

Providing for Generations of Alaskans

Opinion by Deven Mitchell, Executive Director of the Alaska Permanent Fund Corporation

As a lifelong Alaskan, I am honored to lead one of the world's most respected financial institutions, and every time I speak with a fellow Alaskan, I am reminded of the vital role our work plays in improving the quality of life in our state.

The Alaska Permanent Fund was created by Alaskans coming together and voting to amend the Constitution to dedicate, save, and invest a portion of the state's oil and mining revenue to benefit all generations. As a public endowment, the wealth of the Fund is the responsibility of every resident of the state.

Together, we are obligated to protect it for both today and tomorrow. To do so, we need to understand the history of the Alaska Permanent Fund, its formation, how it works, how it is doing, and its role in the future.

The upcoming 2023 Annual Report focuses on the resilience of the Fund's portfolio in bringing forth strong results despite a difficult market cycle. Our team approaches every decision with a sense of accountability to fellow Alaskans, recognizing that APFC has a longstanding legacy of trust that must endure for generations. As we strive for long-term growth, we aim to maximize the performance return while balancing portfolio risk.

Through challenging investment markets, the Fund once again demonstrated its resilience by withstanding economic headwinds. The fiscal year of 2023 concluded with a total performance return of 5.18%. While positive returns were achieved, spendable income generated through investment activity was less than withdrawals from the Earnings Reserve Account (ERA). As a result, the spendable portion of the Permanent Fund is getting smaller.

Since FY19, earnings from the Permanent Fund have been utilized as the State's primary revenue stream, contributing more than 50% of the state's undesignated general fund revenue annually. This shift is enormously important to every Alaskan because, in addition to the annual dividend payment, earnings made from investing the Fund pay in part for state services, facilities, and institutions that enhance our quality of life.

The Fund's current two-account structure is comprised of the Principal, which isn't spendable, and the ERA, which can be spent. This structure is based on a historical endowment model that only invested in bonds and only spent the interest income after adding to the principal to offset the impacts of inflation. The current asset allocation of the Fund is much more complex and has income that is only realized when an asset is sold. As many assets are held for years or decades, ERA deposits are often not tied to current investment performance. In FY 23, we saw the impact of this structure with draws and inflation proofing of \$7.6 billion, and despite accounting income of \$4.3 billion, only \$2.5 billion transferred to the ERA from realized return. To ensure the enduring success of the Permanent Fund in producing vital revenues for the State, the consideration of changes to structure and distribution methodology remains essential.

This fall, the Board of Trustees is taking on important initiatives to support the ongoing success of APFC's investment capabilities and the continued growth of the Permanent Fund as the state's largest renewable financial resource.

Work is underway on Trustees' Paper #10, which will include a history of the Fund, an overview of the Fund's structure, insights into the durability issues under the current construct, and potential solutions to bring the Fund in line with modern endowment practices. As with former Trustees' Papers, this study will anchor the policy direction for the Alaska Permanent Fund and the Corporation. We aim to publish this paper in early 2024.

I encourage Alaskans to take the time to gain a deeper understanding of the Permanent Fund. You can do so by reading the Annual Report: Trusted for Generations, to be published on September 27. Additionally, I encourage you to visit our website, attend public Board meetings, and follow our social media platforms on Facebook and LinkedIn.

As Alaskans, it is our responsibility to respect the contributions of our predecessors, support the current generation, and pave the way for future generations to benefit from the Fund.

Thank You.