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Board of Trustees 2024 Strategic Plan

The Alaska Permanent Fund Corporation's Board of Trustees is seeking public comment on the proposed strategic plan to continue -

Building an Organization That Sets the Standard for Endowment-Style Sovereign Wealth Funds

The Board has publicly discussed the proposed strategic plan and wants Alaskans' input before taking final action. Deven Mitchell, Chief Executive Officer and Executive Director, remarks, "*The strategic plan will guide APFC's decisions for the future, and ensuring there is an opportunity for public engagement before the February meeting is an important part of the process.*"

- **Public Comment Period: January 24 at 8:00 a.m. - February 2 at 5:00 p.m., 2024**
  Email boardpubliccomment@apfc.org to provide public comments and statements to the APFC Board of Trustees.
    - When providing comments, we ask that you please provide your name and the town that you reside in.
    - Please note that all comments will be made publicly available, posted daily throughout the comment period, and included in the February Board of Trustees Quarterly Meeting Packet.

  Public Quarterly Meeting of the Board: February 15-16, 2024
  See the Board of Trustees meeting page for more information. The agenda will be posted a week before the meeting and includes details for the webinar and public comment.

This memo is an overview reference to complement the 2024 Strategic Plan presentation. Please see the separate presentation to view the plan and continue reading this document for additional information on each component of the proposed strategic plan.

2024 Strategic Plan Objective

A strategic plan endorsed by the Board of Trustees in support of APFC's mission, vision, and values.

- **Mission**
  To manage and invest the assets of the Permanent Fund and other funds designated by law
- **Vision**
  To deliver outstanding returns for the benefit of all current and future generations of Alaskans
- **Values**
  Integrity | Stewardship | Passion

2024 Strategic Plan Initiatives

Building an Organization that Sets the Standard for Endowment-Style Sovereign Wealth Funds
Achieve best-in-class performance utilizing skill, expertise, and prudent portfolio management strategy to grow the fund to benefit Alaskans.

- Grow the Fund to $100 Billion
- Improve Corporate Functionality
- Advance Comprehensive Communications Plan
- Review and Assess Optimal Structure of the Alaska Permanent Fund

The components of each goal -

- **Growing the Fund to $100 Billion**
  The Board of Trustees identified a future milestone of reaching $100 billion to maximize risk-adjusted returns on an enduring basis. Growing the Fund aims to ensure its long-term sustainability, mitigate resource revenue depletion, and provide financial benefits for generations of Alaskans. APFC will achieve this milestone through disciplined asset allocation optimization, effective execution, and maintaining a robust resource foundation for APFC's talent, systems, and culture. The following methods will be utilized to achieve this goal:

  - **Consideration of additional targeted and limited use of leverage**
    Introducing tactical leverage at the Fund level, with carefully defined parameters through a statutory change, will provide the Fund with additional tools to navigate and capitalize on potential opportunities. By borrowing capital, with the objective of generating returns that surpass the borrowing cost over time, APFC could utilize leverage as a strategic investment decision. Leverage does magnify risks and must be tactically and strategically evaluated in deployment to enhance the overall net risk-adjusted return.

    While some leverage already exists at the asset class level as a part of the investment strategy for certain asset classes, a statutory change is necessary to utilize leverage at the Fund level. Leverage is currently available at the asset level for Real Estate, Private Equity, Private Income, and Absolute Return for portfolio investment management strategies. During the legislative session, APFC will initiate a discussion with the Legislature and Administration regarding the state law changes needed and the long-term benefits of using Fund-level leverage.

  - **Outperformance through the generation of alpha (i.e., achieve investment performance that exceeds benchmarks)**
    APFC aims to maximize returns and outperform benchmarks through expertise, referred to as "alpha." Continuously improving our capabilities across our targeted strategies to maintain our position as a leading private markets investor contributes to alpha generation. To achieve alpha and ultimately realize growth, ongoing assessment and procurement of resources to enhance the organizational structure and streamline processes are essential. Attaining resources to support

building out our Private Equity team to include a direct investment team doing more work internally on co-investments and direct investments is a core component of the alpha strategy.

APFC began co-investing and direct investing in private markets (Private Equity, Private Infrastructure, Real Estate) over ten years ago and has achieved premium returns in this activity while avoiding fee burdens. Over the past ten years, we have grown our direct and co-investment activity but have an opportunity in the future to develop these areas further. APFC does not pay fees on direct investments and co-investments as it does on private fund investments; avoiding fees and selecting attractive investment opportunities may result in higher returns to the Fund.

The strategic plan for the Private Equity portfolio was recently updated this past summer. The plan includes attaining resources to build out our Private Equity team to include more internal work on direct and co-investments. Given the size and age of the Private Equity portfolio and current team resources, some work can now be performed; however, with more substantial resources and support, the team and APFC can enhance their work and returns with co-investments and direct investments. For the FY25 operating budget, APFC is seeking one additional FTE in the private equity asset class; this FTE would be focused on direct investing and co-investing.

- **Developing asset class-level strategic plans aligned to the goal**
  Asset class-level plans are essential for aligning objectives and investments with APFC's overarching goals. The portfolio-level approach enables APFC to adapt to market changes, support diversification strategies, and promote stakeholder confidence by providing clarity and transparency. In executing optimal investment management, APFC's portfolio managers will evaluate, update, and formalize their strategies and investments to ensure a maximum risk-adjusted return to benefit generations of Alaskans.

  In the December 2023 APFC Board meeting, the APFC CIO presented his investment philosophy for the management of the Fund, and each Asset Class head reviewed the strategy under which they are managing their respective asset classes. As a public fund with a range of stakeholders, it is important that Staff is transparent about the strategies they are pursuing with Fund capital. Additionally, certain asset class strategies may include some resource requests in future budget years that the Fund's stakeholders should be aware of. Interested stakeholders should review the asset class and total fund investment strategic plans presented in December 2023, and Staff are ready to respond to any questions or discuss any feedback. Board packets are available in APFC's Resource Archive.

❖ Improve Corporate Functionality

Foster legislative support to modernize the functionality of APFC and align with the targeted goals of the Board. The following initiatives have been identified to improve APFC functionality:

- **Open Meetings Act – selection of Executive Director and Chief Investment Officer**
  Keeping personnel records confidential is a standard, fair, and appropriate approach for the privacy of candidates and staff. Accessing the most qualified candidates for the position of Executive Director and Chief Investment Officer is enhanced if applicants for these positions are not required to disclose their application for these positions to their current employer. The application of the Open Meetings and Public Records Acts, however, provides for the potential public disclosure of the complete list of candidates for these positions and requires a public interview process for the finalists interviewed by the Board of Trustees for these positions.

  With state law changes to allow for this information to remain confidential, applicants who are not willing to have their interest in these positions publicly announced will be able to apply for these positions. The state law changes needed would: (1) declare the list of candidates and information regarding these candidates for these positions to be considered confidential and exempt from a public records disclosure, and (2) allow the Board of Trustees to interview the finalists for these positions in an executive session despite the requirements of the Open Meetings Act.

- **Key Person Risk/Additional Incentive Compensation Structure**
  Identifying and planning for key person risk, along with a competitive incentive compensation structure, minimizes the risk of disruption in activities due to the departure or unavailability of staff. APFC will maintain succession plans, attract top-tier talent, and provide training and mentorship. Incentive Compensation is a standard offering of most pension, endowment, and sovereign wealth funds. Flexibility within the budget and funding structure should be assessed to maintain the program's effectiveness and continuity of resources. Support for our expert and capable professional talent is crucial to the Fund's ongoing success.

- **Explore benefits of continental US and or International offices**
  APFC staff have committed to assessing the benefits of satellite office locations to expand APFC's presence in the heart of financial markets and support the recruitment and retention of field experts.

- **Enhance data management capabilities**
  Enhance data management capabilities by strategically planning, procuring, and implementing foundational Data/AI technologies. Previously an advantage, good data has become a requisite for investment management. Developing and implementing a sound data strategy requires resources, including talent and technology. An effective data platform will marry all proprietary data with external data efficiently and seamlessly, enabling easy retrieval and usage.

- **Advance Comprehensive Communications Plan**

  Integrating the interests of APFC's diverse stakeholders through statewide, national, and global support is fundamental for alignment and understanding. The comprehensive communications plan includes the program's in-state mission of education and awareness alongside an enhanced nationwide focus on investment performance and strategy. The communications program includes stakeholder education and outreach, garnering legislative support and resources, mitigating reputational risk, and supporting transparency through publications, records, and media efforts.

  - **In-State Mission of Education and Awareness**

    The in-state mission of education and awareness aims to inform the public about the Fund and APFC's work, emphasizing its creation and benefits to the state. Effective communication is crucial for maintaining public accountability and transparency and empowering stakeholders in contributing to informed policy discussions about the Fund's future. Collaboration and coordination among the Board, staff, and communications contractors ensures a strong team-based approach to sharing information and engaging the community.

  - **Nationwide Focus on Investment Performance and Strategy**

    The nationwide focus builds and expands upon the existing communications program to elevate APFC's capabilities and bolster the profile of our investment expertise, portfolio management, leading strategy, and investment performance. We aim to convey the Fund's exemplary success and showcase its story as a model sovereign wealth fund. An expanded communication program is an investment in partnerships, financial stability, talent, and transparency. A stronger nationwide and global presence can open doors to new investment opportunities, talent recruitment, and innovative partnerships that benefit the Fund's growth and long-term sustainability. APFC is seeking added contractual resources in the FY25 Operating budget to support the profile of APFC around the world and bring added value to benefit the Fund's investment management for our fellow Alaskans. In expanding the program, APFC will utilize the services of a global financial media consultant with known expertise and experience.

- **Review and Assess Optimal Structure of the Alaska Permanent Fund**

  Identifying potential solutions to bring the Fund in line with modern endowment principles is critical as it and its role in Alaska continue to evolve. The current two-account structure, with only the annual net realized gains accessible for distribution and spending by the Legislature, raises concerns about the possibility of an annual distribution shortfall.

  In the ongoing policy dialogue, thoroughly assessing and reviewing rules-based endowment practices is essential. Expert evaluation outlining potential modernization options and functionality of the Fund aligns with the role of the Alaska Permanent Fund as a model for successful, best-in-class sovereign wealth funds.