic inflation proofing appropriations.
- Probability of a zero ERA balance in 2026 is roughly 5.4%.

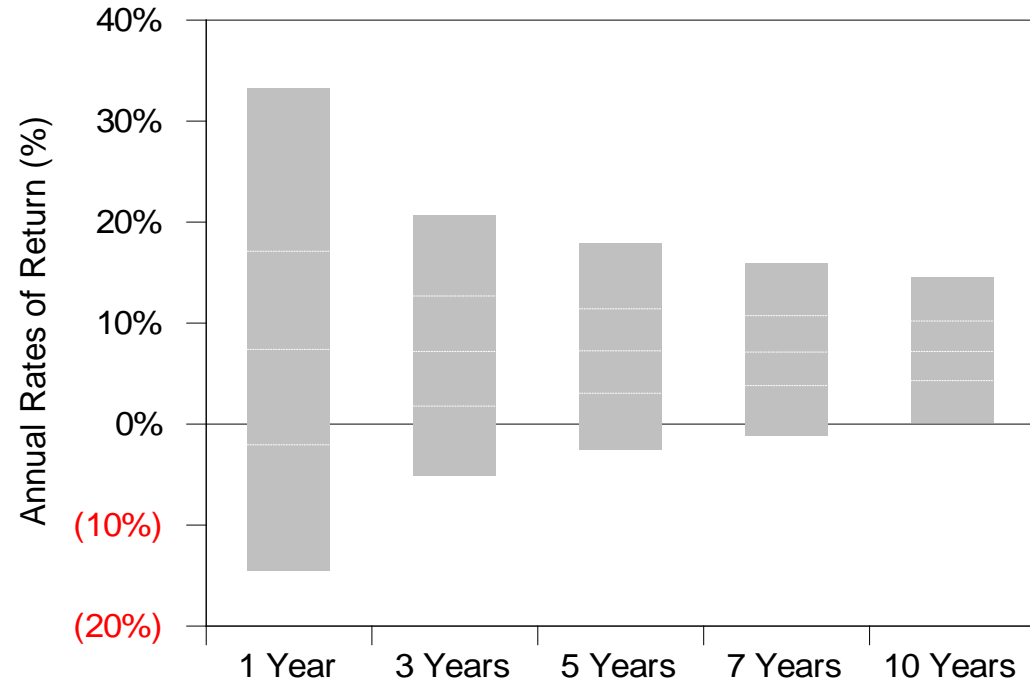


Range of Projected Total Return

Cumulative Annualized Returns Stochastic Projection

- Monte Carlo simulation introduces volatility for all asset classes resulting in a range of total return outcomes.
- Volatility reduces the median expected total return over longer periods relative to the one-year simulated returns.
- Annualizing longer period returns appears to reduce the range of outcomes, but the annualized returns are compounded over multiple periods, multiplying the cumulative impact of underperformance.

**Range of Projected Annualized Total Return
FY 2024 Target**



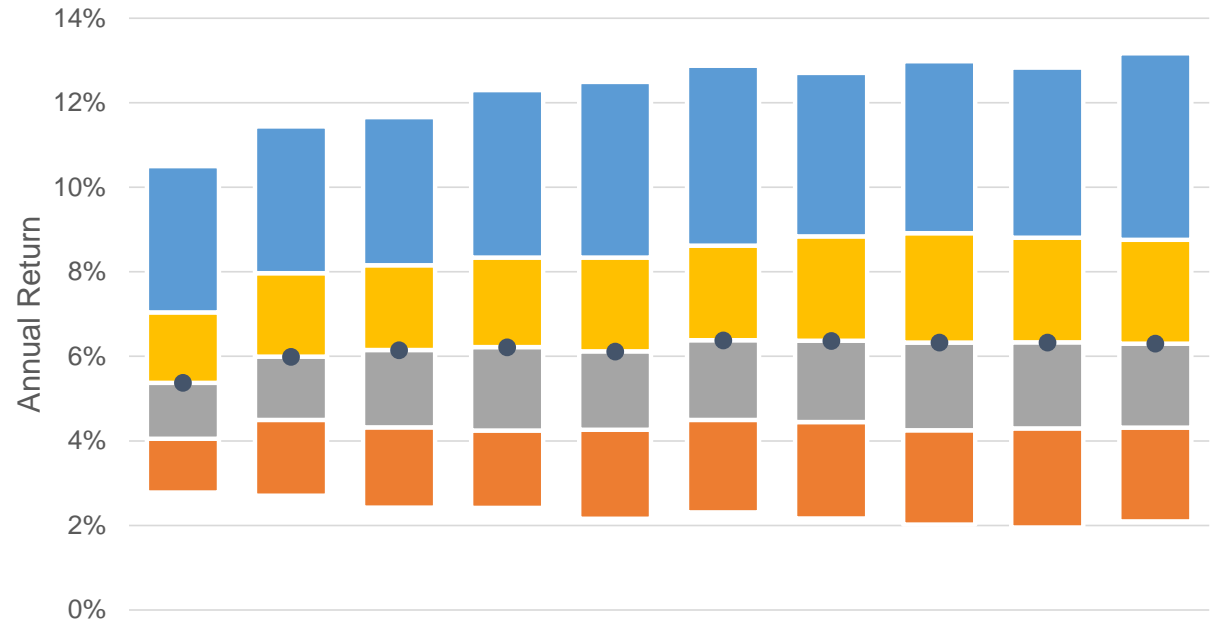
	1 Year	3 Years	5 Years	7 Years	10 Years
5th Percentile	33.3%	20.7%	17.9%	16.0%	14.5%
25th Percentile	17.1%	12.7%	11.4%	10.8%	10.2%
Median	7.4%	7.2%	7.3%	7.1%	7.2%
75th Percentile	(2.0%)	1.8%	3.1%	3.8%	4.3%
95th Percentile	(14.5%)	(5.1%)	(2.5%)	(1.1%)	0.2%

Range of Projected Statutory Return

Projected Range of Returns by Year

- Statutory return has a narrower range of outcomes.
- It is driven by income and realized return.
- Income is relatively consistent over time.
- In the model realized returns are driven by an assumed level of turnover for each asset class and mechanical rebalancing rules.
- The model does not contemplate gains realization caused by restructuring events or cyclical patterns in private markets.

Range of Statutory Return
(5th through 95th Percentiles)



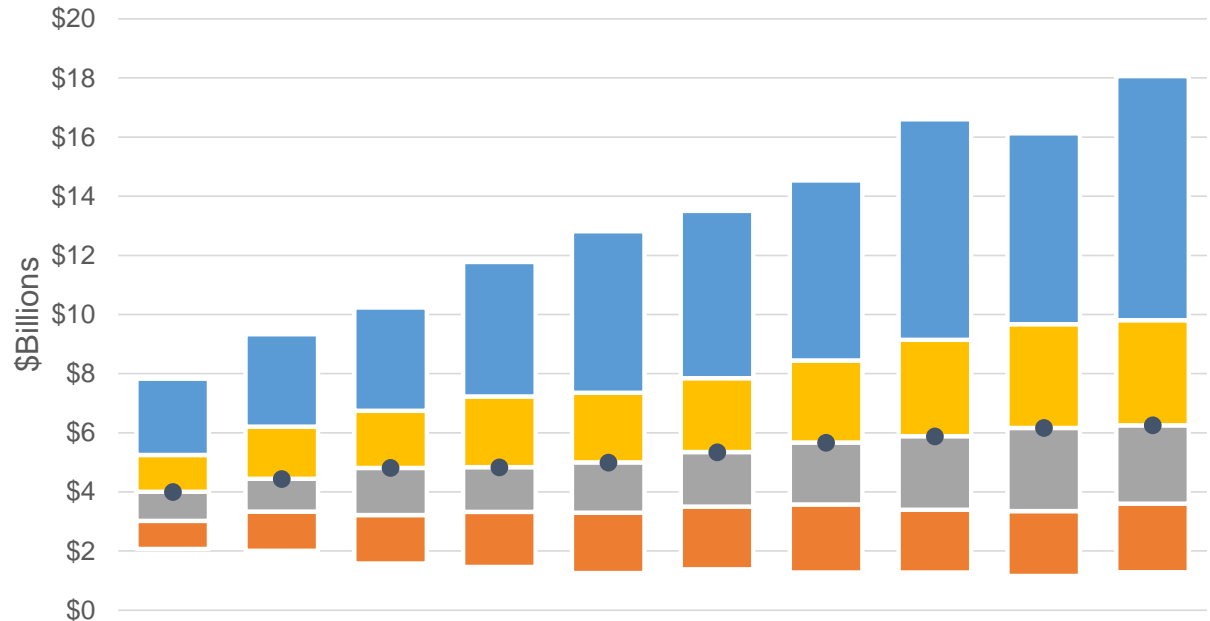
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
5th Percentile	10.50%	11.44%	11.66%	12.30%	12.50%	12.88%	12.71%	12.98%	12.83%	13.17%
25th Percentile	7.04%	7.97%	8.15%	8.34%	8.34%	8.62%	8.84%	8.92%	8.81%	8.76%
50th Percentile	5.37%	5.99%	6.15%	6.22%	6.12%	6.38%	6.37%	6.33%	6.33%	6.30%
75th Percentile	4.05%	4.50%	4.32%	4.24%	4.26%	4.49%	4.45%	4.25%	4.29%	4.31%
95th Percentile	2.78%	2.70%	2.42%	2.42%	2.16%	2.31%	2.16%	2.02%	1.95%	2.09%

Range of Projected Statutory Net Income

Projected Range of SNI in \$Billions by Year

- Median Statutory Net Income is projected to gradually rise over the projection period from \$4 billion to \$6.25 billion.
- 95th percentile outcomes are generally associated with years with large realized losses.
- 5th percentile outcomes are associated with positive capital market outcomes and large realized gains.
- Income is relatively consistent across scenarios.

Range of Statutory Net Income
(5th through 95th Percentiles)



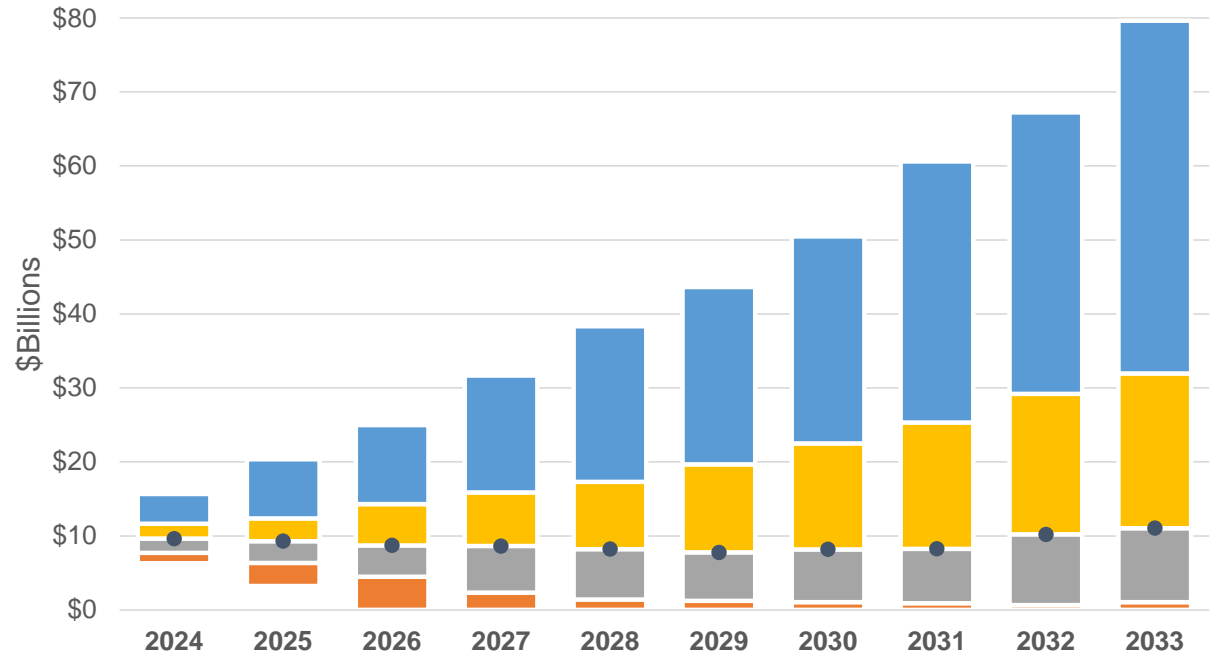
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
5th Percentile	7.83	9.33	10.23	11.78	12.82	13.50	14.53	16.60	16.13	18.06
25th Percentile	5.24	6.21	6.74	7.23	7.36	7.84	8.44	9.14	9.67	9.81
50th Percentile	4.00	4.44	4.81	4.84	5.00	5.35	5.67	5.88	6.16	6.25
75th Percentile	3.02	3.34	3.21	3.32	3.30	3.50	3.57	3.39	3.35	3.60
95th Percentile	2.07	2.00	1.58	1.46	1.25	1.38	1.27	1.27	1.16	1.28

Range of Earnings Reserve Account Balance

Projected Range of ERA Balance in \$Billions by Year

- Median ERA balance is projected to decline through 2029 and then gradually increase.
- There is at least a 5% chance that the ERA will be exhausted by the end of fiscal year 2026 (and in every year thereafter in the projection period).
- Outcomes where the ERA is exhausted generally include multiple consecutive below-median total return outcomes.
- There is roughly a 75% chance that the ERA will limit the POMV distribution by FY 2033.

Range of Ending ERA Balance
(5th through 95th Percentiles)

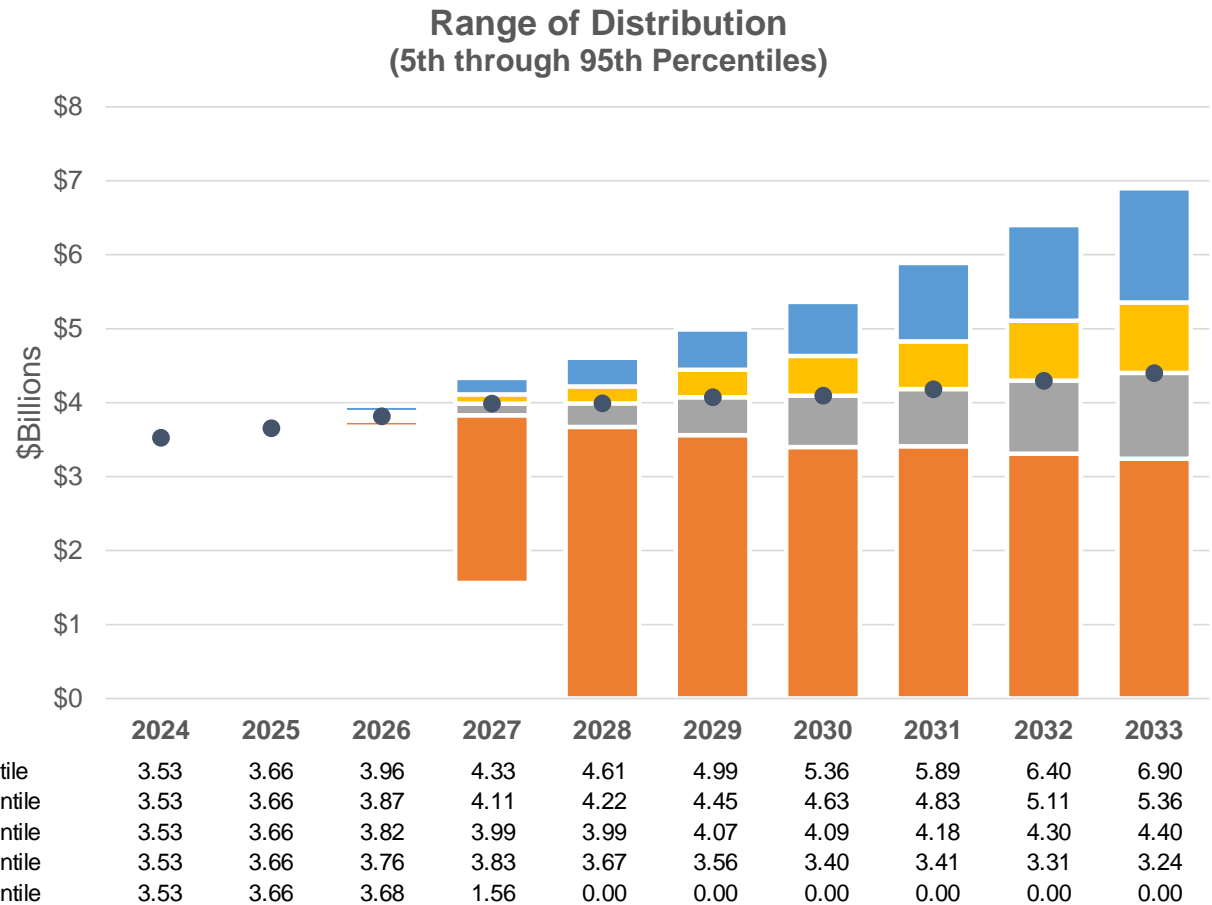


	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
5th Percentile	15.67	20.36	24.96	31.68	38.35	43.63	50.46	60.62	67.23	79.61
25th Percentile	11.66	12.38	14.28	15.87	17.32	19.69	22.49	25.35	29.21	31.94
50th Percentile	9.64	9.29	8.72	8.63	8.21	7.76	8.18	8.26	10.20	11.04
75th Percentile	7.71	6.36	4.48	2.33	1.42	1.22	1.05	0.90	0.66	1.03
95th Percentile	6.32	3.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Range of POMV Distribution

Projected Range of Distribution in \$Billions by Year

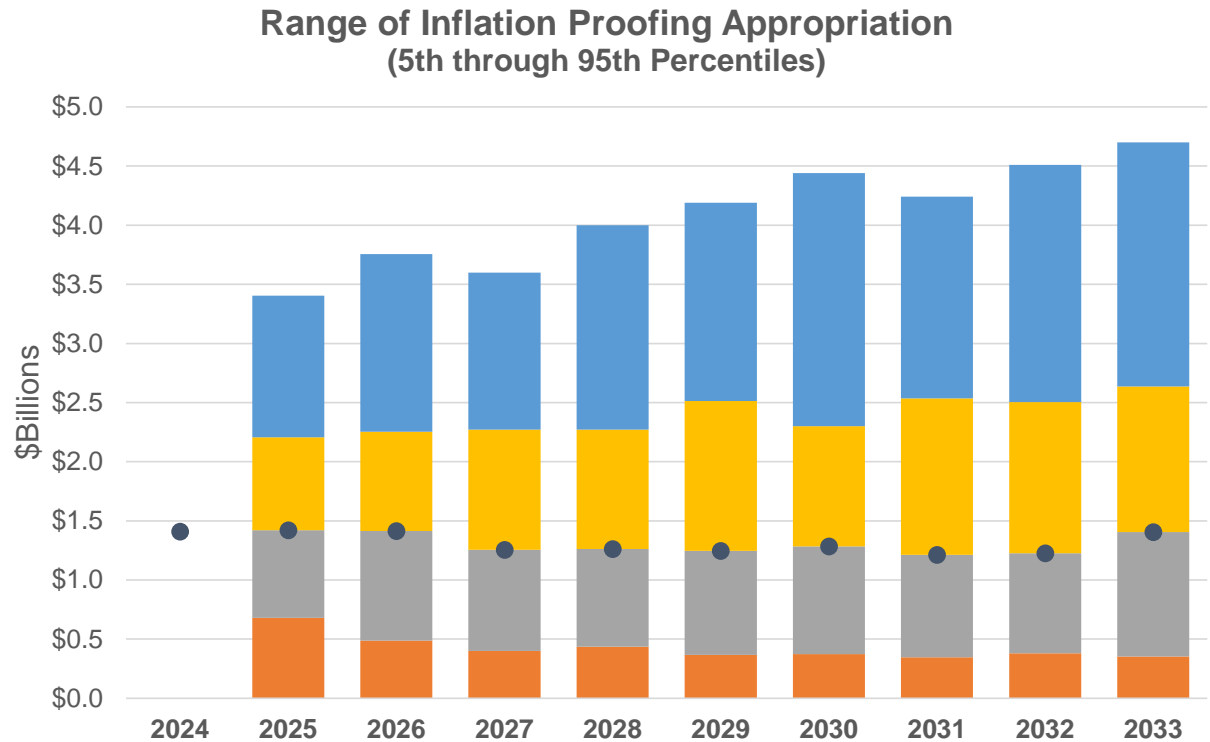
- Median distribution is projected to rise gradually over the projection period.
- 75th percentile distribution outcomes are generally associated with low return outcomes, not necessarily with ERA exhaustion.
- There is at least a 10% chance that the ERA will limit the distribution to zero by FY 2028.
- These outcomes are a result of negative returns and realized losses compounding the reduction in the ERA balance.



Range of Inflation Proofing Appropriation

Projected Range of Appropriation in \$Billions by Year

- Model assumes distribution takes precedence over inflation proofing in years where ERA is stressed.
- There is at least a 75% chance that the inflation proofing appropriation will be limited by the ERA balance beginning in FY 2026.
- There is at least a 5% chance that the inflation proofing appropriation will be limited to zero in FY 2025.



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
5th Percentile	1.41	3.40	3.75	3.60	4.00	4.19	4.44	4.24	4.51	4.70
25th Percentile	1.41	2.21	2.25	2.27	2.27	2.51	2.30	2.54	2.51	2.64
50th Percentile	1.41	1.42	1.41	1.25	1.26	1.25	1.28	1.21	1.22	1.41
75th Percentile	1.41	0.68	0.49	0.40	0.44	0.37	0.37	0.35	0.38	0.35
95th Percentile	1.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Range of Distribution Shortfall by Year

Probability and Size of Projected Distribution Shortfalls

- Another perspective is the probability of a shortfall in each year.
- A shortfall is defined as the difference between the allowable draw and the prescribed POMV draw.
- In FY 2027 we observe a greater than 10% probability of a shortfall.
- The probability and size of projected shortfalls in worse case outcomes increases over time.

Range of Projected Distribution Shortfalls by Year

Percentile	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
5%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
20%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
30%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
35%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
40%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
45%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
50%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
60%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
65%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
70%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
75%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23
80%	0.00	0.00	0.00	0.00	0.10	0.35	0.67	0.80	0.92	1.17
85%	0.00	0.00	0.00	0.00	1.06	1.26	1.53	1.55	1.81	2.17
90%	0.00	0.00	0.00	0.51	2.02	2.35	2.53	2.40	2.72	3.17
95%	0.00	0.00	0.00	2.19	3.56	3.54	3.51	3.48	3.58	3.71

Conclusions

Summary Observations

- The recent large appropriations from the ERA have generally made it more vulnerable to exhaustion relative to the modelling that we did in 2019 and 2021.
- Statutory Net Income at the Permanent Fund has become increasingly driven by capital gains realization (rather than ordinary income) as the Fund has become more equity and private markets oriented.
- Capital gains realization is more volatile than ordinary income and private markets realization is heavily influenced by cyclical factors.
- Currently unrealized capital gains are relatively healthy as a percentage of market value, but they are somewhat concentrated in the private market asset classes where valuations may not have adjusted to current market conditions, and cyclical factors may make realization slower.
- This is compounded by the unrealized losses in fixed income.
- Overall, the fund is healthy, well-diversified, well managed, and theoretically should be able to support the current POMV formula through all market conditions.
- The “two-account” ERA framework combined with inflation proofing appropriations introduce potential instability into the POMV draw that would not exist under an endowment model spending rule.



Appendix

Capital Market Projections

Capital Market Projections

Projected Return, Standard Deviation, and Yield

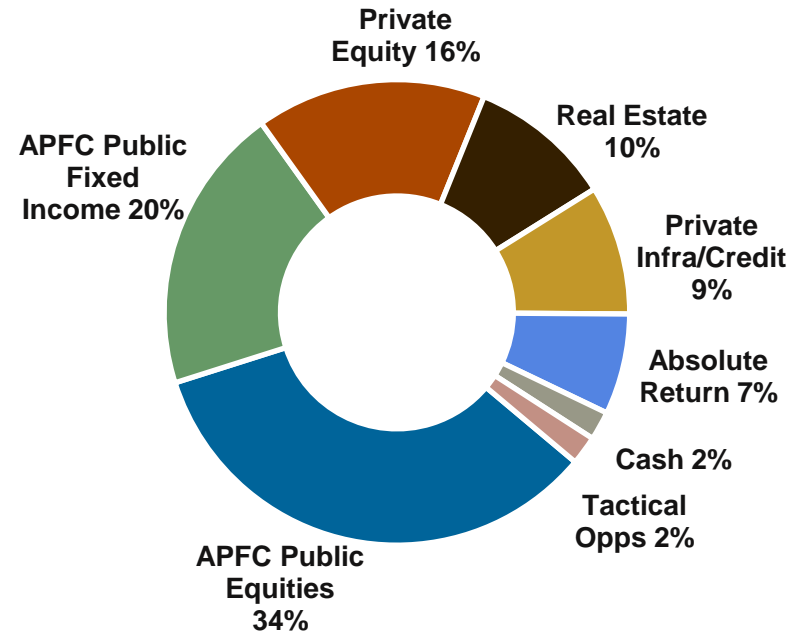
Asset Class	Performance Index	PROJECTED RETURN		PROJECTED RISK	
		1-Year Arithmetic	10-Year Geometric Return	Annualized Standard Deviation	Projected Yield
APFC Public Equities		9.05%	7.60%	18.50%	2.85%
Global Equity	MSCI ACWI - IMI	9.05%	7.60%	18.50%	2.85%
APFC Public Fixed Income		4.35%	4.35%	4.20%	4.55%
Cash Equivalents	90-Day T-Bill	2.75%	2.75%	0.90%	2.75%
TIPS	Bloomberg TIPS	4.10%	4.00%	5.30%	3.95%
US Fixed Income	Bloomberg Aggregate	4.25%	4.25%	4.10%	4.30%
US Investment Grade Credit	Bloomberg Credit	4.30%	4.25%	4.60%	4.55%
Non-US Fixed Income	Bloomberg Global Treasury ex-US Hedged	2.70%	2.25%	9.80%	2.40%
Emerging Market Debt	50/50 JPM EMBI/JPM GBI	6.25%	5.85%	10.65%	7.40%
High Yield	Bloomberg US High Yield 2% Issuer Cap	6.75%	6.25%	11.75%	8.00%
US Securitized	Bloomberg US Securitized	3.90%	3.90%	4.00%	3.65%
Private Equity/Growth Opps		11.95%	8.50%	27.60%	0.00%
Private Equity	Cambridge Private Equity (lag)	11.95%	8.50%	27.60%	0.00%
Private Real Estate		6.60%	5.75%	14.20%	4.40%
Real Estate	NCREIF Total Index (lag)	6.60%	5.75%	14.20%	4.40%
Private Infra/Credit/Income Opps		7.50%	6.90%	12.45%	5.55%
Private Infrastructure	Cambridge Global Private Infra (lag)	7.15%	6.15%	15.45%	4.60%
Private Credit	Bloomberg US High Yield (lag)	8.00%	7.00%	15.50%	7.00%
Absolute Return		5.80%	5.55%	8.45%	0.00%
Hedge Funds	HFRI Total HFOF Universe	5.80%	5.55%	8.45%	0.00%
Tactical Opportunities		8.60%	7.25%	17.75%	2.00%
Tactical Opportunities	S&P 500	8.60%	7.25%	17.75%	2.00%
Cash Equivalents		2.75%	2.75%	0.90%	2.75%
Hedge Funds	90-Day T-Bill	2.75%	2.75%	0.90%	2.75%
Total Fund	APFC Total Fund Target	7.80%	7.20%	13.10%	2.90%
Inflation	CPI-U		2.50%	1.50%	

APFC Total Fund Policy Target

Projected Return and Standard Deviation

- Projected median 10-year annualized return of 7.20%.
- 10-year median inflation expectation is 2.5%.
- Projected median 10-year annualized real return of 4.70%.

FY 2024 Total Fund Target



Expected 10-year Geometric Return: 7.20%
Expected Standard Deviation: 13.10%
Expected Inflation: 2.50%
Expected Real Return: 4.70%



ALASKA PERMANENT
FUND CORPORATION

ERA and Statutory Net Income

Marcus Frampton, APFC Chief Investment Officer

September 6, 2023

The background of the slide is a teal color with a faint, close-up image of pine needles and a pine cone. The text is overlaid on this background.

Part 1

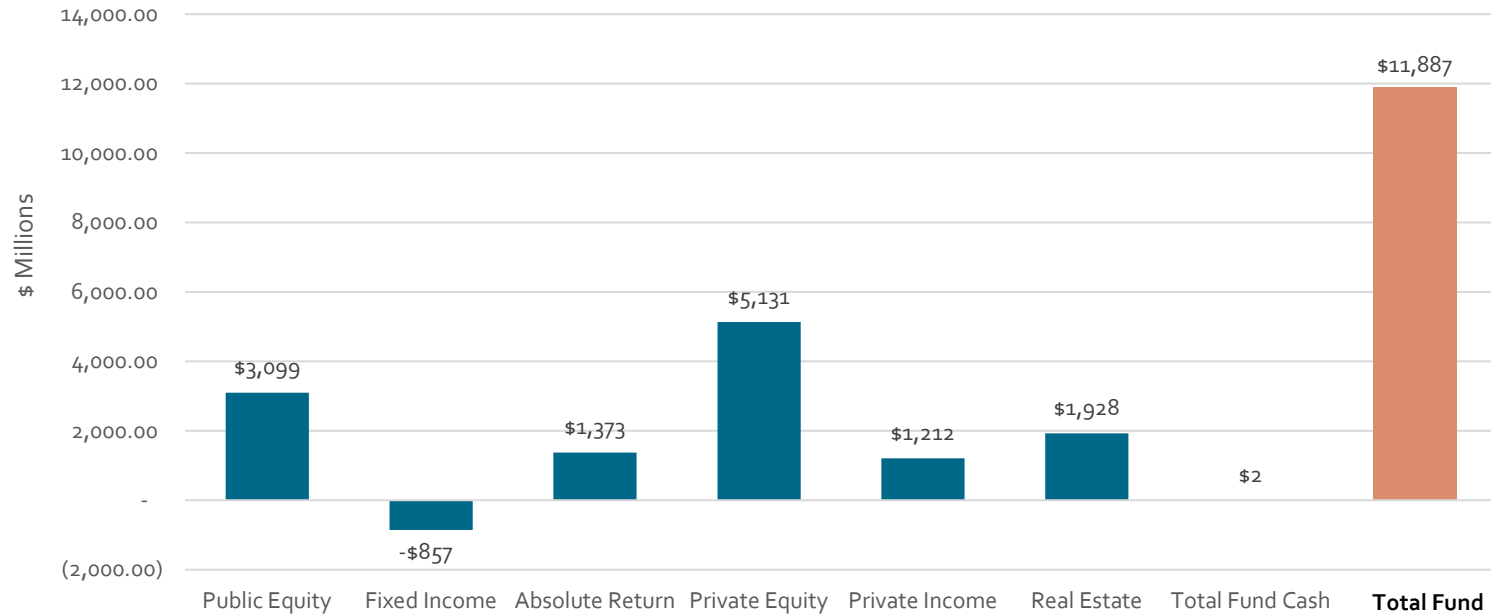
High Level Thoughts on Statutory Net Income

Statutory Net Income Considerations

- There are high unrealized balances in the portfolio, but an unusually high percent are in less liquid private markets.
- Private distributions were down ~50% last fiscal year, introducing statutory net income uncertainty.
- Baseline statutory net income (SNI) is the only amount one can “take to the bank” on short-term horizon (or long-term assuming a flat market with limited private exits).
- Callan’s forecast of ~\$5 billion per year of SNI is predicated on a return to a world where equities return approximately 6 – 7% per annum.

Current Unrealized Gains by Asset Class

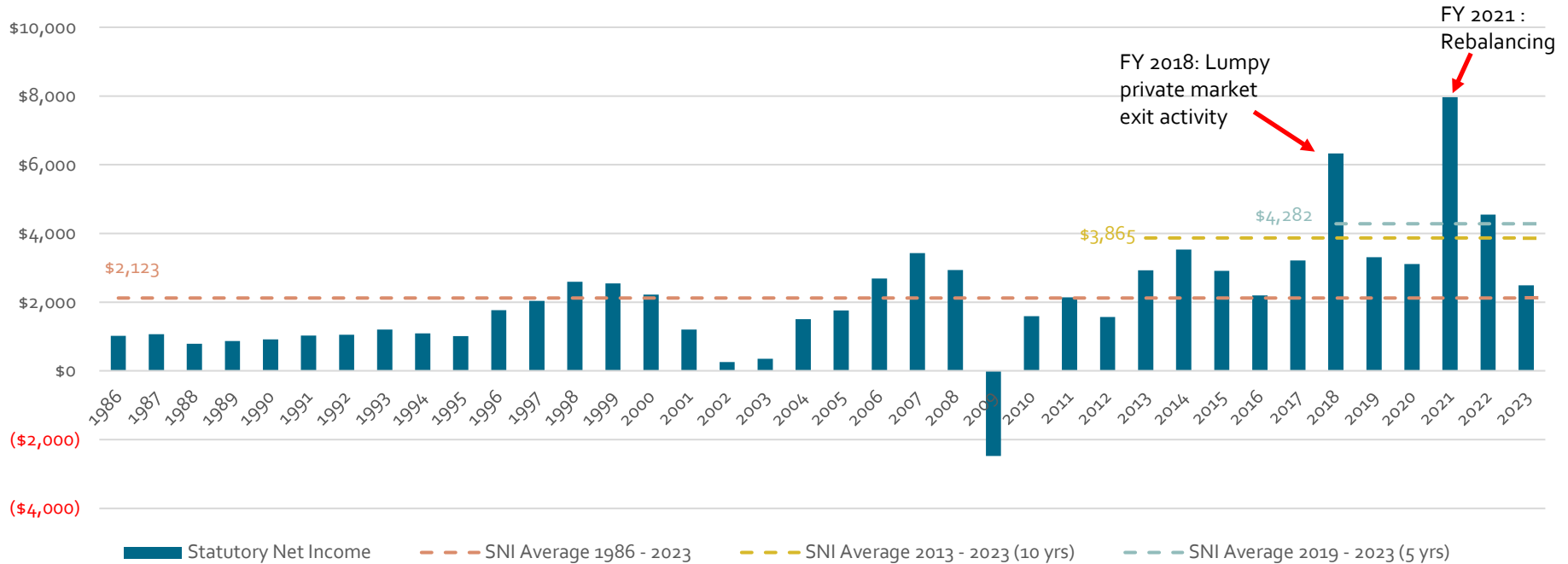
Cumulative unrealized gains as of June 30, 2023



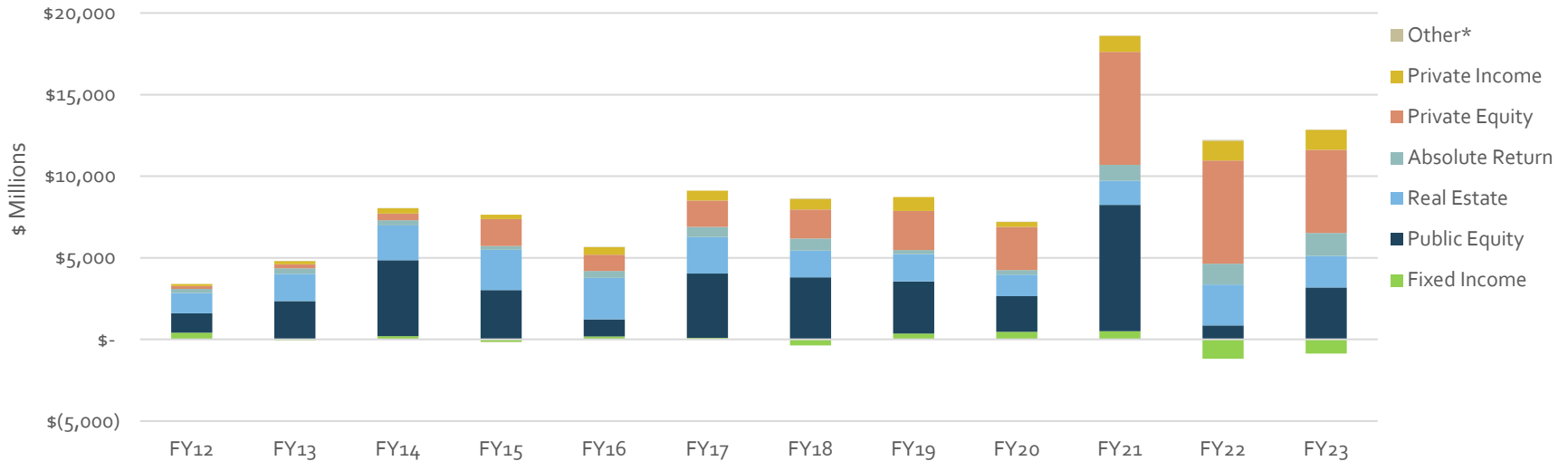
Realized Gains: Drivers by Asset Class

- Public Equity → Trading activities
- Fixed Income → Trading activities
- Real Estate → Property dispositions (irregular)
- Private Equity → Manager exit activity
- Private Income → Manager exit activity
- Absolute Return → Redemptions from managers

Statutory Net Income by Fiscal Year: 1986 - 2023



Unrealized Gains by Asset Class (2012 – Present)



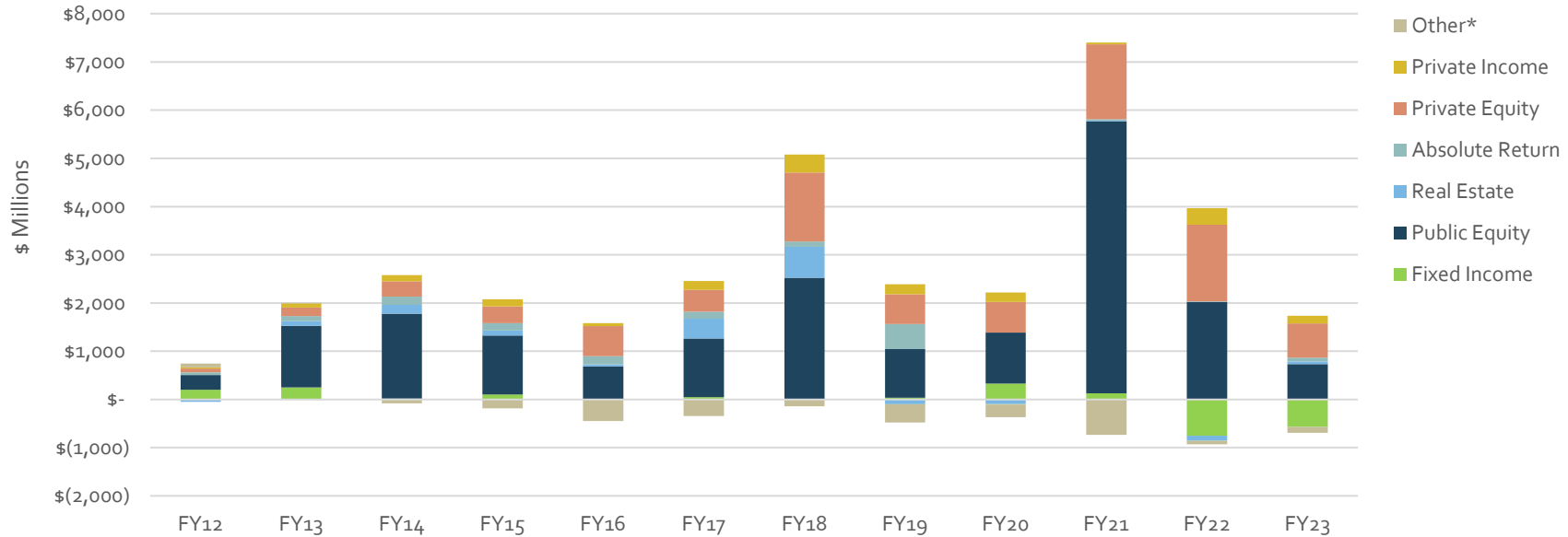
	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Percent from private markets ⁽¹⁾	53.1%	51.7%	39.6%	61.8%	77.8%	55.7%	58.1%	59.4%	63.2%	55.5%	102.6%	80.6%
Total \$ from public markets ⁽²⁾ (in \$ millions)	\$1,591	\$2,296	\$4,856	\$2,860	\$1,258	\$4,036	\$3,462	\$3,533	\$2,654	\$8,282	-\$288	\$2,326

* Other includes balances from currency and forwards

(1) Private markets include Private Income, Private Equity, Absolute Return, and Real Estate

(2) Public markets include Public Equity, Fixed Income, and Other

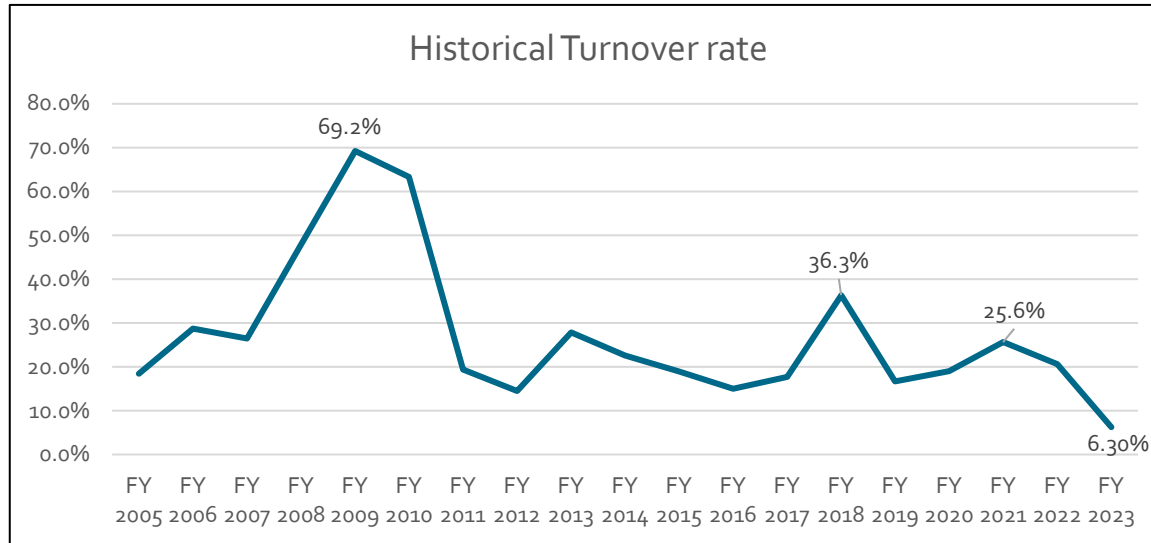
Realized Gains by Asset Class (2012 – Present)



* Other includes balances from currency and forwards

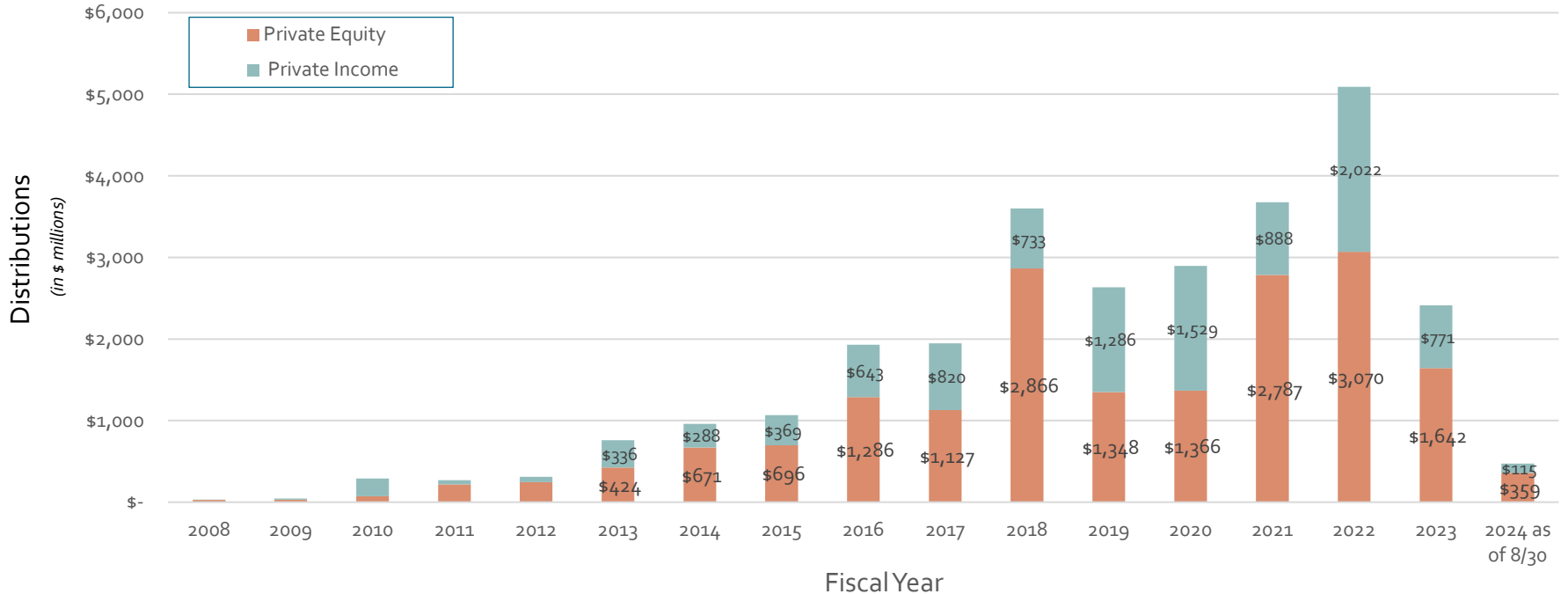
Portfolio Turnover Rate

- Portfolio Turnover Rate = Statutory Net Income from Trading / Unrealized Gains Available for Statutory Net Income



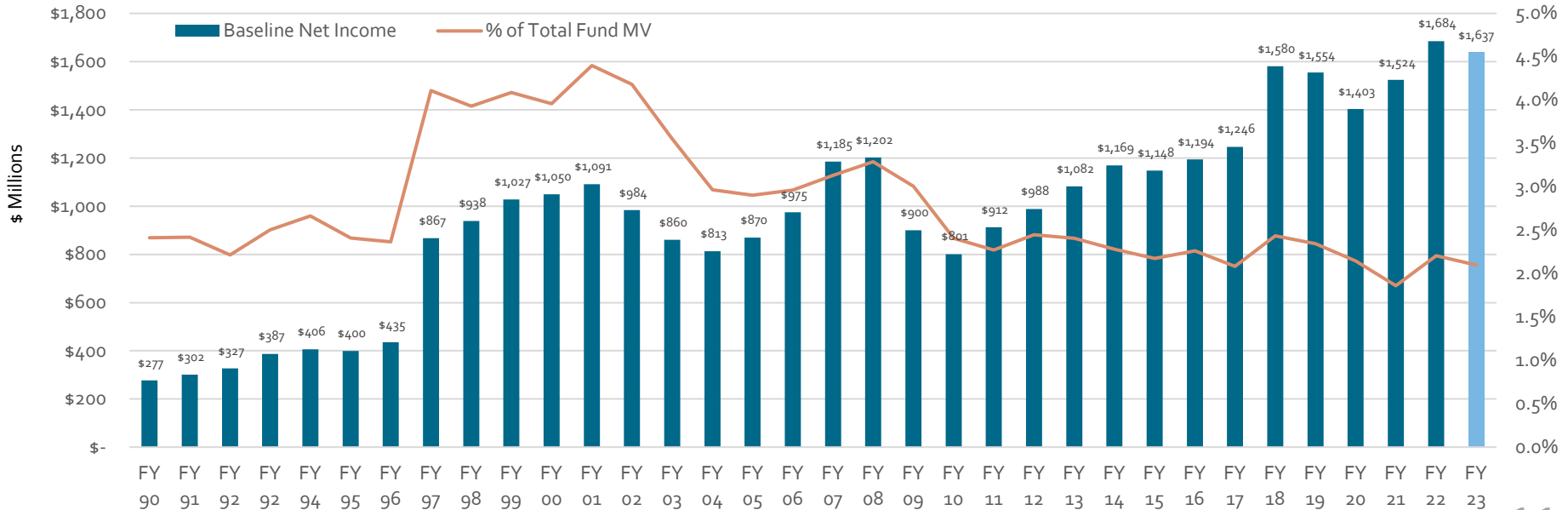
- Historical average when cumulative unrealized gains are **less** than 7% of the Fund is 60% (only occurred in Fiscal Years '08, '09, and '10)
- Historical average when cumulative unrealized gains are **greater** than 7% of the Fund is 21%

Private Equity and Private Income Distribution Activity



Baseline Statutory Net Income

- 10-year average (FY 2014 – 2023) baseline SNI is \$1,414 billion and 2.2% of Fund MV
- 5-year average (FY 2019 – 2023) baseline SNI is \$1,560 billion and 2.1% of Fund MV





Part 2

ERA Model Approach 1 – Back of the Envelope

Approaches to Analyzing ERA

❖ Most Conservative

- **Next year SNI available?**
 - Going into a budget season one would not necessarily bank on next year's SNI to fund next year's POMV
- **Inflation Proofing? Implications?**

❖ Less Conservative

- **Next year SNI available?**
 - In excel modeling we assume next year SNI is available for next year POMV even though policy-makers at the time would not know next year's SNI
- **Inflation Proofing? Implications?**
 - In excel modeling the default assumption is first POMV then inflation proof (if you can) using current year SNI

Because we are living in a real world, not an excel model, it's worth considering these factors.

Current Snapshot of ERA

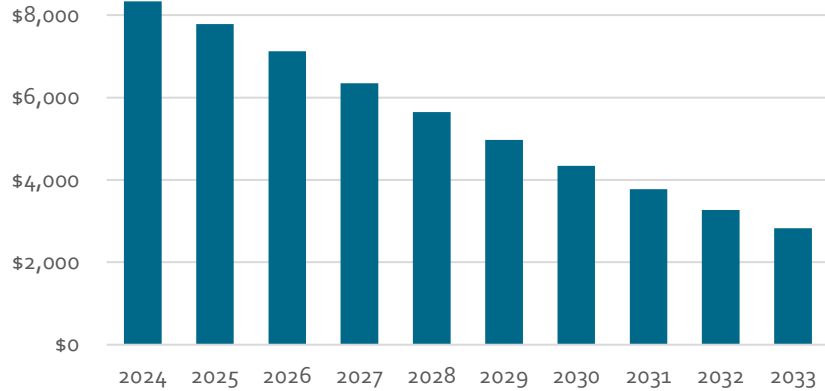
Realized ERA at 6/30/23	\$8,767
Less: Current Year (FY '24) POMV	(\$3,526)
<u>Less: Current Year Inflation Proof</u>	<u>(\$1,413)</u>
Realized ERA Available for Current year Budget Process	\$3,828
<u>Less: FY '25 POMV</u>	<u>(\$3,656)</u>
FY '26 POMV "Cushion"	\$200
<u>FY '24 SNI</u>	<u>??</u>
Available for FY '26 POMV	???

“Base Case” FY '24 Statutory Net Income (SNI)

		<u>Comment</u>
Baseline SNI	\$1,600	<ul style="list-style-type: none"> Consistent with recent trends
<u>+ Realized Gains</u>		
Public Equity	\$1,000	<ul style="list-style-type: none"> Assumes flat market and 33% turnover
Fixed Income	(\$500)	<ul style="list-style-type: none"> Assumes flat market and 60% turnover
Private Equity/Private Income	\$1,000	<ul style="list-style-type: none"> Consistent with Fiscal Years '23, '19, and '20
Real Estate & Absolute Return	\$0	<ul style="list-style-type: none"> No exits contemplated
<u>Base Case FY '24 SNI</u>	<u>\$3,100</u>	
<u>+ FY '26 “Cushion”</u>	<u>\$200</u>	
	\$3,300	
<u>Less: FY '26 POMV</u>	<u>(\$3,792)</u>	
Implied Shortfall for FY '26	(\$492)	
(as of next fall)		

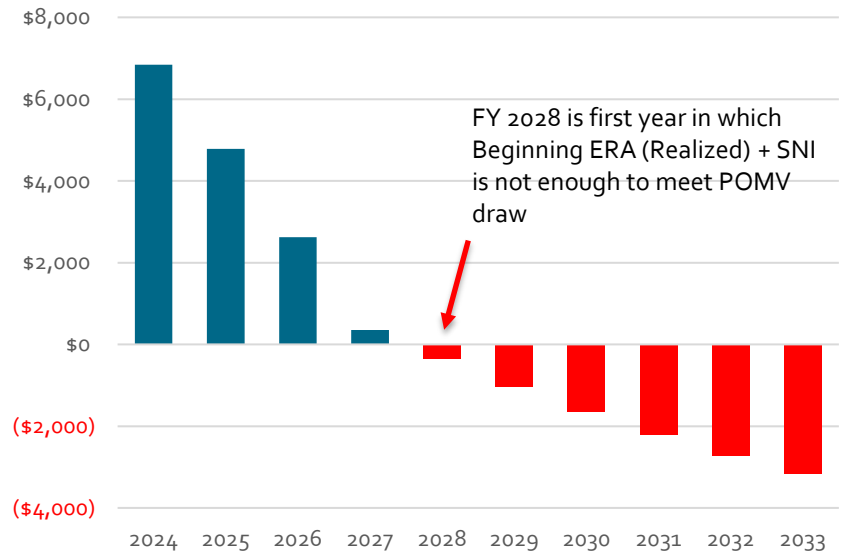
ERA (Realized) 10-Year Forecast at Flat \$3.1 billion SNI

No Inflation Proofing



- ERA Realized balance does not fall below zero in forecasted time period

Flat \$1.5 Billion Annual Inflation Proofing



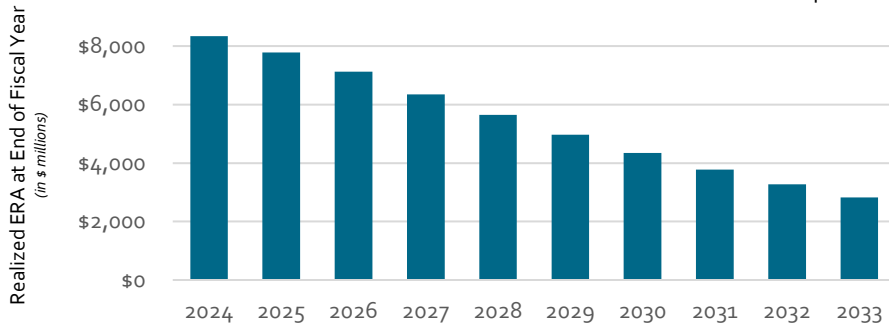
Notes:

- Model assumes: (1) 3.5% annual Total Fund growth rate; (2) \$3.1 billion annual SNI

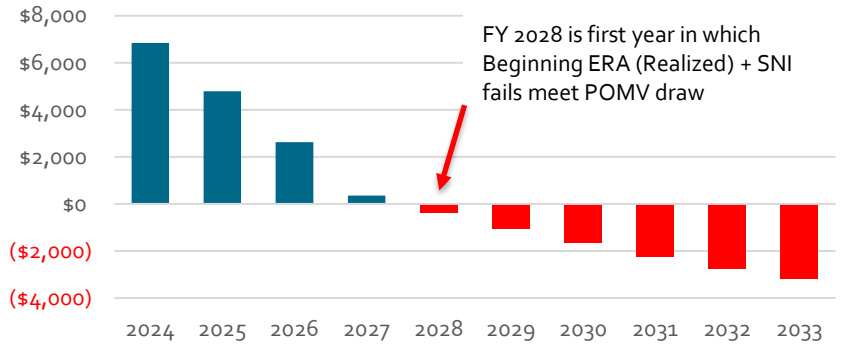
ERA (Realized) 10-Year Forecast at Flat \$3.1 billion SNI

No Inflation Proofing

- ERA Realized balance does not fall below zero in forecasted time period



Flat \$1.5 Billion Annual Inflation Proofing



Beginning ERA	\$8,767	\$8,341	\$7,785	\$7,122	\$6,350	\$5,647	\$4,969	\$4,345	\$3,778	\$3,272
+ SNI	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100
Less: POMV	(\$3,526)	(\$3,656)	(\$3,764)	(\$3,872)	(\$3,803)	(\$3,777)	(\$3,724)	(\$3,667)	(\$3,606)	(\$3,545)
Less: Inflation Proof	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ending ERA	\$8,341	\$7,785	\$7,122	\$6,350	\$5,647	\$4,969	\$4,345	\$3,778	\$3,272	\$2,827

Beginning ERA	\$8,767	\$6,841	\$4,785	\$2,622	\$350	(\$353)	(\$1,031)	(\$1,655)	(\$2,222)	(\$2,728)
+ SNI	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100	\$3,100
Less: POMV	(\$3,526)	(\$3,656)	(\$3,764)	(\$3,872)	(\$3,803)	(\$3,777)	(\$3,724)	(\$3,667)	(\$3,606)	(\$3,545)
Less: Inflation Proof	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,500)	\$0	\$0	\$0	\$0	\$0	\$0
Ending ERA	\$6,841	\$4,785	\$2,622	\$350	(\$353)	(\$1,031)	(\$1,655)	(\$2,222)	(\$2,728)	(\$3,173)

Notes:

- Model assumes: (1) 3.5% annual Total Fund growth rate; (2) \$3.1 billion annual SNI

Sustainability of ERA

- Sensitivity table shows fiscal year in which realized balance of ERA shortfall will occur given a consistent level of annual inflation proofing and SNI.
 - Model assumes that no inflation proofing occurs in years in which inflation proofing would cause realized balance in ERA to fall below zero *after* POMV transfer (i.e. only POMV transfer will cause ERA balance to fall below zero in a given year).
 - Red coloring indicates ERA shortfall in next 5 fiscal years, yellow indicates shortfall in next 10 fiscal years, and green indicates no shortfall in modeled time period.

		Annual Inflation Proofing								
		0.0%	0.7%	1.5%	2.2%	2.9%	3.7%	4.4%	5.2%	5.9%
		\$0	\$500	\$1,000	\$1,500	\$2,000	\$2,500	\$3,000	\$3,500	\$4,000
Annual SNI	\$0	FY 2026	FY 2026	FY 2026	FY 2026	FY 2025	FY 2025	FY 2025	FY 2025	FY 2025
	\$1,000	FY 2027	FY 2026	FY 2026	FY 2026	FY 2026	FY 2026	FY 2026	FY 2026	FY 2025
	\$2,000	FY 2029	FY 2028	FY 2027	FY 2027	FY 2026	FY 2026	FY 2027	FY 2027	FY 2026
	\$3,000	FY 2033+	FY 2031	FY 2029	FY 2029	FY 2027	FY 2029	FY 2027	FY 2026	FY 2030
	\$4,000	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+
	\$5,000	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+	FY 2033+



Part 3

ERA Model Approach 2 - Detailed

Assumptions & Methodology

- **Inflation:** In historical capital markets scenarios use actual inflation from periods; 2.50% inflation rate in 7.20% flat return case
- **APFC Portfolio Turnover Rate:** 20%
- **Inflation Proofing:** Yes, in base-line model, assumed for all periods for which Realized Earnings are available after paying POMV
- **Assignment of Statutory Net Income:** If positive for a full fiscal year, 100% assigned to ERA; If negative for a full fiscal year, Statutory Net Income from ERA balances remains in the ERA, Statutory Net Income from Principal balances remains in the Principal
- **Accounting Net Income:** Accounting Net Income assumed to approximate total fund return (applied to beginning fund balance minus 50% of POMV transfer amount for mid-year convention)
- **Beginning Model Balances:** Fund balances for beginning amounts sourced from “History & Projections” file’s projected levels for June 30, 2023
- **Baseline Realized Income:** 2.5% of Total Fund (Beginning Value) for any given year which equates to ~\$1.6 bn initially

Capital Market Scenarios

- For purposes of modeling a wide range of capital markets expectations for the APFC's Fund portfolio returns, eleven discrete projection cases based on historical capital markets environments were used plus a case with 7.20% static annual returns and 2.50% static inflation
- This approach is different than Callan's Monte Carlo simulation approach; the benefit of the Monte Carlo approach is that one can run many thousands of simulations and the benefit of running a discrete number of projection cases is the reader can more fully grasp what is happening in the different scenarios (i.e., "1970's Capital Market Environment" vs. "95% Tail Risk Scenario")
 - Monte Carlo models also may suffer from many of the same shortcomings of other statistical analyses such as assuming a normal distribution of outcomes or other outcome distribution assumptions that may not fully capture "fat tails"
- Capital Market Scenarios (essentially twenty year forecasts for Total Fund Annual Returns) includes the following approaches:
 - **Flat Annual Return Assumption (1 Scenario):** Assumes that the Fund earns the flat 7.20% with 2.50% inflation in-line with History & Projections file
 - **Periods 1900's through 2010's (11 Scenarios):** These eleven scenarios take the total returns on a portfolio 70% invested in domestic stocks and 30% invested in domestic fixed income with annual rebalancing and applies its annual returns for each twenty year period starting in 1900 and each subsequent decade start; modeled inflation is the actual CPI experienced in these time periods

Capital Market Scenarios (continued)

The table below provides a summary of average returns of domestic stocks, domestic fixed income, and a 70/30 portfolio going back to 1900; given the emphasis on looking at portfolio returns in these past periods (by decade) an upfront summary can be helpful to orient the reader

	1900's	1910's	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Long-Term Average ⁽¹⁾
Average Annual Return on Domestic Stocks	11.91%	5.85%	16.05%	5.48%	9.98%	21.98%	8.68%	7.46%	18.19%	18.99%	1.21%	14.15%	11.66%
Average Annual Return on Domestic Fixed Income	5.24%	5.27%	3.75%	4.01%	2.52%	0.83%	2.51%	6.44%	12.76%	7.88%	6.37%	3.80%	5.11%
Average Annual Return on 70/30 Portfolio	9.91%	5.67%	12.36%	5.04%	7.74%	15.64%	6.83%	7.15%	16.56%	15.66%	2.76%	11.05%	9.70%
Average Annual Inflation (CPI)	2.50%	6.94%	(0.86%)	(1.92%)	5.51%	2.24%	2.53%	7.41%	5.14%	2.94%	2.53%	1.76%	3.06%
Average Real Return	7.41%	(1.27%)	13.22%	6.96%	2.23%	13.39%	4.30%	(0.26%)	11.42%	12.72%	0.23%	9.28%	6.64%

1. Represents the simple average of the columns to the left, which, themselves, are the simple average of the annual returns or average annual inflation in each decade.

Source: Analysis from APFC Investments Department.

Capital Market Scenarios (continued)

	Year 1 FY 2021	Year 2 FY 2022	Year 3 FY 2023	Year 4 FY 2024	Year 5 FY 2025	Year 6 FY 2026	Year 7 FY 2027	Year 8 FY 2028	Year 9 FY 2029	Year 10 FY 2030	Average Year 11-20 FY '31-'40	Average Full 20 Yr. Projection
1900-1919 - 70/30	14.04%	15.73%	5.33%	(8.42%)	23.17%	15.11%	6.14%	(18.91%)	32.40%	14.47%	5.67%	7.79%
1910-1929 - 70/30	(3.96%)	5.67%	7.28%	(4.80%)	(0.19%)	25.87%	7.06%	(15.91%)	20.00%	15.72%	12.36%	9.02%
1920-1939 - 70/30	(10.77%)	11.87%	19.82%	3.43%	18.57%	20.54%	10.17%	25.30%	26.15%	(1.46%)	5.04%	8.70%
1930-1949 - 70/30	(14.73%)	(28.25%)	(4.00%)	38.02%	0.49%	33.32%	25.61%	(23.90%)	22.80%	1.06%	7.74%	6.39%
1940-1959 - 70/30	(5.22%)	(8.72%)	14.79%	18.69%	12.99%	26.56%	(4.68%)	4.22%	4.34%	14.42%	15.64%	11.69%
1950-1969 - 70/30	22.15%	16.69%	13.39%	0.58%	37.58%	21.58%	3.86%	(5.46%)	29.57%	16.40%	6.83%	11.23%
1960-1979 - 70/30	3.81%	19.43%	(4.36%)	16.44%	12.62%	8.94%	(6.14%)	16.25%	8.71%	(7.39%)	7.15%	6.99%
1970-1989 - 70/30	7.34%	12.95%	14.14%	(9.18%)	(18.83%)	29.43%	21.18%	(4.10%)	5.02%	13.61%	16.56%	11.86%
1980-1999 - 70/30	23.56%	(1.57%)	24.87%	18.30%	8.94%	28.84%	17.64%	4.50%	13.99%	26.54%	15.66%	16.11%
1990-2009 - 70/30	0.52%	26.13%	7.55%	9.98%	0.05%	31.85%	17.16%	26.25%	22.61%	14.48%	2.76%	9.21%
2000-2019 - 70/30	(2.89%)	(5.79%)	(12.39%)	21.31%	8.92%	4.17%	12.36%	5.94%	(24.33%)	20.30%	11.05%	6.90%
Flat 7.20% & 2.50%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%

POMV Shortfall Analysis from 2020

- Baseline POMV / ERA combination is not particularly stable with 7 out of 11 historical capital markets scenarios failing to fulfill POMV payments to General Fund over twenty year horizon
- Fund today is 14.8% larger today than the \$67.8 billion fund size back when model was prepared in early 2020; however ERA is 29% smaller than the \$14 bn from three years ago (2020 figures are 6/30/20 H&P projections from February 2020)

(\$ in millions)

Base Case

	Shortfall Year	Initial Shortfall	Cum. Shortfall	Worst % Shortfall	# Shortfall Years	Cum. Infl. SF	Ending Fund Value
1 = "1900-1919 - 70/30"	FY 2036	(\$2,345)	(\$5,189)	58%	2.00	\$41,980	\$114,731
2 = "1910-1929 - 70/30"	FY 2026	(\$1,774)	(\$5,140)	66%	4.00	\$21,334	\$160,712
3 = "1920-1939 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$106,995
4 = "1930-1949 - 70/30"	FY 2024	(\$820)	(\$8,346)	96%	5.00	\$8,529	\$84,731
5 = "1940-1959 - 70/30"	FY 2024	(\$992)	(\$992)	32%	1.00	\$15,106	\$253,550
6 = "1950-1969 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$232,331
7 = "1960-1979 - 70/30"	FY 2035	(\$495)	(\$6,249)	100%	3.00	\$44,264	\$104,141
8 = "1970-1989 - 70/30"	FY 2026	(\$3,667)	(\$4,188)	100%	2.00	\$37,902	\$270,694
9 = "1980-1999 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$614,268
10 = "1990-2009 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$141,518
11 = "2000-2019 - 70/30"	FY 2024	(\$686)	(\$8,005)	90%	8.00	\$12,829	\$110,352
12 = "Flat 7.00% & 2.25%"	N/A	\$0	\$0	0%	0.00	\$0	\$111,981
Average (Cases 1-11)		(\$980)	(\$3,464)	49%	2.27	\$16,540	\$199,457

POMV Shortfall Analysis Updated 2023

- High level results unchanged from 2020, POMV failure of some magnitude over 20 year horizon in 7 out of 11 capital markets scenarios

(\$ in millions)

	Base Case						
	Shortfall Year	Initial Shortfall	Cum. Shortfall	Worst % Shortfall	# Shortfall Years	Cum. Infl. SF	Ending Fund Value
1 = "1900-1919 - 70/30"	FY 2038	(\$1,231)	(\$7,162)	57%	3.00	\$50,109	\$132,114
2 = "1910-1929 - 70/30"	FY 2028	\$0	(\$7,073)	62%	5.00	\$26,156	\$185,457
3 = "1920-1939 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$121,452
4 = "1930-1949 - 70/30"	FY 2026	(\$1,484)	(\$13,256)	92%	6.00	\$8,647	\$103,072
5 = "1940-1959 - 70/30"	FY 2026	(\$2,610)	(\$3,547)	71%	2.00	\$17,901	\$300,155
6 = "1950-1969 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$240,732
7 = "1960-1979 - 70/30"	FY 2038	(\$488)	(\$6,979)	100%	3.00	\$53,640	\$117,981
8 = "1970-1989 - 70/30"	FY 2029	(\$4,106)	(\$4,293)	98%	2.00	\$46,741	\$305,832
9 = "1980-1999 - 70/30"	N/A	\$0	\$0	0%	0.00	\$4,030	\$702,342
10 = "1990-2009 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$161,347
11 = "2000-2019 - 70/30"	FY 2027	(\$3,711)	(\$11,442)	100%	8.00	\$16,013	\$129,400
12 = "Flat 7.20% & 2.50%"	N/A	\$0	\$0	0%	0.00	\$1,255	\$132,468
Average (Cases 1-11)		(\$1,239)	(\$4,887)	53%	2.64	\$20,294	\$227,262

SUBJECT: Strategic Planning

ACTION:

DATE: September 7, 2023

INFORMATION: X

The last strategic plan was developed in calendar year 2019 for FY 20 through FY 25. This update replaced a plan developed in 2013 for FY 2014 through FY 2019. At the July 12 Board meeting staff was directed to facilitate a working group of volunteer board members to review the existing strategic plan, consider strategic plans from other entities similar to the APFC, to procure a consulting facilitator and coordinate meetings culminating with a strategic planning session in October 2023 to update the current plan.

Following the July 12 meeting staff solicited for a consulting facilitator. The procurement resulted in the selection of KMD Consulting as the facilitator for the 2023 strategic planning session. KMD Consulting's contract was signed on August 28 and a summary of their firm is attached.

Additionally, a volunteer working group of Trustees Richards, Rubenstein, and Crum was appointed to facilitate the development of a framework for the strategic plan. The working group met with staff on August 24 and generated an initial list of goals for staff to begin vetting.

- The primary goal statement was identified as being, “the best endowment style corporation (or alternatively sovereign wealth fund) in the world”.
- Look for opportunities to APFC consultants and gatekeepers use be reduced or eliminated. Consultants would be replaced with in-house staff. Consider direct investment strategies in the private equity asset class.
- Create target assets under management (AUM) goal. Consider the additional use of leverage in the portfolio to achieve target AUM.
- Explore the potential of exemption from the Legislative budget process.
- Build on communication plan. Develop a branding plan for the corporation for use both in and out of state. Continue messaging structure issues (5% POMV, inflation proofing, two account system).
- Consider specific targeted plans for each asset class
- Establish compensation need based on peers
- Consider a strategic plan with a roadmap approach similar to UTIMCO (attached).
- Develop resources required for and associated budget need for these components of the proposed plan for consideration at the annual meeting.



services & consulting

KMD Services & Consulting, LLC

Kevin M Dee, M.Ed has been selected to lead this project. Dee holds a Master's degree in education from Vanderbilt University with an emphasis in administration. Prior to starting his own management and consulting business, Dee held a variety of leadership positions in Business, Education and Healthcare. In his own 39-year management consulting practice, Dee has conducted planning and training workshops throughout the U.S. and internationally in both traditional and wilderness settings. Dee has also facilitated strategic planning and company-wide reorganizational projects for both small and large-scale organizations. In these efforts, Dee's emphasis is always on creating successful measurable results.

Dee is the founder and President of KMD Services & Consulting, a limited liability corporation based in Alaska that has been providing management consulting, organizational development, strategic planning, coaching, training, and leadership development services nationally and internationally since 1984.

KMD has provided world class services to a broad array of companies for over 39 years.

KMD collaborates with each client to develop a clear set of deliverables and outcomes that are achievable. KMD will assist you in this project to develop and implement the next steps in the strategic plan your organization needs to be successful in its mission. We are practical in our approach and always work to exceed client expectations.

KMD has facilitated the development Strategic plans for a wide variety of public and private agencies and continues to work extensively in this area. Our organizational development services incorporate practices and methods that assist organizations to create high performing teams resulting in; disciplined people, disciplined thought and disciplined action is prevalent.

KMD excels at "Empowering individuals and organizations to success."

A partial list of KMD services & consulting Alaskan clients include: NASA, Phillips Alaska, U.S.G.S., H.U.D., U.S. Fish & Wildlife Services, City of Fairbanks, City of Kotzebue, Municipality of Anchorage, Doyon Universal Services, Covenant House Alaska, Eyak Native Corporation, Doyon Limited, Doyon Drilling, Alaska Inter-Tribal Council, Anchorage Waterways Council AT&T, Anchorage Convention and Visitors Bureau, Bristol Bay Native corporation, Victims for Justice, Choggiung limited, Eklutna Corporation, Fairbanks Native association, University of Alaska Fairbanks, Geneva Woods Healthcare, Bethel Community Services, Weaver Brothers Trucking, Danzas Air Freight, American Fast Freight, Tanana Chiefs Conference, Koonce Pfeiffer & Bettis, Wright Runstadt, Ribelin Lowell, Alaska Native Medical Center, Alaska Native Tribal Health Consortium, NANA Corporation, The Hydaburg Corporation, Providence Foundation, Alaska Native Health Board, Cominco Alaska and the State of Alaska.



KMD Services & Consulting

Leadership, Management & Human Resource Services

Empowering Individuals & Organizations to Success

Wednesday, August 30, 2023
APFC Strategic planning engagement

Dear Deven,

This memorandum is to serve to confirmation our discussion today and my planned approach to meet the planning needs of APFC

As we discussed, I see this project having three phases.

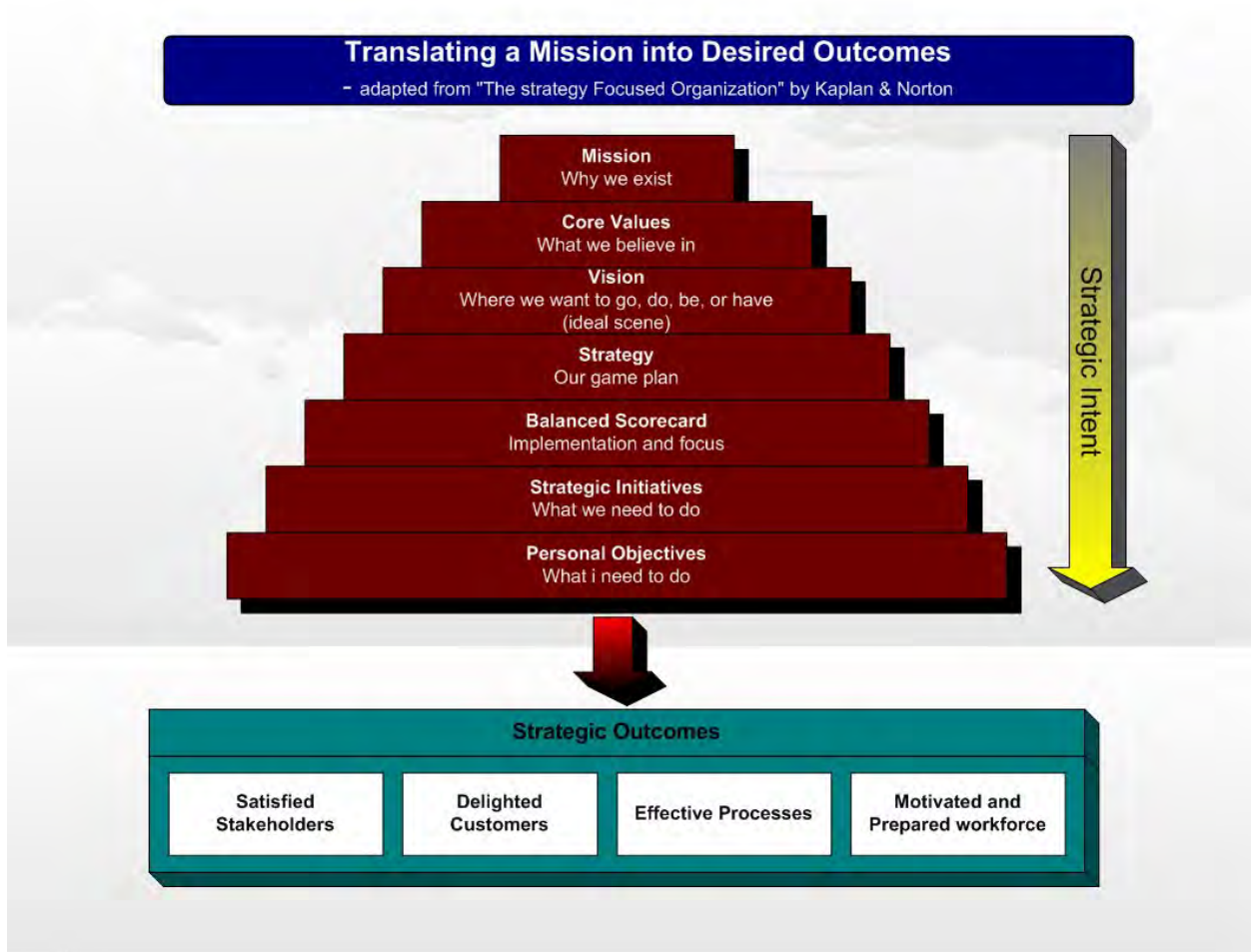
Phase I Assess past plan and progress towards achieving those goals

Phase II Collaboratively create new five-year strategic plan per the direction and Vision of the Board with measurable and achievable goals detailed by staff.

Phase III Finalization and adoption of the plan by the Board at October workshop

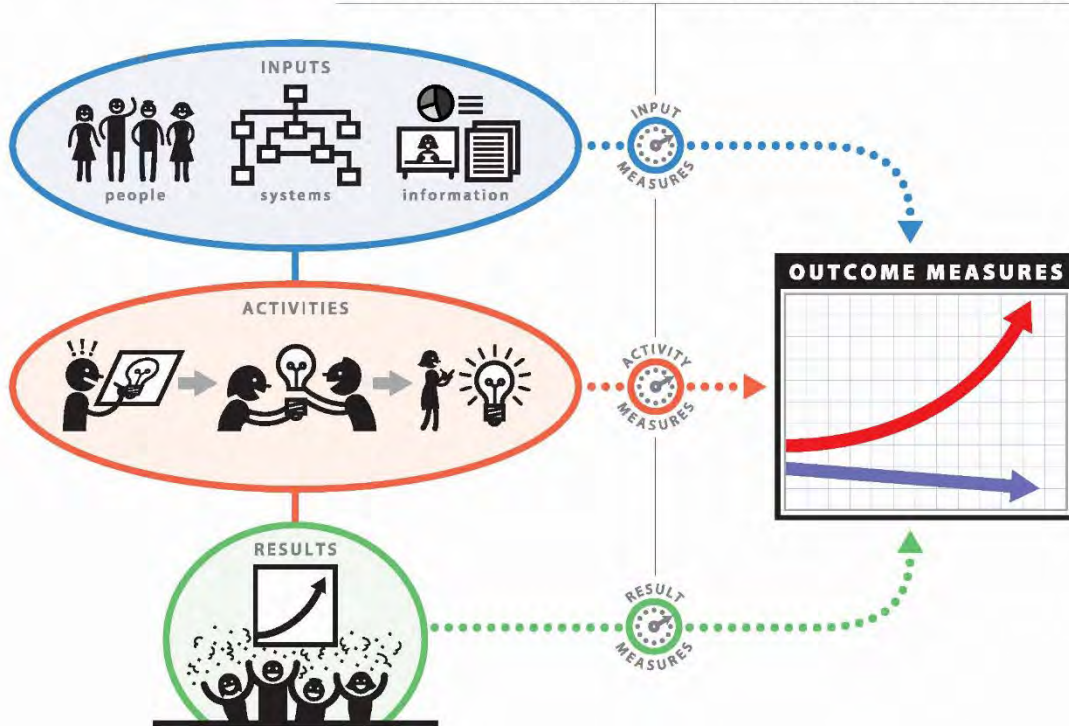
Sincerely,

Kevin M. Dee M.Ed.,
President KMD Services & Consulting llc



Develop Results & Process Measures

Are we doing things right? Are we doing the right things?



Translating a Mission into Desired Outcomes
- adapted from "The strategy Focused Organization" by Kaplan & Norton

**Balanced Scorecard
Implementation and focus**

<p>Customer</p> <ul style="list-style-type: none">•Measuring Customer Satisfaction•Improving Customer Satisfaction (maximizing)•Determining Customer Wants / Needs•Customer Service Skills•Developing ongoing Customer Service Improvement•Loyalty & Trust Building•Capitalizing on Opportunities	<p>Financial</p> <ul style="list-style-type: none">•Creating Efficiency•Tracking of Efficiency•Improving Quality•Developing, revenue related to Mission•Budget Discipline•Fiscal Awareness•Reducing Cycles Times
<p>Learning & Growth</p> <ul style="list-style-type: none">•Professional Skills / Career Development•Systems Competencies•Relational Competencies•Teamwork•Adapting to Change•Employee ownership and involvement	<p>Internal Process</p> <ul style="list-style-type: none">•Organizational Awareness•Best practice business processes•Relationship building (in-house)•Systems awareness / development•Improve key internal processes•Customer service•Effective collaboration and partnering with other agencies

Visionary business planning



Objectives

- Establish a long-term strategic plan that is fully supported by UTIMCO's Board of Directors and the UT System Board of Regents
 - Protect the UTIMCO franchise
 - Prepare UTIMCO for the future

- Benchmark UTIMCO resource structure against peers and relevant industry participants

- Review factors driving resource requirements

- Outline management's assessment of anticipated resources required to maintain strong fiduciary stewardship of UT and TAMU assets



Benchmarking: Operating Rules of Thumb

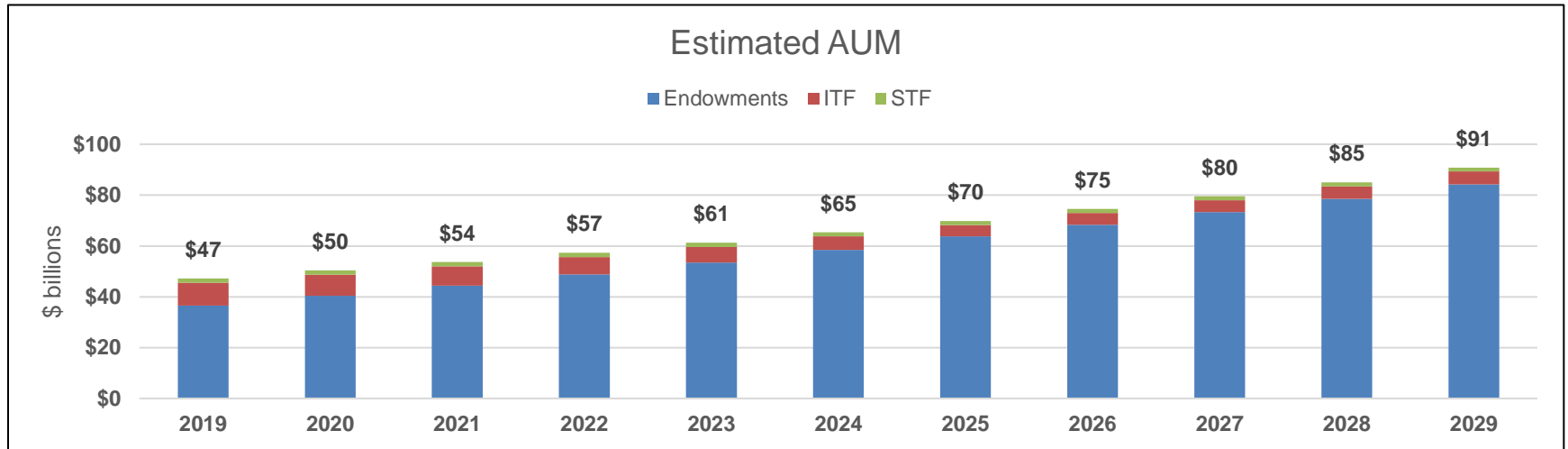
Takeaways on manageable scope of responsibility and other operational metrics:

- 10 GP relationships per senior investor
 - Allows deeper engagement to support sourcing of co-investments, participation on advisory boards and stronger awareness of partnership dynamics
- 20 – 40 private funds per senior investor
 - Implies 200 – 600 underlying portfolio companies to track and allows more detailed tracking of companies that will drive results
- Fund and GP ratios already creating pressure and expected to grow
- \$0.4 - \$1.4 billion AUM per FTE
- 1.5 – 1.7 operations + IT professionals / investor
- IT: 7 FTE / IT professional, 25 FTE / help desk technician



Growth & Complexity: AUM Growth

Long-term AUM growth expected to continue driven by University Lands and ITF transfers



Key drivers and assumptions:

- Total AUM expected to grow by \$44 billion from \$37 to \$91 billion over 10 years
 - \$16B transferred from ITF
 - \$3B new inflows from institutions
 - \$11B royalties from University Lands
 - \$42B investment returns (assumed at 7.3% annually)
 - \$(24B) total distributions (average 4.5% of beginning NAV)
- 94% total increase over next 10 years at 6.8% CAGR



Resource Requirements: Total UTIMCO

UTIMCO requesting 33 additional FTE over five years

	Estimated FTE Requirements by Title (FY ending Aug 31)						
	2019	2020	2021	2022	2023	2024	# Increase
CEO / CIO	1	1	1	1	1	1	0
Deputy CIO	1	1	1	1	1	1	0
Senior Managing Director	1	1	3	4	5	5	4
Managing Director	8	9	11	11	14	17	9
Senior Director	11	14	14	16	14	12	1
Director	11	10	10	10	12	13	2
Associate Director	8	12	14	12	15	19	11
Associate	14	17	18	23	20	18	4
Senior Analyst	18	21	21	22	22	23	5
Analyst	16	17	18	16	14	11	-5
ITC / Admin	10	11	12	12	12	12	2
Total	99	114	123	128	130	132	33

	Estimated FTE Requirements by Function (FY ending Aug 31)						
	2019	2020	2021	2022	2023	2024	# Increase
CEO Office	3	3	3	3	3	3	0
Tactical Asset Allocation	2	2	2	2	2	2	0
SPN Team	0	1	2	2	2	2	2
Hedge Funds	7	8	8	8	9	9	2
Fixed Income	2	2	2	2	2	2	0
Public Equity	6	8	8	9	10	10	4
Private Equity	10	11	12	12	12	13	3
Real Return	10	11	12	13	13	13	3
Risk	3	3	3	3	3	3	0
Investment Professionals (1)	43	49	52	54	56	57	14

Ops Acctg Reporting	15	18	20	20	21	21	6
Corp Accounting	4	4	4	4	4	5	1
Human Resources (2)	3	3	3	3	3	3	0
ITC / Admin Assistants (3)	10	11	12	12	12	12	2
Investment Legal	3	3	3	3	3	3	0
Corp Legal and Compliance (4)	2	4	5	4	4	4	2
Data and Doc Mgmt	6	7	8	9	8	8	2
Security	2	2	3	3	3	3	1
Ops & Support Professionals	45	52	58	58	58	59	14

IT Professionals	11	13	13	16	16	16	5
Total	99	114	123	128	130	132	33

Original Request 115 127 57 of 59 138 145

- SMD and MD levels expanded for retention and succession planning

- Investment teams growing to support additional AUM, particularly in resource intensive PE and Real Return

- Operations & IT teams growing to replace attrition, improve compliance and legal capacity, develop team depth and succession candidates



Hedge Fund Detail

	Estimated Headcount Requirements (FY ending Aug 31)					
	2019	2020	2021	2022	2023	2024
Senior Managing Director	0	0	1	1	1	1
Managing Director	1	1	1	1	1	2
Senior Director	1	2	1	2	2	1
Director	2	1	1	0	1	1
Associate Director	1	1	1	1	1	1
Associate	0	1	1	1	0	0
Senior Analyst	1	2	2	2	2	3
Analyst	1	0	0	0	1	0
ITC / Admin	1	1	1	1	1	1
Total	8	9	9	9	10	10

	Key Operational Metrics					
	2019	2020	2021	2022	2023	2024
UTIMCO AUM (\$ billion)	\$ 47	\$ 50	\$ 54	\$ 57	\$ 61	\$ 65
UTIMCO AUM Growth (%)		6.8%	6.4%	6.9%	6.8%	6.8%
Portfolio AUM (\$ billion)	\$ 11.2	\$ 11.1	\$ 11.0	\$ 10.7	\$ 11.1	\$ 11.4
Portfolio AUM Growth (%)		-0.7%	-1.6%	-1.9%	3.0%	3.1%
Portfolio % of UTIMCO AUM	23.7%	22.1%	20.4%	18.7%	18.1%	17.5%
GP Relationships	40	41	42	43	44	45
Fund Count	62	63	64	65	66	67
Senior Investors	5	5	5	5	6	6
Total Team	8	9	9	9	10	10
AUM / Senior Investor (\$B)	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.1	\$ 1.8	\$ 1.9
AUM / Total Team (\$B)	\$ 1.4	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.1	\$ 1.1
GPs / Senior Investor	10.0	10.3	10.5	10.8	8.8	9.0
Funds / Total Team	7.8	7.0	7.1	7.2	6.6	6.7

- AUM projected to remain at approximately \$11 billion over next five years
- Significant rebalancing between Directional and Stable Value Hedge Funds
- Requesting 2 additional FTE
 - Additional junior level professionals to support team
- Promotions for senior investors to enhance retention prospects
- Developing mid-level bench strength through internal promotions
- Operational metrics remain stable over next five years



Real Return Detail

	Estimated Headcount Requirements (FY ending Aug 31)					
	2019	2020	2021	2022	2023	2024
Senior Managing Director	0	0	0	1	1	1
Managing Director	1	1	1	1	1	2
Senior Director	2	2	2	1	2	2
Director	0	0	1	2	2	2
Associate Director	1	3	3	2	2	2
Associate	3	1	1	2	2	2
Senior Analyst	1	2	2	2	1	0
Analyst	2	2	2	2	2	2
ITC / Admin	2	2	2	2	2	2
Total	12	13	14	15	15	15

	Key Operational Metrics					
	2019	2020	2021	2022	2023	2024
UTIMCO AUM (\$ billion)	\$ 47	\$ 50	\$ 54	\$ 57	\$ 61	\$ 65
UTIMCO AUM Growth (%)		6.8%	6.4%	6.9%	6.8%	6.8%
Portfolio AUM (\$ billion)	\$ 6.2	\$ 6.9	\$ 7.6	\$ 8.4	\$ 9.1	\$ 9.7
Portfolio AUM Growth (%)		11.7%	10.1%	10.1%	8.4%	7.2%
Portfolio % of UTIMCO AUM	13.1%	13.7%	14.1%	14.6%	14.8%	14.8%
RE Managers	24	25	28	28	28	27
RE Funds	69	64	69	70	73	76
RE Co-Investments	14	18	22	29	36	44
RE Advisory Board Seats	49	49	54	55	58	61
NRI Managers	28	29	31	33	35	37
NRI Funds	54	55	59	62	64	65
NRI Co-Investments	42	43	54	61	69	78
NRI Advisory Board Seats	66	66	71	72	75	78
GP Relationships	52	54	59	61	63	64
Fund Count	123	119	128	132	137	141
Senior Investors	4	6	7	7	8	9
Total Team	12	13	14	15	15	15
AUM / Senior Investor	\$ 1.5	\$ 1.1	\$ 1.1	\$ 1.2	\$ 1.1	\$ 1.1
AUM / Total Team	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6
GPs / Senior Investor	13	9	8	9	8	7
Funds / Total Team	10	9	9	9	9	9
Co-Investments/Total Team	5	5	5	6	7	8
Advisory Board/Total Team	10	9	9	8	9	9

- AUM projected to grow from \$6 to \$10 billion over next 5 years
- Expected increase in fund and co-investment counts drive need for additional execution and monitoring support
- Requesting 3 additional FTE
 - Bolstering mid-level professional through promotion and backfilling in junior levels
 - Increases senior investors (Director to SMD) from 3 to 6
 - Adding senior investors maintains AUM ratio at roughly \$1 billion each and maintains GP count at roughly 9 each
- Promotions for senior investors to enhance retention prospects