



Board of Trustees

Quarterly Meeting

May 29-30, 2024

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## QUARTERLY MEETING OF THE BOARD OF TRUSTEES May 29-30, 2024

**North Slope Borough Assembly Chambers  
1274 Agvik Street, Utqiagvik, AK 99723**

**\*Please sign-up for public testimony by  
emailing [jloesch@apfc.org](mailto:jloesch@apfc.org) by noon May 28\***

**Wednesday, May 29, 2024**

**08:30 a.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: 2632 047 4431

Numeric Password: 27323291 (only if calling in)

**Thursday, May 30, 2024**

**08:30 a.m. – 2:00 p.m.**

**Day 2 Webinar Access:**

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

Event Password: APFCDay2

**Teleconference Option**

Phone: 415-655-0003

Access Code: 2631 911 8293

Numeric Password: 273232392 (only if calling in)

**Written comments can be sent to Trustees anytime at [boardpubliccomment@apfc.org](mailto:boardpubliccomment@apfc.org)**

### AGENDA

WEDNESDAY, MAY 29, 2024

8:30 a.m. BOARD OF TRUSTEES QUARTERLY MEETING CONVENES

CALL TO ORDER

ROLL CALL (Action)

APPROVAL OF AGENDA (Action)

APPROVAL OF MINUTES (Action)

- February 15-16, 2024 – Quarterly Meeting
- April 22, 2024 – Special Meeting

OPPORTUNITY FOR PUBLIC PARTICIPATION

COMMITTEE REPORTS (Information)

*Governance Committee will report later in the agenda*

8:45 a.m. WELCOME BY NORTH SLOPE BOROUGH

9:00 a.m. CHIEF EXECUTIVE OFFICER'S REPORTS (Information/Standard Reports)  
Pending Board Matters, Trustee Education Report, Disclosure Report, Staff Summary Report, Staff Education & Training Report, Human Resources Summary, Communications Report, Legislative Update, IT Update, Financial Update, Financial Report, APFC Transfers, History & Projections, Investment Management Fee Report

- 9:30 a.m. CHIEF INVESTMENT OFFICER REPORT (Information)  
Marcus Frampton, Chief Investment Officer
- 10:00 a.m. RISK OVERVIEW (Information)  
Sebastian Vadakumcherry, Chief Risk Officer
- 10:30 a.m. *BREAK*
- 10:45 a.m. INVESTMENT ADVISOR COMMENTS (Information)  
George Zinn  
John Skjervem  
Britt Harris
- 11:15 a.m. APFC HISTORY AND DISCUSSION WITH NORTH SLOPE BOROUGH REPRESENTATIVES  
(Education & Information)  
Deven Mitchell, Chief Executive Officer
- 12:00 p.m. *LUNCH*
- 12:30 p.m. ASSET ALLOCATION REVIEW & ADOPTION (Action)  
Marcus Frampton, Chief Investment Officer  
Sebastian Vadakumcherry, Chief Risk Officer
- 1:30 p.m. INVESTMENT ADVISOR PRESENTATION (Education & Information)  
Britt Harris
- 2:15 p.m. *BREAK*
- 2:30 p.m. CAPITAL MARKETS OVERVIEW & FUND PERFORMANCE (Education & Information)  
Greg Allen, Callan LLC  
Steve Center, Callan LLC
- 3:30 p.m. REVIEW SECURITY BREACH FROM MAY 8 EXECUTIVE SESSION (Information)  
(Executive Session)
- 4:00 p.m. CONSIDERATION OF GOVERNANCE COMMITTEE RECOMMENDATIONS  
(Information)  
Deven Mitchell, Chief Executive Officer  
Chris Poag General Counsel
- 5:00 p.m. *RECESS FOR THE DAY*
- 5:30 p.m. *Community Reception – North Slope Assembly Building – Please join us!***

THURSDAY, MAY 30, 2024
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- 8:30 a.m. MEETING RECONVENES
- 8:35 a.m. PUBLIC EQUITY – ASSET CLASS UPDATE (Education & Information)  
Fawad Razzaque, Director of Public Equity
- 9:45 a.m. RBA GLOBAL EQUITY PRESENTATION (Education & Information)  
Richard Bernstein, CEO/CIO
- 10:30 a.m. *BREAK*
- 10:45 a.m. PZENA INVESTMENT MANAGEMENT PRESENTATION (Education & Information)  
Richard S. Pzena, Founder, Principal, Chairman, Co-Chief Investment Officer, Portfolio Manager  
Allison Fisch, Managing Principal, President, Portfolio Manager  
V. Michel Hanigan, Principal and Director of Client and Portfolio Services

- 11:30 a.m. APFC BUDGET REVIEW (Action)
- FY24 BUDGET PROJECTIONS (Information)
  - ANCHORAGE OFFICE UPDATE (Information)  
(Possible Executive Session)
  - FY25 BUDGET APPROVAL (Action)
- Deven Mitchell, Chief Executive Officer  
Alysha Guthrie, Director of Administrative Operations
- 12:30 p.m. *LUNCH*
- 1:00 p.m. INVESTMENT ADVISOR COMMENTS (Information)  
Britt Harris  
John Skjervem  
George Zinn
- 1:30 p.m. OTHER MATTERS  
TRUSTEE COMMENTS  
FUTURE AGENDA ITEMS
- 2:00 p.m. *ADJOURNMENT*

<p><i>NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS (Please telephone Jennifer Loesch at 907-796-1519 with agenda questions)</i></p>
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SUBJECT: Approval of Minutes

ACTION: X

DATE: May 29, 2024

INFORMATION:

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**BACKGROUND:**

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

- February 15-16, 2024      Quarterly Meeting
- April 22, 2024              Special Meeting

**RECOMMENDATION:**

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

**ALASKA PERMANENT FUND CORPORATION  
BOARD OF TRUSTEES MEETING  
WEBEX/TELECONFERENCE**

February 15-16, 2024  
10:30 a.m.

Originating at:  
Alaska Permanent Fund Corporation  
801 W 10<sup>th</sup> Street  
Juneau, AK 99801

**Trustees Present:**

Ethan Schutt, Chair  
Ryan Anderson  
Craig Richards

Ellie Rubenstein, Vice Chair  
Jason Brune  
Adam Crum

**APFC Staff Present:**

Deven Mitchell, CEO  
Marcus Frampton, CIO  
Val Mertz, CFO  
Sebastian Vadakumcherry  
Chris Poag  
Shawn Calhoon  
Paulyn Swanson  
Allen Waldrop  
Joseph Jerals  
Juliette Alldredge  
Ross Alexander  
Logan Rahn  
Alexander Smith  
Alysha Guthrie  
Brittney Ortega  
Catherine Hatch  
Chirag Shah  
Chris Cummins  
Chris LaVallee  
Colton Scudder  
Eric Ritchie  
Jacki Mallinger  
Jessica Thornsburry  
Joe Shinn

Lara Pollock  
Larissa Murray  
Lillie Haggard  
Luke Kirkham  
Marisa McComas  
Michael Prebeg  
Norix Mangual  
Rachel Price  
Sang Won Song  
Sarah Clark  
Sarah Struble  
Shannon McCain  
Steve Adams  
Steven Gagliardo  
TJ Hegedus  
Terek Rutherford  
Tim Andreyka  
Tom O'Day  
Cody Graves  
Damien Miller  
Fawad Razzaque  
Jennifer Loesch  
Jim Parise  
Jordyn Elie

**Others Participating:**

Investment Advisors: Britt Harris, George Zinn

Callan: Gregg Allen, Steve Center

Presenters: Andrew Kitchenman, Dan Abramson, Emily Stoermer, Gabe Simkin, John Springsteen, Jacob Owens, Jessica Hamlin, Jonas Schultz, Karol Raszkievicz, Larry Smith,

Lorilyn Swanson, Maggie Duffy, Philip Nunes, Reid Johns, Robert Snigaroff, Sophia Torres, Stephanie Alexander, Tim Berry, Tom Gemmell, Kevin Balaod, Barbara Schuhmann, Carolyn V Brown, Kayc Ullrich, Steve Moseley, Laurie Berg, Gina Romero, Doug Woodby, James Simard, Elaine Schroeder, Darpan Kapadia, Emily Simonis, Pankaj Gupta, Asmat Doza, James Brooks, Brock Wiliamson, Cyndi Walsh, Representative Jeff Stepp, Senator Jesse Kiehl, Representative Cliff Groh, Grant Robinson, John Coss, Matthew Benson, Richard W Ashley III, Rafa Ramirez, Chris Bell, James Baldwin

## **PROCEEDINGS**

### **CALL TO ORDER**

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

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

### **APPROVAL OF AGENDA**

CHAIR SCHUTT thanked the attendees and indicated that there was an agenda in the packet.

TRUSTEE ANDERSON then moved to accept the agenda, which was seconded by Trustee Brune. Trustee Richards also seconded the motion.

CHAIR SCHUTT then called for a vote, with Trustees Anderson and Brune voting in favor. There was no indication of opposition, so the agenda was moved forward.

### **APPROVAL OF MINUTES**

CHAIR SCHUTT moved to the September 27, 28 Annual Meeting and the October 30th Special Meeting minutes and asked for a motion to approve.

**MOTION:** A motion to approve the minutes from the September 27- 28, 2023 Annual Meeting and the October 30, 2023 Special Meeting was made by TRUSTEE BRUNE; seconded by TRUSTEE ANDERSON.

*There being no objection, the MOTION was APPROVED.*

### **SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION**

CHAIR SCHUTT introduces the public participation session and decides to start with the in-person speakers.

MS. LOESCH confirms that one of the online speakers is missing and provides some assistance.

CHAIR SCHUTT recognized James Simard.

MR. SIMARD, a retired librarian and a board member of 350 Juneau, spoke to the Permanent Fund board about the risks of investing in fossil fuels. He cited a paper from the University of Oxford Sustainable Law Program that argued that climate risk assessments should consider the legal implications of litigation and regulation against carbon-intensive industries. He also expressed his concern for the future generations who will face the impacts of climate change, and

urged the board to divest from fossil fuels and invest in clean energy sources. He appealed to the board's sense of responsibility and care for the Alaskans who depend on the fund.

CHAIR SCHUTT thanked Mr. Simard.

TRUSTEE ANDERSON agrees with MR. SIMARD and compares the situation to the tobacco lawsuits in the late 90s. He says that energy companies and investors need to have a strategy for the litigation risk.

MR. SIMARD points to an article about the topic.

CHAIR SCHUTT and TRUSTEE ANDERSON acknowledge that they have seen the paper that MR. SIMARD shared and thank him for his input.

CHAIR SCHUTT recognized Elaine Schroeder.

MS. SCHROEDER, a Board Member of 350 Juneau Climate Action for Alaska, addresses the board. She highlights the recent temporary halt on permitting liquefied natural gas (LNG) export facilities by the White House, emphasizing its historic significance and the need to review criteria for determining public interest in such projects. Schroeder discusses the detrimental effects of LNG exports on local communities, ecosystems, and global climate targets. She underscores the high greenhouse gas footprint of methane, the primary component of LNG, and its contribution to global warming. Schroeder cites a report from the Institute for Energy Economics and Financial Analysis, which emphasizes the financial risks associated with fossil fuel investments, particularly LNG projects, and recommends divestment from these assets. She urges the Alaska Permanent Fund to heed industry analysts' warnings and cease investments in fossil fuels to avoid the risk of stranded assets.

CHAIR SCHUTT acknowledges Schroeder's remarks, and no questions are raised.

MS. SCHROEDER expresses gratitude for the board's work in protecting the Alaska Permanent Fund.

CHAIR SCHUTT recognized Doug Woodby.

MR. WOODYBY addresses the board, referencing a discussion from a previous meeting where Advisor Harris expressed concerns about the pace and cost of the energy transition proposed by the United Nations. Woodby quotes figures from reports by McKinsey and Swiss Re, highlighting the estimated costs of transitioning compared to not transitioning. He emphasizes the disproportionate impact of not transitioning on less developed countries and suggests that the fossil fuel industry may influence advisors' opinions. Woodby questions the board's fiduciary responsibility and calls for a realistic climate risk assessment.

CHAIR SCHUTT acknowledges Woodby's testimony, there are no questions raised and mentions that the testimony will be read online, to which Woodby responds that it's just one page

CHAIR SCHUTT recognized Barbara Schuhmann.

MS. SCHUHMANN voices her concerns about the proposed strategic plan for the Alaska Permanent Fund. She questions the rush to reach \$100 billion in investments and opposes riskier investments to achieve this goal. Schuhmann expresses reservations about borrowing money to invest and calls for full disclosure of benefits received by advisors and trustees. She opposes the establishment of additional Permanent Fund offices and the creation of a new bureaucracy to control investments in-house, advocating instead for continued adherence to successful past policies. Schuhmann concludes by thanking the board for the opportunity to provide input.

CHAIR SCHUTT thanks Barbara for her speech and invites questions from the trustees.

TRUSTEE RICHARDS explains that the \$100 billion goal in the strategic plan is more symbolic than a strict target, representing the Fund's growth and maturity. Regarding leverage, he clarifies that it's not about aggressive borrowing for investment but rather establishing a credit facility to meet cash demands without selling off assets.

TRUSTEE RUBENSTEIN adds that other state legislatures, such as Florida, Wisconsin, and California, are also considering leverage to avoid liquidating assets and meet liquidity requirements.

CHAIR SCHUTT thanks MS. SCHUHMANN once again and recognized John Hudson.

MS. LOESCH introduces John Hudson and helps him to unmute himself.

MR. HUDSON, a member of 350 Juneau, delivers a comprehensive overview of the devastating impacts of climate change experienced in 2023, highlighting it as the warmest year on record globally. He emphasizes the severe consequences of burning coal, oil, and natural gas, including more frequent and intense extreme weather events such as droughts, floods, wildfires, and hurricanes. Hudson provides specific examples, such as the 45 million acres of land burned in Canada, resulting in significant financial losses and health hazards due to smoke inhalation affecting millions of Americans. He underscores the record-breaking extreme heat experienced in Phoenix and the rapid intensification of storms like Hurricane Otis, which caused substantial human casualties and economic damages.

Furthermore, Hudson emphasizes the exorbitant external costs associated with fossil fuel consumption, including lives lost and extensive financial burdens, making a compelling case for the urgent need to transition away from fossil fuels towards clean, renewable energy sources. He argues that such a transition is not only morally imperative but also financially prudent, as it would contribute to mitigating climate change impacts and ensuring the habitability of the planet for future generations.

CHAIR SCHUTT acknowledges Hudson's testimony and expresses gratitude for sharing his perspective on the matter. The Chair acknowledges the presence of other members of the public in attendance and invites them to share their views during the public comments period. However, no one volunteers to speak. The Chair then acknowledges the significant number of public comments received regarding the draft strategic plan, with over 100 Alaskans submitting feedback. They assure that the board and executive leadership have carefully reviewed all comments, which will be addressed later in the session when discussing the strategic plan agenda item. The Chair expresses appreciation for the time taken by both the public to provide

comments and the board to consider them. Moving forward, the next item on the agenda is the Chief Executive Officer's report.

### **CHIEF EXECUTIVE OFFICER'S REPORT**

CEO MITCHELL, the executive director of the APFC, introduces the agenda and explains the purpose and scope of the PMP overhaul. He says that the compensation structure and the peer group definition will be deferred to a future meeting, and that the new HR director will present the points for updating the PMP. He expects to have a product ready for the board's consideration in May.

TRUSTEE RICHARDS expresses his concern that the PMP overhaul will reopen the compensation issue, which he says has been resolved after six years of dialogue. He asks CEO MITCHELL to present the PMP overhaul as an update, not a revision, and to avoid restarting the discussion on how to set benchmarks and other compensation-related matters.

CEO MITCHELL agrees with Trustee Richards and clarifies that the PMP overhaul is only related to some of the details that are out of alignment with current practice, and that the compensation issue will be set aside for additional consideration in the future.

TRUSTEE BRUNE challenges Trustee Richards' statement and says that he is open to anything that is appropriate to bring before the board. He argues that the board has a responsibility to ensure that the APFC has the recruitment and retention opportunities to bring the best and brightest staff, and that if compensation or other factors are keeping people away or forcing them to leave, the board needs to hear about it and take care of the employees.

CEO MITCHELL says that he hears both of them and that the compensation issue is still on the list.

TRUSTEE RUBENSTEIN, another board member, shares her experience of meeting a former APFC employee named Yup Kim, who left the APFC and became the CIO of CalPERS, a public pension fund in California. She says that this shows that the APFC needs to do something to avoid being the training ground for other funds, and that the APFC's salaries are still in the lowest quartile compared to other funds, even with incentive compensation. She says that she does not know when the compensation issue will be resolved, but that she thinks the APFC needs to do something to retain its staff, especially the new young private equity team.

CEO MITCHELL agrees with Trustee Rubenstein and says that the PMP overhaul is just step one, and that the board will focus on the bigger issue of compensation as they move forward. He says that the intent of the staff is to simplify the PMP overhaul by removing the controversial aspects and fixing the nuts and bolts that need to be updated. He says that the board needs to continually examine what they are offering their employees relative to opportunities elsewhere and ensure that they are able to compete for the quality of staff that they want.

TRUSTEE RUBENSTEIN makes one last comment and says that she hopes that the new private equity team will stay for a while, and that the board should do everything they can to prevent them from leaving. She says that she remembers that when they left, they were not able to solve the compensation issue for all parts of the organization at all levels, and that she would like to relook at it now that the APFC has filled the vacancies.

TRUSTEE RICHARDS says that he and CEO MITCHELL have been doing their heads-up budget meetings with the finance committee members, and that they are very open to the recurring requests for merit increases and incentive compensation. He says that this is a big change from last year's conversation, and that the legislature is now understanding that this is part of the base budget and the importance of the APFC with the POMD draw to the state of Alaska. He says that the amounts may vary over time as they continue to evaluate it, but that just putting it forward and proving that the APFC is administering it prudently has built up trust. He says that he wanted to share this with the fellow board members

CEO MITCHELL begins by clarifying the agenda items for the meeting, emphasizing that the consideration of the strategic plan will occur the following day, while Trustee Paper Number 10 will be discussed at the current meeting. He mentions the importance of addressing outstanding items related to the PMP and peer identification, indicating that staff alignment is crucial before presenting alternatives to the board. He then transitions to the topic of Trustee Education.

TRUSTEE RUBENSTEIN shares her experiences attending AIFs (Annual Investment Forums) and highlights the value of the information provided through their portal. She suggests that the board should consider attending another AIF event in Texas, mentioning the potential presence of Britt Harris. Additionally, she mentions the Pacific Pension Institute, suggesting that the board reassess their involvement with such organizations. She emphasizes the importance of board involvement in educational events, particularly before asset allocation votes. Trustee Rubenstein expresses a desire for Pathway, the private equity and private credit consultant, to participate in board meetings for Trustee Education, believing it would greatly benefit the board and the organization.

CEO MITCHELL acknowledges the suggestion to have Pathway present to the board and mentions that discussions have already begun with Director Waldrop and CIO Frampton regarding this possibility. He emphasizes Pathway's value as a resource for the board. Regarding the Pacific Pension International Conference, he mentions that Trustee Richards and Adam are planning to attend, with Trustee Richards expressing past dissatisfaction with the conference's utility. Despite this, both CEO MITCHELL and Adam are planning to attend the upcoming conference in March.

TRUSTEE RICHARDS expresses dissatisfaction with the Pacific Pension International Conference, stating that he didn't find it helpful.

CEO MITCHELL mentions being initially undecided about attending the conference but decided to go after learning that Adam would be attending as well.

TRUSTEE RUBENSTEIN highlights the benefits of attending the AIF, noting that it provides access to CIOs without interference from general partners (GPs) and offers valuable research papers.

CEO MITCHELL expresses support for board members interested in attending such events.

TRUSTEE RICHARDS expresses interest in the AIF portal mentioned by Trustee Rubenstein.

CEO MITCHELL provides an update on financial disclosures, noting that there were some issues with email addresses during the transition in HR directorship, resulting in incomplete reports. He corrects a typo in the travel summary, indicating that the travel budget expenditures were \$331,000, not \$90,000, as stated. He mentions that the travel budget is likely to be fully utilized by the end of the year, indicating a rebound in travel post-COVID. CEO MITCHELL also discusses the high turnover rate within the organization, particularly in operations staff compared to investment staff. He highlights the challenges faced in retaining key employees and emphasizes the need to incentivize staff across all departments to avoid inefficiencies. He shares concerns about the high vacancy rate and ongoing recruitment processes, expressing hope for successful candidate selections in the near future.

TRUSTEE BRUNE seeks clarification from CEO MITCHELL regarding the two positions that are not actively being recruited for. He expresses concern about budget implications and wants to ensure he understands the plan for those positions.

CEO MITCHELL explains that one of the positions not actively being recruited for is a portfolio manager role in the real estate section. The strategy is to first fill a more junior position in real estate and then focus on hiring the portfolio manager. The other position is a project manager role added in fiscal year 2023. However, due to existing staff capacity, particularly with the COO and admin operations director, it was deemed unnecessary to fill the project manager position at this time. Various alternatives for the position have been explored, but none have been finalized. CEO MITCHELL acknowledges Trustee Brune's past suggestion to consider giving the position back if it's not being filled and indicates that this will be discussed in the upcoming budget cycle if a clear need for the position isn't identified within the next few months.

CHAIR SCHUTT asks for any follow-up.

TRUSTEE BRUNE expresses perplexity regarding the explanation provided for the hiring strategy regarding the first position. He suggests that typically, the higher-level position would be filled first, allowing the individual to build their team. However, the explanation seems to imply that a lower-level person will be hired first, potentially leaving the higher-level hire with a team already in place, which may not be ideal.

CEO MITCHELL then defers to CIO FRAMPTON for further clarification.

CIO FRAMPTON explains that the current real estate team lacks balance, with a shortage of analysts and an excess of investment officers. Therefore, the priority is to hire an analyst, who will not report to the future portfolio manager. He clarifies that although the position is categorized as on hold, it is still intended to be filled, indicating that it is a matter of sequencing rather than a permanent delay. Rampton

TRUSTEE BRUNE expresses gratitude for the clarification.

CEO MITCHELL commends the communications staff for their hard work during the legislative season, acknowledging the increased workload due to reporting on legislative initiatives and assisting with presentations. He highlights the selection of a firm to broaden the organization's exposure in the national space, aiming to enhance recognition and attract quality staff. He notes that the presentations provided to staff were standard and discusses the legislative update,

including presentations to finance committees. CEO MITCHELL mentions Callan's presentation to the House Finance committee and their availability for hearings on various bills. He expresses hope for exemption from an Administrative Order related to investments in Israel, citing potential burdens and complexities in compliance.

TRUSTEE CRUM provides clarification on the impact of an Administrative Order (AO) on treasury staff, explaining that the AO does not affect trading staff at APFC. He assures CEO MITCHELL that he will send the citation and statute for reference.

CEO MITCHELL expresses appreciation for Trustee Crum and Trustee Brune's efforts in clarifying the matter, highlighting the importance of clear communication.

TRUSTEE CRUM emphasizes the need to ensure compliance and confirms that they were addressing lingering questions.

CEO MITCHELL discusses the Governor's budget proposal, mentioning additional funding for global and national communications but noting that a request for a Position Control Number (PCN) in the private equity space did not gain traction in the first round of Governor Amendments.

TRUSTEE RUBENSTEIN seeks clarification on the reason for the lack of traction regarding the PCN request.

CEO MITCHELL explains that the original budget approved in September did not include the additional cost of hiring a national media firm, as they initially anticipated lower costs. However, in December, they were directed to pursue this expense. Another initiative involved taking steps in the private equity space to enable more direct or co-investing with the in-house team, aiming to reduce consultant fees. The position requested was seen as an incremental step toward this goal but was not part of the initial budget request.

TRUSTEE RUBENSTEIN inquires about efforts made to include it in the budget.

TRUSTEE CRUM responds, stating that it's an ongoing conversation and that they hope to address it in subsequent rounds of budget amendments. He mentions the possibility of raising revenue items in the next round and explains that it involves discussions with the Governor's office and permission to solicit directly to budget subcommittees.

CEO MITCHELL provides updates on various aspects: Legislative Initiatives: Discussions and presentations were made regarding bills such as HB 303 and SB 107, with ongoing efforts to ensure they don't negatively impact APFC operations. IT Update: Several projects, including cloud-based data storage and data center relocation, are nearing completion or implementation. IT staff are fully accounted for, and there have been no significant security events. Financial Statements: While the total return for the second quarter was 4.08%, there were underperformances compared to benchmarks in some asset classes. Accounting net income for the year-to-date period was \$2.6 billion, highlighting the difference between total return and statutory net income over the years. The Fund's significant unrealized gains serve as a financial buffer. Additionally, Mitchell mentions the inflation rate for FY24 at 4.1%, translating to \$2.3

billion in additional costs, with \$1.4 billion appropriated and limited room for increases due to ERA constraints.

TRUSTEE CRUM highlights the \$3.4 billion gain in two months that the APFC achieved, and contrasts it with the previous losses that were reported in the Governor's budget release. He attributes the success to the diversification strategy that the APFC follows, and praises the Callan presentation that explained the benefits of diversification.

TRUSTEE RICHARDS asks about the slight underperformance in statutory net income, which is a measure of income based on realized returns rather than total returns.

CEO MITCHELL answers that the APFC is on track with Callan's midpoint of \$3.8 billion for the fiscal year, and explains the difference between statutory net income and accounting income. He also refers to the spendable ERA balance, which is the amount of money that can be withdrawn from the earnings reserve account of the APFC.

CHAIR SCHUTT notices that MR. HARRIS, an advisor to the board, wants to speak and invites him to do so.

TRUSTEE RUBENSTEIN also notices MR. HARRIS and asks him to take off mute.

MR. HARRIS says that he has some comments, but he can wait until the end of the session if the board prefers. He thanks the previous speaker for his presentation on the energy transition and agrees that it is a complex and urgent issue. He acknowledges that the U.S. has been reducing its emissions since 1995, but points out that the global emissions have been rising due to the development of countries like China and India, which have longer timelines to reach net zero. He argues that hydrocarbons have been the source of economic growth and human development, but they also have negative impacts on the climate and the environment. He warns that cutting them too fast without replacing them with renewables could cause a global depression and harm the emerging world. MR. HARRIS criticizes the lack of a clear plan from the U.S. and the UN on how to achieve the 2030 targets of net zero, and calls it the biggest technological gamble in history. He also notes that the renewables depend on minerals that are mostly controlled by China. He urges caution and balance in the energy transition, and stresses the need to do it right and not too fast. He says that the cost of the transition is the biggest reallocation of capital in history, and that he would like to see the study that supports it. He also talks about compensation, and says that it should not be a major discussion point. He suggests that the salaries should be based on the median of the peer group, and that the performance should determine the bonuses. He asks what the budget is.

CEO MITCHELL confirms that the Fund pays \$25 million for expenses and that their operating costs are low (single digit basis points).

MR. HARRIS, in his remarks, underscores the importance of fair compensation and transparency within the organization. He points out that operating at lower costs compared to industry standards might indicate efficiency but also raises moral concerns if employees are paid below market value. He advocates for a clear compensation philosophy that ensures employees are paid at least the median market value and have opportunities for career advancement. Moreover, MR. HARRIS suggests the development of a 5-year strategic plan aligned with budget and asset

growth. He proposes that the number of employees should be tied to the organization's asset growth, allowing for a pre-approved number of employees consistent with the growth plan. This approach would provide clarity and direction for staffing decisions based on the organization's financial trajectory. B.Harris offers advice based on his experience, emphasizing the importance of fair compensation, transparency, and strategic planning for organizational success.

CHAIR SCHUTT acknowledged Trustee Crum's upcoming departure due to his other responsibilities. Deven Mitchell continued with the financial report, highlighting the comparison between statutory net income and GAAP income.

TRUSTEE RICHARDS raised questions about inflation proofing and the shortfall in funding for FY24, to which Mitchell provided clarification.

TRUSTEE CRUM expressed a concern about inflation proofing unrealized gains in the corpus, prompting further discussion and clarification from Mitchell and Richards.

TRUSTEE RICHARDS expressed a sentiment about adhering to rules.

CEO MITCHELL highlighted the Fund's financial projections, aiming for over \$100 billion, albeit not as quickly as desired. He also mentioned an expected ending balance of over \$80 billion for the current year. Mitchell then summarized the fiscal year-to-date budget, noting that spending generally aligns with expectations, except for commodities.

TRUSTEE RUBENSTEIN sought clarification on the "office support" line item, to which Mitchell explained it covers office-related equipment and supplies.

CHAIR SCHUTT opened the floor for questions before moving on to CIO Frampton's report.

### **CHIEF INVESTMENT OFFICER'S REPORT**

CIO FRAMPTON, the Chief Investment Officer, began by acknowledging the agenda and the need to maintain brevity. He deferred the discussion on performance to Callan at the board meeting. He highlighted the performance of various asset classes, noting that six out of seven beat the benchmark, with private markets being the exception due to write-downs in the venture capital area. However, he emphasized that private markets should be assessed over a multi-year period, where the fund has performed well. Frampton then reflected on his five years as CIO, outlining areas of success and areas for improvement. He mentioned the team's work on statutory net income, emphasizing the importance of understanding the components contributing to it. He noted that while the baseline statutory net income is reliable, the realization of unrealized gains is less so. Frampton provided an update on the current year's statutory net income, expressing optimism despite it being behind schedule compared to the previous year.

TRUSTEE RICHARDS raised the idea of exploring the possibility of realizing gains from the Permanent Fund's public portfolio to bolster the ERA (Earnings Reserve Account). He suggested that while the current statutory framework might not allow for such action, it could potentially be beneficial to consider.

TRUSTEE RUBENSTEIN clarified if this meant selling assets on the secondary market.

TRUSTEE RICHARDS confirmed it was about selling and rebuying assets to realize gains.

CIO FRAMPTON responded by noting the significant amount of unrealized gains in both private and public assets, with around 9 to 10 billion in private and 3 to 4 billion in stocks. However, he pointed out that there would be substantial transaction costs involved, especially in the private markets, and highlighted that there are unrealized losses in fixed income currently.

TRUSTEE RICHARDS expressed the idea of considering the possibility of realizing gains from the Permanent Fund's public equity portfolio, acknowledging that while there would be transaction costs, they might not be prohibitive.

CIO FRAMPTON noted that while transaction costs for trading stocks are relatively low, they are not zero. He mentioned the concept of transition managers who efficiently handle quick trades, but emphasized that the costs might not be justified for such a strategy.

TRUSTEE RUBENSTEIN raised a related question regarding the lack of realization from a recent acquisition by one of the fund's managers. She inquired about the potential for the fund to consider acquiring GP stakes on the private side to gain more direct exposure to fee collection.

CIO FRAMPTON explained that while the fund does have exposure to GP stakes, negotiating for such stakes could have been a possibility in the past, particularly in cases like the acquisition mentioned. He clarified that GP stakes represent about 10% of the fund's NAV and affirmed that they do engage in acquiring such stakes to capture fees.

TRUSTEE RUBENSTEIN inquired further about the possibility of the fund collecting fees from GP stakes.

CIO FRAMPTON acknowledged that GP stakes represent a significant portion of the fund's private market portfolio compared to peers. He mentioned that while it would have been advantageous to own a GP stake in certain cases, such opportunities are sporadic, similar to IPOs. He elaborated that GP stakes can provide cash flow over time, but the significant windfall seen from a sale like GIP's to BlackRock is a one-time event. He cited recent sales of infrastructure funds Actis and GIP, emphasizing the occasional nature of such events.

TRUSTEE RICHARDS raised a concern about the potential additional responsibilities and liabilities associated with holding a GP stake, questioning whether it would burden the fund as a minority owner.

CIO FRAMPTON highlighted some burdens associated with negotiating revenue shares in fund one investments. In some cases, the fund felt obligated to continue backing underperforming managers to avoid losing the revenue share, leading to complex arrangements that finance had to track. This situation raised the question of whether it was more sensible to stick with top-tier managers and negotiate fair fees or to support new managers for the potential revenue share, despite the risks of being tied to underperforming entities.

TRUSTEE RUBENSTEIN thanked Frampton for his explanation.

CIO FRAMPTON concluded his remarks by providing a report on all the investment actions taken in the last quarter, including committing \$210 million to seven different private equity partnerships.

TRUSTEE BRUNE sought clarification on the board's priorities regarding media exposure, as mentioned in Marcus Frampton's five-year overview.

CEO MITCHELL explained that it was part of the process of selecting a firm at the national level, where the selected applicant proposed highlighting the investment leaders in their thought process. This would involve Frampton and his staff participating in media engagements, which is a new function driven by the board's initiative.

TRUSTEE BRUNE acknowledged the potential benefits of positive media exposure in generating opportunities and improving returns.

CIO FRAMPTON expressed his support for the idea and assured that he would endeavor to fulfill the board's expectations in this regard.

TRUSTEE BRUNE appreciated Frampton's efforts in putting together the overview.

CIO FRAMPTON mentioned that he is pleased with Shannon McCain joining the team and highlighted some minor HR-related matters, including a review of the organizational structure to assess whether the current number of direct reports (nine) is appropriate. He expressed a desire to enhance performance tracking and evaluation systems. Despite these additional responsibilities, he emphasized that maintaining a focus on performance remains his top priority. He then directed the discussion to another topic and requested to move to page 178.

TRUSTEE RUBENSTEIN inquired about the increase in the number of direct reports.

CIO FRAMPTON explained that it had grown over time due to changes in reporting structures and personnel. He acknowledged that while the current setup works smoothly most of the time, he sometimes questions whether having nine direct reports is too many.

TRUSTEE RUBENSTEIN expressed her opinion that having nine direct reports is too many for Marcus Frampton. She suggested that Allen, among others, could potentially assist in alleviating some of Frampton's workload.

CIO FRAMPTON acknowledged the feedback and agreed that the current number of direct reports is excessive. He mentioned that the number had previously peaked at 13 when the private equity team also reported to him, which he found challenging.

CEO MITCHELL added that discussions have been ongoing about reducing the number of direct reports at the CEO level within the organization and mentioned that Allen could be a valuable resource for additional leadership responsibilities. Mitchell highlighted Allen's positive performance and suggested exploring alternatives to diminish the number of direct reports.

TRUSTEE RICHARDS asks CEO MITCHELL how many direct reports he has.

CEO MITCHELL says he has eight or nine direct reports.

TRUSTEE RUBENSTEIN comments that it is too many and suggests that they should hire someone to help them.

CIO FRAMPTON agrees that it is too many and says he is looking into it. He also gives an update on the investment actions and the market rally. He answers Trustee Rubenstein's question about co-investment fund.

TRUSTEE RUBENSTEIN sought clarification on whether the investment was made in a co-investment fund or directly in co-investments.

CIO FRAMPTON confirmed that it was a direct co-investment with a manager, not an investment in a co-investment fund.

TRUSTEE RUBENSTEIN emphasized the importance of avoiding outsourcing co-investment opportunities and expressed the understanding that the internal team was being built up for this purpose.

CIO FRAMPTON provided an overview of investment actions taken in the fourth quarter. The investments included commitments to private equity and private income funds totaling \$560 million. Additionally, \$600 million was trimmed from public equity investments as part of rebalancing efforts and to fund PONV transfers. In real estate, partnerships were formed for life science and office development projects, with an emphasis on projects with strong potential returns and reduced vacancy risk. Existing mortgages were paid off to take advantage of market conditions, and a line of credit was reduced due to high floating rates, resulting in approximately \$350 million deployed in real estate during the quarter.

TRUSTEE BRUNE asks about the rationale behind the sales that were made to meet the draw required. He wonders if they missed out on other opportunities.

CIO FRAMPTON explained that the decision to sell investments to meet the required draw was influenced by the timing and market conditions. When the stock market is appreciating, selling stocks is often the easiest way to rebalance the portfolio back to its target allocation. Conversely, in a declining market, the focus shifts to fixed income to satisfy the draw requirement. He also mentioned that private market investments are managed with a pacing budget, and disrupting that budget mid-year to meet draw requirements could be disruptive to investment plans already in progress. Therefore, decisions are made based on the overall market conditions and the portfolio's current positioning.

TRUSTEE BRUNE asks about the impact of the draw required on the private investments and thanks Marc for his explanation.

CIO FRAMPTON explains that they mostly take from stocks or bonds depending on the market conditions and the co-investment opportunities. He also says that the fixed income returns are better than before and concludes his presentation.

TRUSTEE RICHARDS comments that they hold fixed income for stability, not for returns.

CHAIR SCHUTT thanks Marc and announces the next agenda item.

CEO MITCHELL: He introduces Sebastian who will talk about fixed income.

## **RISK OVERVIEW**

TRUSTEE RICHARDS comments on the analysis and asks a question about the 80-20 allocation and the draws.

MR. VADAKUMCHERRY outlines two main parts. The first part delves into the analysis conducted in the context of asset allocation portfolio optimization. The premise of the analysis is based on historical returns, particularly comparing equities and bonds over the last 40-50 years. Despite equities showing higher returns, it's noted that they were also more volatile. The analysis aims to demonstrate that it's not always prudent to invest solely in the higher returning asset class, especially considering capital withdrawals or flows. Key points highlighted in the analysis include introduction of a new performance measure called value add, which considers the Internal Rate of Return (IRR) in addition to the analyzed component return. Emphasis on the difference between value add and analyzed return, where value add may be adversely impacted by opting for a higher risk portfolio. Assumptions made include using the S&P and US Agg market indices, assuming a 5% POMV draw based on the current formula, and annual rebalancing. The presentation also includes charts demonstrating the impact of different portfolio compositions and POMV draws on the overall growth multiples, with an interesting finding that an 80-20 equity-bond portfolio almost exactly matches the total multiple of a 100% equity portfolio when considering a 5% POMV draw.

TRUSTEE RICHARDS inquires about the allocation model, specifically regarding how draws are being managed in an 80-20 allocation scenario.

MR. VADAKUMCHERRY explains that draws are taken from the base using a predetermined formula, typically 5% of the average of the previous 5 years' Net Asset Value (NAV). It doesn't strictly adhere to an 80-20 allocation but rather considers the overall NAV of the Fund. When asked about the distribution of draws between equities and bonds, Vadakumcherry clarifies that it's done equally, reflecting a weighted average approach.

TRUSTEE RICHARDS confirms understanding of this approach.

MR. VADAKUMCHERRY presents the findings of the analysis, focusing on the value add and implications of different portfolio allocations. He highlights the comparison between an 80-20 portfolio and a 100% equity portfolio, emphasizing that despite the higher total returns of the equity portfolio, the 80-20 allocation demonstrates better long-term value add. The analysis includes hypothetical scenarios over a 5-year period to illustrate how volatility and capital flows impact the compounding effect of return. MR. VADAKUMCHERRY stresses the importance of considering these factors in asset allocation decisions for long-term fund management.

TRUSTEE RICHARDS inquires about the optimal allocation mix given the presented data.

MR. VADAKUMCHERRY responds by explaining the complexity of determining the optimal point due to the impact of timing on capital draws. He illustrates how changes in the timing of

drawdowns can significantly affect value added, complicating formulaic modeling. Vadakumcherry outlines the methodology used for a theoretical exercise, analyzing various portfolio allocations over different time periods using the S&P 500 and US Agg indices. He discusses the results, highlighting that different periods yield different optimal allocations, but consistently emphasizes the importance of considering capital flows in portfolio optimization. He proposes a two-phase approach for optimization, focusing first on risk-return optimization followed by testing for value add. He concludes by reaffirming the significance of volatility and capital flows on long-term value add, suggesting that the 80-20 portfolio appears to be optimal based on their analyses.

TRUSTEE RUBENSTEIN questions if the board has always approved an 80-20 allocation and if there have been any deviations from this mix.

MR. VADAKUMCHERRY responds, stating that the board adopted the 80-20 allocation in 2021, with no defined appetite for a different mix before then.

CEO MITCHELL adds that over time, the fixed income portion of the portfolio has gradually decreased from 100% to 20%.

CHAIR SCHUTT checks if Harris has a question or comment.

MR. HARRIS acknowledges the creativity in the analysis but questions the portfolio with a 3.5% standard deviation and an 8% total return, as it appears to violate principles related to the Sharpe ratio. Harris also notes a different long-term number but agrees with the analysis favoring an 80-20 mix over the past 40 years. Harris advises caution, suggesting that the investment regime may be changing. He also inquires about the portfolio with a low standard deviation and high total return.

MR. VADAKUMCHERRY explains that the portfolio with a 3.5% standard deviation and an 8% return was hypothetical and used only to illustrate a point. The actual portfolios analyzed for long-term returns are different and are detailed on page 194.

MR. HARRIS suggests that any content included in the presentation is deemed important and should be clarified. He points out that using a one-year time horizon for risk management might not be relevant, and using a 10-year time frame could change the analysis significantly.

MR. VADAKUMCHERRY agrees, stating that the time frame used for bonds and equities is standardized and constant, but it wouldn't impact the results of the analysis, as the focus is on the impact of capital withdrawals and volatility on value add.

MR. HARRIS appreciates the analysis and explanations provided.

MR. VADAKUMCHERRY acknowledges the feedback.

TRUSTEE RICHARDS points out a challenge regarding the omission of private markets from the analysis, highlighting the difficulty in obtaining data and modeling the differences in volatility and cash calls between private and public markets.

MR. VADAKUMCHERRY agrees, noting the complexity of modeling private assets in this framework and the need to consider that draws aren't taken from private markets.

TRUSTEE RICHARDS emphasizes the challenge of modeling the liquidity factor and draws from private markets in the analysis.

MR. VADAKUMCHERRY agrees, stating that the current risk appetite is close to the 80-20 allocation but suggests there is room to slightly increase risk. However, he warns against exceeding the 80-20 allocation due to the potential impact on POMV and value add.

MALE SPEAKER 1 raises a point about the composition of the private market portfolio, suggesting that it includes elements that are not purely equity or fixed income. They propose a lower estimate of the growth allocation, around 60%, compared to the assumed 80-20 allocation.

TRUSTEE RUBENSTEIN requests to see a chart, which the speaker indicates will be presented the following day.

MALE SPEAKER 1 explains that he compares the growth allocation to other endowments and public funds.

MR. VADAKUMCHERRY agrees and acknowledges the importance of considering this in asset allocation discussions. He proceeds to present the quarterly updates, noting that the fund remains within the 80-20 risk appetite threshold. He mentions that the 80-20 allocation has become more volatile due to increased correlation in the equity-bond portfolio. Vadakumcherry provides details on realized fund volatility, tracking error, value at risk, liquidity, unfunded commitments in private equity, stress test results, and currency and geography breakdowns. He concludes by suggesting an early lunch if there are no further questions.

CHAIR SCHUTT, after concluding the presentation and fielding questions, announces an early lunch break.

TRUSTEE RUBENSTEIN makes an inaudible comment.

CHAIR SCHUTT confirms the schedule for resuming the meeting at 1:15 p.m. Schutt informs Britt that their advisor comments will be scheduled for half an hour after lunch. The meeting is then adjourned temporarily.

## **LUNCH BREAK**

### **INVESTMENT ADVISOR COMMENTS (Information)**

CHAIR SCHUTT announces the continuation of the afternoon session. The meeting resumes at 1:22 p.m. Britt Harris is then given the floor to present.

TRUSTEE RUBENSTEIN requests that Harris increase their volume or adjust their microphone for better clarity.

MR. HARRIS starts by discussing the current economic conditions, mentioning that according to their models, the market is currently in "box three," historically associated with average expected

returns of 12%. They emphasize that statements about market valuation being overvalued may not be complete without considering the economic regime in which the market operates. Harris then highlights the significant concentration in the market, noting that the U.S. and China dominate global equity capitalization, and a few large index fund providers hold substantial ownership in major companies. This concentration affects proxy voting power and capital flows. They discuss the outperformance of the U.S. market, particularly in technology sectors, compared to European markets weighted towards banks. Harris stresses the importance of pacing the transition to renewable energy, considering the massive reallocation of capital needed. They suggest that the board establish five agreements with the investment team regarding return targets, risk management, resource allocation, communication, and operational quality. This would simplify evaluation and management processes. Finally, Harris recommends establishing a consistent compensation philosophy aligned with market norms and fund performance to streamline decision-making processes for the board. They express readiness to discuss these suggestions further if the board is interested.

CHAIR SCHUTT thanks Britt for his presentation and introduces the next item on the private income area.

MS. LOESCH makes some inaudible comments and acknowledges Adam's return.

CEO MITCHELL comments on Adam's good timing.

**ASSET CLASS OVERVIEW: PRIVATE INCOME (Board Education & Information)**

MR. ALEXANDER the Senior Portfolio Manager, along with Logan Rahn, a Portfolio Manager of private credit, are presenting an overview of the private income portfolio. The portfolio currently stands at \$7 billion, with a target allocation of 9% of the total fund, slightly below the target at 8.5%. They are benchmarked with a 60% allocation to infrastructure and 40% to private credit, aligning with the current composition of the portfolio. The team consists of three members: Ross Alexander, Logan Rahn, and an associate named Terek Rutherford. They reiterate the strategic priorities for their asset class, emphasizing the importance of co-investment opportunities as a means of adding value and differentiation in the market. Regarding infrastructure, the primary goal is to generate attractive returns, mainly through capital appreciation, with a focus on participating in periods of high inflation. The team views infrastructure as having more equity-like risk rather than fixed income properties. In private credit, the focus is on generating attractive risk-adjusted returns through current income, with an emphasis on downside protection through loan structuring. They benchmark against the Cliffwater Direct Lending Index, although they note that their returns are reported net of fees, unlike the gross returns of the benchmark. Lastly, they touch on income opportunities, a segment of the portfolio comprising assets with low correlation to other major asset types, such as mineral finance, royalties, life settlements, and mortgage servicing funds. This segment represents about 10% of the private income portfolio, and they are open to discussing any aspects of it further. They conclude by inviting questions or comments from the board on any aspect of their presentation.

TRUSTEE CRUM commends the format of the slides presented by Ross Alexander, particularly appreciating the quick reference points with benchmarks.

MR. HARRIS inquires about the credit quality of the private credit portfolio.

MR. ALEXANDER responds that the private credit loans are typically to lower middle market to middle market corporates, indicating they are not investment grade but rather single B's and double B's, reflecting the riskier nature of these loans.

MR. HARRIS comments on the importance of understanding the credit quality, noting its association with the shadow banking acceleration.

MR. ALEXANDER provides an overview of infrastructure investments, focusing on various asset types within the infrastructure sector. He notes that the focus has been on energy and telecommunications sectors recently, as they have been the most attractive areas of the market. Despite significant capital inflows into infrastructure, particularly in renewables and digital sectors, the team aims to identify less crowded areas for investment opportunities. The characteristics of infrastructure assets include stable cash flows, inflation protection, essential services, and low correlation with other asset classes. The investment structures employed include closed-end funds and co-investments, with a focus on maintaining investment discretion and control over asset selection. The infrastructure asset class is described as a continuum of return and risk, ranging from core to opportunistic investments. The team focuses on the private equity-like portion of the market, aiming to generate returns through value creation levers rather than relying solely on contractual yield. Regarding co-investments, the team has been active since 2013 and emphasizes their benefits, including control over asset selection, lower costs, and enhanced relationship with general partners. Realized co-investments have generated returns of 16% IRRs, outperforming fund investments by 600 basis points, showcasing the effectiveness of this strategy.

MR. ALEXANDER responds to Trustee Richards' question, explaining that while a portion of the outperformance in co-investments can be attributed to fee savings, the majority comes from securing better deals. These co-investments are sourced from existing relationships and offer the team the opportunity to be selective in terms of asset types, structures, and geographies. While the team doesn't have direct control over operations, they can influence asset selection and identify attractive investment opportunities. MR. ALEXANDER also confirms that it indeed relies heavily on relationships and ongoing interactions with managers to gain insight into potential investment opportunities, highlighting the importance of building and maintaining strong relationships within the investment landscape.

TRUSTEE RUBENSTEIN adds to the discussion, emphasizing that co-investments typically involve good deals since it's challenging to raise money otherwise. This underscores the importance of selecting high-quality opportunities in co-investing.

TRUSTEE CRUM seeks clarification on the aspect of high conviction ideas of managers, asking if it relies on relationships rather than algorithmic or market-based criteria.

MR. ALEXANDER acknowledges Trustee Rubenstein's point about the relatively low number of co-investments and agrees that bandwidth is a factor. He explains that not all managers offer co-investments, and the team's capacity to review more opportunities is limited. Additionally, they may be more selective in asking for co-investment flow from managers, especially when building new relationships or still gaining confidence in their investment strategies.

TRUSTEE RUBENSTEIN questions whether adding another team member could help increase the number of co-investments, given the potential for higher returns in this area.

MR. ALEXANDER agrees, stating that additional bandwidth would undoubtedly facilitate more co-investment opportunities. He notes that infrastructure, in particular, presents challenges due to sizing issues, as gaining access to co-investments often requires committing significant capital. He also explains that the challenge with accessing co-investments in infrastructure lies partly in the sizing requirements of the funds. Mega funds often require commitments of \$500 to \$600 million, which would exceed their entire budget for the year.

TRUSTEE RUBENSTEIN raises the concern that as infrastructure funds grow larger, there might be issues with allocation.

MR. ALEXANDER responds that they haven't encountered problems with allocation yet and still maintain the ability to make meaningful investments in larger funds. He attributes the growth in fund size to the maturation and evolution of the infrastructure market over the past couple of decades. He talks about the opportunity in the mid-market segment for co-investment and infrastructure transactions. He also shares the typical size of their investments and how they have reduced over time.

MR. HARRIS provides feedback, suggesting that the typical size of investments, especially for co-investments, should be increased considering the size of the fund. He acknowledges the positive results achieved with co-investments, attributing them to both fee reduction and positive selection. However, he encourages the team to leverage their size and professionalism to negotiate for more significant opportunities and improve their relationship management with managers to increase deal flow. Harris believes that there is untapped potential for the team to further expand their investments in infrastructure.

MR. ALEXANDER concludes his presentation on infrastructure by emphasizing the growing opportunities in the asset class, driven by global trends such as the energy transition and infrastructure needs. He discusses the challenges and complexities of fund investing but highlights its effectiveness in gaining exposure to infrastructure. He provides an overview of the current portfolio status, expressing a desire to increase the co-investment portion of the portfolio. Finally, he invites questions from the trustees or suggests moving on to Logan Rahn's presentation on private credit.

CHAIR SCHUTT invites questions for Ross and gives Trustee Crum the floor.

TRUSTEE CRUM expresses appreciation for the presentation on infrastructure and emphasizes the importance of ongoing dialogue with Deven about infrastructure needs. They highlight the significance of understanding the timing of potential opportunities for active deployment within the long budget cycle. Trustee Crum encourages Ross Alexander and the team to keep the board informed about any opportunities for growth in infrastructure investments.

MR. RAHN provides an overview of private credit, emphasizing its diverse nature covering various collateral types, seniorities, and investment approaches. The portfolio primarily focuses on corporate lending, with an emphasis on first lien and senior secured assets. They prefer cash pay over PIK (pay in kind) structures and floating-rate securities priced to SOFR plus a spread.

Rahn also highlights the balance between security and return in private credit investments, noting the increasing yields due to rising base rates. The portfolio includes exposure to both performing and non-performing strategies, with a preference for leveraged funds at a one-to-one level for strong borrowers. The structure of private credit investments includes both open-ended and closed-ended funds, with an emphasis on staff-directed decisions and active co-investment opportunities. Rahn discusses the different approaches within private credit, balancing risk with return across various parts of the capital stack, and the allocation towards senior secure direct lending within the portfolio.

TRUSTEE CRUM asks about the life cycle and the default rate of the private credit investments.

MR. RAHN explains that the life cycle of private credit investments varies depending on the specific strategy and underlying assets involved. For senior direct lending funds and mezzanine funds, or the underlying assets, the typical life cycle is 2-3 years, while fund lives range from 5-7 years with possible extensions. In distressed credit funds and capital appreciation funds, the hold period can be longer if there is a conversion to equity.

MR. ALEXANDER adds that the loans themselves typically have a duration of 5-7 years, with repayments shortening that timeline. Logan further discusses the anticipated default rates, mentioning historical rates for different strategies, such as sub 1% for senior funds, 2-3% for mezzanine funds, and varying rates for distressed and capital appreciation funds depending on their risk exposure. However, he notes that actual default rates can fluctuate and are currently around 2-3% for senior secured direct lending.

TRUSTEE CRUM inquires about the credit level at which defaults are occurring.

TRUSTEE RUBENSTEIN asks about the next slide and expresses her confusion. She wants to know more about the AK Credit Ops and whether it is still active.

MR. RAHN answers that the AK Credit Ops was a fund-to-fund vehicle managed by Crestline. He also says that they still have some exposure to it, but they have shifted to staff-directed investments since 2016.

MR. ALEXANDER confirms the information given by MR. RAHN and adds some details about the AK Credit Ops and the staff-directed investments.

TRUSTEE CRUM repeats the name of Crestline and makes some inaudible comments.

MR. HARRIS comments on the dominance of a few managers in the private credit market and the different strategies they employ. He also mentions that some of them profit from defaults and takeovers.

MR. RAHN says that they have exposure to similar strategies in their distress and opportunistic book. He also clarifies that defaults do not always lead to restructurings or losses, and that they can benefit from covenant breaches. He then reports on their performance compared to their benchmark and their goal.

MS. LOESCH acknowledged the technical issue and encouraged another attempt.

MR. RAHN provided a disclaimer about the difficulty in comparing volatility between private and public markets due to the non-market-to-market nature of private markets. He emphasized that the staff-directed program's success wasn't due to taking on more risk but rather superior credit manager selection. Although there's room for improvement in beating CLI, the program boasts a notable sharp ratio. Regarding trends and strategy diversification, Rahn highlighted changes in the benchmark over the past six years, noting initial benchmarking against U.S. high yield. He explained that early commitments led to higher exposure in opportunistic and mezzanine strategies, with a primary focus on senior secured direct lending. Overall, the preference leaned towards senior secured lending over mezzanine and opportunistic or special situations funds over distressed funds.

TRUSTEE RUBENSTEIN asked if they were considering investing in any secondaries funds.

MR. RAHN responded negatively, mentioning the small size of the market for private credit secondaries.

MR. ALEXANDER added that the need for secondaries is rare due to the quick repayment nature of private credit investments.

MR. RAHN expressed interest in exploring secondaries deals directly with their General Partners (GPs) if LPs were looking to exit their stake.

TRUSTEE RUBENSTEIN inquired about their rights.

MR. RAHN clarified they do not have first right terms written into their agreements.

TRUSTEE RUBENSTEIN inquired about their ability to incorporate secondaries deals, noting an increasing number of such opportunities arising.

MR. RAHN suggested that including a notification right in a side letter might be more effective.

TRUSTEE BRUNE raised the idea of integrating private credit into a fixed income strategy due to its quick repayment nature.

MR. RAHN emphasized that it's a different risk profile and deferred the decision to the CIO and the board.

TRUSTEE RUBENSTEIN then asked if they felt under-allocated in private credit.

MR. ALEXANDER expressed that he doesn't believe they are under-allocated in private credit, noting their flexible approach to allocations within the private credit and private income segments. He highlighted their ability to adjust allocations based on market attractiveness, citing examples from 2020 and 2021. Alexander emphasized that their program is appropriately sized for the current opportunity set, acknowledging the competitive landscape in the upper part of the market where some private credit managers are offering lower rates to maintain market share.

CHAIR SCHUTT added that upper middle market spreads have decreased recently, indicating a shifting landscape.

MR. ALEXANDER noted that middle market spreads remained around 600.

CHAIR SCHUTT made an inaudible comment.

MR. HARRIS mentioned a significant opportunity forthcoming with potential advantages for those involved early on.

MR. RAHN expressed interest in exploring it further, adding a lighthearted comment about a device possibly falling asleep again.

MS. LOESCH humorously suggested it might have something to do with Britt.

CEO MITCHELL jokingly remarked that Britt was pulling a lot of strings.

MR. RAHN provided further comparison with [inaudible 3:07:26], noting that their benchmarking process to Cliffwater direct lending has been ongoing for about a year and a half. They analyzed their exposure by comparing their underlying work codes within the private credit book to CDLI's categories. Approximately 56% of their portfolio is senior, with the remainder in subordinated structures, primarily including preferred equity. Rahn explained that equity exposure primarily comes from opportunistic and distress funds, where distressed funds enter a business pre-restructuring and typically exit with equity. On the other hand, preferred equity strategies are more growth-oriented, often with an equity conversion rate in stocks. Rahn emphasized the benefits of co-investments, constituting about 11% of NAV within their private credit book, as they allow for greater control over investment selection and lack of fees improves returns. He explained that while co-investment expected returns match those of levered funds, they are more attractive on a risk-adjusted basis due to the absence of leverage. Overall, their co-investments have performed well.

MR. HARRIS inquired about the target percentage for co-investments.

MR. RAHN mentioned that they currently have 19 co-investments within the book, which he considers fairly concentrated, acknowledging concentration as a challenge. He expressed a preference to see around 30 to 40 co-investments, approximately double the current number. Thus, their target would be around 20 to 25% of the portfolio being co-investments, aligning with the previously set goal of 20%.

MR. HARRIS confirmed that their target was indeed 20%.

MR. RAHN then proceeded to discuss the performance of realized co-investments, noting a return of 10.3%, which significantly outperformed their total private credit portfolio, as well as their staff-directed portfolio. The total performance was around 9.3%, surpassing the private credit portfolio by over 200 basis points. Co-investments were described as a creative strategy enhancing private credit returns. As an example, they invested in a first lien unitranche facility to support a specialized manufacturer's acquisition. The business had promising prospects due to its provision of critical products to government agencies with proprietary IP, coupled with sector

growth tailwinds. The facility was competitively priced at S plus 650, yielding 12.5% over three years, with conservative leverage at 23% and a robust interest coverage ratio of 2.3 times.

TRUSTEE BRUNE expressed interest in asking a question and asked about the meaning of "unitranche."

MR. RAHN explained that a unitranche loan combines what used to be a first lien and second lien structure into one facility. Unlike the traditional structure where the first lien attaches at zero EBITDA up to a certain point and the second lien attaches thereafter, the unitranche compresses this structure. It simplifies matters by having only one lender or lender group, although the leverage for the borrower is slightly reduced. Unitranche loans still offer the benefit of being first lien on the overall company, with borrowing typically up to five or five and a half times EBITDA. From an investor's perspective, unitranche loans are attractive because they offer a better coupon compared to true first lien loans, with spreads ranging from around S plus 625 to 600 to 650 in the current market, while remaining well collateralized.

TRUSTEE CRUM inquired about whether exits are quicker in a unitranche structure due to simplified calculations compared to traditional first lien and second lien arrangements.

MR. RAHN responded that it depends on the market, but unitranche loans do offer cleaner debt management for businesses compared to the complexities of managing first lien and second lien debt.

TRUSTEE RUBENSTEIN then complimented MR. RAHN's expertise, asking if they had always been on the team and expressing appreciation for their knowledge.

MR. RAHN highlighted several challenges within the private credit sector. Firstly, higher base rates have led to declining coverage ratios, which have contributed to elevated defaults, primarily technical defaults related to covenant breaches. While payment defaults and losses haven't significantly risen yet, they're being closely monitored. Additionally, borrower-friendly documents, particularly in the upper middle market, have become more prevalent, potentially increasing the risk of defaults in the future. Despite the recent slowdown in the M&A market, which affects deal flow in private credit, there has been increased competition for high-quality deals, leading to quicker spreads compression over the last three months.

TRUSTEE RUBENSTEIN inquired about situations where the same entity holds both debt and equity positions, expressing dissatisfaction with such arrangements.

MR. RAHN confirmed they avoid such scenarios and expressed disapproval of captive debt funds.

MR. ALEXANDER noted that some managers handle both debt and equity strategies, they ensure there's no crossover, particularly avoiding lending to their own portfolio companies.

TRUSTEE RUBENSTEIN emphasized the importance of avoiding cross-collateralization, to which MR. RAHN and MR. ALEXANDER reiterated their commitment to avoiding such practices. The discussion concluded with acknowledgment that there may be cross-exposure between the private credit and private equity teams, but this was considered differently.

TRUSTEE RUBENSTEIN acknowledged the distinction.

MR. RAHN clarified that while there are differences in certain situations, they have consistently avoided strategies explicitly focused on captive debt deals.

TRUSTEE RUBENSTEIN inquired further, prompting MR. RAHN and MR. ALEXANDER to confirm that they have encountered numerous instances of captive debt deals, reflecting a growing trend in private credit.

MR. RAHN acknowledged the prevalence of such deals, noting that while some view them positively for accessing top-tier sponsor deals, others, including themselves, see inherent conflicts of interest. This has led to a polarizing debate within the private credit community, with him expressing concerns over the complexity and potential conflicts associated with these arrangements.

TRUSTEE RUBENSTEIN expressed disbelief at the prevalence of captive debt deals and reassured MR. RAHN that they were not engaging in such practices.

MR. RAHN then highlighted ongoing economic uncertainty and the challenge of navigating between a soft landing and a hard landing scenario. Additionally, they discussed the continued growth of assets under management (AUM) in the private credit market, which hasn't significantly impacted return expectations yet due to the market's expansion. He mentioned that private credit is gaining market share from traditional banks, often referred to as shadow banking, as well as from broadly syndicated loans (BSL) and high yield markets in the upper middle market.

TRUSTEE CRUM then inquired about a less negative way to describe shadow banking for the public.

TRUSTEE RUBENSTEIN and MR. RAHN discussed the term "shadow banking" in relation to private credit.

MR. RAHN explained that it's referred to as shadow banking because it operates with less regulation compared to traditional bank lending. Despite this, private credit still includes covenants, ensuring a level of oversight similar to traditional lending practices.

TRUSTEE CRUM clarified that they were trying to emphasize that private credit doesn't resemble exploitative or predatory lending practices often associated with loan sharks.

MR. RAHN and the trustees discussed how banks refer to private credit as shadow banking because they are losing market share to it.

MR. RAHN mentioned that banks are being compelled by regulators to relinquish some market share, and recent challenges in the banking sector have exacerbated this trend. Despite this, some banks are exploring partnerships in private credit rather than entering the market directly.

MR. RAHN discussed the implications of high base rates on private credit. While high base rates have resulted in higher yields, they have also driven interest coverage ratios to low levels,

potentially increasing the risk of borrower defaults and higher losses. Despite this, private credit continues to grow as an asset class, with many LPs indicating either maintaining or increasing their allocations. The portfolio snapshot shows about 11% co-investment and 80% funds, with sector and geographic mix aligning with the benchmark, primarily focusing on non-cyclical industries in the U.S. and some exposure to Europe and Asia.

TRUSTEE RUBENSTEIN raises a question about the smaller size of co-investments in the private market and seeks an explanation.

MR. RAHN explains that co-investments began in 2018 but were slowed down due to turnover in 2019 and the uncertainty caused by COVID-19 in 2020. Notes that they have been ramping up co-investments over the past couple of years.

MR. ALEXANDER attributes the smaller co-investment size to factors like deal size and repayments, stating that typical credit co-investments range between \$10 million and \$30 million per individual name. Highlights the challenge of deploying capital efficiently and maintaining deal flow.

TRUSTEE CRUM raises a point about stable projected returns.

MR. RAHN agrees with the point about stable projected returns and acknowledges challenges in deploying capital effectively.

MR. ALEXANDER emphasizes the importance of deal flow and mentions a deal done during COVID-19 with favorable terms, illustrating the competitive nature of the market and the challenge of securing attractive opportunities quickly.

MR. RAHN discusses the challenges and benefits of co-investments, highlighting the importance of building relationships with general partners to ensure a steady flow of opportunities. Notes that while co-investments can be competitive and require quick decision-making, they offer advantages in governance and flexibility.

TRUSTEE RUBENSTEIN inquires about the prevalence of co-investments in private credit among large peers.

MR. ALEXANDER explains that most large peers typically engage in co-investments through a fund structure.

MR. RAHN elaborates on the common practice of large funds allocating a portion of their capital to separately managed accounts (SMAs) for co-investments, which can lead to competition for co-investment opportunities. Mentions that this approach may involve giving up some discretion.

MR. ALEXANDER discusses the decision-making process regarding co-investments, emphasizing that opportunities meeting certain criteria are pursued, regardless of veto power.

TRUSTEE RUBENSTEIN suggests publicizing the fund's co-investment activities as a media story to increase awareness.

MR. RAHN agrees and acknowledges the challenges of sourcing co-investment opportunities, managing time allocation, and the need to diversify the portfolio to mitigate risk.

TRUSTEE RUBENSTEIN inquires about the number of investments in the co-investment portfolio.

MR. RAHN mentions seven investments, with two added in the recent quarter.

CHAIR SCHUTT offers input.

MR. RAHN discusses the performance, highlighting a legacy fund as the main drag.

MR. ALEXANDER presents the activity in 2023, emphasizing involvement in various private income sectors and outlines goals for 2024.

TRUSTEE RUBENSTEIN seeks clarification on what makes a particular investment good.

MR. ALEXANDER suggests the complexity of describing the investment strategy in a public forum, briefly touches on the attractiveness of their approach and hedging strategies.

TRUSTEE RUBENSTEIN thanks the private credit managers for their presentation and asks Logan if it is his first board meeting. She tries to reassure him that the board is not scary.

CHAIR SCHUTT compliments the private credit managers on their informative job and confirms that they are moving to LS Power, another manager in their infrastructure portfolio.

MR. ALEXANDER appreciates the extra time given to the private credit managers and introduces Darpan and Emily from LS Power, a U.S.-focused energy and power manager that they have invested with since 2013.

#### **PRIVATE INCOME PRESENTATION – LS POWER (Board Education & Information)**

MR. ALEXANDER praises LS Power as one of their highest conviction managers and says he thinks the board will appreciate what they have to say.

MR. KAPADI thanks the board for having him and introduces himself as the Chief Operating Officer of LS Power. He also expresses his appreciation for the relationship with Alaska Permanent and says he will give an overview of the firm, its history, its strategy, and its opportunities in the U.S. infrastructure business. He explains that LS Power is a strategic investor, not just a capital allocator, and that it has been in the power generation development business since 1990. He says that LS Power has evolved with the sector and has been actively decarbonizing the sector for decades. He shows a map of the projects that LS Power has owned and controlled in the U.S., covering different types of fuels and assets in the major power markets.

MS. SIMONIS introduces herself as Emily Simonis and says she joined LS Power in 2011.

TRUSTEE BRUNE interrupts the presentation and asks the chair a question.

CHAIR SCHUTT initiates the conversation and allows Trustee Brune to make a suggestion regarding the presentation.

TRUSTEE BRUNE suggests including a map of the United States with the lower 48 states indicated in a small box to better reflect the geographic scope of the discussion.

MR. KAPADI acknowledges the suggestion and assures Trustee Brune that they will take it into consideration. Explains the evolution of their investment strategy over the past five years, focusing on building real businesses around projects rather than just acquiring and adding value to them. Highlights two examples: Rev Renewables and Rise Light and Power, illustrating their approach to creating additional value beyond individual projects. Provides information about the LS Power team, emphasizing their long tenure and diverse expertise. Explains their comprehensive platform, which combines investment capabilities with an operating platform, allowing them to execute transactions quickly and with conviction. Describes the various ways they add value to projects, including revenue optimization, operational efficiency, policy engagement, and careful financing. Discusses the current opportunity set in the market, emphasizing the growth in power demand and the broadening scope of opportunities in renewables and other sectors. Explains their approach to fund size and performance, attributing their success to market conditions and the evolving opportunity set rather than fund size.

TRUSTEE RUBENSTEIN asks a question about the relationship between fund size and performance, prompting MR. KAPADI to clarify that performance is primarily influenced by market conditions and the evolving opportunity set.

TRUSTEE RICHARDS asks about the location of the battery storage and mentions Texas.

MR. KAPADI responds that most of the battery storage is currently in California, explaining that they view battery storage as following the growth of renewables. They are starting to develop battery storage in other markets as well, anticipating future demand.

MS. SIMONIS discusses the evolution of LS Power's funds, highlighting how they have adapted to changes in the power generation landscape. Mentions the strategic acquisition of renewables within mixed portfolios in earlier funds and the increasing prominence of renewables in Fund 4.

MR. KAPADI provides additional context, emphasizing the complexity of the power generation sector and the need for operational knowledge and experience to capitalize on opportunities. Discusses the fragmented nature of the market, regional variations in power generation technology, and the role of federal and state policies in driving changes. Addresses concerns about reliability and the challenge of transitioning away from coal while accommodating growing demand. Notes that existing capacity in the right markets will become more valuable over time due to tightening markets.

TRUSTEE RUBENSTEIN asks about LS Power's involvement in helping a state with issues, referring to recent extreme weather events.

MR. KAPADI mentions that LS Power had initiated a dialogue with officials in the Governor's office about attracting investment into the state's transmission system. Acknowledges the extreme weather event mentioned by Trustee Rubenstein.

MS. SIMONIS indicates agreement with the acknowledgment of the extreme weather event.

CEO MITCHELL provides additional context, mentioning the strain on the Cook Inlet Gas Supply System due to the extreme weather. Discusses potential solutions being considered by the state, including a grant and a geobond.

CHAIR SCHUTT AND TRUSTEE CRUM indicate participation in the discussion, with some remarks being inaudible.

TRUSTEE RUBENSTEIN comments on the urgency of addressing the state's issues and implies that it is currently part of someone's job responsibility.

TRUSTEE CRUM comments on a \$9 million grant from the Department of Energy for clean coal burning power plant and sequestration in Alaska. Mentions the significance of coal deposits in the state and potential energy solutions.

MR. KAPADI agrees with Trustee Crum's remarks, highlighting the different functions and values that various energy assets provide to the grid. Discusses the challenges faced by grid operators in managing different types of energy sources and the transition towards more expensive energy solutions due to factors like growing demand, policy changes, and inflation.

TRUSTEE RUBENSTEIN inquires about the political aspect of the Pacific Northwest being labeled as "planned" on a map.

MR. KAPADI clarifies that the labeled areas on the map represent data centers, not political designations. Discusses the increasing power demand due to various factors, including the rise of data centers. Mentions the importance of data centers to their hyper-scale customers, particularly in the context of AI. Notes the shift in focus of data center developers from prioritizing green power solutions to prioritizing reliable power solutions. Predicts the expansion of data center presence to other regions and states in the future.

MS. SIMONIS discusses the pragmatic approach to investments and grid support. Highlights the need for gas-powered generation to complement renewables and fill in gaps when renewable energy sources are unavailable. Mentions the evolving nature of generation, including the increasing use of batteries, microgrids, demand response, energy efficiency, and potential applications of vehicles to grid technology. Expresses openness to exploring various solutions to support grids and generate returns for investors.

TRUSTEE RUBENSTEIN encourages further questions.

CHAIR SCHUTT opens the floor for questions.

TRUSTEE MITCHELL asks about the company's stance on geothermal energy.

MS. SIMONIS mentions that geothermal energy is present in certain areas of the United States, such as California and Alaska, but the company has not acquired geothermal assets yet.

Expresses openness to exploring opportunities in geothermal energy if they align with the company's criteria, including price considerations.

TRUSTEE MITCHELL shares personal interest in geothermal energy due to its long-lived and relatively fixed-cost production of energy. Discusses challenges in Alaska related to the distance of geothermal energy sources from areas of need and the associated transmission issues.

MR. KAPADI agrees that geothermal energy is part of the solution and acknowledges the difficulty in finding suitable opportunities due to its limited availability and lack of variability.

CHAIR SCHUTT requests clarification on the question posed by Trustee Crum regarding the number of funds the company has participated in.

TRUSTEE CRUM asks about the number of funds the company has participated in.

MR. KAPADI talks about the funds that they have partnered with Alaska Permanent and the battery storage projects that they have built and owned together, such as Vista and Gateway, which are the largest in the U.S. and the world respectively.

MS. SIMONIS confirms the name of the first battery storage project as Vista.

TRUSTEE RICHARDS comments on the length of the legal notice in the presentation and implies that he reads it carefully.

TRUSTEE RUBENSTEIN jokes that it is the former Attorney General who put the legal notice there and that nobody usually reads it.

CHAIR SCHUTT thanks Trustee Richards for his compliment to the compliance folks and allows Trustee Brune to ask a question.

TRUSTEE BRUNE: He says he usually skips over the legal notice and sees that Trustee Richards is reading every word. He thanks LS Power for their presentation and asks them why all of their battery storage investments are in California.

MS. SIMONIS explains why they have invested in battery storage in California, citing the high saturation of renewables, the attractive economics, and the different revenue streams.

MR. KAPADI adds that they have invested in battery storage in California because of the high demand and the price differential between peak and off-peak hours. He says they were early movers in the market and got the contracts from the state. He also says that they see potential for battery storage in other states, depending on the penetration of renewables and the policy incentives.

TRUSTEE BRUNE acknowledges their explanation and does not ask any further questions.

TRUSTEE CRUM mentions that Alaska has three significant battery storage sites as part of its grid project.

TRUSTEE BRUNE asks LS Power if there are better investment opportunities on the Canadian side of the border than the Washington-Oregon side of the border. He thanks them for their presentation.

MR. KAPADI says they do look at the Canadian side, but they have not transacted on anything yet. He says they are comfortable with the market and the regulatory environment there, but they have not found the right opportunity. He says they will hang around for a break and then head to the airport.

TRUSTEE RUBENSTEIN asks LS Power when they are leaving and invites them to the open house. He makes an inaudible remark.

MS. SIMONIS says Ross knows where to find them and they are happy to answer questions. She thanks the board.

CHAIR SCHUTT thanks LS Power for coming up and joining them. He says they are at break time and they will come back at 3:35.

### **PRIVATE INCOME PRESENTATION – H.I.G. WHITEHORSE (Board Education & Information)**

MS. LOESCH announces that they are on.

CHAIR SCHUTT says they are back on record and that they will have another private income presentation from H.I.G. Whitehorse. He welcomes them.

MR. RAHN introduces Pankaj Gupta and Asmat Doza from H.I.G. Capital and their roles in the direct lending business.

MR. GUPT thanks the board for having them and introduces himself as the President of the Whitehorse direct lending business. He says he will give a short overview of who they are and then focus on the non-sponsor or direct lending market. He invites questions and interruptions.

TRUSTEE CRUM: He interrupts Pankaj and makes an inaudible remark.

MR. DOZ, Managing Director at H.I.G. Capital, with 9 years at the firm and 20 years in private equity and private credits. H.I.G. Capital was founded in 1993 by Sami Mnaymneh and Tony Tamer, and has grown to \$60 billion of assets under management, with over 1,000 people and 500 professionals. Focuses on the middle market, defined as companies with sub \$1.5 billion of enterprise value, with a value orientation and free cash flow focus. Highlights the success of the private equity side, with 58 realizations over 8 times since 2021, emphasizing a gross MOIC of 6.2 times. Discusses the firm's private credit platform, segmented into performing on the base side and special situations, with a focus on the Whitehorse business.

MR. GUPT adds to Asmat's points, emphasizing the firm's exclusive focus on the middle market, with underlying EBITDAs of companies less than \$100 million per year. Stresses the disproportionate resourcing applied to middle market investments, with a team of 1,000 people across the organization, focusing on risk-adjusted returns. Discusses the strategy of middle market direct lending, highlighting attractive returns of 12-14% unlevered cash yields on directly

originated loans to companies. Emphasizes the firm's historical track record of downside protection, conservative lending, and strong financial structures in direct lending deals. Discussion on Market Segments, divides the market into large cap, middle market (sponsor-backed transactions), and non-sponsor market segments. Large cap market consists of sophisticated public companies with lower spreads and weaker documentation. Middle market includes sponsor-backed transactions with higher leverage and weaker protections for lenders. Non-sponsor market, the firm's core focus, involves founder-owned or entrepreneur-led companies, offering better risk-adjusted returns due to lower efficiency and competition. Characteristics of Non-Sponsor Market - highly fragmented and disparate market requiring a significant platform for deal origination, underwriting, and portfolio management. Origination involves a nationwide network to access companies directly through entrepreneurs, founders, or local advisors. Underwriting requires primary diligence similar to that of private equity buyers, involving extensive on-site visits and thorough analysis. Processes can take two to ten months, but result in better risk-adjusted returns due to the inefficiency of the market.

TRUSTEE RICHARDS asks why smaller businesses seeking around \$10 million in financing don't just go to local banks instead of seeking funding from entities like theirs.

MR. GUPT clarifies that while \$10 million represents the lower end of their target cash flow range (EBITDA), their average leverage multiple of 3.6 times would translate to a \$36 million financing, which is still relatively small. Explains that changes stemming from Dodd-Frank legislation have increased capital charges for banks, making it less profitable for them to serve this market segment. Mentions that regional banks, historically relied upon by smaller businesses for financing, have faced challenges in recent years, particularly due to interest rate fluctuations. Notes that while banks excel at providing asset-based facilities and financing with lower leverage multiples, they tend to be less competitive for larger financing needs beyond those thresholds. Offers appreciation for the question and expresses gratitude for the opportunity to provide clarification.

TRUSTEE RICHARDS thanks Philip for his response.

MR. GUPT discusses the role of portfolio management in their investments, emphasizing their role as institutional capital partners for the companies they invest in. Explains that despite not taking board seats or ownership of the businesses, they assist with strategy setting, direction, and growth initiatives. Highlights their assistance in growth-related activities such as sourcing M&A targets and optimizing cost structures by leveraging the purchasing power of their portfolio companies. Mentions their involvement in addressing issues or challenges that may arise, including providing additional capital, adjusting strategy, or even facilitating changes in management if necessary. Emphasizes the importance of strong financial covenant protections in their documentation to mitigate risks and protect their investments. Contrasts their approach with that of private equity sponsor-backed transactions, noting that while the latter may be more efficient, their approach offers a better risk-adjusted return profile. Compares leverage profiles and loan-to-value ratios between sponsor-backed and non-sponsor transactions, highlighting their conservative lending practices with lower leverage multiples and higher equity cushions. Philip concludes by providing insights into the characteristics and risk profiles of sponsor and non-sponsor transactions, underscoring their commitment to conservative lending practices in the non-sponsor market.

TRUSTEE RUBENSTEIN asks if the company is sector-agnostic.

MR. GUPT confirms that they are sector-agnostic but focuses on companies with specific characteristics such as high margins, recurring revenues or cash flows, and low capital intensity.

TRUSTEE RUBENSTEIN raises the issue of government programs, particularly USDA loans, offering favorable terms compared to private financing options.

MR. GUPT acknowledges that government programs like USDA loans can indeed offer exceptional terms, especially during specific periods like the COVID-19 pandemic. Emphasizes that borrowers should always take advantage of such government financing programs if available. Points out that while government programs may offer excellent terms, they may not be readily accessible to the majority of middle-market companies.

TRUSTEE RUBENSTEIN inquires if the company has observed better terms in certain sectors compared to government programs.

MR. GUPT confirms that they have indeed seen better terms in certain sectors, highlighting the differences in spreads between private equity sponsor-backed deals and non-sponsored deals. Explains how tighter covenants in non-sponsored deals allow for better risk management and potential for higher returns. Describes their approach to deal origination, underwriting, and portfolio management, emphasizing the extensive network and resources they utilize.

TRUSTEE MITCHELL asks if the company has a presence in Alaska.

TRUSTEE RICHARDS agrees with something that was said before.

MR. GUPT says they do not have someone in Alaska, but they have invested in a portfolio company there that was a nice performing deal for them. He says they would welcome opportunities in Alaska if they existed. He says they are focused on avoiding cyclical industries and they do not do much in retail, restaurants, construction, or consumer sectors.

CEO MITCHELL says Alaska is a small market and implies that there are not many opportunities there.

TRUSTEE RUBENSTEIN says there is not a ton of consumer lending in the industry and that she is a consumer investor. She says there are not many people who will lend to consumer-facing businesses.

TRUSTEE RUBENSTEIN says that consumer brands are a huge opportunity for Pankaj and his firm. She says that she is a food investor and that food is not very cyclical. She says that Pankaj only has one competitor, Al Catterton who took a GP stake in a consumer brand fund and decided to exit the market. She says that being a lender is different than being on the equity side. She makes an inaudible remark. She says that she would welcome Pankaj's expertise in her sector and that there is nobody that can help her.

MR. GUPT says that certain subsegments of consumer are attractive, such as food. He says that food is good and stable. He says that consumer brands are trickier and more cyclical. He agrees

that being a lender is different than being on the equity side. He says that as a lender, all he thinks about is how to not lose money. He says that he avoids certain sectors because of that. He says that he will take Trustee Rubenstein's offer into consideration and that he appreciates it. He says that he focuses on companies that have high cash flow conversion, high margins, low capex, and are kind of like business services or technology-oriented businesses.

TRUSTEE RUBENSTEIN asks Pankaj about their involvement in the energy sector.

MR. GUPT says they have done less in energy because of the volatility and the lack of upside as a lender. He says they avoid companies with concentrations or binary outcomes and they put less leverage and tight documents on their deals. He says he will skip over a page in the presentation and he introduces his team and the investment committee. He mentions the founders, the president, the global head of credit, and himself as part of the committee.

TRUSTEE RUBENSTEIN asks Pankaj if they are headquartered in Miami and why they chose that location. She makes an inaudible remark and says that she wants a Miami office.

MR. GUPT says they have always been headquartered in Miami since 1993, before it became popular. He explains that the founders, Sami and Tony, wanted to focus on the middle market opportunity and avoid the competition in the Northeast. He says they considered the Carolinas, Charlotte, or Miami and picked Miami to find and look for different deals. He makes an inaudible remark.

TRUSTEE RUBENSTEIN asks Pankaj and Asmat about their Miami office and compliments them on their staff size.

MR. DOZ confirms that their Miami office is full and that they have about 250 people there.

MR. GUPT says he will show them the last two pages of their presentation and explains what they illustrate. He says they measure risk by comparing their portfolio to the levered loan index [https://www.investopedia.com/terms/d/debt\\_edbitda.asp](https://www.investopedia.com/terms/d/debt_edbitda.asp) and shows that their deals have lower leverage, lower risk, and higher returns than the market average. He says they have been able to achieve better risk-adjusted returns in the non-sponsor market and that he is ready for more questions.

CHAIR SCHUTT asks if there are any questions from the board.

TRUSTEE RUBENSTEIN compliments Pankaj and Asmat on their presentation and asks them where they came from. She thanks them again and makes some inaudible remarks. She asks how many people are coming to the open house and says they have no idea. She jokes that they got one person to come and makes another inaudible remark. She asks if they have ever had an open house before.

MR. GUPT thanks the board for their time and support and says they appreciate it. He says they are based in New York and came in late last night. He thanks them again and makes an inaudible remark.

MR. DOZ says they wish they could go to Miami more and thanks the board.

CHAIR SCHUTT thanks Pankaj and Asmat and makes an inaudible remark. He says they have a public event coming up and they will push Trustee Paper Number 10 to the next morning. He says they will recess for the day and asks the Trustees to pack up their personal stuff and leave them with Jennifer. He says maybe to the question of how many people are coming and confirms the time for the next meeting.

CEO MITCHELL says Alaska is a small market and makes an inaudible remark. He says one million people are coming to the open house and that it is an open house. He says he heard that they got one person to come and makes another inaudible remark.

## **RECESS**

(APFC Board of Trustees meeting on recess at 5:00 p.m.)

(APFC Board of Trustees meeting reconvenes on February 16, 2024 at 8:30 a.m.)

## **PROCEEDINGS**

### **TRUSTEE PAPER #10 (Action)**

MS. LOESCH says they are on the record.

CHAIR SCHUTT welcomes everyone and says they are reconvening for the second day of their quarterly meeting. He says they will start with Trustee Paper Number 10 that they postponed from yesterday.

TRUSTEE RICHARDS asks Jennifer if she has the handouts he gave her and says he has some thoughts on how to proceed with the project.

CEO MITCHELL says everyone has the handouts in front of them and describes what they are. He says they are about the earnings reserve account structure, the Permanent Fund structure, the 2020 resolution, and the Callan modeling. He says he is looking at the PowerPoint handouts and explains the issue they are facing. He says the realized earnings of the earnings reserve account are very low and they need to consider their options.

TRUSTEE RICHARDS asks CEO MITCHELL about page 4 of the slides and how they are funding the POMV transfer.

CEO MITCHELL says he is giving a general overview of the issue of the earnings reserve account structure and the potential deficiency of the POMV transfer. He explains the details of the slides, the historical trends of the earnings reserve account, the legislative actions, and the projections for the future. He says the POMV transfer is forward funding and depends on the current year revenue. He confirms that they look at the end and the beginning of the fiscal year.

TRUSTEE RICHARDS notes that currently they commit for the current fiscal year and the legislature funds for the next year as well.

CEO MITCHELL confirms, mentioning their commitments on the balance sheet.

TRUSTEE RICHARDS remarks on the potential future scenario where they can only commit for the current year and then even that might not be possible, leading to cash calls surpassing current year income generation.

TRUSTEE RUBENSTEIN asks about the possibility of leveraging total return and borrowing against the Fund to make distributions.

CEO MITCHELL explains that current state law separates the Fund into unspendable principle and spendable earnings reserve, with only realized earnings being spendable.

TRUSTEE RUBENSTEIN inquires about changing this aspect of the law.

TRUSTEE RICHARDS mentions that the Paper advocates for such changes.

CHAIR SCHUTT acknowledges the importance of the discussion.

CEO MITCHELL confirms the focus of the conversation.

TRUSTEE RUBENSTEIN suggests that they could maintain the two-account structure and borrow to make payments, proposing a constitutional amendment or statutory change.

CHAIR SCHUTT remarks on the need for permission for such actions.

TRUSTEE RUBENSTEIN argues that changing the two-account structure alone won't solve the issue and questions why they can't use available financial tools.

CIO FRAMPTON points out the legal constraints against borrowing against the corpus to pay draws.

CHAIR SCHUTT agrees with the legal restrictions mentioned by CIO FRAMPTON.

TRUSTEE RUBENSTEIN questions why realization is necessary for assets to be sold to make payments.

CEO MITCHELL explains that the earnings reserve account only shifts money to the spendable column when there are realized gains from the assets. He says that this is the structure they are living within and that there could be changes to adjust it.

TRUSTEE RUBENSTEIN agrees and emphasizes the need for total return to determine spendable funds.

CEO MITCHELL says that there has been academic thought on this issue from Alaskans of prior generations and that they suggested a single account with a defined single structured draw. He says that this would solve the issue of inflation proofing and overdraw and take away the noise that they currently have. He loses his train of thought at one point and circles back to his main point.

TRUSTEE RUBENSTEIN encourages considering a single-account structure with a defined draw to simplify the process and eliminate complications.

MR. HARRIS asks about the assumptions behind the \$1.5 billion inflation proofing.

CEO MITCHELL explains that the inflation proofing for fiscal year 2024 is a flat amount based on legislative prerogative, but notes that the actual transfer should be \$2.4 billion according to a statutory formula.

MR. HARRIS expresses uncertainty about the accuracy of the inflation number used in the calculation and suggests that adjusting it could potentially address the \$170 million shortfall.

CEO MITCHELL suggests referring to Val for further details on the inflation number, agreeing that having a more accurate inflation proofing could impact the shortfall. He expresses concern about the challenge of consistently inflation-proofing the fund, highlighting the discretionary nature of the process and its potential impact on future generations.

MR. HARRIS raises questions about the accuracy of the inflation number used in the calculation and suggests that it might be higher than necessary.

MR. ALLEN explains the formula used for inflation-proofing and notes that it has been followed in most years, with occasional variations.

TRUSTEE RICHARDS suggests that the current inflation estimate might be lower than actual inflation, potentially leading to an underestimation of the inflation-proofing amount.

CEO MITCHELL points out that unrealized gains are not included in the inflation-proofing calculation, which means that only the principal fund balance is being adjusted for inflation.

MR. HARRIS expresses uncertainty about the situation and emphasizes the need to address the \$170 million shortfall.

CEO MITCHELL acknowledges the limitations of their discretion in making decisions about fund adjustments, highlighting the role of state laws and legislative appropriations.

TRUSTEE RUBENSTEIN inquires about the timeline for potential changes to the fund structure, asking if they would take effect next year.

CEO MITCHELL seeks clarification on what changes are being referred to and discusses the timeline for implementation if changes are approved.

TRUSTEE BRUNE asserts that the actions taken by the trustees will not lead to tangible outcomes, as any changes require legislative approval and public voting.

TRUSTEE RUBENSTEIN seeks clarification on the trustee's role in effecting changes, prompting further discussion on the need for legislative and public involvement in decision-making processes.

CEO MITCHELL confirms Trustee Brune's statement, emphasizing that the trustees' actions serve as recommendations rather than direct mechanisms for change.

TRUSTEE BRUNE indicates that any actions taken by the trustees will only serve to send a message about the need for change, rather than effecting immediate change. Acknowledges the complexity and long-term nature of addressing the issue and emphasizes the necessity for thorough consideration and public input, similar to the strategic planning process.

TRUSTEE RUBENSTEIN shares her perspective that the process of restructuring the Permanent Fund is daunting and will likely require considerable time and effort. Expresses a preference for extensive public consultation and underscores the complexity of making constitutional amendments to alter the fund's structure. Notes the limitations of the trustees' authority in effecting such changes.

CEO MITCHELL clarifies that the trustees do not possess the authority to directly alter the Permanent Fund's structure and emphasizes that any adjustments would require legislative and public involvement, including potential constitutional amendments.

TRUSTEE RUBENSTEIN inquires about the discussions with the legislature regarding the proposed concept and seeks to understand the feedback received.

CEO MITCHELL indicates that there is a range of opinions within the legislature regarding the protection of the Permanent Fund, with approximately 60 different perspectives. Mentions that discussions often include considerations about how the Permanent Fund dividend aligns with broader discussions. Acknowledges the complexity of navigating various viewpoints and reaching a consensus.

TRUSTEE RUBENSTEIN redirects the question to inquire about the stance of the Governor's office on the matter.

CEO MITCHELL expresses uncertainty about the specific views of the Governor's office regarding the issue, noting a general desire to protect the Permanent Fund and provide a statutory Permanent Fund dividend.

TRUSTEE CRUM shares experiences from finance committees where the two-account structure and its potential risks have been discussed extensively. Mentions the longstanding contemplation of this issue in Alaska and highlights recent concerns raised about the decline in the earnings reserve with a 5% POMV draw. Describes discussions about the need to protect against overspending and proposes transitioning from a two-account to a one-account structure while imposing limits on the draw to safeguard against the depletion of the principal. Mentions positive responses and nods from attendees during recent presentations on the topic.

CHAIR SCHUTT stresses the urgency of addressing the impending problem, emphasizing that waiting until it materializes leaves no time to fix it. Highlights the significance of both the Permanent Fund dividend and funding for state government, noting that failure to act would be a dereliction of responsibility.

TRUSTEE BRUNE acknowledges agreement with the points made by the chair but disagrees with the notion that not passing a Trustee Paper would constitute an abdication of educational responsibilities. Highlights previous efforts, including Trustee Papers and discussions with legislators, to address the issue, asserting that the matter is already well-known among policymakers. Argues that the Board's fiduciary duty is to maximize returns and that their past positions on the matter are already on record.

TRUSTEE RICHARDS asserts that the Board, through the Trustee Paper, offers unique insights into both the problem and potential solutions concerning the Permanent Fund. Emphasizes that while the concept of combining the two accounts for a constitutional amendment is understood, the paper also explores several other alternatives to address the issue. Highlights the importance of educating policymakers about these alternatives and the potential crisis, noting that the Board is best positioned to provide this information due to its extensive research and expertise.

TRUSTEE RUBENSTEIN expresses agreement with Trustee Richards and stresses the importance of engaging with the legislature and the public to gather feedback on the proposed solutions. Advocates for starting the process of collaboration and education, suggesting the implementation of mechanisms for receiving input from stakeholders. Emphasizes the complexity of the issue and the need for a thorough discussion and vetting of potential solutions.

CEO MITCHELL agrees with Trustee Rubenstein's suggestion to share Trustee Paper Number 10 for review, but notes that it would require posting the document for public access. Confirms the need for feedback from both the public and the legislature.

TRUSTEE RUBENSTEIN emphasizes the importance of obtaining feedback from the legislature during their session for legislative changes. Expresses frustration that no member of the legislature has commented on public feedback. Seeks clarification on how to obtain feedback from the legislature and suggests that it may require involvement from Mitchell, Paulyn, and Callan.

TRUSTEE BRUNE notes that the legislature provides feedback through their actions, such as choosing to put forward a bill or not.

CEO MITCHELL explains the importance of maintaining confidentiality in conversations with legislators to build rapport and find consensus points. Compares it to private equity discussions where divulging strategies could jeopardize future interactions. Emphasizes the difficulty of having a public forum outside the legislature for such dialogues.

TRUSTEE RUBENSTEIN supports uploading the three documents discussed to the public viewing platform for transparency. Expresses willingness to share Trustee Paper and its final version for public access.

TRUSTEE RICHARDS clarifies that only the final, current version of the Trustee Paper should be shared, not the drafts.

TRUSTEE RUBENSTEIN says she wants to go through the new handout and makes some inaudible remarks.

CEO MITCHELL says they can have Greg run through the handout quickly and that it was in response to board requests. He says they didn't have enough time to be thoughtful and that they are trying to reach a point of consensus.

TRUSTEE RICHARDS makes an inaudible remark and says he wants Greg to cover the next slide.

CHAIR SCHUTT agrees to have Callan go through the handout and says yes.

TRUSTEE RUBENSTEIN reminds the group that the Trustee Paper is referenced in the strategic plan, emphasizing the importance of education across various elements of the plan. Suggests incorporating the Trustee Paper into the public comment process and discussing it further in future board meetings, aligning with the strategic plan's timeline.

CEO MITCHELL begins to address the request to cover slide four, indicating readiness to proceed with the discussion.

TRUSTEE BRUNE requests specific attention to slide four, highlighting its significance for the ongoing discussion.

CEO MITCHELL explains the contents of slides three and four. Slide three provides detailed information on the inputs used in the previous slide, offering clarity for those who may have questions about specific figures and components such as inflation, diminished statutory net income, and transfers to principal. Slide four presents a walkthrough of the process described earlier, detailing the commitments on the 2024 balance sheet shown on the left-hand side. The distribution of the 2025 POMV amounting to 3.7 billion occurs during the current fiscal year, with inflation proofing transferred to principal at the end of one fiscal year and the commitment of the following fiscal year's POMV at the start of the next year. The total available funds amount to 5.2 billion, including the 2024 inflation proofing of 1.4 billion and the Alaska capital income fund. However, due to constraints, inflation proofing may not be feasible for the July 1 date, prompting consideration of alternative approaches.

TRUSTEE RUBENSTEIN seeks clarification on the discussion.

CEO MITCHELL explains that concerns about liquidity in the realized available balance in the ERA prompt the need for a "makeup clause" to address potential future fluctuations in fund balances due to market conditions.

TRUSTEE RICHARDS characterizes the situation as a triage exercise, emphasizing the need for strategic planning.

CEO MITCHELL acknowledges the need for a makeup clause and outlines potential scenarios that could impact fund balances.

TRUSTEE RUBENSTEIN inquires about whether similar explanations have been presented to the legislature.

CEO MITCHELL confirms plans to provide clear explanations to finance committees, aiming for a basic level of understanding rather than focusing solely on fund balances. He also explains how they determine the spendable and committed parts of the earnings reserve account and how they transfer money to the state.

CHAIR SCHUTT points out another problem of the legislature's responsibility and complexity of the budget and the laws. He says that the Trustee Paper is a valuable tool to articulate the problem and present the tools and the optimal solution. He says that they are not the ones to make the decision but they can see the problem more clearly. He warns that if the market takes a bad turn, they could face the problem in six months or sooner. He says that they are setting aside two fiscal years' worth of money and that the spendable portion could go down if the unrealized gains turn to losses.

TRUSTEE RUBENSTEIN says that the problem could happen in a year.

CEO MITCHELL explains the shortfall in commitments for the subsequent fiscal year due to the available funds on June 30 and the projected commitments on July 1. Discusses the potential impact of negative statutory net income scenarios and the need for proactive planning.

CIO FRAMPTON mentions scenarios of negative statutory net income and acknowledges their potential recurrence.

CEO MITCHELL expands on the potential consequences of negative earnings scenarios, highlighting the need for thoughtful planning rather than reactive measures during a crisis.

TRUSTEE RUBENSTEIN says she wants to have an April board meeting where they can get feedback from the legislature and the public before they vote on the Trustee Paper. She says she agrees that the information needs to be available to the people and that it is not fair to talk about something that they can't access. She says she appreciates TRUSTEE RICHARDS's way of saying it and that she wants feedback from their shareholders, which are the legislature, the Governor, the public, and the advisors.

CEO MITCHELL says they could do that and that April and May are the same for him. He says the legislature is focused on the budget in April. He confirms that they want feedback from their shareholders.

TRUSTEE CRUM says the budget is the main thing in April. He says he struggles with the idea of getting feedback from the public because he thinks that is what the legislative process is for. He says he has struggled with thinking about the paper and that he rethought it after hearing Trustee Richards' articulation. He says there are other options in the paper besides the constitutional amendment, which he thinks is the best solution.

TRUSTEE RICHARDS says the important thing is to get the information available to the people and that he wants to follow a process where they put the draft paper out, solicit comments and education, and maybe adjust the paper based on the feedback. He says that is not what he would do but it is better than not putting the paper out there. He says the paper needs to get out there. He says the paper is more of a solution for the legislature in a complex problem.

TRUSTEE RUBENSTEIN expresses appreciation for the public comment tool and emphasizes the importance of receiving feedback from the public. Draws parallels between the Trustee Paper and the strategic plan, highlighting the need for both to be updated and relevant. Indicates the significance of completing the Trustee Paper within the next four years.

TRUSTEE CRUM points out the distinction between the Trustee Paper and the strategic plan, viewing the former as a more immediate and necessary task. Expresses skepticism about the public's ability to comprehend the complexities of the Trustee Paper and suggests that feedback from the legislature and the public should come after presenting the menu of options.

TRUSTEE RUBENSTEIN says she found the comments extremely helpful and that they all said they didn't understand the word leverage. She says she wants to hear from the legislature and the public on the options for the Permanent Fund. She says this is a constitutional amendment and that many people feel passionate about it.

TRUSTEE RICHARDS says he wants to hear from Greg and asks the Chair if that's okay.

CHAIR SCHUTT says yes and asks if there are any questions or comments on the board slides. He says they will have Trustee Anderson's question and then move to Greg.

TRUSTEE ANDERSON says he has one question and asks about the difference between the realized and unrealized balance of the earnings reserve account.

CEO MITCHELL says the difference is the unrealized gains in the portfolio that have not been realized and transferred to the statutory income. He says he thinks Marc can explain more.

CIO FRAMPTON says they generally have unrealized gains in the portfolio that flow through the statutory net income at varying rates over time. He says they have been realizing an extraordinarily low rate on that because so much is in privates.

TRUSTEE ANDERSON confirms understanding and readiness to proceed.

CIO FRAMPTON explains the concept of unrealized gains and their contribution to the growth of assets over time. Responds to Trustee Anderson's query regarding the inclusion of unrealized gains in the depicted balance.

CEO MITCHELL agrees with Frampton's explanation, noting that if unrealized gains were included, the total balance would be significantly higher. Mentions the allocation of unrealized gains within the total balance.

CIO FRAMPTON provides an overview of the potential unrealized gains in the portfolio and how they contribute to the overall financial picture. Discusses the historical rate of realizing gains and its impact on statutory net income projections.

TRUSTEE ANDERSON inquires about strategies for realizing potential deficits in the context of the discussed financial projections.

CEO MITCHELL clarifies that strategizing to realize gains is not within their mandate and would not align with their statutory framework.

CHAIR SCHUTT raises concerns about the temptation to artificially realize gains, emphasizing the potential negative impact on returns. He talks about the difficulty of finding a way out of the problem of the earnings reserve account structure and the potential deficiency of the POMV transfer. He says that they see the problem more clearly than others and that it is their job to present the menu of solutions to the policymakers. He says that putting out the public comment is not enough and that they need to adopt an official position as a body. He says he wants to give the policymakers as many tools as possible and that they don't have to see the path, that's their job. He says that some of the statutory changes could buy them some time, but none of them are available today. He says that if everything came really fast, they would be in trouble, maybe by July 1. He asks if there are any questions or comments on the board slides. He says they will have Trustee Anderson's question and then move to Greg. He tells Trustee Richards to go ahead.

CEO MITCHELL answers Trustee Anderson's question and says that there are around 14 billion of unrealized gains in the portfolio. He refers to slide 151 of the packet and says that total return outperformed realized return in most of the years. He says that they are building up a war chest of unrealized gains because of the slowed exits and that they can't predict when they will break free. He says that for now, it is an issue that is before them as a state and that it goes beyond this board for consideration.

TRUSTEE ANDERSON thanks CEO Mitchell for his answer.

TRUSTEE RICHARDS: He says he wants to hear from Greg and asks the Chair if that's okay. He says he will make a good transition statement and that that's why they asked Greg to model this.

MR. ALLEN makes a comment about the unrealized gains in the portfolio and says that most of them are in private markets, which are hard to unlock without taking a loss. He says that the move to private markets gives a higher return but aggravates the accounting structure of the two account model. He says that Alaskans would prefer to get rid of the accounting construct and have a higher return. He then explains what he did to model the one account structure and how it compares to the base case. He says that he used the same scenarios and assumptions for both cases, except that he removed the limit on spending by the ERA. He says that he looked at the distribution, the market value, and the statutory net income as the financial variables. He shows a slide of the range of outcomes for the distribution and says that there is a low chance of running out of money in the next few years, but a higher chance in the later years. He says that a zero distribution could happen if there is nothing in the ERA and a negative year. He wonders if it is possible to have a negative ERA balance.

CEO MITCHELL makes an inaudible remark.

TRUSTEE CRUM asks Greg about the minimum and maximum payouts, the POMV, and the inflation proofing. He points out that the legislature has not followed the inflation proofing rule in the past, and that Greg's model does not account for that.

MR. ALLEN presents a range of outcomes for the fund's performance, based on probabilities

and percentiles. He says he is the most optimistic of the three methods, and that his model prioritizes the payout over the inflation proofing. He admits that he is being a little bit unrealistic, and that the legislature might not take the last billion out of the ERA if there is a shortfall.

TRUSTEE RICHARDS interrupts Greg to clarify that his model is the most optimistic of the three methods, and that the paper looks at different ways to model the fund's performance.

TRUSTEE RUBENSTEIN comments that Greg's model is not doomsday, implying that it is too optimistic or rosy.

CEO MITCHELL agrees with Trustee Rubenstein that Greg's model is doomsday, and gives an analogy of breaking a leg one out of 20 times.

CHAIR SCHUTT also agrees that Greg's model is doomsday, and repeats the word for emphasis. MR. ALLEN highlights a key point from the Trustee Paper regarding the impact of not inflation-proofing, which strengthens the ERA. Notes the significant reduction in ERA due to appropriations, leading to a smaller fund. Discusses the effect of switching off certain rules, eliminating negative scenarios and ensuring a payout even in bad markets. Emphasizes the difference between the current structure and a classic endowment, particularly regarding the presence of a financial "cliff." Stresses the importance of understanding and addressing this concept to protect the Permanent Fund for future generations. Acknowledges different perspectives on the issue, expressing a sense of urgency to address potential challenges ahead.

TRUSTEE RUBENSTEIN asks Greg about his experience with other endowments in a similar structure, and whether they still have the rule of only spending income. She also questions how they give out their 5% payout if they don't generate a lot of income.

MR. ALLEN explains that the structure of the fund is unique and not good, and that it is an artifact of the past. He says that most endowments have switched to a total return with a percentage of market value, which reduces volatility in spending and allows for more diversified investments. He also mentions that liquidity is another factor to consider.

MR. HARRIS makes an inaudible comment that is not captured by the transcript.

TRUSTEE RICHARDS agrees with Greg that the structure of the fund is not good, and adds that his model is the most optimistic of the three methods.

MR. ALLEN continues to explain how most endowments are able to generate enough payouts from their diversified investments, even if they don't have a lot of income. He also contrasts the accounting rule of only spending income with the spending rule of a percentage of market value, and how that affects the volatility and liquidity of the endowments.

TRUSTEE CRUM makes an inaudible comment that is not captured by the transcript.

TRUSTEE RUBENSTEIN asks Greg about the current situation of endowments that are heavily allocated to venture capital, and how they manage their payouts. She acknowledges Greg's answer with an "okay".

MR. HARRIS makes another inaudible comment that is not captured by the transcript.

MR. CENTER adds that typically, endowments adopt an asset allocation that will exceed their spend rate plus inflation over time, and that this is what preserves the corpus of the fund over time.

MR. HARRIS explains the previous method of smoothing and capping the payouts, and criticizes the current legislative rules that prevent the fund from paying out a small amount. He argues that the fund is not acting in a fiduciary way, and that the situation is not normal.

TRUSTEE RUBENSTEIN compliments Britt on his explanation and his skill.

TRUSTEE CRUM thanks Britt for his input and his clarity.

CHAIR SCHUTT agrees with Britt that the fund is not normal, and implies that it is problematic.

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TRUSTEE CRUM thanks Britt for his input and his clarity.

CHAIR SCHUTT agrees with Britt that the fund is not normal, and implies that it is problematic.

MR. ALLEN compares the outcomes of relaxing the ERA limit versus keeping the two account structure for the fund's performance over 10 years. He shows that relaxing the ERA limit would result in more predictable and higher payouts for the state, but also lower market values for the fund in the worst-case scenarios. He argues that the two account structure is too rigid and risky, and that the government would not be able to adjust to sudden drops in income. He also emphasizes the need to constitutionalize a sustainable spending rate that would protect the corpus of the fund and prevent irresponsible spending by the legislature.

TRUSTEE RICHARDS moves the motion to adopt the paper that MR. ALLEN presented, citing Trustee Crum's time constraint.

CHAIR SCHUTT accepts the motion and asks for a second and any further discussion.

**MOTION: A motion to adopt the Trustee Paper 10 that MR. ALLEN presented citing Trustee Crum's time constraint was made by TRUSTEE RICHARDS; seconded by TRUSTEE CRUM.**

TRUSTEE CRUM expresses his support for moving the paper forward and getting the options out to the public. He says he was convinced by Greg's comments in the House Finance Committee, and that he heard positive feedback from others. He also outlines the steps that the legislature and the public have to take to approve the paper. He thanks Britt for his remarks and agrees that the current situation is not normal.

CHAIR SCHUTT acknowledges Trustee Crum's comments with a "right" and a "thank you". He also gives the floor to Trustee Anderson.

TRUSTEE ANDERSON thanks Mr. Allen for his presentation and says he found the comparison part helpful. He suggests that the paper should include the modeling and the spending plan rule. He also asks Deven if there is a conflict between the paper's proposal and the strategic plan of reaching 100 billion in market value.

TRUSTEE RUBENSTEIN agrees with Trustee Anderson that the comparison part was missing from the paper.

TRUSTEE RUBENSTEIN agrees with CEO MITCHELL that there is no conflict between the paper's proposal and the strategic plan of reaching 100 billion in market value. He says that the proposal supports the strategic plan.

CEO MITCHELL explains that the goal of increasing the fund's value is harmonious with the structured draw that is a percentage of a historical balance. He says that this method reduces the volatility of the draws and ensures that they are smaller than the current fund balance. He says that this has been the fund's experience and that it is a strength of the historical look back.

TRUSTEE ANDERSON asks CEO MITCHELL if the proposal supports the strategic plan, and confirms his answer with a "yes" and an "okay".

MR. ALLEN makes another point that the two account structure is inconsistent with a total return investing approach, and that it could lead to selling unrealized gains or investing in low-yield bonds. He says that this would result in lower returns and worse investment behavior than a one account structure. He says that the two account structure is counter to getting to 100 billion.

CEO MITCHELL asks for a clarification of the motion on the floor, which is to adopt Trustee Paper Number 10, a paper that proposes to change the structure of the fund and its payouts. He says he agrees with the motion.

CHAIR SCHUTT confirms that the motion is to adopt the paper, and asks for a second and any further discussion. He also accepts Trustee Rubenstein's motion to amend the motion, and asks for a second and any discussion on the amendment.

TRUSTEE RUBENSTEIN says there were two different motions, one to adopt the paper and one to solicit public comment. She says she prefers the second one, and she makes a motion to amend the motion to include a draft revision of the paper and a legislative hearing on it. She says she struggles with the board being a policymaking board, and that she wants feedback from the public and the legislature before adopting the paper.

TRUSTEE RICHARDS says he moved to adopt the paper, and that he thinks the board is not telling anyone what to do, but just presenting the problem and some potential solutions. He says he agrees with Adam's statement, presumably referring to Trustee Crum.

TRUSTEE ANDERSON seconds Trustee Rubenstein's motion to amend the motion, and says he wants to discuss it further.

CHAIR SCHUTT accepts the motion and a second and asks for any further discussion.

**MOTION:** A motion to amend the motion that's on the floor which is to adopt the Trustee Paper 10 that MR. ALLEN presented citing Trustee Crum's time constraint was made by TRUSTEE RUBENSTEIN; seconded by TRUSTEE ANDERSON.

TRUSTEE RUBENSTEIN asks Britt Harris if he has ever spoken to legislatures before as an IAG member. Expresses doubt that the Permanent Fund or the retirement board have ever done so.

MR. HARRIS answers that he and his colleagues talk about the complex issues of the energy transition continually. Disagrees with Trustee Richards that the board's involvement in policy is unusual. Says that the unusual thing is the way the state is doing it.

CEO MITCHELL interjects briefly to confirm that the legislature has not heard from the IAG before.

TRUSTEE RICHARDS argues that the board needs to get the Trustee Paper out there as a clear and present danger. Claims that the board has historically been the intellectual leader and has weighed in on policy issues such as inflation proofing, PMOV, and combining the accounts.

CHAIR SCHUTT affirms that there is a motion on the table.

TRUSTEE BRUNE expresses his preference to speak for himself rather than have other trustees speak for him. He questions the board's statutory role and whether it should weigh in on policy. He praises Craig and Greg for their work on the Trustee Paper and says he wants to incorporate it into the Trustee Paper education. He thanks Representative Groh for being present and says that other legislators need to hear the paper as well. He says he is a fan of public input, but he doubts that it will help in this case, as the issue is too complicated and the legislators have been inactive for decades. He says the board is not a regulatory agency like DEC, and that its role is only to suggest and educate, not to take action.

TRUSTEE RUBENSTEIN agrees with Trustee Brune's praise for Craig and Greg with a "right". She asks Trustee Brune what he would suggest to handle complex issues, and how he did it at DEC. She also asks him about legislative input, implying that she thinks the board should seek feedback from the lawmakers.

TRUSTEE BRUNE argues that the legislature will give input by choosing to move forward a constitutional amendment or any of the other scenarios in the document. He says he does not see how they can give input on the scenarios, since they are not binding. He says he does not want to change the document based on public input, because he does not think it will make it better.

CHAIR SCHUTT says that if someone can come up with better information or ideas, then that would be great, but there will be a robust public process anyway. He explains the difference between the statutory fixes and the constitutional amendment, and how they require different

levels of approval. He says he does not support a public comment and review process at this point, because he sees it as a delay without value.

TRUSTEE RICHARDS agrees with Chair Schutt that the statutory fixes are correct.

TRUSTEE RUBENSTEIN asks Trustee Brune to speak more about his view on the board's role as fiduciary, not policymaker. She says she struggles with the paper, even though she understands it. She makes a motion to amend the original motion to include public comment and legislative feedback. She withdraws her motion after hearing the others' comments, but says she is not in favor of adopting the paper today. She votes yes on the amendment for public comment.

TRUSTEE BRUNE says he will speak more about his view on the main motion, not the amendment. He praises the paper and its authors, but says he does not see how public input will help or change the document. He says the paper is an educational piece, not an action item, unlike the strategic plan. He votes no on the amendment for public comment.

CEO MITCHELL says that if the original motion was approved, there would be a similar opportunity for public comment via the system used for the strategic plan. He says that there would be a potential avenue for public input in either scenario.

TRUSTEE CRUM asks Trustee Rubenstein if she withdrew her motion. He votes no on the amendment for public comment.

CHAIR SCHUTT accepts Trustee Rubenstein's motion to amend the motion, and asks for a second and any discussion on the amendment. He says he does not support the amendment, and sees it as a delay without value. He asks Trustee Rubenstein if she is withdrawing her motion, and says they will have to vote on it if not. He calls for a roll call vote on the amendment for public comment.

MS. LOESCH conducts the roll call vote on the amendment for public comment, and records the votes of each trustee.

TRUSTEE BRUNE: No.

TRUSTEE RUBENSTEIN: Yes.

TRUSTEE RICHARDS: No.

TRUSTEE ANDERSON: Yes.

TRUSTEE CRUM: No.

CHAIR SCHUTT: No

**MOTION:** A motion to amend the motion that's on the floor which is to adopt the Trustee Paper 10 that MR. ALLEN presented citing Trustee Crum's time constraint.

*The motion to amend FAILS.*

CHAIR SCHUTT announces that the amendment for public comment has failed, and invites discussion on the main motion to approve the Trustee Paper Number 10. He also asks if there is any objection to adding the Callan presentation as an addendum to the paper, and says they will consider them as one.

TRUSTEE CRUM asks if the Callan presentation can be added to the paper without an amendment, and says he finds it very helpful and succinct. He thanks the chair and expresses his support for the paper. He says he agrees with Britt and Greg's comments, and that the current structure of the corporation and the two accounts is not optimal for the fiduciary role and the investment strategy.

CEO MITCHELL says that the Callan presentation can be added as a simple addendum to the paper.

TRUSTEE BRUNE makes an inaudible comment that seems to indicate no objection to the addendum.

TRUSTEE RICHARDS says he has no objection to the addendum, and that he thinks the more data, the better.

CEO MITCHELL says that the Trustee Paper can be put out there for public comment, whether it is a draft or an adopted paper. He says that this would create a potential educational and dialogue stimulator for the general public, and that it would get the word out better.

TRUSTEE CRUM says that he likes the idea of a constitutional amendment going from a two account to a one account structure, along with a defined draw. He says that this would protect the fund, the Permanent Fund Court, and the dollars that are distributed for government services and dividends. He says that this is not a primary goal of a corporation, but it is important for the state of Alaska.

TRUSTEE ANDERSON asks Deven what the public process would look like if the paper moves forward. He agrees with Deven that it is essentially the same thing whether the paper is a draft or an adopted paper. He also agrees with Jason that he wants to hear the public's and the legislature's input on the paper, but he does not think that they should delay the release of the paper. He says that he hopes there is a comprehensive communication strategy that includes the public and the legislature, and that this is an opportunity to communicate with the people of Alaska what they are trying to do.

TRUSTEE BRUNE says that though he did not say it articulately, he also wants to hear the public's and the legislature's input on the paper. He apologizes to Trustee Anderson for calling him by his first name. He says that he thinks it would be a good thing to put the paper out there, but he does not think that they should delay the release of the paper based on getting the input.

MR. HARRIS says that it is really important to keep things in perspective, and that the issue of the fund is only one-fifth of a penny. He says that the fund is huge, and that 170 million is not a lot relative to the size of the fund. He says that they are spending a lot of time on something that is not a big deal.

CEO MITCHELL says that a crisis creates the impetus for change, and that the primary educational piece is to inform the public that they are facing a potential crisis that warrants the consideration of change. He also points out that Representative Groh is raising his hand, and asks how soon they can get the paper packaged up for public distribution.

TRUSTEE BRUNE says that the crisis has been seen for decades, but the legislature has chosen to ignore it. He praises Greg and Callan for their comments and work on the paper, and says he thinks the paper is fantastic. He says he struggles with what their role is, and that he believes they are not a policy making board, but a fiduciary for the fund. He says he is supportive of the paper, but nervous about the timing of the legislative session and the deadline for personal legislation. He votes yes on the main motion to adopt the paper with the Callan addendum.

CHAIR SCHUTT invites further debate or comment on the main motion, and says they are ready for the questions. He calls for a roll call vote on the main motion, and explains that an affirmative vote will be to adopt the paper with the Callan addendum. He votes yes on the main motion.

MS. LOESCH conducts the roll call vote on the main motion, and records the votes of each trustee.

TRUSTEE BRUNE: Yes.

TRUSTEE RUBENSTEIN: No.

TRUSTEE RICHARDS: Yes.

TRUSTEE ANDERSON: Yes.

TRUSTEE CRUM: Yes.

CHAIR SCHUTT: Yes.

TRUSTEE CRUM expresses his appreciation for the discussion and the advisors. He votes yes on the main motion.

MS. SWANSON says that they will work on getting the paper packaged up, and that they will need a little bit of time, probably within the next week.

**MOTION:** A roll call vote for the adoption of Trustee Paper Number 10 with Callan presentation from today as an addendum to that.

*Roll call votes on, the MOTION was APPROVED.*

CEO MITCHELL says that it will take some time before they can get the Trustee Paper out on their site, and that it will not happen today. He also says that there is no time pressure, and that they can put the paper out for public comment until the end of March. He also says that they do not decide what happens at Senate Finance, and that they have been invited to present again to both Senate and House Finance, with more focus on the earnings reserve account and the risks of the old structure. He also says that he has something to show them during the break.

TRUSTEE RUBENSTEIN asks how long the strategic plan was up for public comment, and suggests 30 days for the Trustee Paper. She also asks if they will go back to Senate Finance, and says okay to CEO MITCHELL's answer.

TRUSTEE BRUNE says that they got 21 days of public comment for the strategic plan, and recommends 45 days for the Trustee Paper. He also says that there is no time pressure, and agrees with Chair Schutt.

CHAIR SCHUTT says 45 days for the Trustee Paper, and says okay to Trustee Brune's suggestion. He also says that they have been going for a while, and proposes a 15-minute break before the Callan presentation.

#### **ANNUAL ASSET ALLOCATION STUDY (Information)**

MS. LOESCH announces that they are back on the record after the break.

CHAIR SCHUTT says that they have Callan to run through fund performance and annual asset allocation study. He agrees with MR. ALLEN that they will start with the asset allocation study. He calls for a roll call vote on the main motion to adopt the Trustee Paper with the Callan addendum.

MR. ALLEN states they will begin with the asset allocation study and estimates it will take 45 to 50 minutes. Outlines the presentation, detailing the process for generating 10-year forward-looking market estimates. He discusses equities, fixed income, and other asset classes, explaining that their projections represent passive index returns for public markets and median institutional expectations for private markets. Mentions variations in portfolio components like infrastructure and highlights the stability of their projections over time. Presents historical data on the S&P 500's trailing 10-year returns and discusses their current projection, noting factors like valuations. Shares charts illustrating valuation metrics and their equity market projections, including risk-return relationships for public and private equities, and emphasizes the expectation of higher returns for private equity over the next decade.

TRUSTEE RICHARDS asks Greg to clarify his capital market projections and how they relate to their portfolio. He says he is confused and wants to understand their blend of public equity. He also asks Greg if he thinks the current yield curve is here to stay, and says he hopes they can get yield in the future.

MR. ALLEN explains that his capital market projections are based on the same assumptions for all of his clients, but he adjusts them to reflect their mix of public equity. He also shows them the history of fixed income, and how it affects their expected returns. He says that current yield is a good indicator of bond returns, and that yields have risen in 2022 after a long decline. He also shows them some charts on dividend yields and yield curves, and says that the current yield curve is close to long-term equilibrium, but it can change due to current circumstances.

MR. CENTER asks Greg if he means that the inversion in the yield curve could have stayed, and agrees with Trustee Richards that they want to get yield.

MR. ALLEN says that his projection assumes that the current yield curve will stay high, but will go back to a normal shape. He shows them his fixed income numbers and the range of outcomes for fixed income and private income. He says that he uses benchmarks, not their actual portfolio, for his projections. He also shows them the highlights of 2024, and says that inflation is the same and public equities went up slightly. He goes back to a previous chart that MR. HARRIS wants to see more of.

TRUSTEE RICHARDS asks MR. ALLEN if he thinks the current yield curve is here to stay, and suggests the word "normalize" for the opposite of invert.

MR. HARRIS asks MR. ALLEN to spend more time on a chart that shows the range of outcomes for fixed income and private income. He says they went through it pretty quickly.

MR. HARRIS seeks information on the returns of U.S. markets relative to international and emerging markets, as well as insights into risk premiums and sharp ratios.

MR. ALLEN provides details on equity market returns, highlighting that developed markets outside the U.S. are similar to large-cap U.S., while emerging markets offer slightly higher returns. Mentions that small-cap U.S. may currently have a higher premium. Discusses the decrease in risk premium over bonds and its impact on portfolio risk.

MR. HARRIS inquires about the difference in returns between private equity and public equity.

MR. ALLEN provides the returns for private equity and Alaska public equity, noting a premium of 100 basis points for private equity. Mentions the decrease in this premium compared to five years ago. Continues by sharing returns for real estate, hedge funds, infrastructure, private credit, and absolute return.

MR. HARRIS acknowledges the information provided and expresses gratitude.

MR. ALLEN presents a chart showing the different investment buckets of the Permanent Fund along with their expected risk and return. Highlights that the total fund expected return is now 7.6%, which is above 5% real for the first time in a long while, indicating positive news. Compares last year's expectations to the current year's across various asset classes, noting improved outlooks due to rising yields. Discusses a chart demonstrating risk and return arrayed on the same chart, showing the higher Sharpe ratio of the Alaska Permanent Fund portfolio due to diversification. Shares a chart depicting the historical changes in portfolio compositions needed to achieve a 5% real return. Talks about projections for a 60-30-10 equity, fixed income, real estate mix, comparing projected outcomes to actual outcomes in subsequent years. Acknowledges the challenges in forecasting accurately after significant market changes.

MR. HARRIS comments on the difficulty in forecasting accurately after market changes, emphasizing a key point on the chart presented by MR. ALLEN.

MR. ALLEN continues by overlaying the 2024 policy mix on top of the capital market projections and compares it to the 2023 mix, noting slight adjustments made, particularly in private equity, public equity, and real estate.

CIO FRAMPTON confirms the adjustments and explains the rationale behind them.

MR. ALLEN discusses tactical opportunities and presents the outlook for the fund, noting a projected return of 7.6% with reduced risk compared to the previous year. Mentions the probability of exceeding the payout, emphasizing that it's the first time it's above 50% based on their expectations. Shares a comparative chart showing the Permanent Fund's asset allocation against the range of asset allocations for public funds, highlighting differences in exposure to public equity, public fixed income, and private markets. Introduces a new concept of "growth assets" and calculates the Permanent Fund's exposure to such assets, noting it's slightly below the

median of public funds. Considers feedback from the previous day's discussions regarding the growth-oriented nature of the infrastructure portfolio.

CIO FRAMPTON draws parallels between the growth asset concept and Yale Endowment's allocation strategy, highlighting similarities in approach. Suggests adjustments to the growth asset calculation to reflect the more aggressive allocation of infrastructure and real estate, aligning it with Yale Endowment's approach. Confirms that the hedge fund portfolio is not considered a growth asset.

TRUSTEE RUBENSTEIN expresses interest in the discussion.

MR. ALLEN explains the challenge in splitting the public equity between S&P and other indices due to the availability of underlying data. Mentions that while they can differentiate between U.S. and non-U.S. for public equity, the data for private markets, such as LBOs and venture capital, is less transparent. Notes that they often receive aggregated line items for private market investments without detailed breakdowns.

MR. HARRIS acknowledges the difficulty in obtaining transparent data for private market investments, understanding the limitations in differentiating between specific types of investments within private markets due to the lack of detailed information provided.

MR. ALLEN discusses the challenge of analyzing private market investments due to limited transparency compared to public markets.

MR. HARRIS points out that the S&P 500 has been a dominant performer in the market for the last 15 years, resulting in high annualized returns. Mentions that top endowments often have significant allocations to venture capital, contrasting with the Permanent Fund's allocation.

MR. ALLEN compares the Permanent Fund's allocation to private markets with that of endowments, noting that a majority of endowments have higher exposure to private markets.

CIO FRAMPTON raises questions about the size and scale of endowments, noting that very few endowments exceed \$30 billion.

TRUSTEE RUBENSTEIN mentions Baylor University's outperformance in the endowment sector despite its relatively smaller size compared to larger endowments. Discusses an article about Baylor's Chief Investment Officer (CIO) who achieved impressive results with potentially fewer private market investments.

MR. ALLEN explains that the Permanent Fund's expected risk is similar to that of a 65-35 portfolio, but it has higher expected returns due to diversification and exposure to private markets. Responds to Trustee Brune's question about the projected returns line flattening out, clarifying that the apparent slope is due to the scale of the graph.

TRUSTEE BRUNE poses a question based on Sebastian's thesis about the projected returns line flattening out over time.

CHAIR SCHUTT opens the floor for any further questions on asset allocation items before transitioning to discuss fund performance.

MR. CENTER acknowledges the time limit of 18 minutes for fund performance discussion.

**FUND PERFORMANCE OVERVIEW (Information)**

MR. CENTER begins by providing an overview of the market conditions during the fourth quarter, highlighting the volatility and subsequent rally in both equity and bond markets. Notes positive performance in public markets but mentions challenges in private markets such as real estate and private equity, which saw a pullback. Discusses GDP growth, job market stability, and concerns about inflation, which led to fluctuations in bond yields. Emphasizes the need to focus on the fund's performance due to time constraints. Moves on to discuss the Permanent Fund's asset allocation and total fund performance for the quarter, noting slight changes in allocations. Reports a return of just over 4% for the fund, trailing its custom benchmark by a little over 1%. Discusses various benchmark comparisons and stresses the importance of using benchmarks that reflect the Permanent Fund's investment strategy accurately.

TRUSTEE RICHARDS makes a brief comment about the color brown, which is presumably related to a visual aid or presentation.

MR. CENTER discusses the fund's performance over the last quarter and fiscal year, noting underperformance relative to benchmarks but highlighting outperformance compared to the CPI+5 benchmark over the long term. Emphasizes the fund's strong performance over various time periods, including the last three, five, and 20 years. Moves on to discuss performance drivers, focusing on attribution analysis for the last quarter and the last 12 months. Attributes underperformance primarily to the asset allocation effect, particularly due to slight overweighting in private equity and underweighting in public equity, and implementation issues within public equity and private equity asset classes. Plans to discuss these issues further during the presentation.

TRUSTEE RICHARDS requests Greg's comment on the manager effect in public equity.

MR. CENTER acknowledges the request and indicates they will address it later in the presentation.

TRUSTEE RUBENSTEIN engages in a discussion with Ryan about the balance between asset allocation and manager selection in driving performance. Mentions last year's asset allocation adjustments and their impact on performance.

CIO FRAMPTON explains the rationale behind last year's bearish stance on private equity and the subsequent adjustments to target allocation. Discusses the relationship between target allocation changes and performance outcomes.

MR. CENTER agrees with Marcus's explanation and emphasizes the role of target allocation adjustments in shaping performance outcomes.

MR. ALLEN comments on the impact of asset allocation adjustments on performance across various clients. Mentions that changes in asset allocation tend to have a smaller effect and are less common, with most clients not attempting tactical changes annually.

TRUSTEE RUBENSTEIN asks about the frequency of asset allocation changes among clients and how changes affect performance. Receives clarification that changes are more commonly made every three to five years and discusses the challenges of rebalancing due to market fluctuations, particularly in private markets.

MR. CENTER provides an example of the impact of market fluctuations on asset allocation, citing the current situation with real estate funds facing large redemption queues due to institutional investors being overweight in real assets. Discusses performance comparisons of the Permanent Fund relative to other large public funds, endowments, and foundations. Highlights the lower allocation to public equities compared to other public funds, resulting in a lower percentile rank over the last year. Emphasizes that despite short-term fluctuations, the Permanent Fund's asset allocation decision is deemed correct and prudent, leading to above-median performance relative to peers over longer time horizons.

MR. HARRIS acknowledges the significance of the Permanent Fund's top 15% ranking over the 10-year period among all funds and encourages highlighting this point when communicating performance to the public.

TRUSTEE RICHARDS expresses uncertainty about how to interpret performance comparisons and asks whether the 10-year or five-year period is most commonly considered.

MR. CENTER emphasizes the importance of considering longer time frames, such as seven to ten years, when evaluating performance to account for market cycles. Highlights the tendency of investors to focus on shorter time frames like three years, which may not provide a comprehensive assessment of performance. Discusses how different entities use varying time frames for evaluation, with the ARM Board favoring a six-year period. Mentions the difficulty of interpreting 20-year data due to the Permanent Fund's evolving structure over time.

MR. HARRIS remarks on the challenges of enduring poor performance over a three-year period and agrees on the importance of considering longer-term perspectives.

TRUSTEE RICHARDS acknowledges the presence of the audience and the need to manage time effectively.

TRUSTEE CRUM jokingly remarks about still being present.

MR. ALLEN suggests moving on to discussing equities due to time constraints.

MR. CENTER discusses the performance of the total equity portfolio, noting a lag behind the MSCI ACWI-IMI benchmark primarily driven by underperformance within the U.S. equity portfolio. Attributes the underperformance to factors like a bias towards small capitalization, value, yield, and low volatility factors, along with challenges in active management. Highlights the outperformance of the portfolio over longer time periods. Inquires about the tracking target for the fund.

MR. RAZZAQUE responds to the inquiry about tracking error, stating it ranges from 2.5% to 2.7% in recent years, below the budgeted 4%. Attributes U.S. equity underperformance to a narrow market dominated by a few large-cap growth stocks, making broad diversification less effective.

MR. HARRIS comments on the unusual nature of the tracking error compared to the underperformance and discusses the challenging environment for active management, where fewer stocks beat the S&P 500 compared to typical years.

CIO FRAMPTON comments on the challenging year for the equity portfolio, acknowledging a tough environment and the global nature of the portfolio. Highlights the relative performance against peers and benchmarks, noting strong performance over three and five-year periods despite short-term underperformance. Expresses appreciation for Fawad's outstanding performance in managing the portfolio.

TRUSTEE RUBENSTEIN points out the significant contribution of public equity to the fund's overall outcome, noting its prominence as an outcome driver. Discusses the volatility of public equity and its impact on the fund's performance. Remarks on the striking influence of public equity compared to private markets, highlighting its dominance despite discussions often focusing on private markets.

MR. ALLEN agrees with the observation on the significance of public equity as a driver of returns, emphasizing its role in investment portfolios. Notes the challenge of diversifying away from public equity due to its influential nature in driving returns.

TRUSTEE RICHARDS makes an inaudible comment.

CIO FRAMPTON reflects on the expected tracking error in private equity compared to public equity, noting the dominance of equities, both private and public, in influencing the fund's performance.

MR. RAZZAQUE comments on the managing effect for public equities, highlighting that the net performance of external managers was positive in 2023 after accounting for fees. Attributes the underperformance to allocation effects rather than manager performance, noting that value and growth managers beat their respective benchmarks.

MR. CENTER acknowledges time constraints and suggests addressing any further questions individually.

CHAIR SCHUTT indicates readiness to move on, recognizing the time constraints.

TRUSTEE BRUNE raises a question about generating cash within the endowment to avoid large-scale sales, particularly in light of the recent \$600 million sale. Considers asset allocation adjustments to facilitate cash generation to meet legislative draw requirements.

CIO FRAMPTON agrees to further discuss the issue in May, emphasizing the potential role of real estate in generating cash due to its yield and inflation-resistant nature.

MR. ALLEN offers insights into the challenges of generating sufficient yield from the portfolio to meet draw requirements without significant sales. Mentions other factors like private equity distributions and rebalancing that may contribute to cash availability, suggesting strategic selling of overweight asset classes as a means of generating cash.

TRUSTEE BRUNE raises concern about the frequency and scale of quarterly sales, noting that a \$600 million sale seems significant, which, when annualized, amounts to \$2.5 billion. Considers the potential impact of having large sums of cash on hand or investing in gold as alternatives.

MR. ALLEN responds by highlighting the drawbacks of keeping large sums in cash, emphasizing the importance of generating returns on investment. Acknowledges the sporadic nature of cash calls but suggests that constant communication with revenue sources helps manage the process.

CHAIR SCHUTT agrees to address the cash management issue in detail at the next meeting for a more thorough discussion and decision-making process. Wraps up the current discussion and moves on to the next agenda item.

TRUSTEE RUBENSTEIN indicates interest in discussing asset allocation further.

TRUSTEE RICHARDS agrees with the decision to discuss asset allocation in more detail.

#### **FIDUCIARY TRAINING (Board Education & Information)**

CHAIR SCHUTT initiates the session by acknowledging the previous robust discussion and the trustees' dedication to their fiduciary duty. Explains the purpose of the fiduciary training session, highlighting Trustee Richards' suggestion to make trustee education an annual event for continuous refreshment. Introduces Chris Poag to lead the session.

MR. POAG provides background information on the purpose of the training session, emphasizing the importance of ongoing education for trustees. Mentions that Rich Ashley has previously presented to the board and has been invited back to focus on the differentiation between decisions made directly by the board and those delegated to others. Acknowledges Rich Ashley's expertise in fiduciary duty and advises trustees to direct tough questions to him.

CHAIR SCHUTT welcomes Rich Ashley and hands over the floor to him to begin the training session on fiduciary duties.

MR. ASHLEY: Begins by expressing gratitude for the introduction and outlines the agenda for the training session. He emphasizes the importance of understanding fiduciary duties and mentions that the session will cover basic Permanent Fund obligations, statutory duties and obligations of Trustees, fiduciary duties such as the duty to monitor, compliance with fiduciary duties, obligations under the Ethics Act, conflicts, avoiding conflicts, and a roadmap to overall fiduciary compliance. He delves into the basics of the Permanent Fund's obligations, highlighting that it is established by the Constitution and statute for the state of Alaska. The purpose of the fund is outlined, emphasizing the conservation of revenue from mineral resources to benefit all generations of Alaskans while maintaining the safety of the principle and maximizing total return. He explains that the fund serves as a savings device to allow the maximum use of

disposable income for purposes designated by law. MR. ASHLEY discusses the fiduciary obligations under the Fund, which are governed by the statute. He touches upon the purpose of the Fund, composition and qualification of board members, terms of office, practical and administrative provisions, and disclosures regarding conflicts of interest. He emphasizes the importance of disclosure and filing statements within 30 days after taking office to avoid fines and consequences associated with non-compliance. He defines a Trustee as a fiduciary, highlighting that fiduciary duties are the highest duties known to law. He draws parallels between the construct of trusteeship under state statute and the Employee Retirement Income Security Act (ERISA), which provides guidance on fiduciary duties. He discusses the statutory obligations of Trustees under the Uniform Prudent Investor Act, focusing on the standard of care, diversification, duty of loyalty, and the need to manage trust assets prudently considering various factors such as economic conditions, inflation, return, liquidity, and preservation or appreciation of capital. He emphasizes the importance of delegating investment and management functions while making reasonable efforts to verify facts and utilizing special skills and expertise.

TRUSTEE RICHARDS seeks clarification from the presenter regarding the differences, if any, between fiduciary duties under Alaska-specific statutes and common law or guidelines for fiduciary duties. He asks whether there are any unique aspects of Alaska's statute that would necessitate different actions compared to those serving on an ERISA type board.

MR. ASHLEY responds that the statutory framework for fiduciary duties in Alaska generally aligns with common law principles and ERISA guidelines. However, he notes that specific statutory language related to the operation of the Permanent Fund may influence trustee obligations. He explains that unlike ERISA fiduciaries who operate under the confines of ERISA and trust law, trustees of the Permanent Fund operate under state statutes, which inform their duties and limitations. He highlights that there may be particular considerations, such as investments in Alaska, that trustees need to take into account when making decisions about fund assets.

TRUSTEE RICHARDS expresses his thanks.

MR. ASHLEY continues the discussion by emphasizing the importance of prudence in fiduciary duties, drawing parallels between Alaska's statutory obligations and those outlined in ERISA. He explains that prudence entails exercising judgment and care in the delegation and management of large investments entrusted to the board. Ashley highlights the ongoing training and discussions about fiduciary obligations as part of fulfilling the duty of prudence. Regarding the duty of prudence outlined in the statute, Ashley points out the requirement to maintain reasonable diversification among investments unless it's clearly imprudent not to do so. He references a specific indicator in the statute that emphasizes investing in-state assets to the extent that they offer comparable risk and return levels compared to alternative investment opportunities. Ashley clarifies that while diversification is a crucial aspect of investment duties, it should be considered within the context of the overall investment policy. He notes that the board has the discretion to decide not to diversify if it's deemed prudent to do so, emphasizing the importance of aligning investment decisions with the Fund's overall mission and objectives.

MR. POAG informs the trustees that there is a bill (HB 303) that would change the prudent investor rule and the diversification standards for their fund, and that it would apply the ERISA language for both. He says that he and Rich are working on whether those changes would affect

their duties, and that he wants to bring it to their attention. He also says that the bill addresses proxy shares, and that it rewrites their prudence requirement and diversification, but he is not sure if the changes are meaningful. He apologizes to Rich for interrupting him.

TRUSTEE RICHARDS says that he does not see a lot of difference between the current and proposed rules, and implies that he does not think the changes are meaningful either.

TRUSTEE RUBENSTEIN asks when the bill came about, and makes an inaudible remark. She seems interested in the bill and its implications.

MR. ASHLEY emphasizes the importance of adhering to statutory guidelines in decision-making processes, suggesting that any potential changes in legislation could impact existing procedures and necessitate adjustments to ensure compliance. He continues discussing fiduciary duties, particularly the duty of loyalty, which mandates that trust assets must be managed solely in the interests of the beneficiaries. Ashley draws parallels with ERISA's exclusive benefit rule, underscoring the obligation to prioritize the beneficiaries' interests above all others.

TRUSTEE CRUM seeks clarification from the chair.

TRUSTEE RUBENSTEIN expresses intent to ask a quick question.

CHAIR SCHUTT responds affirmatively, indicating willingness to entertain questions.

TRUSTEE CRUM inquires about the identity of the beneficiaries.

MR. POAG offers clarification, stating that the beneficiaries encompass all Alaskans, both present and future generations. He reiterates the legislative mandate emphasizing intergenerational equity, safety of principal, maximizing returns, and ensuring liquidity for the ERA. Poag highlights the importance of Marcus's role in managing cash liquidity to meet the Fund's objectives while maintaining high returns.

TRUSTEE CRUM expresses gratitude for the explicit clarification.

MR. POAG affirms and acknowledges the importance of explicitly stating the beneficiary scope.

TRUSTEE RUBENSTEIN expresses confusion regarding the identification of beneficiaries, particularly in relation to the loyalty clause. She points out that public comments are considered, and the legislature, as part of the shareholder body, approves the budget.

MR. POAG seeks clarification on the specific aspect causing confusion.

TRUSTEE RUBENSTEIN clarifies her point, emphasizing the involvement of Alaskans in the decision-making process, including public comments and the legislature's approval of the budget.

MR. POAG acknowledges Trustee Rubenstein's perspective and redirects the focus to the essence of decision-making. He underscores the importance of prioritizing the best interests of the Fund above all other interests, including those of politicians or legislators. Poag metaphorically compares the process to parenting, where decisions are made considering what is

best for the long-term well-being of the Fund, akin to a parent making decisions in the best interest of their teenager. He emphasizes the need to set aside personal interests and solely focus on the Permanent Fund during board discussions.

TRUSTEE RUBENSTEIN indicates understanding of the personal aspect and the clarification provided by Poag.

TRUSTEE BRUNE raises a question regarding the beneficiaries' interests, specifically regarding the emphasis on financial returns versus preserving the Earth for future enjoyment. Mentions Juneau 350's concerns about climate change.

MR. POAG acknowledges Trustee Brune's question and offers his perspective. Emphasizes that the mandate primarily focuses on financial returns, balancing risk and return to ensure the Fund's profitability and preservation of principle. States that social considerations, such as climate change, are not explicitly included in the mandate. Notes that legislative changes could alter this mandate to include such considerations. Mentions that while investment staff may consider climate-related factors, it is primarily for maximizing returns rather than social or environmental purposes.

MR. ASHLEY agrees with Chris Poag's explanation.

TRUSTEE RICHARDS expresses frustration regarding the pause in the in-state investment program, emphasizing the fiduciary duty to invest in-state when it meets returns and slight risk. Believes the board should continue focusing on achieving this goal despite past challenges in meeting returns.

TRUSTEE RUBENSTEIN responds to Trustee Richards, stating that the in-state investment program didn't meet returns, which has been extensively discussed. Indicates that the board has evaluated alternatives to meet fiduciary obligations to invest in-state.

TRUSTEE BRUNE asserts that Marcus, Deven, and their teams have the authority to consider Alaskan opportunities without the need for a formal in-state program. Affirms that Alaskan investment opportunities are evaluated when presented. Mentions hearing from a manager who invested in a company.

CIO FRAMPTON offers further information about a manager who invested in a company.

TRUSTEE CRUM supports the notion that opportunities in Alaska are consistently evaluated, particularly in infrastructure investments. Agrees that fiduciary obligations can be met without the need for a dedicated fund structure and encourages exploring opportunities in Alaska.

TRUSTEE BRUNE mentions a scenario presented yesterday resembling an Alaska gas pipeline project, indicating the interest in potential Alaska investments. Differentiates between seeking in-state managers and attracting top-tier managers to invest in Alaska.

TRUSTEE RICHARDS emphasizes the fiduciary duty to invest in-state when returns and risks align, acknowledging historical challenges in fulfilling this duty. Advocates for continuous reconsideration of how to better meet fiduciary obligations despite past program faults.

TRUSTEE RUBENSTEIN recalls challenges with the previous in-state investment program, particularly regarding conflicts of interest due to Alaska's small size. Agrees with the importance of fiduciary duties but highlights practical challenges faced by the board.

MR. POAG acknowledges the importance of the debate and open dialogue regarding fiduciary obligations related to in-state investments. Highlights the need to balance statutory requirements with practical considerations, noting that opportunities for Alaska investments do exist and are continuously evaluated. Encourages ongoing discussion within the board to address these matters.

MR. ASHLEY discusses the duty of impartiality and the importance of making decisions in the best interest of all beneficiaries of the fund, considering the overall objectives and obligations outlined by statute. Emphasizes the need for trustees to operate prudently, gathering relevant facts, and documenting decisions. Explains the delegation of investment and management functions, highlighting the trustees' responsibility to select agents carefully, establish terms of trust, and monitor performance. Outlines the major decisions made by the board, including setting investment objectives, asset allocations, investment policy statements, and governance charters. Describes the role of the Executive Director in executing operational, administrative, and investment functions, with a focus on monitoring and providing periodic reports to the Board of Trustees. This comprehensive summary provides insights into the fiduciary duties of trustees and the operational structure of the fund, emphasizing accountability, prudence, and adherence to statutory obligations.

MR. POAG comments on the structure of board meetings, highlighting their dual function of decision-making and oversight. Notes that quarterly meetings serve as opportunities for trustees to make final decisions on matters such as asset allocation and investment policy, as well as to provide oversight by reviewing reports from consultants and managers, discussing vacancies, and evaluating the overall performance of the fund.

TRUSTEE RICHARDS raises a question regarding the delegation of selecting specific managers by comparing it to the practices of other trusts where boards are directly involved in the selection process.

MR. POAG responds affirmatively, stating that the delegation aligns with fiduciary duties as long as the right individuals are chosen to select managers. Mentions the existence of an investment policy outlining the process for selecting managers, highlighting the board's involvement in crafting this process. Suggests further examination of the investment policy during board meetings due to its significance in directing delegated decisions.

TRUSTEE CRUM highlights a distinction in the process of selecting new managers, mentioning that the ARM board interviews potential managers before making a decision.

TRUSTEE RUBENSTEIN seeks clarification on the process of interviewing new managers.

TRUSTEE CRUM explains that while it's not mandatory for new managers to be interviewed by the board, the ARM board still conducts interviews and votes on hiring decisions.

TRUSTEE RICHARDS expresses preference for the ARM board's system of interviewing and voting on new managers.

TRUSTEE CRUM acknowledges the preference but emphasizes the importance of reviewing the investment policy to ensure proper procedures are followed.

TRUSTEE RUBENSTEIN shares agreement with the sentiment, expressing reluctance towards the board's involvement in making investment mandates and decisions due to potential blurred lines.

MR. ASHLEY emphasizes the importance of setting a framework within which individuals operate, particularly in delegating responsibilities. Mentions the role of the investment policy in dictating this framework, ensuring decisions are made in the Fund's best interest. Provides examples of delegations related to interviewing potential managers and compliance with the investment policy.

MR. POAG highlights the existence of a compliance team tasked with ensuring adherence to the investment policy. Mentions regular meetings between the compliance team and Deven, indicating a thorough review process. Offers to provide more visibility into these processes if the board desires. Seeks clarification on any questions the board may have regarding delegation before proceeding with the discussion.

TRUSTEE RUBENSTEIN expresses appreciation for the thoroughness of the board decision document, highlighting its clarity in outlining the board's roles and responsibilities. Indicates surprise at not having seen it before and acknowledges the joint effort between Rich and Chris in creating it.

MR. ASHLEY comments on the significance of the discussion regarding trustee roles and delegations. Emphasizes the need for robust processes to ensure that delegations are carried out effectively and that information flows appropriately to the board. Highlights the importance of being informed about both positive and negative developments within the organization for timely decision-making. Prepares to transition the discussion towards the Ethics Act and Alaska statute, reminding trustees of their obligations regarding impartiality and conflict of interest avoidance.

TRUSTEE RICHARDS addresses the chair, likely indicating a desire to speak or ask a question.

MR. ASHLEY pauses his presentation and acknowledges that there is a technical issue with the slide deck. He says that they can continue without the slides, but then the slides are restored. He asks to move on to the next slide. He responds to Trustee Brune's question and explains the process for handling conflicts of interest among the trustees, including the role of the chair, the vote of the board, and the opinion of the Attorney General. He says that he understands the frustration of some trustees who have to abstain from voting due to conflicts of interest, and that the vote is meant to allow for a more fulsome discussion on such matters. He also says that they cannot overrule the Attorney General's opinion.

TRUSTEE BRUNE asks him a question about the declarations of conflicts of interest and voting procedures. He shares his experience of dealing with a trustee who had a financial interest and was not allowed to vote on an issue, and how that affected the outcome of the decision. He says

that he was perturbed by that situation and wants more training and input on that matter. He also compares the situation to that of legislators who are always allowed to vote even if they declare a conflict.

TRUSTEE BRUNE follows up on the issue of conflicts of interest and voting procedures, and asks Rich a specific question about the number of votes required to allow a person with a conflict to participate. He says that he does not think their bylaws anticipate such a situation, and that he is not suggesting to violate the Executive Branch Ethics Act. He clarifies his question and seeks an answer.

MR. ASHLEY answers Trustee Brune's question and says that it depends on the bylaws and the action to be taken. He says that if the bylaw requires four votes, then that is the number they need. He also says that if the bylaw were amended to say a majority, then they might be able to do something with three votes.

MR. POAG jumps in and provides some context for Trustee Brune's question. He explains the difference between the legislative conflicts rules and the Executive Branch Ethics Act, and how the latter applies to them as an organization. He says that they cannot waive the state law and that they could face civil penalties if they do not follow it. He acknowledges Trustee Brune's question and agrees to answer it.

TRUSTEE RICHARDS makes an inaudible remark and then clarifies that they can vote on whether there is a conflict of interest, but they cannot waive the conflict. He asks Trustee Brune if he understands that.

TRUSTEE BRUNE agrees with Trustee Richards and then asks MR. POAG a question about the number of votes required to allow a person with a conflict to participate. He also expresses his frustration with the situation, saying that they want people with financial expertise on the board, but they often have conflicts of interest because they own things that the fund also owns. He says that he gets that they could be precluded from voting if the conflict is over a certain amount. He agrees with Trustee Rubenstein's inaudible remark.

MR. POAG says that he is not sure if he can find the answer to Trustee Brune's question on the spot, but he explains the approach he uses with the Executive Branch Ethics Act, which is to ask the person with a conflict to get a declaration from the Attorney General. He says that this gives them immunity if there is no conflict, but obligates them to follow the law if there is a conflict. He says that this is their preferred process, because it avoids the risk of a violation and a public debate. He also says that he can go back to the Department of Law and ask if they can consider the conflicts as a board and figure out a different process, but that this has been inconsistent with their prior practice. He makes an inaudible remark. He agrees with Trustee Brune's statements about the people with financial expertise and the conflicts of interest they may have.

TRUSTEE RUBENSTEIN expresses discomfort with a recent process, highlighting a personal experience involving a family member's potential conflict of interest. Emphasizes personal adherence to ethical standards and strict separation between personal and professional finances. Raises concerns about the board's potential involvement in investment decisions and the implications for conflicts of interest. Stresses the importance of addressing perceived conflicts of interest and acknowledges the need for transparency in disclosure.

MR. POAG responds to Trustee Rubenstein's concerns by emphasizing the statutory requirements regarding board members' expertise and potential conflicts of interest. Clarifies the role of the Executive Branch Ethics Act in managing conflicts of interest and underscores the obligation to recuse board members when conflicts arise. Acknowledges Trustee Rubenstein's perspective while reiterating the importance of adherence to legal and ethical standards.

MR. POAG responds to Trustee Rubenstein's concerns by explaining the process followed in handling conflicts of interest and obtaining an ethics opinion. Acknowledges frustrations but emphasizes adherence to legal procedures and caution to avoid jeopardizing the board's integrity. Reiterates the significance of adhering to ethical standards and ensuring transparency in decision-making processes.

TRUSTEE RUBENSTEIN expresses frustration over a recent experience involving a conflict of interest and subsequent recusal from board decisions. Affirms adherence to ethical guidelines and transparency in personal financial matters. Raises concerns about the impact of conflicts of interest on board decision-making and underscores the importance of following legal procedures.

MR. ASHLEY supports the process followed in handling conflicts of interest, emphasizing the importance of adhering to legal requirements to maintain the board's integrity. Highlights potential consequences of violating ethics statutes and the role of the Attorney General in providing opinions. Addresses Trustee Brune's query regarding the Attorney General's authority in issuing opinions.

TRUSTEE RICHARDS offers insight into the Attorney General's role in issuing ethics opinions, explaining the delegation process within the Attorney General's office. Discusses instances where the Attorney General personally makes decisions on ethics matters. Shares observations regarding common practices regarding ethics opinions within the Attorney General's office.

MR. POAG provides additional clarification on the process of obtaining ethics opinions, including the involvement of designated ethics supervisors within the Department of Law. Addresses Trustee Richards' and Trustee Brune's comments regarding the Attorney General's decision-making process. Acknowledges common practices in handling ethics matters within the Attorney General's office.

MR. ASHLEY transitions the discussion to the board's fiduciary obligations and liability. Emphasizes the importance of procedural prudence and compliance with regulations regarding fund investments. Outlines key steps for ensuring compliance with fiduciary duties, including maintaining guidelines, assessing advisors, and documenting decisions. Stressing the significance of periodic training and seeking professional guidance to fulfill fiduciary responsibilities.

TRUSTEE BRUNE raises a question about the responsibility of the board to ensure the competence of advisors hired to educate the board about specific classes of assets. Acknowledges satisfaction with current advisors but seeks clarification on the criteria for evaluating competence.

MR. POAG responds by emphasizing the importance of the process in evaluating competence rather than focusing solely on outcomes. Explains that diligence involves selecting candidates, interviewing them, and using a thoughtful process to evaluate decisions. Emphasizes that prudence lies in the process rather than the outcome.

MR. ASHLEY expands on the discussion by highlighting the importance of acting within the scope of the board's office and in accordance with its fiduciary duties. Outlines key considerations for ensuring proper actions, including authorization, timing, purpose, and avoidance of misconduct or negligence. Emphasizes the necessity of understanding the board's role and obligations under the statute. Concludes by presenting a roadmap for fiduciary compliance, which includes becoming familiar with relevant laws, reviewing policies and contracts, receiving ongoing training, ensuring procedures align with the fund's objectives, and maintaining written records to demonstrate compliance with fiduciary standards. Encourages adherence to procedural prudence and readiness to address any questions from the board.

CHAIR SCHUTT raises a question regarding the guidelines for board interaction with senior staff members apart from the Executive Director, especially considering the practical necessity of seeking information. Seeks clarification on appropriate boundaries for such interactions.

MR. ASHLEY responds by advising caution in staff interactions and emphasizes the importance of adhering to the board's role and responsibilities. Recommends following established processes and delegations to avoid assuming decision-making responsibilities delegated to others. Suggests a hierarchical approach akin to a chain of command, where Trustees engage with the Executive Director for information pertaining to staff matters within their sphere of responsibility.

MR. POAG provides additional context from a legal perspective, highlighting the potential pressure on staff to accommodate board members' requests. Emphasizes the importance of staff members' obligation to provide impartial advice, even when faced with pressure to please individual board members. Advises Trustees to be mindful of staff dynamics and potential implications of their interactions to ensure prudent decision-making.

TRUSTEE RICHARDS outlines three authorized contacts for board members: the Executive Director for general inquiries, legal advice from Chris, and Marcus for investment-related questions. Notes that while it's permissible to contact Marcus directly, the Executive Director prefers to be informed of such interactions to stay abreast of board members' activities.

MR. POAG confirms the permissible contacts outlined by Trustee Richards and explains the Executive Director's preference for awareness of all board-staff interactions. Mentions the necessity of maintaining logs for communication records due to public records requests, emphasizing transparency and adherence to protocol.

TRUSTEE RUBENSTEIN shares personal experience with public records requests and highlights the importance of understanding communication transparency requirements. Appreciates the organization's protocols despite the added workload and expresses gratitude for the clarity provided, acknowledging the potential public scrutiny of communication logs.

MR. HARRIS attempts to interject with an unclear remark.

MR. POAG acknowledges Britt's input and prepares to address any additional points or questions.

MR. HARRIS highlights the importance of maintaining communication protocols within the organization's hierarchy to avoid confusion and potential misinterpretations. Suggests that sticking to established lines of communication fosters transparency and avoids speculation about board-staff relationships.

MR. ASHLEY emphasizes the necessity for all Trustees to have access to the same information and stresses the importance of continuity and consistency in decision-making processes. Acknowledges that different committees may have varying levels of specialized knowledge but underscores the need for a cohesive process to ensure equal access to information.

CHAIR SCHUTT expresses gratitude to Chris and Richard for their informative session on trustee education, noting its periodic necessity for familiarizing or re-familiarizing with operational rules. Indicates openness to feedback for future educational sessions.

MR. POAG reminds trustees that educational sessions are held annually and invites suggestions for future topics. Expresses willingness to incorporate trustee input into future sessions.

CHAIR SCHUTT announces a break for lunch and mentions the postponement of certain agenda items until after a scheduled call with investment advisors at 1:00 PM.

MR. HARRIS indicates departure and expresses intention to provide comments at the next meeting. Mentions upcoming presentation and commends the ongoing dialogue among trustees as conducive to reaching informed decisions.

CHAIR SCHUTT confirms the schedule, indicating the need to reconvene at 1:00 p.m. for the call with external advisors. Mentions the possibility of a working lunch to accommodate the schedule.

#### **INVESTMENT ADVISOR CANDIDATE INTERVIEWS & SELECTION (Action)**

MS. LOESCH announces the resumption of the meeting and confirms the time for the record.

CHAIR SCHUTT acknowledges the return to the meeting and introduces the agenda item regarding the interview of investment advisor candidates. Confirms the presence of the first candidate, Brock Williamson, and initiates the conversation.

MR. WILLIAMSON introduces himself, highlighting his background in finance and his passion for helping individuals and institutions. Shares his journey from a small farm town to building his own registered investment advisory firm. Expresses interest in the Alaska Permanent Fund and outlines his perspective on portfolio management, emphasizing a preference for passive management and strategic asset allocation.

CHAIR SCHUTT invites questions from Trustees and poses inquiries regarding Williamson's views on the role of the Alaska Permanent Fund and his approach to investment strategy.

TRUSTEE RUBENSTEIN inquires about how Williamson learned about the opportunity to serve as an investment advisor for the Alaska Permanent Fund.

CHAIR SCHUTT asks Williamson about his potential areas of focus for providing in-depth analysis and recommendations as an investment advisor.

MR. WILLIAMSON responds to questions, detailing his interest in the Alaska Permanent Fund, his approach to investment management, and his proposed areas of focus for conducting in-depth analyses.

CHAIR SCHUTT thanks Williamson for his participation in the interview and expresses appreciation for his interest in serving as an investment advisor for the Alaska Permanent Fund. Informs him that the Board will be in touch regarding the selection process.

TRUSTEE CRUM offers a compliment to the Chair before concluding the interaction with Williamson.

CHAIR SCHUTT begins the meeting, acknowledging the time and welcoming the next interviewee, Cyndi Walsh.

MS. WALSH greets the participants and confirms audio connectivity, expressing disappointment about the video connection issue. Provides an overview of her background and interest in the role, emphasizing her experience in finance, fiduciary roles, and academic achievements. Expresses admiration for the Alaska Permanent Fund's transparency and collaborative culture.

CHAIR SCHUTT outlines the interview format and invites Walsh to give an introductory statement, setting a time limit of five to seven minutes.

MS. WALSH delivers her introductory remarks, highlighting her familiarity with Alaska and the Alaska Permanent Fund, her extensive experience in the investment industry, and her passion for fiduciary service. Stresses her academic background and commitment to bridging theory and practice in finance.

CHAIR SCHUTT opens the floor for questions from Trustees.

TRUSTEE CRUM asks Walsh about her understanding of the purpose of the Alaska Permanent Fund.

MS. WALSH provides a response, affirming the Fund's mission to support the citizens and government of Alaska in perpetuity.

TRUSTEE RICHARDS inquires about the perspective Walsh brings to the role that differs from the current or former Chief Investment Officers (CIOs) serving as Investment Advisory Group (IAG) members.

MS. WALSH discusses her diverse background and experience as a fiduciary, emphasizing her ability to offer a fresh perspective and academic insights.

CHAIR SCHUTT poses a question regarding the potential topic for Walsh's first in-depth analysis as an investment advisor.

MS. WALSH shares her thoughts on the impact of quantitative easing and inflation on capital markets assumptions, suggesting a critical examination of CPI and stress testing the Fund's cash flow projections.

TRUSTEE RUBENSTEIN asks Walsh how she learned about the opportunity and inquires about her biggest accomplishment as a trustee.

MS. WALSH explains that she found out about the role through the published RFP and discusses her role in merging two pension funds in Indiana during a challenging financial period.

CHAIR SCHUTT concludes the interview, thanking Walsh for her interest and participation, and indicating that the Board will make a decision and notify her accordingly.

MS. WALSH expresses appreciation for the opportunity, reiterates her interest in the role, and signs off from the meeting.

CHAIR SCHUTT offers a farewell and concludes the interaction with Walsh.

TRUSTEE BRUNE starts the conversation by remarking on the improvement in AI technology and expressing positive sentiments towards it, noting that AI bots seem very nice.

TRUSTEE RUBENSTEIN asks how individuals typically learn about Request for Proposals (RFPs) like the one for the Alaska Permanent Fund.

CEO MITCHELL responds that they advertised the RFP in Pension and Investing magazine, and suggests that applicants might have also found it through the Fund's website or from family members familiar with their processes.

TRUSTEE RUBENSTEIN expresses surprise at not seeing the RFP on LinkedIn and discusses the Fund's growing presence on the platform.

CEO MITCHELL mentions the Fund's LinkedIn page with around 4,000 followers and suggests that individuals would need to actively search for the RFP or be informed about it by others.

TRUSTEE BRUNE recalls not seeing the RFP on LinkedIn.

TRUSTEE RICHARDS expresses unfamiliarity with the Fund's LinkedIn page.

CEO MITCHELL confirms the Fund's LinkedIn presence and notes its growing following.

CHAIR SCHUTT officially welcomes George to the meeting.

TRUSTEE RUBENSTEIN asks about George's interest in continuing his role and invites him to give a brief overview of his background.

MR. ZINN provides an extensive overview of his career history, highlighting his experience in finance, risk management, and involvement with various organizations.

CHAIR SCHUTT opens the floor for questions from Trustees.

TRUSTEE RICHARDS asks George about one thing he believes should change at the Fund.

MR. ZINN discusses the importance of addressing existential challenges at the Fund and expresses his interest in contributing to positive change.

TRUSTEE RUBENSTEIN playfully questions George about his continued interest in the Fund and fishing.

MR. ZINN highlights his enjoyment of working with the Fund's board and staff, as well as his ongoing passion for fishing.

TRUSTEE RUBENSTEIN asks about the previous interaction between the Investment Advisory Group (IAG) and the Fund's staff.

MR. ZINN discusses the evolving dynamics between the IAG, board, and staff, emphasizing the potential for constructive collaboration.

CHAIR SCHUTT invites further questions from Trustees.

TRUSTEE RUBENSTEIN thanks George for his introduction and insights.

CHAIR SCHUTT concludes the interview, expressing appreciation for George's interest and participation.

MR. ZINN thanks the Trustees and expresses his gratitude for the opportunity to serve, regardless of the outcome.

TRUSTEE RICHARDS says goodbye to someone named Matt.

TRUSTEE RUBENSTEIN makes a remark about someone coming from Microsoft.

TRUSTEE BRUNE moves to convene an executive session in accordance with Alaska's Open Meetings Act to discuss the qualifications and personal characteristics of candidates for the investment advisor group position that the Board had just interviewed.

CHAIR SCHUTT acknowledges the motion and confirms the executive session.

TRUSTEE RICHARDS seconds the motion.

**MOTION: A motion to go into executive session was made by TRUSTEE BRUNE, and was seconded by TRUSTEE RICHARDS.**

*Via unanimous vote on rollcall, the MOTION was APPROVED.*

MS. LOESCH conducts a roll call vote for the executive session.

TRUSTEE BRUNE: Votes yes.

TRUSTEE RICHARDS: Votes yes.

TRUSTEE CRUM: Votes yes.

TRUSTEE RUBENSTEIN: Votes yes.

TRUSTEE ANDERSON: Votes yes.

CHAIR SCHUTT: Votes yes.

MS. LOESCH confirms the roll call results and indicates going off the record for the executive session.

CHAIR SCHUTT confirms going off the record.

MS. LOESCH announces the return to the record.

TRUSTEE BRUNE moves to exit the executive session.

TRUSTEE ANDERSON seconds the motion.

**MOTION: A motion to exit the executive session was made by TRUSTEE BRUNE, and was seconded by TRUSTEE ANDERSON.**

*There being no objection, the MOTION was APPROVED.*

TRUSTEE RUBENSTEIN makes an inaudible comment about not being able to do something.

CHAIR SCHUTT confirms the end of the executive session and returns to the record.

MS. LOESCH affirms being back on the record.

CHAIR SCHUTT summarizes that during the executive session, the trustees considered only the matters mentioned in the motion and took no action.

TRUSTEE BRUNE moves to nominate George Zinn for the position of the Investment Advisor Group (IAG).

TRUSTEE RICHARDS: Seconds the motion.

TRUSTEE CRUM: Also seconds the motion.

CHAIR SCHUTT: Acknowledges the motion and the second to select George Zinn for the Investment Advisor Group (IAG).

TRUSTEE BRUNE: Expresses gratitude to the other candidates and acknowledges their strong representation. However, highlights George Zinn's institutional knowledge, candor, and existing

relationship with the board as factors that distinguish him and lead to her motion to select him for the position.

CHAIR SCHUTT: Thanks Trustee Brune for her comments and asks if there are any further comments or questions before proceeding to vote.

MS. LOESCH conducts a roll call vote for the selection of George Zinn for the IAG.

TRUSTEE CRUM: Votes yes.

TRUSTEE BRUNE: Votes yes.

TRUSTEE RICHARDS: Votes yes.

TRUSTEE ANDERSON: Votes yes.

TRUSTEE RUBENSTEIN: Votes yes.

CHAIR SCHUTT: Votes yes.

MS. LOESCH indicates that the motion passes unanimously.

**MOTION: A motion to nominate George Zinn for the position of the Investment Advisor Group (IAG) was made by TRUSTEE BRUNE, and was seconded by TRUSTEE RICHARDS and TRUSTEE CRUM.**

*Via unanimous vote on rollcall, the MOTION was APPROVED.*

CHAIR SCHUTT congratulates Mr. Zinn on his reappointment as an IAG member and expresses gratitude to the other candidates for their interest and preparation. Announces the next agenda item, the strategic plan, and highlights the extensive public comments received, indicating that over 100 comments were reviewed and considered in preparation for the meeting. Delegates the discussion on the strategic plan to Deven.

### **STRATEGIC PLAN (Action)**

TRUSTEE RUBENSTEIN expresses concern about the absence of advisory comments and seeks clarification from the Chair.

CHAIR SCHUTT confirms that advisory comments can be addressed at the end of the session if they are present.

TRUSTEE RUBENSTEIN indicates agreement and acknowledges the Chair's response.

CEO MITCHELL provides an overview of the strategic plan, noting that the version presented to the board remains unchanged and was subject to public comment. Mentions receiving numerous comments and defers to the board on whether to proceed with adoption or modification of the plan.

TRUSTEE RICHARDS shares thoughts on the comments received, describing them as overwhelmingly negative but also containing valid points. Suggests revising the plan to enhance clarity and improve communication with the public, possibly through simplification or the addition of an explanatory cover sheet.

CHAIR SCHUTT acknowledges Trustee Richards' comments and invites further input from the board.

TRUSTEE CRUM discusses the origins of the strategic plan as an academic exercise and highlights the goal of achieving a \$100 billion fund, emphasizing the pragmatic implications of such growth. Notes the board's decision to maintain a CPI +5 strategy based on advice from investment advisors. Recommends removing certain items from the plan, such as proposed changes to the Open Meetings Act, and asserts that the plan remains robust without them.

TRUSTEE RUBENSTEIN commends the staff for their work on the plan and expresses empathy for their reception of negative comments. Stresses the importance of understanding the plan as a four-year initiative rather than a rushed two-month endeavor. Emphasizes the board's fiduciary responsibility and the need for improved communication to ensure public comprehension of the plan's objectives and timeline.

CEO MITCHELL responds to previous speakers' comments by addressing specific concerns raised in public comments regarding the strategic plan. Points out that some criticisms may stem from a lack of understanding of the plan's details beyond the summary. Provides an example regarding the consideration of leverage, highlighting that the plan outlines a multi-year implementation timeline and emphasizes the need for legislative approval. Suggests that people may have misconceptions due to not thoroughly reading the entire document.

TRUSTEE RUBENSTEIN raises a question about the possibility of removing the summary page from the plan, suggesting that the concise format of the three-page document is preferable to the previous five-year plan. Expresses approval of the layout and structure of the plan.

CEO MITCHELL agrees that removing the summary page could be a straightforward adjustment to address concerns about misunderstanding or misinterpretation of the plan.

CHAIR SCHUTT opens the floor for further questions or comments.

TRUSTEE BRUNE reminds the board of the training received regarding the annual review of the four-year strategic plan, suggesting that a new plan could be developed each year based on evolving circumstances.

TRUSTEE RICHARDS agrees with Trustee Brune's perspective, acknowledging the flexibility to adapt the strategic plan annually.

TRUSTEE RUBENSTEIN argues against discussing elements of the strategic plan with legislators before its official approval, emphasizing the need for a unified document voted in by the board. Expresses concern about the potential confusion and lack of credibility in discussing unapproved aspects of the plan with legislators. Advocates for adopting the plan to provide a clear and credible tool for discussions with legislators. Highlights the timing element and the importance of having a finalized document.

CHAIR SCHUTT indicates a readiness to adopt the strategic plan without altering its substance, suggesting that further work can be done to explain and communicate its elements better after adoption. Asserts that no one is advocating for changing the substance of the plan at this point.

CEO MITCHELL proposes a change to the consideration of leverage, suggesting a lower percentage or a dollar amount instead of the current 10% to address concerns raised by many people. Discusses the challenges of using a percentage and the benefits of using a dollar amount, emphasizing the importance of making the plan more understandable and easier to sell.

TRUSTEE RICHARDS supports using a dollar amount for leverage consideration rather than a percentage, citing familiarity with such constructs in the Alaskan legislative context. Argues that using a dollar amount aligns better with the language already known to legislators and stakeholders, making it easier to understand and communicate.

TRUSTEE BRUNE recalls discussions on leverage and suggests considering a lower dollar amount based on his recollection of other states' practices. Acknowledges the need to find a balance between leveraging opportunities and minimizing risks.

CIO FRAMPTON provides additional context on leverage practices in other states, mentioning examples from Canada and Wisconsin. Supports the idea of using a dollar amount for leverage consideration, emphasizing its alignment with common practices and its potential for better communication with stakeholders.

TRUSTEE RUBENSTEIN raises concerns about using a dollar amount for leverage consideration, highlighting potential challenges in adjusting the limit as the fund grows. Expresses hesitation but acknowledges the benefits of using a dollar amount in terms of communication and understanding.

CEO MITCHELL reiterates the benefits of using a dollar amount for leverage consideration, emphasizing the iterative process of seeking additional authority if needed as the fund grows. Draws from personal experience at the bond bank to support the idea of incremental increases in borrowing authority.

TRUSTEE RUBENSTEIN initiates the conversation by referring to another speaker as the "bond salesman," highlighting their expertise in financial matters. Acknowledges the importance of recognizing the connection between the board's decisions and their impact on legislative matters. Engages in dialogue with another trustee regarding proposed edits to the strategic plan, expressing willingness to consider changes and raising concerns about the proposed shift from a percentage to a hard dollar amount for leverage consideration.

TRUSTEE CRUM supports the acknowledgment of the tie between the board's decisions and legislative considerations, emphasizing the trustees' awareness of this connection.

CEO MITCHELL responds to Trustee Rubenstein's comment by clarifying their role as a seller rather than a buyer in bond transactions. Supports the proposed change to leverage consideration, citing concerns raised in comments and advocating for a lower threshold to mitigate risk.

CHAIR SCHUTT guides the discussion on the proposed edit to the strategic plan, acknowledging its material significance and clarifying the need for formal motion. Indicates openness to considering the proposed change and notes the absence of any formal motion at the current stage of discussion.

TRUSTEE BRUNE engages in the discussion by providing context on the origin of the leverage consideration and expressing interest in understanding the optimal threshold. Solicits input from another trustee on the preferred threshold for leverage consideration.

CIO FRAMPTON supports the proposed change to leverage consideration, advocating for a shift to a hard dollar amount rather than a percentage. Highlights potential risks associated with a percentage limit and suggests that a \$4 billion threshold aligns well with the fund's known liquidity issues and investment objectives. Provides rationale for supporting the dollar construct and how it can serve as a revolving line of liquidity.

TRUSTEE BRUNE provides a brief acknowledgment, expressing gratitude.

TRUSTEE RUBENSTEIN contributes briefly, with an unclear statement.

CEO MITCHELL shares insights into how the proposed change could positively impact real estate transactions, highlighting potential financial advantages. Acknowledges the importance of caution in handling the Permanent Fund and ensuring smart decision-making.

TRUSTEE CRUM makes a motion to adopt the plan while suggesting a change in leverage consideration from a percentage to a specific dollar amount. Expresses appreciation for the engagement of Alaskans in the process.

CHAIR SCHUTT responds to the motion, seeks a second, and facilitates further discussion. Announces a 15-minute break following the discussion and vote.

TRUSTEE RICHARDS expresses a preference for more user-friendly communication about the strategic plan but indicates support for moving forward.

MS. LOESCH calls roll to confirm adoption of the plan.

**MOTION: A motion to adopt the plan while suggesting a change in leverage consideration from a percentage to a specific dollar amount was made by TRUSTEE CRUM and seconded by TRUSTEE RUBENSTEIN, CHAIR SCHUTT and TRUSTEE BRUNE.**

*Via unanimous vote on rollcall, the MOTION was APPROVED.*

TRUSTEE ANDERSON: Yes.

TRUSTEE CRUM: Yes.

TRUSTEE BRUNE: Yes.

TRUSTEE RUBENSTEIN: Yes.

TRUSTEE RICHARDS: Yes.

CHAIR SCHUTT: Yes.

#### **LEGISLATIVE UPDATE (Board Education & Information)**

CHAIR SCHUTT announces the resumption of the meeting after a break and introduces Paulyn Swanson for the legislative update.

MS. SWANSON expresses gratitude for the feedback on the strategic plan and acknowledges efforts to improve communication. Recognizes team members involved in communications, including Juliette Alldredge, BackBay Communications, and [inaudible tag]. Thanks the staff for their efforts during the open house event. Transitions to the legislative update, emphasizing the importance of accountability during the legislative session. Discusses the progress and challenges of legislative initiatives, including improving corporate functionality and addressing CEO and CIO recruitment processes. Mentions resistance to certain aspects of the initiative due to concerns about transparency and public interest. Highlights the importance of confidentiality of staff records and notes the strategy of aligning language with other bills to avoid undesirable amendments.

CEO MITCHELL highlights the challenge of garnering legislative support due to limited bandwidth and political capital among legislators and the Governor. Emphasizes the importance of finding a champion to advocate for proposed conceptual changes.

MS. SWANSON discusses the priority of education within the communications program, emphasizing the need for intentional listening and addressing gaps in understanding. Highlights efforts to educate legislators on statutory net income and the role of investment activity in driving earnings. Notes the success in securing resources for most of the board's priorities in the Governor's budget, except for building up the internal private equity team. Mentions the subcommittee process and the legislature's concerns regarding the Anchorage office funding, indicating potential scrutiny of the budget line item during closeouts.

TRUSTEE BRUNE inquires about the annual cost of the space in Anchorage, highlighting that it is currently leased under an existing state lease in a state lease building, resulting in a net zero cost to the state of Alaska. Seeks confirmation on this point.

TRUSTEE RICHARDS expresses the importance of communicating the human impact of the Anchorage office, noting that individuals have accepted jobs based on the opportunity to work there. Emphasizes the need to convey the human aspect when discussing potential budget cuts.

TRUSTEE CRUM discusses the awkwardness of addressing questions about the Anchorage office during finance meetings, noting that trustees have been requesting a plan for the office since 2019. Highlights that staff filled positions in Anchorage quickly and that the office serves as part of a unified culture approach. Mentions upcoming meetings where questions about the Anchorage office are expected and acknowledges the challenges in conveying the process behind establishing the office.

CEO MITCHELL explains that feedback received indicates that if the request for the Anchorage office had been made formally, it likely would have been approved with little controversy. Notes that objections have arisen due to a perception of a breach of relationship, emphasizing the need to address this perception in discussions. Acknowledges that although there was flexibility within the budget to establish the office, the change was not viewed favorably by some. Expresses the need to work through the situation.

TRUSTEE RICHARDS comments on the cost-saving aspect of securing the Anchorage office space, highlighting that options initially considered were over \$1 million, but a favorable lease

arrangement was secured due to a former commissioner's relationship. Emphasizes the importance of seizing opportunities when they arise.

TRUSTEE BRUNE asserts that legislative involvement in the selection of office locations is unusual, based on their experience as a former commissioner. Supports the decision to establish the Anchorage office for recruitment and retention purposes. Mentions the availability of additional space for future expansion if needed.

TRUSTEE RUBENSTEIN seeks clarification on the occupancy status of the Anchorage office space, inquiring whether it is fully occupied or if there are specific issues with certain areas. Receives information regarding the availability of vacant cubicles and offices in the space.

TRUSTEE RUBENSTEIN inquires about the status of filling open positions for the Anchorage office, mentioning discussions with Allen. Seeks clarification on whether a prospective candidate for one of the positions is likely to relocate to Anchorage.

CEO MITCHELL expresses uncertainty regarding the relocation plans of prospective candidates, indicating a lack of information from Allen. Shares insights from previous discussions with Allen regarding candidate preferences, highlighting a majority preference for Anchorage among applicants.

TRUSTEE RUBENSTEIN comments on Allen's extensive efforts in conducting interviews for open positions and questions the necessity for a larger or nicer office space. Seeks confirmation on whether the current office setup is adequate.

CEO MITCHELL suggests that the current office space meets functional needs, particularly for junior staff. Acknowledges that while improvements could be made, the current space is satisfactory considering potential alternatives.

TRUSTEE BRUNE emphasizes the functionality of the current office space, noting its active and functional status. Jokes about the potential for worse office conditions, referencing other government offices humorously.

MS. SWANSON concludes the discussion by highlighting ongoing conversations with the legislature regarding strategic interests and staff support. Provides an update on recent legislative developments, specifically mentioning House Joint Resolution 7 (H.J.R. 7), which constitutionalizes the dedication of funds for the payment of a Permanent Fund dividend and the earnings reserve account. Informs the board that H.J.R. 7 is scheduled for the House floor on Monday, the 19th, and highlights the significance of the resolution.

TRUSTEE CRUM reacts to the scheduling of H.J.R. 7 for Monday, expressing interest and concern about the development.

MS. SWANSON confirms the scheduling of H.J.R. 7 for Monday and acknowledges the timely update received on the matter.

TRUSTEE RICHARDS seeks clarification on whether the information regarding H.J.R. 7 is included in the CEO reports. Expresses understanding of the concerns raised by the sponsor of

the resolution regarding the potential invasion of principal with a true single fund endowment structure and acknowledges the resolution's upcoming consideration on the floor.

MS. SWANSON introduces House Bill 174 by Representative McCabe, which prohibits investments that further social, political, or ideological interests, emphasizing the importance of maximizing returns on the Fund. Discusses the upcoming first hearing on the bill in the House Finance Committee and the need for clarification to ensure it doesn't hinder investments aimed at maximizing returns. Mentions House Bill 222 by Representative Sumner, which directs fund assets towards achieving a 25% ownership share in a natural gas pipeline project and carves out the prudent investor rule.

TRUSTEE RUBENSTEIN expresses skepticism about whether the legislature can mandate such investment directions.

MS. SWANSON affirms that the legislature can indeed mandate investment directions as the investment responsibilities for the Fund are set forth in statute, including AS 37.13.120.

TRUSTEE RICHARDS raises concerns about House Bill 222, questioning its legality as potentially an appropriation of corpus rather than a mere investment. Cites cases around appropriation for initiatives and expresses skepticism about the bill's compliance with legal standards.

MR. ALLEN shares an example from North Dakota where a similar carve-out was made for investments from their Legacy Fund into in-state projects, suggesting that the bill aims to convert the Permanent Fund into an economic development fund.

MS. SWANSON acknowledges the challenge raised and mentions discussions with the sponsor's office about it.

TRUSTEE RUBENSTEIN inquires about precedent or similar occurrences.

CEO MITCHELL discusses the history of the Permanent Fund and previous proposals to use it for development strategies, highlighting the debate between the public trust model and development fund contingency. Mentions the comparison with the Alberta Heritage Fund and emphasizes the success of the public trust model in terms of returns on investment. Mentions Trustee Paper Number Nine for further detail.

TRUSTEE RUBENSTEIN asks if the sponsor is interested in their views on the bill.

MS. SWANSON recounts a positive conversation with the sponsor's office regarding a mandate proposed in legislation, noting that they acknowledged the Permanent Fund's likely resistance to such a mandate without the need for explicit discussion.

TRUSTEE RUBENSTEIN responds affirmatively, indicating understanding of the situation.

CEO MITCHELL describes Cody Rice's portrayal of a proposed investment, highlighting Rice's experience and intelligence. Notes Rice's presentation of the investment as more certain than it actually is, mentioning a \$1.2 billion equity proposal with additional debt funding and an

expected regulated rate of return of 12 to 14%. Emphasizes the complexities and uncertainties of the project, suggesting that the Private Fund wouldn't engage given its standards and the current uncertainties.

CEO MITCHELL indicates the typical approach of the Permanent Fund, highlighting that they usually invest as the last participant rather than as the first investor on a speculative basis.

TRUSTEE CRUM mentions the possibility of creating a separate sovereign wealth fund dedicated to economic development, suggesting that it could be something for the legislature to consider.

TRUSTEE RICHARDS makes an inaudible comment.

MS. SWANSON introduces HB 303, a bill recently introduced by Representative Carpenter that references ERISA standards. Notes that the bill is still under review to assess its compatibility with the fund's existing standards. Expresses concerns about the practical challenges of implementing certain provisions, particularly related to proxy voting and disclosure of confidential information regarding alternative investments and manager relationships.

TRUSTEE RUBENSTEIN expresses concern about HB 303, citing similar laws gaining traction in Kentucky and Louisiana. Highlights the importance of maintaining privacy in private markets and expresses discomfort with the potential for increased transparency. Raises the issue of difficulties in complying with proposed proxy voting reporting requirements and discusses the challenges of providing transparency while safeguarding confidential information. Recalls past instances of in-state investments being revealed and questions the necessity of a provision in the bill regarding broadcasting board meetings, noting that this is already being done.

MS. SWANSON acknowledges Trustee Rubenstein's concerns regarding HB 303.

CEO MITCHELL provides insight into discussions held with the sponsor and staff of HB 303, indicating their willingness to address concerns and find workable solutions. Highlights the challenges of complying with proposed proxy voting reporting requirements and discusses potential alternatives to address transparency concerns while safeguarding confidential information. Explains the importance of maintaining confidentiality in partnerships and explores potential ways to provide transparency without compromising privacy.

MS. SWANSON discusses legislation applying to both the ARM board and the Permanent Fund regarding broadcasting board meetings. Indicates uncertainty about the ARM board's procedures but notes that broadcasting regular meetings is a common practice. Acknowledges occasional lapses in broadcasting special meetings.

TRUSTEE RUBENSTEIN expresses uncertainty about the ARM board's broadcasting practices and receives clarification from Trustee Crum and Swanson.

TRUSTEE CRUM inquires about proxy voting procedures and asks whether ISS and Glass Lewis are used.

CIO FRAMPTON confirms a mix of external managers and states that ISS and Glass Lewis have a dominant market share. Explains the requirement for managers to vote solely on financial merits, with proxy voting being a minor aspect of investment strategy. Discusses the limited resources allocated to proxy voting due to its low return on investment, particularly in the context of diversity, equity, and inclusion (DEI) initiatives. Mentions that institutional investors rely on ISS and Glass Lewis for proxy voting when their stake in a public company is minimal.

TRUSTEE RICHARDS expresses concern about proxies being used for political or ESG (Environmental, Social, and Governance) causes.

CIO FRAMPTON assures that the fund communicates its stance on proxy voting to managers and reviews proxy reports. Indicates disappointment if managers vote for ESG matters and emphasizes the importance of paying attention to such issues.

TRUSTEE CRUM acknowledges Frampton's response and confirms the review of proxy reports.

MR. ALLEN mentions the inclusion of proxy voting guidelines in the policy and Investment Management Agreements (IMAs).

CEO MITCHELL confirms Allen's statement.

MS. SWANSON concludes the legislative update and introduces a curriculum developed in collaboration with Alaska Resource Education. Encourages teachers to sign up for training sessions to facilitate the distribution of the curriculum statewide.

TRUSTEE RUBENSTEIN inquires about the distribution process and asks if there's collaboration with the Commissioner of Education. Swanson explains the partnership with Alaska Resource Education and their established initiatives for statewide education, aiming to supplement these efforts with financial education provided by the fund. Inquires about obtaining statistics regarding the number of children reached by the educational program.

TRUSTEE BRUNE confirms that statistics are provided and praises the program as robust and valuable, especially for cultivating homegrown talent in Alaska.

TRUSTEE CRUM shares enthusiasm for the program, expressing appreciation as someone who grew up in Alaska without such educational resources. Emphasizes the potential for the program to engage more youth and foster local talent.

TRUSTEE BRUNE reflects on past efforts to involve the Permanent Fund in educational programs and commends the recent growth and success of the program. Credits the collaboration between the fund and Alaska Resource Education (ARE) for this achievement.

MS. SWANSON thanks the trustees for their support and mentions the availability of information about the program on the fund's website, acknowledging Juliette for her work on the website.

TRUSTEE CRUM requests the link to the game and expresses interest in participating in game nights.

TRUSTEE RUBENSTEIN jokes about having a game night and mentions the availability of candy bars during past events.

TRUSTEE RICHARDS comments on candy bars, perhaps reminiscing about past events.

**PMP UPDATE (Information)**

CHAIR SCHUTT begins the discussion on the Personal Management Plan (PMP) update, acknowledging Shannon's presence and welcoming her to the board.

TRUSTEE RICHARDS compliments Deven for his gentlemanly behavior towards Shannon.

MS. MCCAIN expresses gratitude for the warm welcome and discusses the importance of the PMP as a framework for conducting day-to-day business at APFC. Acknowledges the complexity of navigating different policies and proposes a simplified approach to updating the PMP. Suggests focusing on areas of the current PMP that are out of alignment or conflicting with newer policies. Emphasizes the need for input from the board on the desired level of detail and suggests tracking changes for transparency. Refers to an excerpt from the governance documents emphasizing the board's role in approving human resource policies necessary for effective management. Proposes organizing the PMP in a simpler format, possibly separating contentious areas into their own policies. Highlights some key areas of concern, such as the classification and compensation structure, and suggests addressing these issues outside of the PMP framework to streamline the update process.

TRUSTEE RICHARDS seeks clarification on whether the proposed update to the PMP involves implementing the board's decision from a year ago or changing it. Expresses uncertainty regarding the specifics of the compensation structure adopted previously.

CEO MITCHELL explains that the current version of the PMP still reflects the 2018 version and suggests removing the outdated compensation structure from it. Proposes continuing with the interim board-approved payment structure and working towards identifying a smaller peer group for analysis.

TRUSTEE RICHARDS recalls discussions about the compensation structure involving a 75-25 split between public and private investments and broad bands but is unsure if it was formally adopted.

MS. MCCAIN confirms that the proposed changes to the compensation structure were not adopted and suggests reviewing the minutes to ensure clarity on the starting point for the update.

CEO MITCHELL outlines a proposed path forward for updating the compensation structure, suggesting the use of smaller peer groups and more refined targets based on discussions with other sovereign wealth fund organizations. Emphasizes the need for simplicity and transparency in determining compensation levels.

TRUSTEE RICHARDS expresses awareness of the options available after six years of dealing with the issue. Clarifies that revisiting the compensation schedule is not necessarily a PMP issue

but rather a separate matter. Advocates for starting the discussion from the point where it was last left off to avoid regressing to previous iterations.

TRUSTEE RUBENSTEIN stresses the importance of fairness and encourages the board to ensure that both parties involved find the proposed changes fair. Requests that any further discussions come back to the board for consideration without consulting external sources.

CEO MITCHELL agrees with the approach of revisiting previous discussions and consensus but not necessarily formal adoption. Acknowledges the frustration of the board regarding compensation discrepancies and expresses willingness to address the issue comprehensively.

TRUSTEE RUBENSTEIN recalls the board's decision in April to address compensation discrepancies by going line by line instead of relying on consultants. Supports the idea of removing contentious elements from the PMP and updating it to reflect current practices.

CIO FRAMPTON agrees with the proposal to remove outdated elements from the PMP, emphasizing the need for updating and simplification. Expresses support for expediting the process.

TRUSTEE CRUM inquires about the timeline for the proposed updates and suggests involving a subgroup of trustees to assist in the process, referencing fiduciary training regarding the board's responsibility in setting the personnel management plan.

CHAIR SCHUTT suggests forming a working group to address the strategic aspect of compensation, leaving the red-lining of the PMP to another group. Acknowledges the previous efforts of trustees Steve and Brune in examining positions.

TRUSTEE BRUNE recalls his and Trustee Richards' efforts in reviewing positions line by line, humorously noting that additional members in the working group might have been overwhelming.

TRUSTEE RICHARDS suggests Deven put together the proposed changes for review and consideration by the board.

TRUSTEE RUBENSTEIN echoes Trustee Richards' suggestion to present the proposed changes for evaluation by the board.

TRUSTEE RICHARDS acknowledges the familiarity of the board with the range of options regarding compensation structures. Expresses the need for proposals to be presented in May to align with the budget process and anticipates minimal changes to expectations.

CEO MITCHELL commits to presenting proposals or ideas by May, emphasizing the importance of incorporating any potential salary modifications into the budget process. Recognizes the challenges faced in obtaining data during previous rounds of discussions on compensation.

TRUSTEE RUBENSTEIN appreciates Shannon's enthusiasm for addressing the topic of compensation and offers assistance if needed. Reflects on past frustrations with obtaining data and the involvement of consultants in the process.

TRUSTEE BRUNE expresses willingness to assist in ensuring the right environment for staff, emphasizing the importance of organizational support for employees.

MS. MCCAIN seeks clarification from Trustee Richards regarding the focus on compensation and the number of job classes in the salary schedule, suggesting the separation of these elements from the PMP for better functionality and flexibility.

TRUSTEE RICHARDS agrees with the proposal to separate compensation-related matters from the PMP to establish a stable framework for day-to-day operations.

TRUSTEE CRUM agrees with the proposal to separate compensation-related matters from the PMP, indicating understanding and support for the idea.

MS. MCCAIN affirms that the separation of the two aspects was indeed the intended approach, expressing gratitude for the discussion.

CHAIR SCHUTT seeks confirmation from the board regarding any objections to separating the two components of the PMP, receiving consensus without objections.

TRUSTEE RICHARDS mentions the common practice among lawyers to separate such matters, indicating support for the proposed separation.

TRUSTEE RUBENSTEIN seeks clarification on the status of remote work policies, to which Deven Mitchell responds, explaining the existing policy's provision for managerial discretion and the challenges and differences experienced by managers and employees in remote work settings.

CEO MITCHELL discusses the rationale behind the existing remote work policy, emphasizing the importance of respecting managers' abilities and comfort levels with remote work, and acknowledging the differences in effectiveness based on individual preferences and circumstances.

CHAIR SCHUTT concludes the discussion on a positive note, praising the success of the discussion and expressing anticipation for future meetings.

#### **OTHER BUSINESS/TRUSTEE COMMENTS/FUTURE AGENDA ITEMS**

CHAIR SCHUTT opens the floor for discussion on any remaining agenda items, including advisor presence, other business, and trustee comments.

TRUSTEE CRUM raises a question regarding the calendar memo, seeking clarification on its status as an action item or for discussion purposes.

CEO MITCHELL confirms that the calendar memo is indeed an action item based on the roll call sheet, explaining the proposed changes for December 2024 to accommodate the Commissioners' schedules.

MS. LOESCH provides additional context on the calendar memo, indicating it's more about consensus rather than a formal vote.

TRUSTEE CRUM suggests moving the December 2024 dates up by a day to better align with Commissioner schedules, emphasizing the importance of accommodating their availability.

MR. ALLEN adds further insight into the impact of the proposed date changes on cabinet meetings and other obligations.

TRUSTEE RICHARDS reflects on the challenges faced during the previous meeting due to scheduling conflicts, expressing support for the proposed adjustments.

TRUSTEE RUBENSTEIN shares personal reflections on the effectiveness of the board's collaborative efforts and suggests potential adjustments to the Juneau dates for the meetings.

CHAIR SCHUTT seeks confirmation on any objections to the proposed date changes, receiving none, and proceeds with the adjustments.

TRUSTEE CRUM expresses gratitude for the productive discussions and the board's engagement, commending staff for their efforts.

TRUSTEE RICHARDS echoes appreciation for the productive dialogue and decision-making process, despite some contentious issues, and expresses readiness to tackle future challenges.

TRUSTEE RUBENSTEIN shares positive feedback on the recent open house event and highlights the board's ability to work together effectively, while also emphasizing the importance of trustee education in preparation for upcoming meetings.

TRUSTEE ANDERSON thanks the staff for their support and the flow of information, expressing readiness to contribute to future meetings after gaining valuable insights from the current discussions.

TRUSTEE BRUNE thanks the staff and acknowledges the participation of legislators and the public in recent events, expressing excitement for the upcoming meeting in Barrow and the potential for collaboration with the North Slope Borough.

CHAIR SCHUTT concludes the meeting with words of appreciation for the staff and fellow Trustees, highlighting the success of the meeting and the importance of healthy debate in decision-making.

TRUSTEE RICHARDS: Makes a motion to adjourn the meeting, which is seconded by Trustee Crum.

CHAIR SCHUTT: Calls for objections to adjournment, receiving none, and officially ends the meeting at 3:54 p.m.

**MOTION:** A motion to adjourn the meeting was made by TRUSTEE RICHARDS.

*CHAIR SCHUTT adjourned the meeting.*

(APFC Board of Trustees meeting adjourned at 3:45 p.m.)

**SPECIAL MEETING OF THE BOARD OF TRUSTEES  
WEBEX/TELECONFERENCE**

April 22, 2024  
8:30 a.m.

Originating at:  
Alaska Permanent Fund Corporation  
801 W 10<sup>th</sup> Street  
Juneau, AK 99801

**Trustees Present:**

Ethan Schutt  
Craig Richards  
Ryan Anderson

Gabrielle Rubenstein  
Jason Brune  
Adam Crum

**APFC Staff Present:**

Deven Mitchell, CEO  
Marcus Frampton, CIO  
Jim Parise  
Pauly Swanson  
Catherine Hatch  
Stephen Adams  
Rachel Zepp  
Jacki Mallinger  
Rafael Ramirez  
Adam Kane  
Lara Pollock  
Sang Won Song  
Sarah Clark  
Michael Prebeg  
Sebastian Vadakumcherry  
Sarah Struble  
Ross Alexander  
Luke Kirkham

Val Mertz, CFO  
Chris Poag, General Counsel  
Jennifer Loesch  
Allen Waldrop  
Joe Shinn  
Ross Alexander  
Tom O'Day  
Scott Balovich  
Norix Mangual  
Tim Andreyka  
Chirag Shah  
Colton Scudder  
Larissa Murray  
Maria Skuratovskaya  
Ed Rime  
Alex Smith  
Youlian Ninkov  
Terek Rutherford

**Others Participating:**

George Zinn; Britt Harris; John Skjervem; Steve Center; Greg Allen; Joey Lee; Peter Hecht; John Ruggieri; Vincent Dee; Jason Jenkins; Jim Chambliss.

**PROCEEDINGS**

**CALL TO ORDER**

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

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

## **APPROVAL OF AGENDA**

CHAIR SCHUTT asked for any additions or objections to the agenda. Hearing none, he adopted the agenda.

## **SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION**

CHAIR SCHUTT continued to the scheduled appearances and public participation. Hearing none, he moved to the first item on the agenda.

## **AQR MARKET OUTLOOK PRESENTATION**

MR. LEE from AQR introduced Pete Hecht, who would present capital market assumptions and asset allocation recommendations for the Alaska Permanent Fund.

MR. HECHT began by highlighting the low expected returns on long-only public and private portfolios, even though cash rates have increased. The equity risk premium, the reward for taking on risk, is compressed. He then addressed private markets, a popular investment option. AQR's research suggests that private credit and private equity have similar risk-adjusted returns to their public counterparts, once properly benchmarked. Private credit can be modeled as a public high-yield corporate bond with a floating rate, while private equity can be modeled as a small-cap stock with a leverage adjustment. After this explanation of private markets, he offered to answer questions before moving on to how these capital market assumptions would be used to make asset allocation recommendations for the Alaska Permanent Fund portfolio.

TRUSTEE RUBENSTEIN questioned the use of proxies for historical data in the presented simulation.

MR. HECHT explained that they use proxies because they want to reflect the current market environment, such as low yields and high valuations, which wouldn't be captured by looking at historical returns alone. Public market data is reliable due to its long history and lack of bias, whereas private market data is limited. They use public market data to leverage current pricing information for their capital market assumptions.

TRUSTEE RUBENSTEIN then pointed out the discrepancy between the data used in the presentation and the significant market events that happened between 2020 and 2022, particularly in private equity and credit.

MR. HECHT clarified that they intentionally used data from independent third-party research studies to avoid bias in data selection. They acknowledged that the market performance can fluctuate over time, and the analysis might have yielded slightly different results in different years. However, they believe the core takeaways from the research are valid. He conceded that private investments might outperform public ones sometimes, but they argued that the evidence doesn't support the widespread belief that private investments consistently outperform public markets. They are open to the possibility of a small edge for private investments but believe it's not as significant as most investors think.

MR. HARRIS expressed concern about the low baseline Sharpe ratios in the presented portfolio optimization.

MR. HECHT explained that the low ratios are a result of using yield-based capital market assumptions (CMAs) that reflect the current high valuations in the equity market. These CMAs lead to lower expected returns than the historical long-term averages. He then presented the recommended portfolio derived from the optimization. The portfolio prioritizes diversifying assets like hedge funds and real estate, while also including a negative cash position. He explained the rationale behind these choices: hedge funds offer diversification by underperforming at different times than other assets, and a negative cash position improves capital efficiency, allowing for higher returns without taking on additional risk. The funding source for the increased allocation to hedge funds and real estate comes from reducing the credit allocation in the baseline scenario. This is because the baseline CMAs project lower returns for credit compared to other asset classes. He then presented a second optimization scenario using long-term, steady-state CMAs. Despite the different assumptions, the recommended portfolio remained remarkably similar in terms of asset allocation. The key difference was in the funding source: with credit expected to perform better in the long run, the optimized portfolio allocated more towards equities and less towards credit to achieve the desired return. He clarified that the negative cash position in the model is a technique to represent improved capital efficiency, not a literal recommendation. He provided examples of achieving this efficiency through asset allocation, like shifting from public equities to private equity which inherently has leverage. He then revisited the portfolio optimization using long-term Sharpe ratios. The recommended asset allocation remained similar, but the funding source shifted from credit to equities due to the different return expectations in the long-term scenario. Hecht then argued for a blended approach that considers both the baseline and long-term scenarios. This blended recommendation suggests increasing diversifiers like hedge funds and real estate and funding it proportionally across equities, core fixed income, and credit. He summarized the key takeaways: public market returns are expected to be low; the equity risk premium is small, and private investments might not outperform public ones by as much as commonly believed. He presented his recommendations as a robust approach that considers multiple factors and aims to be effective across different market conditions.

MR. ZINN raised a concern about the shrinking number of publicly listed companies and its impact on the portfolio's diversification.

MR. HECHT acknowledged this as a valid point that could lead to higher risk estimates for public markets in the future. He also pointed out that this decline strengthens his argument for private equity, as it offers diversification benefits by having a lower correlation with public markets.

MR. HARRIS then focused on choosing a beta for private equity. He asked if the S&P 500 or the Russell 2000 would be a better benchmark.

MR. HECHT emphasized selecting a benchmark that reflects the specific private equity program's characteristics. For a technology-focused private equity portfolio invested in smaller companies, a small-cap technology index leveraged to match the private equity's leverage would be ideal. For a more general, U.S.-diversified private equity program, he suggested the Russell 2000 as a better option than the S&P 500. However, he stressed the importance of leverage adjustment, as private equity typically uses more leverage than the Russell 2000.

MR. HARRIS highlighted the different market performances of the S&P 500 and the Russell 2000, with the latter currently in a bear market. This reinforces the idea of using a smaller-cap benchmark for private equity.

MR. ALLEN asked Hecht to elaborate on the correlations between different asset classes, a critical factor in portfolio optimization.

MR. HECHT acknowledged the importance of correlations and the challenge of using smoothed private market data. He explained that they address this by using a blend of historical correlations from two periods (1990-2023 and 2008-2023) to capture long-term trends and recent market behavior. This approach was chosen based on its effectiveness in minimizing forecast errors. Estimating correlations for private markets using public market proxies. For instance, they estimate private credit correlations based on high-yield public market data adjusted for duration.

MR. HARRIS chimed in to emphasize the limitations of smoothed data in reports (except strategic plans). She also questioned the specific periods chosen (1990-2023 and 2008-2023) as they represent disinflationary environments.

MR. HECHT clarified that these periods include the inflationary episode of 2022 and that a few years don't significantly impact the statistics. He reiterated that these periods were selected because they resulted in the most accurate forecasts in their analysis. He distinguished between correlation estimates (based on historical data) and stress scenarios (using specific historical years) used in the optimization process.

MR. ALLEN inquired about the use of hedge funds specifically and whether it was a chosen strategy to pick them over public markets.

MR. HECHT clarified that the HFRI equity market neutral index and the macro index were used because they were the stated benchmarks in the investment policy. These represented the market for equity market neutral and macro managers. Trend following used the most popular trend-following index, the SOC and the SG trend index.

MR. HARRIS pointed out that the cash return forecast was high at 4.1%, lifting the entire baseline. He suggested alternative ways to arrive at the hedge fund numbers, which he believed were on the high side.

MR. HECHT explained that hedge funds were viewed as cash-plus strategies. They tended to outperform and underperform at different times compared to equities and credit, which tended to move together. So, hedge funds provided better diversification. He elaborated on why the hedge fund forecast was higher than usual. He mentioned that cash rates had gone up, and since hedge funds behaved like cash-plus vehicles, their forecast went up one for one with the increase in cash rates. Even though equity risk premiums had been compressed due to high valuations, hedge funds became even more attractive as diversifiers.

MR. SKJERVEM complimented the presentation and recommended a book on expected returns by AQR's co-founder Dr. Antti Ilmanen. He also disclosed his investment in AQR products and his belief in the skills of the AQR team.

MR. HARRIS shared his experience of funding Cliff Asness, the founder of AQR, and acknowledged his value-driven approach. He cautioned that the 4.1% cash return forecast might have been too high considering the current economic regime.

### **PATHWAY PRIVATE MARKETS REVIEW**

MR. CHAMBLISS from Pathway introduced his team and Pathway as a private markets investment specialist. Pathway has a long history in private markets investing, with a team of over 80 investment professionals and over \$90 billion in assets under management. They focus on customized account structures and invest through blind pool primary funds, secondary investments, and direct investments. He then elaborated on Pathway's philosophy and approach to private markets investing. They believe that carefully constructed private markets portfolios can outperform public markets, but it requires a lot of work. Investors need to be selective and avoid mistakes, as the difference between strong and weak performers can be significant. Pathway builds detailed due diligence processes to find the best opportunities and works hard to build relationships with top private equity managers.

MR. JENKINS then provided more details about the private markets program for the APFC. The program has been investing in private markets for over 20 years and has grown into one of the top investors in the space. The portfolio is well-diversified across strategy, region, and industry, with exposure to over 8,000 companies in 90 countries. He also explained the benefits and risks of private equity investing. Private equity offers access to a broader set of opportunities, as most companies are privately held. However, it's a complex asset class and manager selection is critical for success. Strong performance requires a long-term approach and access to the best managers. He concluded by highlighting Pathway's manager-centric approach. They focus on building relationships with top private equity managers and then invest through various means, including primary funds, co-investments, direct investments, and secondary investments.

TRUSTEE RUBENSTEIN thanked Pathway for their presentation on demystifying private equity.

MR. HARRIS asked several questions about co-investment. He wanted to know if Pathway keeps a list of preferred private equity managers and if that list is public.

MR. JENKINS responded that they do keep such a list but it is not public and is shared with the APFC staff.

MR. HARRIS then inquired about the returns on co-investment and how APFC compares in terms of its ability to access those opportunities.

MR. JENKIN said that the returns on co-investment have been very strong and that APFC benefits from its long-term relationship with Pathway and its reputation as a sophisticated investor. Another point discussed was the transition of the private equity program from a phase of building out a portfolio to a phase of managing existing investments. He agreed that working strategically with managers is becoming increasingly important.

MR. RUGGIERI then presented on the performance of the APFC's private equity program. He highlighted that the program has generated a 20% net return over the past 10 years, which is

superior to the returns of other top public pension plans. The program has also delivered strong cash flow, with distributions exceeding contributions over the past three years. Overall, the private equity program has resulted in nearly \$15 billion in net gains for the Permanent Fund. He reiterated the importance of a well-diversified portfolio and manager selection for continued success in private equity. He also emphasized the collaborative nature of the relationship between Pathway and the APFC staff.

MR. ZINN asked about the private equity benchmark referenced in John Ruggieri's presentation.

MR. RUGGIERI clarified that it is the Cambridge benchmark, which is not directly investable.

MR. HARRIS then asked a few questions for clarification. He wanted to know if the private equity numbers included venture capital and how much of a difference that makes.

MR. RUGGIERI responded that it does include venture capital and represents about one-third of the total gains.

MR. HARRIS also inquired about how often the Permanent Fund acts as the lead limited partner (LP) and the number of active relationships within the portfolio.

MR. RUGGIERI explained that the Permanent Fund is frequently a lead LP, leveraging Pathway's established relationships to gain access and board seats. He also mentioned that all 121 relationships are currently active.

MR. HARRIS was surprised by the high number of active relationships and asked for clarification.

MR. RUGGIERI elaborated that while there are 121 relationships, roughly half of the capital is concentrated in the top 25 managers.

MR. HARRIS requested an estimate of the number of deals the Permanent Fund approves annually.

MR. RUGGIERI responded that they approve around 30 fund commitments per year, along with a much higher number of co-investment and direct equity deals.

MR. HARRIS then contrasted this with the size of the Alaska-based investment team, which CEO Mitchell stated is currently six but will grow to seven soon. He concluded by observing that this is a relatively lean team compared to the benchmark but acknowledged the unique relationship with Pathway.

MR. RUGGIERI then circled back to venture capital to address Mr. MR. HARRIS' earlier query. He specified that venture capital represents \$5.1 billion of the total \$15 billion gain and has delivered a 23% return since inception.

MR. HARRIS inquired about several aspects of private credit. First, he asked about the current yield for the Permanent Fund's portfolio, which Vincent Dee reported to be around 11%. He then wanted clarification on the previously mentioned \$1.9 trillion market size for private credit.

MR. DEE confirmed it includes the leverage used by these funds.

MR. HARRIS questioned if private credit should replace traditional fixed income.

MR. DEE explained it's more of a complementary asset class for enhanced returns and diversification.

MR. HARRIS' final question addressed potential behavior in an economic downturn.

MR. DEE acknowledged the limited experience with downturns but suggested private credit could experience higher volatility. He addressed Mr. Harris' concern about competition leading to riskier lending practices. The Permanent Fund is aware of this and actively monitors trends to ensure conservative underwriting practices are maintained.

MR. JENKINS presented the infrastructure portfolio, highlighting its strong performance and diversification benefits. He explained the portfolio's focus on value-add strategies and its ability to generate capital appreciation. However, some committee members raised concerns about the true diversification of the infrastructure portfolio due to its use of private equity structures. They questioned if the portfolio provided true inflation protection because of the fixed investment period.

TRUSTEE RUBENSTEIN expressed a belief that the Permanent Fund should increase its allocation to private equity due to its strong performance.

MR. DEE confirmed that other institutions typically allocate between 2% and 6% of their portfolio to private equity, suggesting the Permanent Fund's allocation is on the lower side.

MR. JENKINS echoed Trustee Rubenstein's sentiment, emphasizing the importance of having the proper infrastructure and relationships in place to successfully invest in private equity. He also mentioned that some investors are increasing their target allocations after the pandemic.

TRUSTEE CRUM gave positive remarks regarding Pathway's role in managing the Permanent Fund's private equity investments.

## **FISCAL YEAR 2024 CAPITAL MARKET PROJECTIONS AND ASSET ALLOCATION REVIEW**

MR. ALLEN presented the different options for the fund's asset allocation. He began by explaining the firm's typical process for advising public funds on asset allocation. They conduct studies every 3 to 5 years, recommending options to the Board, which then sets investment targets. Unlike some other funds, the APFC's CIO and investment staff have recently taken the lead in this process. He then described their capital market assumption process, highlighting their focus on long-term risk and return along with correlations between asset classes. Correlations indicate how asset classes move together, with a low correlation meaning they move independently. This is desirable for diversification purposes. He presented their updated capital market projections, noting a significant change from prior years. Bond yields were higher due to a persistent inverted yield curve, and cash yields were also high. Equity return expectations had decreased, reducing the spread between stocks and bonds compared to the past decade. He then addressed private markets, acknowledging the challenges AQR presented regarding their inclusion due to valuation complexities. He pointed out a slight increase in their projected return for the APFC portfolio. Next, he presented a table summarizing expected returns, with equities generally having the highest followed by private markets and then bonds. He followed this with a historical comparison of their projected returns versus actual returns over the past decade. Overall, their process seemed to generate reasonably accurate predictions.

TRUSTEE CRUM interrupted to clarify if the expected return included projected deposit growth from oil royalties.

MR. ALLEN confirmed it did not and only reflected investment returns. Continuing, he discussed correlations between asset classes. He highlighted the negative correlation between private equity and fixed income, suggesting this combination could be favorable for the portfolio's overall risk profile. Real estate also had a low correlation with most asset classes and offered some protection against inflation. Hedge funds, with their generally higher returns, also exhibited lower correlations with other asset classes. An XY scatter plot was used to visually represent the risk-reward relationship of various asset classes. Private equity offered the highest potential return but also carried the highest risk. Commodities, while not a typical holding for large funds, had a very low correlation with most other assets and some inflation protection benefits. The presentation concluded with a discussion on commodity allocations. Public funds rarely held them directly, but some, like target-date retirement funds, used them along with real estate investment trusts (REITs) and listed infrastructure to mimic private asset exposure. For the APFC, gold was their only current commodity holding, and even that was minimal.

MR. ZINN inquired about the average commodity allocation for large funds.

MR. ALLEN replied that it was typically around 1% to 2% for those who held them at all.

MR. HARRIS brought up the point that Alaska's oil dependence could be a factor to consider in asset allocation.

CEO MITCHELL pointed out that their legal framework didn't require them to consider the source of their funds, so the focus remained on maximizing risk-adjusted returns.

TRUSTEE BRUNE inquired about the fund's past exposure to commodities beyond holdings like gold. He expressed a desire to understand the breakdown between direct holdings, companies involved in resource extraction (e.g., mining), and indirect exposure through funds.

MR. ALLEN clarified that the presented expected risk and return for commodities assumed direct investment in a commodity index. He acknowledged other methods for gaining commodity exposure, including investing in resource-based companies or airlines (sensitive to fuel prices).

TRUSTEE BRUNE emphasized the importance of understanding the total allocation tied to commodity development for public education purposes. Trustee Zinn brought up Commodity Trading Advisors (CTAs) as an alternative investment option not explicitly mentioned by MR. ALLEN.

MR. HARRIS pointed out the distinction between a holding's weight as a percentage of the asset base and its contribution to overall portfolio risk. Commodities, while risky, could have a negative correlation with equities, potentially reducing overall risk.

MR. ALLEN discussed how increased fixed-income yields allowed for incorporating fixed income back into the portfolio while maintaining a 5% real return target. This shift reflected a broader trend of clients reevaluating fixed income due to improved yields. He explained that small moves in asset allocation don't make a significant difference on a forward-looking basis.

MR. ZINN then inquired whether the hedge fund allocation included Commodity Trading Advisors (CTAs).

MR. ALLEN responded that the hedge funds were a broad category encompassing everything in the HFRI unweighted composite. He continued his discussion focusing on using historical data to simulate portfolios with different private equity allocations (15% and 20%). He acknowledges that after 39 years; a 20% private equity allocation would have yielded better results. He attributes this to private equity being a top-performing asset class over this period. Interestingly, the analysis showed that historically, it would have been advantageous to fund the increased private equity allocation from private markets (predominantly real estate) as opposed to public markets. He presented findings for various time horizons (39 years, 20 years, 10 years). The results indicated that for most periods, funding from public markets produced better returns than funding from alternatives (except for the longest period, where the negative impact of a lousy real estate market in the early years outweighed the benefits).

CHAIR SCHUTT thanked Mr. Allen for his presentation.

### **LEGISLATIVE UPDATE**

MS. SWANSON presented updates on legislative matters and budget priorities for the fiscal year 2025. She emphasized the importance of accountability in APFC's mission and highlighted the legislative program's focus on securing resources for talent, infrastructure, and partnerships. She discussed budget increments, starting with Annual Merit, explaining the differing opinions on the proposed increase (ranging from 2% to 6%) and the legislative scrutiny surrounding it.

TRUSTEE RICHARDS raised concerns about political influences on staff compensation, prompting Swanson to express her belief that politics do play a role, albeit indirectly, in the decision-making process.

MS. SWANSON highlighted the Senate's full funding of the program while noting the House's base-level funding approach. She stressed the importance of full funding for recruitment and morale purposes, despite potential budgetary constraints. Regarding the Anchorage office, she acknowledged the lack of legislative endorsement, attributing it to concerns over power balances rather than the office's merits. She expressed disappointment over the legislative directives to reduce expenses related to the office, despite its strategic importance.

TRUSTEE BRUNE emphasized the significance of the Permanent Fund's role in supporting Alaska's economy.

MR. HARRIS provided perspective on budget allocations and the cost of legislative decisions.

TRUSTEE CRUM noted increasing awareness of Trustee Paper #10's proposals and suggested a continued focus on education and advocacy.

CHAIR SCHUTT concluded by thanking participants and adjourning the meeting.

SUBJECT: Chief Executive Officer Report

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

DATE: May 29, 2024

INFORMATION:   X  

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**BACKGROUND:**

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

**STATUS:**

Executive Director, Deven Mitchell, will present highlights from the following reports:

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



SUBJECT: Pending Board Matters

ACTION:

DATE: May 29, 2024

INFORMATION:   X  

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BY	TASK	CAPTURED	TARGET	COMPLETED
Mitchell/McCain	PMP Improvements	7/23	7/24	
Mitchell	Update Compensation Structure	12/22 4/23	TBD	
Mitchell	Peer Group Definition	7/22	TBD	

SUBJECT: Trustee Education

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

DATE: May 29, 2024

INFORMATION:     X    

**BACKGROUND:**

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

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

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

TRAINING OPPORTUNITY	TOPIC	LOCATION	DATES
Callan	Intro to Investments	Chicago, IL	June 18-19, 2024
		Virtual	September 24-26, 2024
	Intro to Alternatives	Virtual	August 21-22, 2024
	2024 Fall Conference	Monterey, CA	September 8, 2024
ILPA	Varies – please see website	<a href="https://ilpa.org/master-calendar/">https://ilpa.org/master-calendar/</a>	See ILPA Website

# Memo

**To:** Governance Committee  
**From:** Shannon Ely McCain, Director of Human Resources  
**Date:** May 17, 2024  
**Re:** APFC Financial Disclosures Report

As required by AS 37.13.110(b) and Alaska Permanent Fund Corporation policy relating to personal investments conduct and reporting, trustees and staff must disclose certain financial interests. Below is a list of disclosures for transactions made by trustees and staff, covering initial, quarterly, and annual disclosures for reportable holdings as of December 31, 2023.

Disclosures			
Name	Position Title	Disclosure Type	Received
Adam Crum	Trustee	Annual	3/28/2024
Alex Smith	Investment Operations Manager	Annual	3/5/2024
Allen Waldrop	Director of Private Equity	Annual	3/15/2024
Allen Waldrop	Director of Private Equity	Quarterly	4/18/2024
Chris Cummins	Senior Portfolio Manager	Annual	2/22/2024
Chris Lavalee	Sr. Portfolio Accountant	Annual	5/6/2024
Chris LaVallee	Senior Portfolio Accountant	Quarterly	2/12/2024
Chris Poag	General Counsel	Annual	2/26/2024
Craig Richardson	Trustee	Annual	5/15/2024
Craig Richardson	Trustee	Quarterly	5/15/2024
Deven Mitchell	Executive Director	Annual	2/9/2024
Ed Rime	Portfolio Manager	Quarterly	2/12/2024
Ed Rime	Portfolio Manager – Real Estate	Annual	2/22/2024
Ellie Rubenstein	Trustee	Quarterly	5/2/2024
Ellie Rubenstein	Trustee	Annual	5/2/2024
Eric Ritchie		Annual	3/15/2024
Fawaad Razzaque	Director of Investments Public Equity	Annual	3/29/2024
Jackie Mallinger	Sr. Portfolio Accountant	Annual	2/26/2024
Joe Shinn	Public Equities Analyst	Quarterly	
Joseph Jeralds	IT Specialist	Annual	3/13/2024
Joseph Jeralds	IT Specialist	Annual	3/4/2024
Lara Pollock	Private Equity Associate	Annual	3/15/2024

Larissa Murray	IT Specialist	Annual	4/10/2024
Leonita Tupou	Administrative Specialist	Initial Comprehensive Disclosure	4/22/2024
Luke Kirkham	Investment Operations Analyst	Annual	3/1/2024
Marcus Frampton	CIO	Annual	3/15/2024
Michael Gumz	Credit Analyst – Fixed Income	Annual	3/13/2024
Michael Gumz	Credit Analyst	Quarterly	3/13/2024
Michael Gumz	Credit Analyst	Annual	3/13/2024
Norix Mangual	Portfolio Accountant II	Quarterly	2/9/2024
Norix Mangual	Portfolio Accountant II	Annual	3/11/2024
Sebastian Vadakumcherry	Chief Risk & Compliance Officer	Annual	1/29/2024
Sebastian Vadakumcherry	Chief Risk & Compliance Officer	Quarterly	4/18/2024
Shannon Ely McCain	Director of Human Resources	Initial Comprehensive Disclosure	12/6/2023
Terek Rutherford	Investment Associate	Annual	2/28/2024
Tim Andreyka	Director of Real Estate	Annual	3/25/2024
TJ Hegedus	Risk Analyst	Annual	3/15/2024
Val Mertz	CFO	Annual	3/5/2024
Valeria Martinez	Director of Investments	Annual	3/4/2024
Youlian Ninkov	Portfolio Manager	Annual	5/16/2024

As a reminder, Quarterly - Only subsequent new Reportable Investments made during the quarter must be disclosed by the thirtieth (30) day following the end of each quarter. For the purpose of clarity, acquiring additional shares or selling shares of an already disclosed Reportable Investment does not need to be disclosed again as a quarterly investment.

All disclosures are under review as required per the APFC Disclosure Policy. After review, disclosures are filed in the appropriate personnel file. If you have any questions, please call me at 907-796-1541.

# Memo

To: Board of Trustees  
 From: Deven Mitchell  
 Chief Executive Officer  
 Date: May 29, 2024  
 Re: Travel, Training, and Diligence Summary Report

**Background:**

This report includes APFC staff completed travel and due diligence numbers for the period January 1 – March 31, 2024. The travel report is presented to the Board of Trustees for review at each board meeting as required by APFC Resolution 04-10.

**Due Diligence Summary:**

Department	Number of Meetings Held	
	In Person	Telephonic/Virtual
Executives	13	33
Fixed Income	39	17
Public Equity	7	35
Private Income	30	126
Absolute Return	1	43
Real Estate	35	165
Private Equity	95	173
Total Fund Cash	0	5

**Travel Summary:**

Budget-to-Actual Report: July 1, 2023 through March 31, 2024

CORPORATE OPERATIONS	BOARD-AUTHORIZED BUDGET	EXPENDITURES	BUDGET REMAINING
Travel	\$800,000	\$761,390	\$38,610
Staff	\$602,000	\$565,385	\$36,615
Trustees	\$18,000	\$24,162	\$(6,162)
Moving/Non-Employee	\$180,000	\$171,843	\$8,157

Trip Summary – 3rd Quarter – January 1 through March 31, 2024

TRAVELER	PURPOSE	DATES OF TRAVEL		LOCATION
Andreyka	Quarterly Partnership Meetings	January 3	January 12	Virginia
Adams	Manager Meetings	January 8	January 11	Virginia
Smith	Juneau Office Visit	January 12	January 26	Juneau
Richards	Juneau Visit	January 17	January 19	Juneau
Andreyka	Property Inspections	January 21	January 26	San Diego
Schutt	Senate Finance Presentation	January 25	January 26	Juneau

Mitchell	Conference	January 27	January 31	Miami
Frampton	Conference	January 28	February 2	Miami
Pollock	Manager Meetings	January 29	February 2	Dallas-Fort Worth
Rahn	Annual General Meeting	January 30	January 31	Dallas-Fort Worth
Balovich	Conference	January 30		California
Shah	Manager Meetings	February 1	February 2	Dallas-Fort Worth
Rahn	Conference	February 5	February 9	New York
Rutherford	Conference	February 5	February 9	New York
Hatch	Conference	February 7	February 10	San Francisco
Parise	Manager Meetings	February 11	February 17	New York
Rutherford	Juneau Office Visit	February 12	February 16	Juneau
Rahn	Juneau Office Visit	February 12	February 16	Juneau
Waldrop	Anchorage/Juneau Office Visit	February 12	February 16	Anchorage/Juneau
Anderson	APFC Board of Trustees Quarterly Meeting	February 14	February 16	Juneau
Schutt	APFC Board of Trustees Quarterly Meeting	February 14	February 16	Juneau
Richards	APFC Board of Trustees Quarterly Meeting	February 14	February 16	Juneau
Crum	APFC Board of Trustees Quarterly Meeting	February 14	February 16	Juneau
Rubenstein	APFC Board of Trustees Quarterly Meeting	February 14	February 16	Juneau
Brune	APFC Board of Trustees Quarterly Meeting	February 15	February 16	Juneau
Haggard	Conference	February 17	February 24	Austin, TX
Hatch	Training	February 19	February 23	Austin, TX
Waldrop	Manager Meetings	February 20	February 28	London
Alldredge	Administrative Travel	February 20	February 22	Anchorage
O'Day	Conference	February 24	February 28	Las Vegas
Balovich	Conference	February 25	March 3	Phoenix
Rahn	Conference	February 26	February 28	Carlsbad, CA
Pollock	Due Diligence	March 2	March 8	Chicago/Phoenix
Alexander	Manager Meetings	March 3	March 14	London
Hatch	Conference	March 3	March 6	Phoenix
Gagliardo	Due Diligence	March 3	March 8	New York/Charlotte, NC
Pollock	Conference	March 4	March 10	New York/San Diego
Rahn	Conference	March 4	March 8	New York
Waldrop	Conference	March 5	March 8	Orlando
Mitchell	Conference	March 5	March 9	Oakland, CA
Crum	Conference	March 5	March 8	Oakland, CA
Hatch	Conference	March 7	March 10	San Diego
Andreyka	Property Inspections	March 10	March 15	Santa Ana
Waldrop	Candidate Interview	March 11	March 15	Juneau
Pollock	Candidate Interview	March 11	March 16	Juneau
Haggard	Candidate Interview	March 11	March 16	Juneau
Rime	Property Inspections	March 11	March 15	Santa Ana
Shah	Juneau Office Visit/Manager Meetings	March 16	March 20	Juneau/Los Angeles

Rahn	Manager Meetings	March 17	March 22	Hong Kong/India
Hatch	Due Diligence	March 18	March 21	Burbank
Alexander	Annual General Meeting	March 19	March 22	London
Gagliardo	Candidate Interview	March 12	March 14	Juneau



	EMPLOYEE	DEPT	TRAINING TYPE*	VENDOR	COURSE TITLE	CLASS HOURS	CITY	ST
1	Joseph Jerals	IT	OL	Global Knowledge	CompTia A+ Certification Prep Course	50.0		
2	Catherine Hatch	Inv	OTT	ILPA	Private Equity for the Limited Partner	14.0	Austin	TX
3	Lillie Haggard	Inv	OTT	ILPA	Private Equity for the Limited Partner	14.0	Austin	TX
4	Lillie Haggard	Inv	OTT	ILPA	Private Equity Co-Investing for the Limited Partner	7.0	Austin	TX
5	Catherine Hatch	Inv	CS	With Intelligence	Women in Private Equity Summit	30.0	Phoenix	AZ
6	Lara Pollock	Inv	CS	With Intelligence	Women in Private Equity Summit	30.0	Phoenix	AZ
7	Lillie Haggard	Inv	CS	ILPA	ILPA Member's Conference		Chicago	IL
8	Juliette Alldredge	Comms	OL	PRSA	APR Prep Course	20.0		
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CS - Conferences & Seminars  
 LT - Local Training  
 OTT - Out of Town Training  
 OL - Online

# Memo

To: Board of Trustees

From: Shannon Ely McCain,  
Director of Human Resources

Date: May 17, 2024

RE: Human Resources Summary

Since February 2024, we have successfully navigated the challenges posed by the resignation of our HR Generalist and have maintained continuity in our ongoing operations. Payroll, recruitment, and onboarding processes have continued effectively. Recruitment efforts have paid off, with six full time positions and two intern positions filled since our last board meeting. Two hires leveraged our in-house talent to fill vacant positions through internal promotions, and we are currently recruiting for two new roles that have opened because of these promotions. This progress highlights our ability to attract talent, promote from within and maintain operational excellence. We remain confident in our ongoing search for the HR Generalist role and look forward to welcoming a new team member soon.

Of the positions that we have filled, three have been successfully onboarded, with the remaining three new hires starting in June 2024. Work on the PMP-Employee Handbook update project continues to move forward. Human Resources partnered with staff from operations and investments to participate in two career fairs. These provided an opportunity to network with colleges and talk with attendees about the work of the Alaska Permanent Fund Corporation and careers.

## Employee Retention

Historical Turnover Rate by Fiscal Year (July 1 – June 30)

This table provides insight into the turnover rates for both operations and investments staff over a span of five fiscal years plus the current fiscal year to date.

APFC Turnover Rate - 5 years + current FY year to date				
Fiscal Year	Annual	Average Monthly	Operations Staff Turnover	Investment Staff Turnover
FY19	11.5%	1.0%	4	1
FY20	12.8%	1.1%	5	1
FY21	18.6%	1.5%	4	5
FY22	13.7%	1.1%	4	2
FY23	19.0%	1.6%	9	1
FY24	15.6%	1.3%	7	2

The annual turnover rate has shown an increasing trend over the period, reaching a high point in FY23 at 19.0% and showing a decrease so far in FY24. While turnover in investments remains stable, there are ongoing opportunities to improve turnover rates in operations and increase retention.

## Staffing & Recruitment

Recruitment activity has remained steady through May, and we successfully made hires in both Investments and Operations.

Headcount & Vacancies as of 5/17/2024			
Division	Filled FTE	Vacant FTE	Vacancies at Previous Meeting
Investments (32)	30	2	4
Operations (35)	30	5	2
Departmental Totals	60	7	6
Total FTE's	67		

Vacant Positions as of 5/17/2024				
APFC Title	Division	Department	Incumbent	Status
Human Resources Generalist	Operations	Human Resources	Separation	Actively Recruiting
Investment Analyst - Global Rates	Investments	Fixed Income	Internal Promotion	Actively Recruiting
Investment Operations Analyst	Operations	Middle Office	Internal Promotion	Actively Recruiting
Investment Operations Analyst	Operations	Middle Office	Separation	Actively Recruiting
Portfolio Manager	Investment	Real Estate	Separation	Not Actively Recruiting
Administrative Specialist	Operations	Administration	Separation	Pending Recruitment
Project Manager	Operations	Administration	NEW FY23	Not Actively Recruiting

Filled Positions as of 5/17/2024			
APFC Title	Division	Department	Incumbent
Investment Analyst	Investments	CIO	Internal Promotion
Credit Analyst	Investments	Fixed Income	Internal Promotion
Portfolio Manager	Investments	Private Equity	External Hire
Investment Analyst	Investments	Real Estate	External Hire
Investment Analyst	Investments	Fixed Income	External Hire
Administrative Specialist	Operations	Administration	External Hire
Intern - Accounting	Operations	Finance	AK Resident
Intern - Investments	Investments	All Asset Classes	AK Resident

## Intern Program Update

### External Intern Program

In November we began recruitment for internal internships and external partner internships. We partnered with Crestline Investors Inc., and McKinley Capital Management LLC to recruit for a space in their internship programs, giving preference to students with Alaska ties.

We advertised these opportunities on BambooHR, ZipRecruiter, Indeed, LinkedIn, Glassdoor, and Handshake. This year, Crestline Investors Inc. offered two internships and McKinley Capital Management LLC offered one. Both of our partners selected their interns from the pool of candidates who applied through APFC. Crestline Investors Inc. offered an internship for their Hedge Fund Strategies and another for Credit Strategies.

APFC has selected two candidates for our intern program offering one intern position in Investments and one in Finance/Accounting.

- Accounting Internship: Ardian Balazhi from Anchorage, Alaska is pursuing a Bachelor of Business Administration with a focus in Finance and Philosophy at the University of Notre Dame and joined us on May 13, 2024.
- Investment Internship: Vera Bueler-Faudree from Fairbanks, Alaska is pursuing her Bachelor of Science in Statistics and Data Science at UCLA and will be joining us in June.

SUBJECT: Communications Update

ACTION:

DATE: 5/29/2024

INFORMATION: X

**APFC Communications**

As the investment manager of the Alaska Permanent Fund, we are accountable to various audiences, including stakeholders within Alaska, nationwide partners and peers, and global investment relationships. We always strive to meet the distinct needs of each audience in being a dependable and trustworthy source of information.

**APFC STRATEGIC INITIATIVES****In-State Mission of Education & Awareness**

The goal is to improve the understanding of the Fund, the investment management function of APFC, and the staff who safeguard and increase the State's most vital renewable financial asset. This involves obtaining and retaining the required support and resources to safeguard and grow the Fund.

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

APFC is a trusted and reliable investment manager, recognized globally for its best-in-class services. Ensuring high regard among peers and potential partners is vital for continued success.

**Presentations, Interviews, Outreach**

February 2024 – May 2024

- Bloomberg: CIO role, major allocators with Marcus Frampton
- Arctic Encounters Symposium, Deven Mitchell, Anchorage
- Internal BCDR: Communications Presentation, Juneau
- FY25 Alaska Mental Health Trust Authority, Val Mertz, Juneau
- PEI: Video interview with Allen Waldrop
- Venture Capital Journal: Investing in China with Allen Waldrop
- The Wall Street Journal: Market Commentary with Marcus Frampton
- Financial Times: Institutional Investors with Allen Waldrop
- Bloomberg: GP's and LP's negotiations with Allen Waldrop
- Financial Times: APFC Intro with Deven Mitchell
- The Wall Street Journal: APFC Intro with Allen Waldrop
- The Wall Street Journal: State Fund Asset Allocations with Marcus Frampton
- Infrastructure Investor: "On the Minds of" with Ross Alexander
- PEI Interview: Global Investor Ranking with Allen Waldrop
- The Wall Street Journal: PE Distributions with Marcus Frampton & Allen Waldrop
- Anchorage Daily News – Alex DeMarban with Chair Schutt
- Business Insider: APFC Intro with Deven Mitchell
- WSJ Pro Private Equity: Private Credit with Marcus Frampton
- Top 1000 Funds: Investment focus and key themes with Marcus Frampton

**Outreach and Education****APFC Community Reception May 29 during Quarterly Meeting**

APFC is eager to welcome local officials, North Slope Borough staff members, the city of Utqiagvik, and the larger borough community to APFC headquarters. This community reception has been promoted through NSB distribution channels, the Arctic Sounder newspaper, and the KBRW radio station.

**AK Youth Education Program Delivery**

APFC and our education partners with Alaska Resource Education (ARE) soft-launched the “Alaska Renewable Revenue” curriculum statewide, with in-person training in Juneau, Anchorage, and Fairbanks, and wrapped with a virtual training in April. We are currently planning a second launch designed to reach teachers during summer planning sessions. We are collaborating with ARE to align the middle school curriculum, aiming to reach a younger Alaskan audience to educate them about the Permanent Fund.

**In-State Outreach and Education**

Work has been ongoing with our Alaska-based partner, Yuit Communications, to strengthen our education and outreach efforts through social media. Plans are also in progress to refresh APFC’s website for an improved stakeholder experience.

**Nationwide Strategic Planning Highlighting APFC’s Expertise**

Together with BackBay Communications, our global financial communications agency, we developed a detailed 6-month strategic plan for APFC communications, including identifying thought leadership topics and campaigns. A fruitful example of a tactic established in the planning is distributing APFC press releases more broadly through Business Wire to establish credibility and help ensure consistent messaging at a national and state level.

Note, as of May 15, 2024, BackBay Communications has been acquired by Gregory FCA, an award-winning public relations and marketing firm that has more than 30 years of success in financial services and B2B communications. We’re excited to gain the additional expertise and resources.

**Crisis Communications “Readiness” Planning**

Work has been underway for the past few months, and we are well-positioned to review and hone APFC’s crisis communications for practical application. Crisis communications include managing the strategy, messages, timing, and information distribution channels to communicate effectively with the media, employees, core constituencies, and stakeholders to protect the corporation’s reputation and be responsive during Business Continuity and Disaster Recovery events.

**Media Communications Response**

APFC’s in-house team continues to collaborate closely with our in-state communications partners at Yuit Communications, and with our global financial communications firm, BackBay Communications, to analyze and respond in measured ways to media requests. Our primary goal is to provide clear, consistent, and transparent messaging that considers multiple audiences and stakeholders, including Alaskans and our global partners.

**Looking Forward****Publications**

Development of the Annual Report and General Election pamphlet is underway, with upcoming publication planned for this Fall.

**Thought Leadership**

Fund Targets, Asset Allocation, and Risk with Marcus Frampton and Sebastian Vadakumcherry to enhance understanding of APFC’s investment policy as set forth by the Board of Trustees.

SUBJECT: Legislative Update

ACTION:

DATE: 5/29/2024

INFORMATION: X

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The 33<sup>rd</sup> Alaska State Legislature adjourned 'sine die' on May 15, 2024.  
The 34<sup>th</sup> Alaska State Legislature will convene its 1<sup>st</sup> regular session in January 2025.

### **Legislative Objectives**

- Pursue Board initiatives for corporate functionality
- Educate stakeholders to build the foundation for informed policy decisions
- Secure resources to maintain and optimize APFC's investment management capacity
- Monitor and respond to legislation that impacts the Fund and the Corporation

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### **Board Initiatives for Corporate Functionality**

The following measures were presented in legislative presentations and discussions to support the Board's strategic plan. The proposal to ensure the confidentiality of personnel records for APFC staff was the most well-received out of the three initiatives. Work will continue in the interim to further the discussion in preparation for the 34th Legislature.

Pursue sponsorship and introduction of legislation to amend AS 37.13.100 Corporation Staff to:

- Protect from public records disclosure the identity of all candidates who would like to be considered for the positions of Executive Director and Chief Investment Officer;
- Provide the Board with the authority to interview the finalists for the positions of Executive Director and Chief Investment Officer in an executive session; and
- Provide for the confidentiality of personnel records of all APFC staff.

### **Education – Foundation for Informed Policy Decisions**

Education focused on the following: the Board's strategic plan initiatives, the Anchorage Office, budget resources to support talent and revenue generation, performance, target return objectives, and raising awareness about the limitations of the two-account structure. Trustees Paper Volume 10 has been distributed, providing context on challenges with the current Fund structure regarding revenue draw durability and offering solutions for further consideration. Additional work will be required during the interim to deepen understanding and advance solutions.

### **Resources**

To ensure the steady financial income that Alaskans rely on, APFC requires consistency and stability for our skilled professionals, systems, and partnerships.

Throughout the budget process, we have worked to secure the resources needed to invest and manage the Fund based on the Board's approved budget priorities.

This legislative budget cycle presented unique challenges. Although APFC is recognized and relied upon as a revenue generator for the State, this year's budget process introduced additional oversight and funding constraints that impact progress.

## **FY 2025 Operating Budget**

### **Alaska Permanent Fund Corporation**

- The packet materials include a comprehensive presentation on the Operating Budget, providing funding details based on the current legislative appropriations as we prepare for FY25, commencing on July 1, 2024.

### **Alaska Permanent Fund**

- Royalties to Principal
  - FY25 Constitutional ~\$407,300,000
  - FY25 Statutory ~\$82,000,000
- Inflation Proofing to Principal from the ERA
  - FY25 Inflation Proofing, not to exceed \$1,000,000,000
  - The FY25 estimate based on Callan's 2.50% projection is \$1,468,000,000
  - Trustees set forth the need for make-up appropriations if there be an inability to inflation-proof in times of diminished ERA values – Board Resolution 20-01.
- Withdrawals from the ERA to the General Fund
  - FY25 Percent of Market Value 5% Draw \$3,657,263,378
- Amerada Hess Settlement Earnings AS 37.13.145 (d)
  - AK Capital Income Fund AS 37.05.565 ~\$28,222,531
- State Agency Royalty Support – Fund Source: 1105 PFund
  - Department of Revenue \$99,600
  - Department of Law \$3,064,800
  - Department of Natural Resources \$7,238,300

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## **Legislation**

The following is an overview of legislation related to the Corporation and the Alaska Permanent Fund. Since the 33rd Legislature has adjourned sine die, bills that did not pass are no longer active and will need to be reintroduced for a new Legislature to consider.

### **Passed the Legislature, Pending Enactment**

- [SB 259](#) COMPENSATION FOR CERTAIN STATE EMPLOYEES  
Passed in the final days of the session, this bill amends the uncodified law to apply the salary increases negotiated by the supervisory bargaining unit to certain government employees not covered by a bargaining unit, including certain exempt officers and employees of the executive branch. APFC's positions are all exempt and thus covered in the provisions of this bill.

The OMB fiscal note that accompanied the bill includes APFC and 1105 PFund Source, reflecting an amount of \$1,459,700 (5% COLA and an increase of 3.38%) for APFC's FY25 personal services salary adjustments. Budget adjustments are anticipated in future years to reflect bargaining unit agreements with the enactment of this legislation.

### Proposed Constitutional Amendments Related to the Permanent Fund – no final passage

The proposed resolutions that would have placed an amendment to the Constitution of the State of Alaska before the voters at the next general election to constitutionally establish a classic endowment structure and distribution formulas from the Alaska Permanent Fund did not pass.

- [HJR 7](#) – Constitutional Amendment – Permanent Fund Dividend  
Was debated on House Floor 4/12/2024 – Failed to Pass the House Y22 N18  
It proposed the constitutional dedication of funds for the payment of a Permanent Fund Dividend, a constitutional Earnings Reserve Account, and required the state to pay the annual Permanent Fund dividend according to a statutory formula addressed in accompanying legislation.
- 1 Constitutional Amendment for a classic single fund endowment with a 5% POMV. [HJR 9](#)
- 1 Constitutional Amendment that includes a 5% POMV and guaranteed dividends. [SJR 1](#)
- 2 Constitutional Amendments guaranteed dividends w/Fund income. [HJR 8](#), [SJR 9](#)
- 3 Constitutional Amendments calling for appropriations limits [SJR 3](#), [SJR 4](#), [HJR 2](#)

### Proposed Statutory Changes Related to the Distribution of Income – no final passage

Bills proposing changes in the distribution of the Fund's income from the Earnings Reserve Account were not passed. Generally speaking, these bills proposed to delete the statutory net income calculation, maintain the 5% POMV draw methodology, provide varying distributions of the draw amount to the dividend fund and the general fund, and provide for inflation proofing of the Principal via annual appropriation.

- [SB 107](#) Permanent Fund Dividend POMV Split  
Passed the Senate 12Y 7N 1E on 5/1/2023 and was discharged from HFIN on 4/11/2024 by a House Floor vote 37Y 3N. No further floor action was taken, and the bill was held in House Rules. The bill maintains the 5% POMV annual draw from the ERA and provides a distribution to the Dividend Fund and to the General Fund.
- 2 bills that maintain the statutory 5% annual POMV draw and provide for a further statutory distribution split to the general fund and dividend fund. [HB 72](#), [HB 90](#), [HB 266](#)
- 1 bill that changes the statutory POMV formula - an annual distribution from the Permanent Fund of 5% of the lagging five-year average market value to a static 5% distribution factor with a formula that calculates the distribution factor based on the lagging 20-year average real rate of return. [HB 160](#)
- 1 bill that repeals the POMV distribution. [HB 208](#)
- 1 bill that eliminates the income distribution calculation in AS 37.13.140(a) and pays for PFDs based on royalties. [HB 266](#)

**Other Bills In Monitoring Status – no final passage**

- [SB 260](#) AK Perm Fund Corp BD/AK Perm Fund Council  
Introduced and scheduled for SFIN on 3/11/2024, it was removed from the schedule and not rescheduled. The bill brings forth changes to the composition, term, compensation, and nomination process for the Board of Trustees.
- [SJR 4](#) – Constitutional Amendment – Appropriation Limit and [SB 20](#) – Appropriation Limit  
It was heard in SJUD on 3/12/2024 and moved to SFIN. Working with the sponsor, the bill was amended to include the costs for managing the Fund under the list of exceptions. Other Constitutional Amendments calling for appropriations limits [SJR 3](#), [SJR 4](#), [HJR 2](#)
- 1 bill that directs the investment of Fund assets toward achieving a 25 percent ownership share of a natural gas pipeline originating on the North Slope and carves out Prudent Investor Rule provisions. [HB 222](#)
- 1 bill that adopts language similar to the Employment Retirement Income Security Act (ERISA) prudent investor standard and brings forth changes to investment responsibilities for proxy shares and reporting. [HB 303](#)
- 1 bill that adds a subsection to AS 37.13.120 to prohibit investment from furthering social, political, or ideological interests with the sponsor’s intent to ensure investment decisions are focused on maximizing returns. [HB 174](#)
- 1 bill that allows individuals to direct a portion of their dividend to the state General Fund or the Principal of the Permanent Fund. [HB 45](#)
- 1 bill that exempts Alaska from observing “advanced time” Daylight Savings Time [SB184](#)
- 1 bill to transfer PFD Division to APFC, later amended to eliminate this provision [HB 110](#)
- 1 concurrent resolution to create a Permanent Fund legislative standing committee [HCR 10](#)

SUBJECT: APFC IT UPDATE ACTION: \_\_\_\_\_  
Scott Balovich, Chief Information Technology Officer

DATE: May 29, 2024 INFORMATION:  X

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**APFC IT Update**

- APFC is in contract negotiations with the vendor for a foundational cloud-based data storage system.
- APFC IT has finalized the contract for an Anchorage based disaster recovery data center. The move to the new data center will occur before June 30<sup>th</sup>.
- The APFC IT Team is actively converting our conference systems from native Webex to *Native* Microsoft Teams (can still participate in Webex and Zoom).
- The APFC Data Center fire suppression system update and building code improvement project is being quoted and will be underway June 15<sup>th</sup>.
- The final push to move APFC to the M365 cloud including Data Protection and Ransomware mitigation capabilities is moving forward. These are prerequisites to Microsoft Co-Pilot.
- One of two Bi-Annual IT security tests (Penetration Testing) is being negotiated and quoted. Anticipated to occur before June 30<sup>th</sup>.
- APFC IT is fully staffed.
- There have been two security events of date of material consequence. One of which will be reported on May 30, 2024 in executive session at the quarterly Board of Trustees meeting.

SUBJECT: FY24 Year-to-Date Financial Update ACTION: \_\_\_\_\_

DATE: May 29, 2024 INFORMATION: \_\_\_\_\_ X \_\_\_\_\_

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KEY TAKEAWAYS:

- Total return for the third quarter of FY24 of 3.18%. Total fund underperformed the performance benchmark by 68 basis points and the passive benchmark by 76 basis points.
- Accounting net income year-to-date of \$4.7 billion, a gain of \$2.1 billion for the third quarter
- Realized (statutory) net income year-to-date of \$2.9 billion, slightly above Callan's mid-point projection of \$3.4 billion for the year
- Total net asset value as of March 31st of \$79.6 billion, an increase of \$3.2 billion from the same time last year
- Three transfers totaling \$800 million to the General Fund during the quarter, leaving \$845 million to be transferred during the last quarter of the fiscal year
- \$399 million of mineral deposits transferred in during the fiscal year to date, slightly ahead of the Spring Revenue Forecast
- Committed Earnings Reserve balance of \$5.1 billion, including \$3.7 billion for FY25 General Fund transfers and \$1.4 billion for FY24 inflation-proofing
- \$3.1 billion in uncommitted realized earnings at the end of March
- Inflation rate for FY24 is final at 4.1%, which results in an estimated statutory inflation proofing calculation of \$2.3 billion

Financial results for the third quarter of FY24 were similar to those for the prior quarter in that January saw drawdowns in almost every asset class, with some recovery in most of them by the end of the quarter. Public equities posted a total of \$1.5 billion in unrealized gains during February and March. Real estate experienced the largest write-down of \$333 million during the quarter. Overall, the portfolio gained \$1.8 billion in value between the end of December and the end of March.

Net assets increased by \$1.6 billion year-to-date through March. This is a result of net income of \$4.7 billion and \$399 million received in mineral royalty deposits offset by the FY24 POMV transfer to the General Fund in the amount of \$3.5 billion. Corporate operating expenses and other appropriations for the quarter totaled \$47 million.

There were three transfers to the General Fund during the third quarter of FY24 totaling \$800 million. The remaining \$845 million is scheduled to transfer throughout the remainder of the fiscal year. Staff is in communication with the cash managers at the Department of Revenue to ensure that amounts designated for the General Fund remain invested in the Fund as long as possible, while being available to meet the liquidity needs of the State.

**Financial Report  
March 31, 2024**

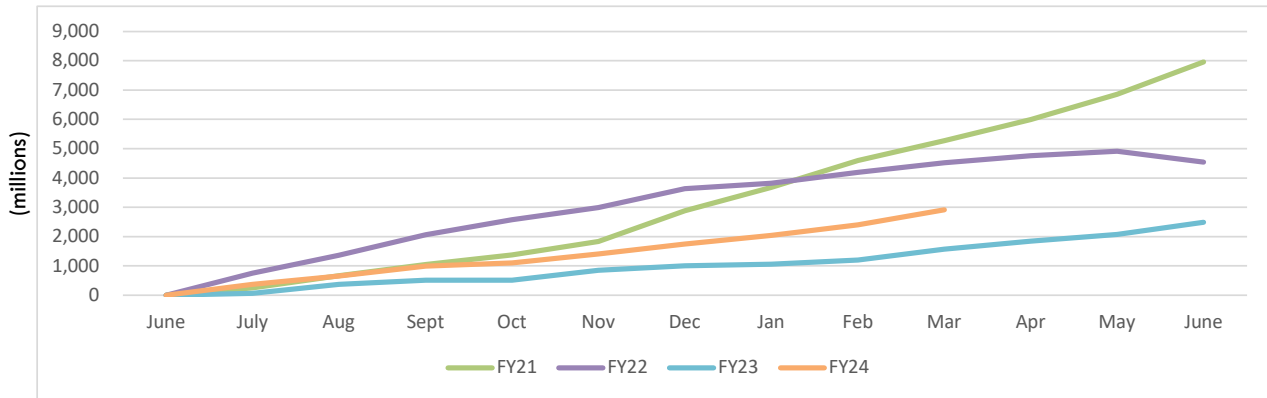
**Fiscal Year 2024 Net Assets**

Balances through March 31, 2024		<i>(in millions)</i>
Total assets		\$ 82,090.9
Less liabilities		(2,466.0)
Net assets		\$ 79,624.9
<b>Fund Balances:</b>		
Non-spendable		
Permanent Fund corpus—contributions and appropriations		\$ 56,818.9
Not in spendable form—unrealized appreciation on invested assets		12,796.3
Total non-spendable fund balance		69,615.2
Committed		
General Fund Commitment		3,657.3
Current FY inflation proofing		1,413.0
Current FY AK Capital Income Fund		16.4
Committed fund balance		5,086.7
Assigned for future appropriations		
Realized earnings		3,083.1
Unrealized appreciation on invested assets		1,839.9
Total assigned fund balance		4,923.0
Total fund balances		\$ 79,624.9

**Fiscal Year 2024 Income**

For the nine months ending March 31, 2024		<i>(in millions)</i>
<b><u>Statutory (Realized) Net Income</u></b>		
Interest, dividends, real estate, and other income		\$ 1,190.9
Realized gains on the sale of invested assets		1,852.0
Less operating expenses/legislative appropriations		(113.4)
Less Alaska Capital Income Fund committed realized earnings		(16.4)
Statutory net income		2,913.1
<b><u>GAAP (Accounting) Net Income</u></b>		
Statutory net income		\$ 2,913.1
Unrealized gain on invested assets		1,810.9
Alaska Capital Income Fund committed realized earnings		16.4
Accounting net income		\$ 4,740.4

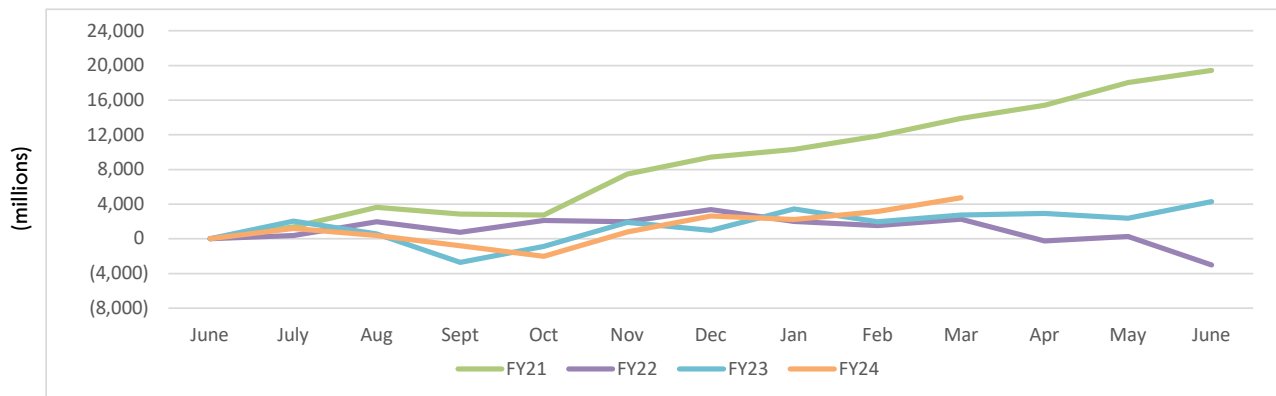
## Statutory Net Income, Fiscal Years 2021 - 2024



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

- FY21 statutory net income was \$7,962.4 million.
- FY22 statutory net income was \$4,543.6 million.
- FY23 statutory net income was \$2,491.1 million.
- FY24 statutory net income is \$2,913.1 million to date.

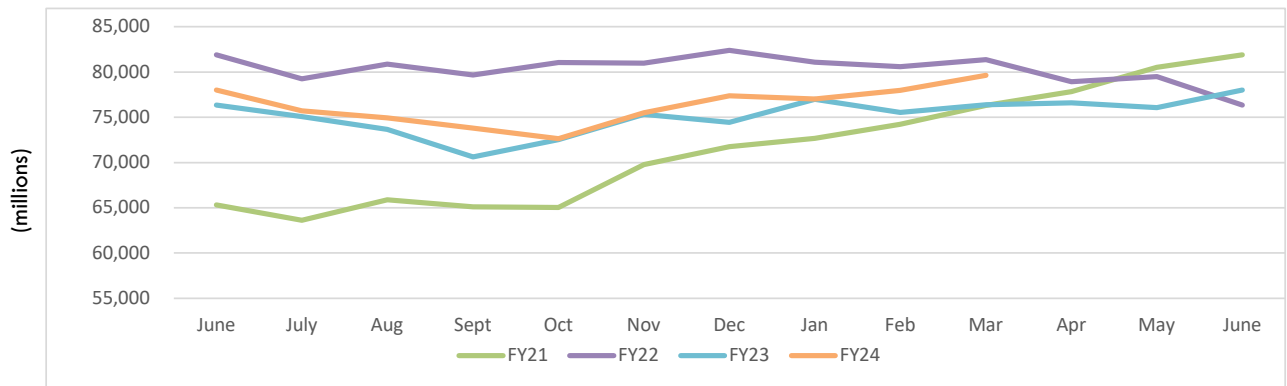
## GAAP Accounting Net Income, Fiscal Years 2021 - 2024



- Accounting net income is the same as statutory net income, except it includes unrealized gains and losses.

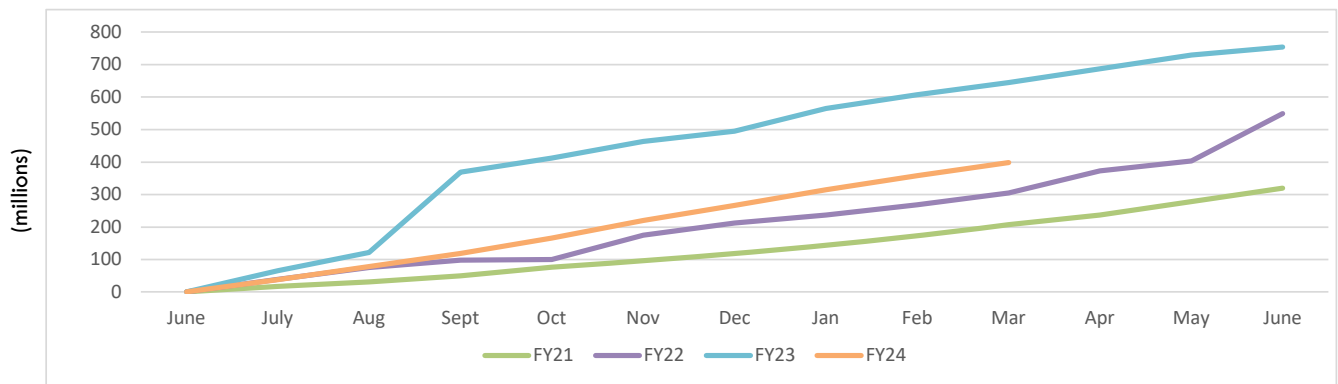
- Accounting net income for FY21 was \$19,416.6 million.
- Accounting net loss for FY22 was \$3,015.2 million.
- Accounting net income for FY23 was \$4,295.9 million.
- Accounting net gain for FY24 is \$4,740.4 million to date.

## Market Value of Fund Net Assets, Fiscal Years 2021 - 2024



- FY21 net assets as of June 2021 were \$81.9 billion, a decrease of \$16.6 billion over the FY20 ending balance.
- FY22 net assets as of June 2022 were \$76.3 billion, an increase of \$5.6 billion over the FY21 ending balance.
- FY23 net assets as of June 2023 were \$78 billion, a decrease of \$1.7 billion from the FY22 ending balance.
- FY24 net assets as of March 2024 were \$79.6 billion, an increase of \$1.6 billion from the FY23 ending balance.

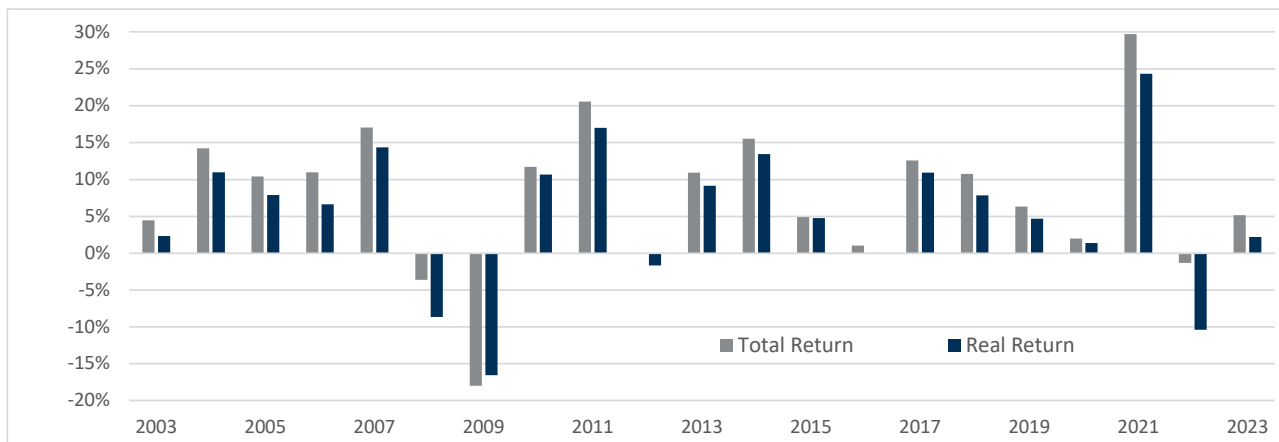
## Dedicated Mineral Revenues, Fiscal Years 2021 - 2024



- FY21 mineral revenue was \$319.6 million.
- FY22 mineral revenue was \$548.9 million.
- FY23 mineral revenue was \$753.6 million.
- FY24 mineral revenue is \$398.7 million to date.

## Alaska Permanent Fund Historical Returns, Fiscal Years 2003 - 2023

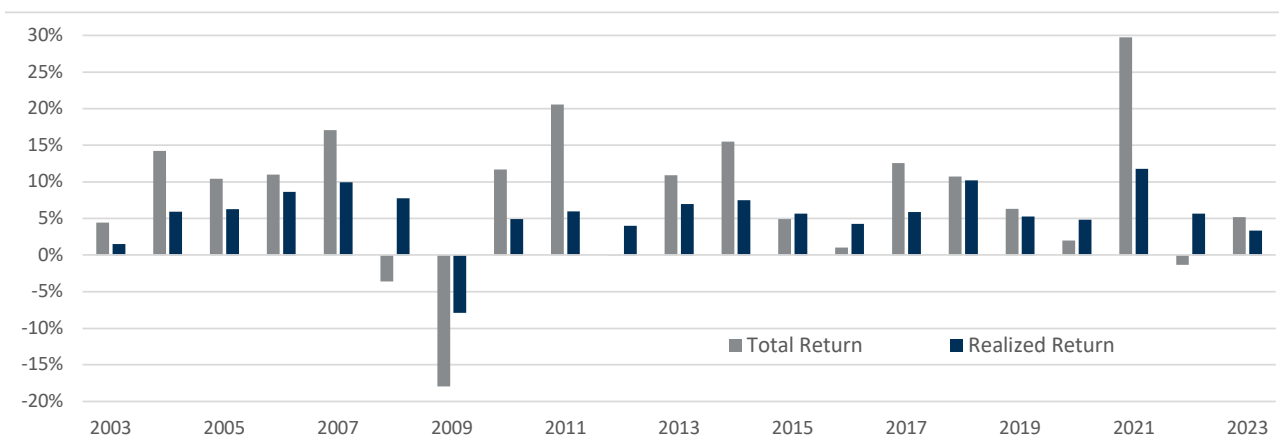
**Total return minus inflation equals real return**



- Total return annualized over 39 years is 8.81%
- Real return annualized over 39 years is 6.01%

## Alaska Permanent Fund Historical Returns, Fiscal Years 2003 - 2023

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



- Total return annualized over 39 years is 8.81%
- Realized return annualized over 39 years is 7.39%



## Board of Trustees - APFC Transfers - January 1, 2024 through March 31, 2024

Type of Transfer	January	February	March	Total
<b>Public Equities</b>	(500,766,194)	(694,715)	(500,647,530)	(1,002,108,440)
<b>Fixed Income</b>	2,571,205	4,217,532	(6,720,944)	67,793
<b>Private Equity &amp; Special Opportunities</b>	28,776,945	(68,350,900)	(95,761,139)	(135,335,094)
<b>Real Estate</b>	7,061,120	(171,268,551)	504,918,346	340,710,915
<b>Private Income</b>	(42,372,792)	(14,984,854)	4,079,326	(53,278,320)
<b>Absolute Return</b>	(63,226,424)	(5,175,148.22)	16,909,652.17	(51,491,920)
<b>Tactical Opportunities</b>	247,502,239	100,034,978	-	347,537,217
<b>Total Fund Cash</b>	31,014,904	(123,231,319)	(97,181,249)	(189,397,663)
<b>Net Transfers</b>	<b>(289,438,997)</b>	<b>(279,452,977)</b>	<b>(174,403,538)</b>	<b>(743,295,513)</b>



**Board of Trustees - APFC Transfers - January 2024**

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Absolute Return	Net
<b>State of Alaska &amp; Administrative</b>								
Mineral revenue	46,736,690							46,736,690
AIM STIF interest	2,316,066							2,316,066
Commission recapture proceeds	14,338							14,338
Securities Lending income	8,955							8,955
Class action proceeds	210							210
General Fund Transfer	(300,000,000)							(300,000,000)
AMHT Net Draw	(24,440,200)							(24,440,200)
PCE Draw	(8,000,000)							(8,000,000)
Corporate expenses	(6,075,056)							(6,075,056)
<b>Public Equities</b>								
APF SPDR Yield	2,855,689	(2,855,689)						-
APF SPDR Momentum	25,600,407	(25,600,407)						-
APF SPDR Low Vol	2,057,058	(2,057,058)						-
Lyrical - Value LC	25,000,000	(25,000,000)						-
DSM - Growth LC	25,000,000	(25,000,000)						-
CastleArk - Growth LC	25,000,000	(25,000,000)						-
Voya Large Cap	25,000,000	(25,000,000)						-
GE Asset Management	25,000,000	(25,000,000)						-
Pzena Investment Management, LLC	50,000,000	(50,000,000)						-
AQR Capital Mgmt Global	75,000,000	(75,000,000)						-
State Street Russell Fundamental LC	50,000,000	(50,000,000)						-
Lazard Global Equity	25,000,000	(25,000,000)						-
APF Tactical Tilts	(16,657,545)	16,657,545						-
APF Tac Tilts Cash	11,144,391	(11,144,391)						-
McKinley Global	25,000,000	(25,000,000)						-
William Blair - EM	25,000,000	(25,000,000)						-
Schroders International EQ	25,000,000	(25,000,000)						-
JP Morgan International EQ	25,000,000	(25,000,000)						-
DFA Value - EM	25,000,000	(25,000,000)						-
DFA International Small Cap Value	25,000,000	(25,000,000)						-
Public EQ Sec Lend	766,194	(766,194)						-
<b>Fixed Income</b>								
APF TBA Collateral	(2,571,205)		2,571,205					-
APF FI Cash	291,718		(291,718)					-
<b>Private Equity &amp; Special Opportunities</b>								
Private Equity distributions	62,634,980			(62,634,980)				-
Private Equity capital calls	(87,804,669)			87,804,669				-
Special Opportunities distributions	5,352,886			(5,352,886)				-
Special Opportunities capital calls	(8,960,143)			8,960,143				-
<b>Real Estate</b>								
Direct Real Estate distributions	4,822,046				(4,822,046)			-
Direct Real Estate capital calls	(10,740,788)				10,740,788			-
Real Estate Funds distributions	2,360,541				(2,360,541)			-
Real Estate Funds capital calls	(3,502,919)				3,502,919			-
<b>Private Income</b>								
Infrastructure distributions	4,030,943					(4,030,943)		-
Infrastructure capital calls	(23,763,367)					23,763,367		-
Private Credit distributions	73,210,917					(73,210,917)		-
Private Credit capital calls	(11,000,498)					11,000,498		-
Private Income distributions	6,519,568					(6,519,568)		-
Private Income capital calls	(6,624,771)					6,624,771		-
<b>Absolute Return</b>								
Absolute Return distributions	63,226,424						(63,226,424)	-
<b>Tactical Opportunities</b>								
APF Tac Opps Public	(247,502,239)							-
<b>Net Transfers</b>	<b>31,014,904</b>	<b>(500,766,194)</b>	<b>2,571,205</b>	<b>28,776,945</b>	<b>7,061,120</b>	<b>(42,372,792)</b>	<b>(63,226,424)</b>	<b>(289,438,997)</b>



ALASKA PERMANENT  
FUND CORPORATION

**Board of Trustees - APFC Transfers - February 2024**

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Absolute Return	Net
<b>State of Alaska &amp; Administrative</b>								
Mineral revenue	55,495,022							55,495,022
AIM STIF interest	2,057,158							2,057,158
Commission recapture proceeds	11,088							11,088
Securities Lending income	12,253							12,253
General Fund Transfer	(300,000,000)							(300,000,000)
Corporate expenses	(37,028,498)							(37,028,498)
<b>Public Equities</b>								
Public EQ Sec Lend	694,715	(694,715)						-
<b>Fixed Income</b>								
APF TBA Collateral	(4,217,532)		4,217,532					-
<b>Private Equity &amp; Special Opportunities</b>								
Private Equity distributions	107,035,362			(107,035,362)				-
Private Equity capital calls	(40,355,139)			40,355,139				-
Special Opportunities distributions	23,115,534			(23,115,534)				-
Special Opportunities capital calls	(21,444,857)			21,444,857				-
<b>Real Estate</b>								
Direct Real Estate distributions	10,623,769				(10,623,769)			-
Direct Real Estate capital calls	(44,025,034)				44,025,034			-
Real Estate Funds distributions	4,669,816				(4,669,816)			-
AEW Dom RE Securities	200,000,000				(200,000,000)			-
<b>Private Income</b>								
Infrastructure distributions	60,231,699					(60,231,699)		-
Infrastructure capital calls	(11,515,239)					11,515,239		-
Private Credit distributions	22,303,026					(22,303,026)		-
Private Credit capital calls	(7,944,795)					7,944,795		-
Private Income distributions	342,518					(342,518)		-
Private Income capital calls	(48,432,355)					48,432,355		-
<b>Absolute Return</b>								
Absolute Return distributions	5,175,148						(5,175,148)	-
<b>Tactical Opportunities</b>								
APF Tac Opps Public	(100,034,978)							-
<b>Net Transfers</b>	<b>(123,231,319)</b>	<b>(694,715)</b>	<b>4,217,532</b>	<b>(68,350,900)</b>	<b>(171,268,551)</b>	<b>(14,984,854)</b>	<b>(5,175,148)</b>	<b>(279,452,977)</b>

**Board of Trustees - APFC Transfers - March 2024**

Description	Total Fund Cash	Public Equities	Fixed Income	Pvt. Equity & Spec. Opps.	Real Estate	Private Income	Absolute Return	Net
<b>State of Alaska &amp; Administrative</b>								
Mineral revenue	36,007,918							36,007,918
AIM STIF interest	1,681,954							1,681,954
Commission recapture proceeds	23,444							23,444
Securities Lending income	15,531							15,531
Class action proceeds	316							316
General Fund Transfer	(200,000,000)							(200,000,000)
PCE Withdrawal	(9,471,439)							(9,471,439)
Corporate expenses	(2,661,263)							(2,661,263)
<b>Public Equities</b>								
APF SPDR Yield	11,668	(11,668)						-
APF SPDR Momentum	(11,668)	11,668						-
Lyrical - Value LC	50,000,000	(50,000,000)						-
DSM - Growth LC	50,000,000	(50,000,000)						-
Eagle Asset Management, Inc.	25,000,000	(25,000,000)						-
Pzena Investment Management, LLC	25,000,000	(25,000,000)						-
AQR Capital Mgmt Global	50,000,000	(50,000,000)						-
CDAM Global Equity	50,000,000	(50,000,000)						-
Arrowstreet Global Equity	50,000,000	(50,000,000)						-
APF TACTICAL TILTS	40,231,990	(40,231,990)						-
APF Tac Tilts Cash	(231,990)	231,990						-
APF Global LV	(10,000,000)	10,000,000						-
APF Global LV Value	(10,000,000)	10,000,000						-
DFA International Large Cap	40,000,000	(40,000,000)						-
LSV International EQ	50,000,000	(50,000,000)						-
DFA Value - EM	50,000,000	(50,000,000)						-
DFA Small Cap - EM	30,000,000	(30,000,000)						-
WCM Global EQ	30,000,000	(30,000,000)						-
APF International LV	(10,000,000)	10,000,000						-
APF Intl LV Value	(10,000,000)	10,000,000						-
Public EQ Sec Lend	647,530	(647,530)						-
<b>Fixed Income</b>								
APF TBA COLLATERAL	6,720,944		(6,720,944)					-
<b>Private Equity &amp; Special Opportunities</b>								
Private Equity distributions	131,279,797			(131,279,797)				-
Private Equity capital calls	(49,852,334)			49,852,334				-
Special Opportunities distributions	21,279,511			(21,279,511)				-
Special Opportunities capital calls	(6,945,835)			6,945,835				-
<b>Real Estate</b>								
Direct Real Estate distributions	13,226,978				(13,226,978)			-
Direct Real Estate capital calls	(513,906,362)				513,906,362			-
Real Estate Funds distributions	-				-			-
Real Estate Funds capital calls	(4,238,962)				4,238,962			-
AEW Dom RE Securities	-				-			-
Mellon MSCI US REIT	-				-			-
<b>Private Income</b>								
Infrastructure distributions	16,797,151					(16,797,151)		-
Infrastructure capital calls	(18,866,664)					18,866,664		-
Private Credit distributions	22,367,575					(22,367,575)		-
Private Credit capital calls	(22,653,161)					22,653,161		-
Private Income distributions	5,127,857					(5,127,857)		-
Private Income capital calls	(6,852,084)					6,852,084		-
<b>Absolute Return</b>								
Absolute Return distributions	9,346,149						(9,346,149)	-
Absolute Return capital calls	(26,255,801)						26,255,801	-
<b>Net Transfers</b>	<b>(97,181,249)</b>	<b>(500,647,530)</b>	<b>(6,720,944)</b>	<b>(95,761,139)</b>	<b>504,918,346</b>	<b>4,079,326</b>	<b>16,909,652</b>	<b>(174,403,538)</b>

# ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of March 31, 2024

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

Nonspendable Fund Balance - Principal							Assigned Fund Balance - Earnings Reserve										TOTAL FUND		
FY	FY-Begin Contrib. Balance	Dedicated State Revenues	Inflation Proofing & Special Approp.	FY-End Balance Contributions	Unrealized Gain (Loss) FY-End Balance	FY-End Non-spendable Balance	Distributions					FY-End Balance Realized	Unrealized Gain (Loss) FY-End Balance	FY-End Assigned Balance	FY				
							Statutory Net Income	Div/POMV Transfer <sup>(6)</sup>	Inflation Prfg & Spec Approp.	ACIF <sup>(8)</sup>	Committed					FY-End Balance		FY-End Balance	FY-End Balance
77-14	0	15,289	22,651	37,940	7,062	45,002	46,807	21,630	19,353	513		5,236	975	6,212	77-14	51,214			
15	37,940	600	624	39,164	6,473	45,637	2,907	1,373	624	24		6,147	1,016	7,163	15	52,800			
16	39,164	284	0 <sup>(5)</sup>	39,448	4,750	44,198	2,198	696 <sup>(4)</sup>	0 <sup>(5)</sup>	18		7,649	921	8,571	16	52,769			
17	39,448	365	0 <sup>(5)</sup>	39,813	7,155	46,969	3,214	0	0 <sup>(5)</sup>	25		10,863	1,952	12,816	17	59,784			
18	39,813	353	0 <sup>(5)</sup>	40,166	5,863	46,030	6,324	726	0 <sup>(5)</sup>	43	2,723	13,738	2,403	18,864	18	64,893			
19	40,166	385	989	41,541	6,278	47,820	3,305	2,723	989	22	5,933	10,121	2,427	18,481	19	66,300			
20	41,541	319	4,758 <sup>(7)</sup>	46,618	5,789	52,407	3,106	2,933	4,758 <sup>(7)</sup>	21	3,091	8,378	1,424	12,894	20	65,301			
21	46,618	320	0 <sup>(5)</sup>	46,938	13,810	60,748	7,962	3,091	0 <sup>(5)</sup>	50	7,069	9,271	4,807	21,148	21	81,896			
22	46,938	549	4,000 <sup>(5)(7)</sup>	51,487	8,700	60,187	4,544	3,069	4,000 <sup>(5)(7)</sup>	24	3,361	10,454	2,334	16,150	22	76,336			
23	51,487	754	4,179	56,420	11,100	67,520	2,491	3,361	4,179 <sup>(9)</sup>	14	3,526	5,240	1,725	10,491	23	78,011			
Lo 24	56,420	500	1,413	58,333	11,425	69,758	3,448	3,526	1,413	18	3,657	3,618	1,425	8,700	24	78,458			
Mid 24	56,420	500	1,413	58,333	13,508	71,841	3,733	3,526	1,413	20	3,657	3,903	1,751	9,311	24	81,153			
Hi 24	56,420	500	1,413	58,333	15,191	73,524	4,361	3,526	1,413	25	3,657	4,531	2,132	10,320	24	83,844			
25	58,333	469	1,470	60,272	14,471	74,743	4,827	3,657	1,470	27	3,806	3,455	1,743	9,003	25	83,746			
26	60,272	448	1,518	62,238	15,478	77,716	4,981	3,806	1,518	27	3,990	2,927	1,720	8,637	26	86,353			
27	62,238	486	1,568	64,292	16,543	80,835	5,136	3,990	1,568	27	4,035	2,460	1,671	8,166	27	89,000			
28	64,292	511	1,620	66,424	17,631	84,055	5,297	4,035	1,620	27	4,161	1,976	1,629	7,766	28	91,821			
29	66,424	514	1,673	68,611	18,763	87,374	5,466	4,161	1,673	27	4,300	1,469	1,578	7,346	29	94,720			
30	68,611	508	1,728	70,847	19,940	90,787	5,640	4,300	1,728	27	4,435	946	1,514	6,895	30	97,682			
31	70,847	518	1,784	73,149	21,163	94,312	5,817	4,435	1,784	27	4,575	404	1,440	6,419	31	100,731			
32	73,149	563	1,843	75,555	22,433	97,988	6,001	4,575	1,843	27	4,563	0	1,355	5,917	32	103,905			
33	75,555	606	1,904	78,065	23,752	101,818	6,193	4,718	1,904	27	4,133	0	1,258	5,390	33	107,208			
Cumulative Totals																			
Proj. for FY24-FY33							5,123	16,522					53,091	41,203	16,522	265			

Assumptions: Total Return - Inflation = Total Real Return					Statutory Return	
Lo	FY24	2.70%	1.20%	1.50%	Lo	4.30%
Mid	FY24 <sup>(2)</sup>	7.40%	1.80%	5.60%	Mid	4.80%
Hi	FY24	12.10%	2.40%	9.70%	Hi	5.90%
FY24-FY33 <sup>(3)</sup>						6.40%

FY24 POMV Distribution (actual) <sup>(8)</sup>		FY24 Statutory Dividend Transfer (actual) <sup>(8)</sup>	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY22	\$ 75,911.5	FY23	\$ 2,491.0
FY21	81,471.5	FY22	4,544.0
FY20	64,876.5	FY21	7,962.0
FY19	65,876.0	FY20	3,106.0
FY18	64,469.1	FY19	3,305.0
Average Value \$ 70,520.9		Dist (21%) \$ 4,495.7	
Statutory Distribution \$ 3,526.0		Statutory Trnsfr Amt \$ 2,247.8	

FY25 POMV Distribution (actual) <sup>(8)</sup>		FY25 Statutory Dividend Transfer (projected) <sup>(8)</sup>	
Ending Fund Value (ex Am Hess)		Statutory Net Income	
FY23	\$ 77,586.8	FY24	\$ 3,733.4
FY22	75,911.5	FY23	2,491.0
FY21	81,471.5	FY22	4,544.0
FY20	64,876.5	FY21	7,962.0
FY19	65,876.0	FY20	3,106.0
Average Value \$ 73,144.5		Dist (21%) \$ 4,585.6	
Statutory Distribution \$ 3,657.2		Statutory Trnsfr Amt \$ 2,292.8	

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

<sup>(1)</sup> Dedicated State Revenues in current and future fiscal years are based on the Spring 2024 Department of Revenue forecast.

<sup>(2)</sup> Current year returns are based on 2024 Callan capital market assumptions and actual results through February. The inflation amount is as appropriated.

<sup>(3)</sup> Future returns are based on 2024 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary.

<sup>(4)</sup> The dividend transfer reported for FY16 was paid out in dividends during FY17.

<sup>(5)</sup> There was no appropriation for inflation proofing in FY16, FY17, FY18, FY21, and FY22.

<sup>(6)</sup> Per AS 37.13.140, beginning in FY19, transfers are based on a percent of market value (POMV) calculation and are to the General Fund. In previous years, transfers were based on an earnings calculation and were to the Dividend Fund.

<sup>(7)</sup> In FY20 and FY22, an additional \$4 billion was appropriated from the ERA to principal.

<sup>(8)</sup> All transfers out of the Earnings Reserve are subject to Legislative appropriation.

### Income Year-to-Date as of March 31, 2024

FY24 YTD Statutory Net Income	
Interest, dividends, real estate & other income	\$ 1,190.9
Realized gains (losses) on the sale of assets	1,852.0
Less operating expenses	(113.4)
Less AK Capital Income Fund realized earnings	(16.4)
	\$ 2,913.1

FY24 YTD Accounting (GAAP) Net Income	
Statutory net income (loss)	\$ 2,913.1
Unrealized gains (losses) on invested assets	1,810.9
AK Capital Income Fund realized earnings	16.4
Accounting (GAAP) net income (loss)	\$ 4,740.4



**FYTD 2024 Fees & Expenses by Funding Source\***

Report Date	March 31, 2024
Total Fund Balance	81,311,679,000
FYTD Change in Total Fund Balance (Net of Transfers)	3,996,342,000

***Investment Management Fees***

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	1,462,000	41,900,000	1,761,000	45,123,000
Fixed Income	0	2,655,000	5,174,000	7,829,000
Absolute Return	72,862,000	493,000	640,000	73,995,000
Total Fund Cash	0	127,000	501,000	628,000
Private Equity & Special Opps	119,333,000	21,411,000	3,421,000	144,165,000
Infrastructure & Private Income	64,121,000	2,031,000	1,616,000	67,768,000
Real Estate	33,952,000	3,409,000	2,829,000	40,190,000
<b>Total Investment Management Fees</b>	<b>291,730,000</b>	<b>72,026,000</b>	<b>15,942,000</b>	<b>379,698,000</b>
<b>Basis Points</b>	<b>36</b>	<b>9</b>	<b>2</b>	<b>47</b>

***Profit Sharing/Performance***

	Paid from Investments	Paid from Investment Management Allocation	Paid from Operations Allocation	Total
Public Equity	0	17,791,000	0	17,791,000
Absolute Return	68,736,000	0	0	68,736,000
Private Equity & Special Opps	109,314,000	0	0	109,314,000
Infrastructure & Private Income	18,376,000	0	0	18,376,000
Real Estate	1,784,000	0	0	1,784,000
<b>Total Profit Sharing/Performance</b>	<b>198,210,000</b>	<b>17,791,000</b>	<b>0</b>	<b>216,001,000</b>

\* All amounts presented, including fund balances and change net of transfers, are in USD and consist of APF, AMHT, and PCE combined.



SUBJECT: Chief Investment Officer’s Report

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

DATE: May 29, 2024

INFORMATION:  X

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BACKGROUND:

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

STATUS:

Marcus Frampton, CIO, will present Fund positioning, asset class performance, and investment actions taken during the quarter from January 1 to March 31, 2024.



ALASKA PERMANENT  
FUND CORPORATION

CIO Report  
*Marcus Frampton, Chief Investment Officer*  
May 29, 2024

# Investment Department Current Topics

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- Performance and positioning
- Personnel and open positions update
- Investment actions taken in FY '24 Q3

# Portfolio Positioning

	Current			Future Targets		
	<u>Exposure</u>	<u>Target</u>	<u>Over/(Under)</u>	<u>IPS</u>	<u>Option 1</u>	<u>Option 2</u>
Public Equity	<b>33.5%</b>	34.0%	(0.5%)	32.0%	32.0%	32.0%
Fixed Income	<b>18.2%</b>	20.0%	(1.8%)	20.0%	20.0%	20.0%
Private Equity	<b>18.3%</b>	16.0%	2.3%	15.0%	17.0%	17.0%
Real Estate	<b>11.5%</b>	10.0%	1.5%	13.0%	11.0%	11.0%
Private Income	<b>8.6%</b>	9.0%	(0.4%)	9.0%	9.0%	11.0%
Absolute Return	<b>7.0%</b>	7.0%	0.0%	7.0%	7.0%	6.0%
Tactical Opportunities	<b>1.4%</b>	2.0%	(0.6%)	2.0%	2.0%	1.0%
Cash	<b>1.6%</b>	2.0%	(0.4%)	2.0%	2.0%	2.0%

# Performance


- Through March 31, 2024 the Fund is outperforming its Performance Benchmark on a five year annualized basis (8.69% vs. 8.54%)
- FYTD March 2024 performance, however, is weighed down by a weak year in the private markets
- The Fund's largest asset class, public equities, FYTD return flipped from underperformance (15 bps) to outperformance (52 bps) as at May 14, 2024

## FYTD March 2024 Performance

	<u>Out/(Under) Performance</u>	<u>Return</u>	<u>Benchmark</u>
<b>Total Fund</b>	(1.15%)	6.84%	7.99%
Public Equity	(0.15%)	15.50%	15.65%
Fixed Income	0.54%	4.56%	4.02%
Tactical Opportunities	4.93%	24.37%	19.44%
Private Equity	(2.45%)	0.79%	3.24%
Real Estate	0.06%	(3.60%)	(3.66%)
Private Income	(2.85%)	4.78%	7.63%
Absolute Return	(0.91%)	6.88%	7.79%

## FYTD March 2024 Performance (estimated through May 14)

	<u>Out/(Under) Performance</u>	<u>Return</u>	<u>Benchmark</u>
<b>Total Fund</b>	(0.91%)	6.92%	7.83%
Public Equity	0.52%	16.22%	15.70%
Fixed Income	0.62%	3.82%	3.20%
Tactical Opportunities	4.60%	23.45%	18.85%
Private Equity	(2.45%)	0.79%	3.24%
Real Estate	0.06%	(3.60%)	(3.66%)
Private Income	(2.85%)	4.78%	7.63%
Absolute Return	(0.91%)	6.88%	7.79%



# Investment Actions Taken during Q3 FY 2024

# Investment Actions

## *Quarter Ending March 31, 2024*

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### Private Equity

Fund commitments closed in Q3 FY24:

- \$40 million to opportunistic US energy fund
- \$16 million to early-stage VC fund
- \$9 million to early-stage VC fund
- \$15 million to mid-cap buyout fund
- **\$80 million**

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### Private Income & Infrastructure

Fund commitments closed in Q3 FY24:

- \$17 million to co-investment in direct lending industrial service provider
- \$16 million to co-investment in direct lending legal services provider
- \$30 million to co-investment in waste management services
- **\$63 million**

# Investment Actions (continued)

## Quarter March 31, 2024

### Public Equity

During the quarter Staff took the following investment actions:

- Recommended and funded 4 (\$10mm each) new internal global and international low volatility strategies.
- Redeemed **\$1 billion** from external Public Equities accounts and moved the amount to Total Fund Cash.

Details are below:

#### March 14th

<u>Redemption from</u>	<u>Amount</u>
AQR Global	-\$50 million
Lyrical US Large Cap Value	-\$50 million
Eagle Small Cap Growth	-\$25 million
Pzena Small Cap Value	-\$25 million
Arrowstreet Global	-\$50 million
DFA EM Small Cap	-\$30 million
DSM US Large Cap Growth	-\$50 million
CDAM Global	-\$50 million
WCM Global	-\$30 million
DFA International Large Cap Value	-\$40 million
LSV International Value	-\$50 million
<u>DFA EM Value</u>	<u>-\$50 million</u>
	<b>-\$500 million</b>

#### January 18th

<u>Redemption from</u>	<u>Amount</u>
AQR Global	-\$75 million
Lyrical US Large Cap Value	-\$25 million
APF SPDR Momentum	-\$25 million
Pzena Small Cap Value	-\$50 million
CastleArk	-\$25 million
Voya	-\$25 million
DSM US Large Cap Growth	-\$25 million
SSGA US	-\$25 million
Schroders	-\$25 million
JPM International	-\$25 million
DFA International Small Cap Value	-\$25 million
DFA EM Value	-\$25 million
William Blair	-\$25 million
SSGA Russell Fundamental	-\$50 million
Lazard	-\$25 million
<u>Mckinley</u>	<u>-\$25 million</u>
	<b>-\$500 million</b>

# Investment Actions (continued)

## Quarter March 31, 2024

### Real Estate

During the quarter, Staff took the following investment actions in the Real Estate portfolio:

- Redeemed \$200 mm from REITs
- Approved and paid ~\$550 mm lines of credit against individual properties with significant savings in interest.

### Absolute Return

During the quarter, Staff took the following investment actions in the Hedge Fund portfolio:

- Approved \$50 mm Commitment to multi-strategy manager.
- Placed a \$350 mm redemptions from several hedge funds to lock in profits and bring managers to desired allocation.



SUBJECT: Risk Overview

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

DATE: May 29, 2024

INFORMATION:   X  

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**BACKGROUND:**

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

**STATUS:**

The risk overview covers the main measures of risk for the Fund. Aggregate fund risk compared to approved risk appetite is a key strategic metric. Others include Value at Risk (VaR) on a standalone and relative-to-benchmark basis, tracking error, statistics that measure realized volatility and Sharpe ratios, asset class and factor contributions to risk and risk scenarios. It also covers Geographic, Currency, and Liquidity risks for the Total Fund.

The background of the slide is a solid teal color with a faint, semi-transparent image of a pine branch with needles and a small cone-like structure. The text is centered on the slide.

# Key Risk Metrics

## As of March 29, 2024

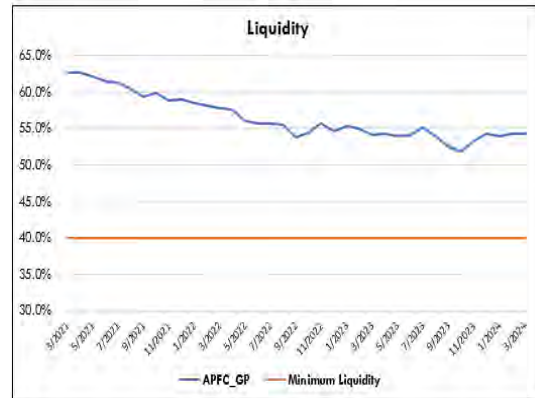
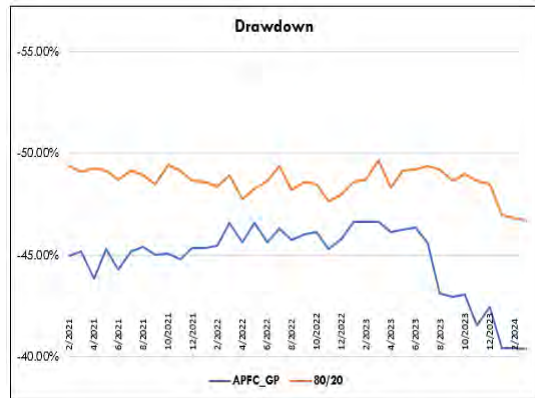
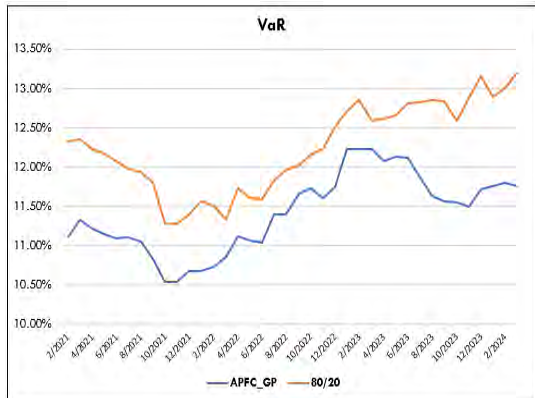
# Fund Risk: level relative to appetite

Risk Appetite reflects the 80/20:equity/bond Risk Tolerance Portfolio (RTP)

Value at Risk (VaR): Max			
1 year, 1SD, 10-year monthly historical data equally weighted			
As of Date	Total Fund	Risk Appetite	
3/29/2024	11.76%	13.19%	✓

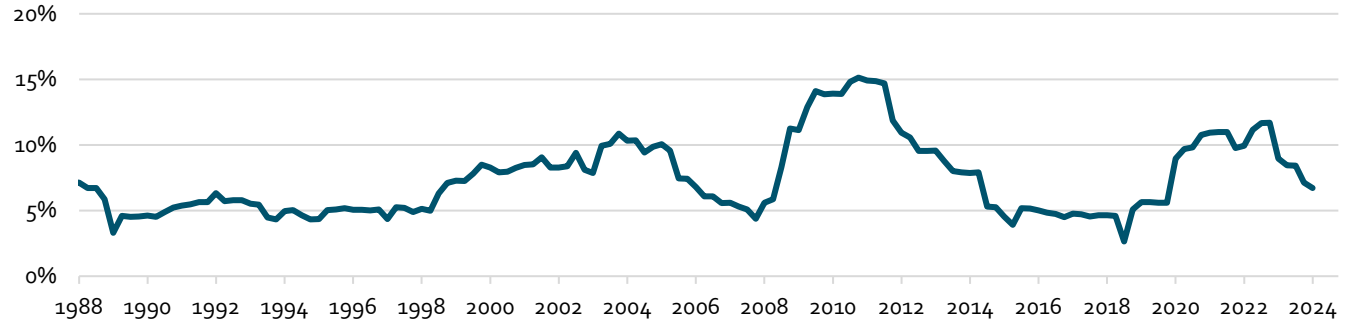
Drawdown Stress PnL: Max			
Stress scenario simulating the GFC – Dec 2007 to Mar 2009			
As of Date	Total Fund	Risk Appetite	
3/29/2024	(40.39%)	(46.67%)	✓

Liquidity Level: Min			
Public Equities, Fixed Income and Cash, as a % of total fund			
As of Date	Total Fund	Risk Appetite	
3/29/2024	54.2%	40%	✓

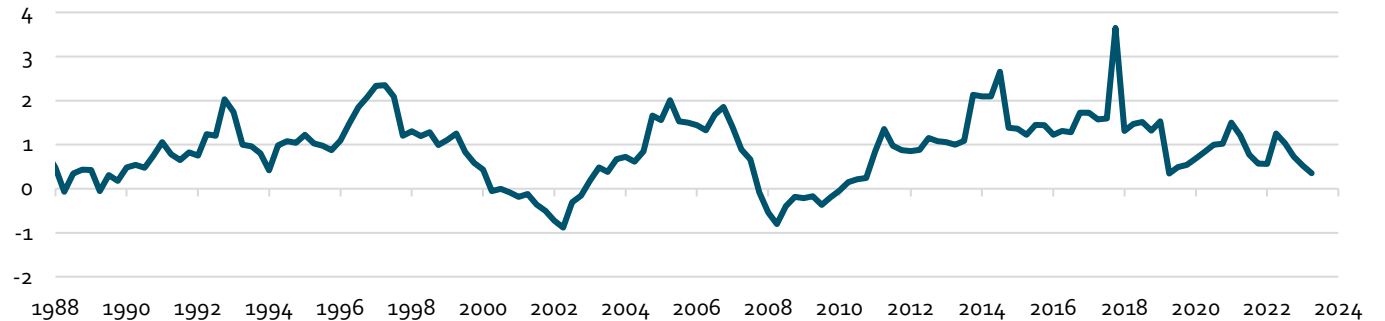


# Total Fund: Realized Volatility & Sharpe Ratio

Realized Fund Volatility



Realized Fund Sharpe Ratio

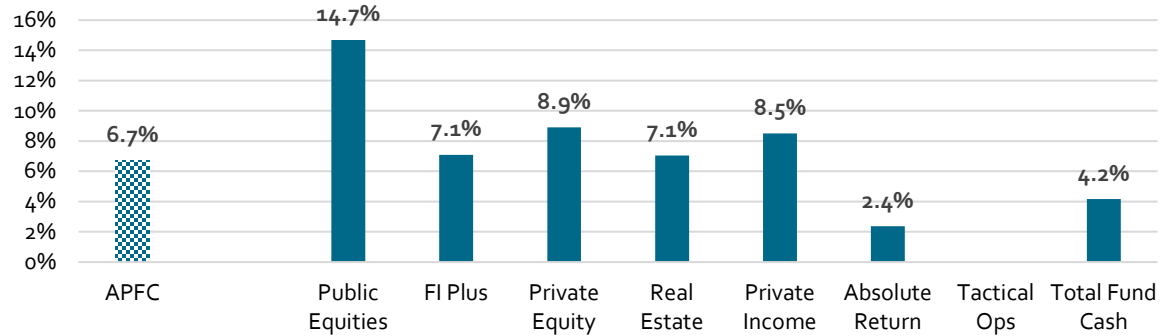


Volatility (standard deviation) and Sharpe ratio have been computed based on rolling 3 year quarterly returns for the Total Fund

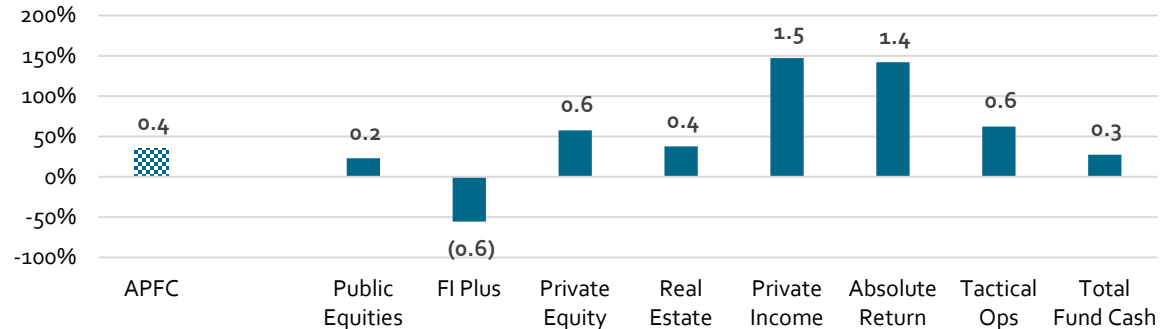
146 of 378

# Fund & Constituents: Volatility and Sharpe Ratio as of March 29, 2024

## Volatility

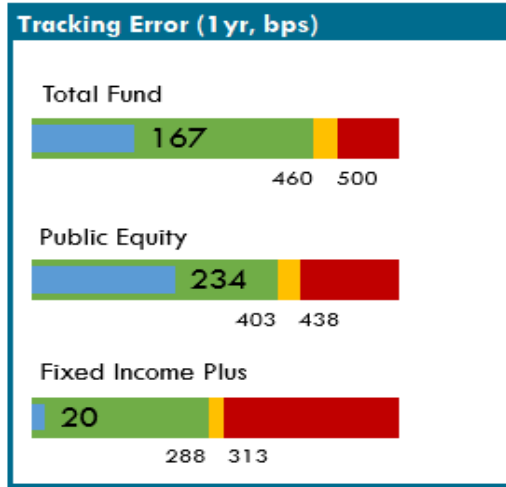


## Sharpe Ratio

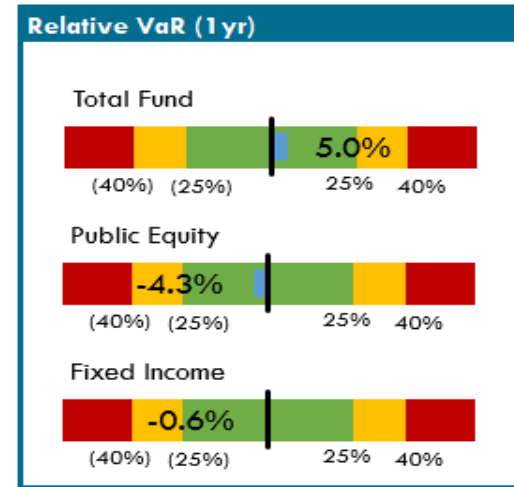


Volatility (standard deviation) and Sharpe ratio have been computed based on historical 3 year quarterly returns, as of March 29, 2024

# Tracking Error and VaR: (Vs) Limits



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



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

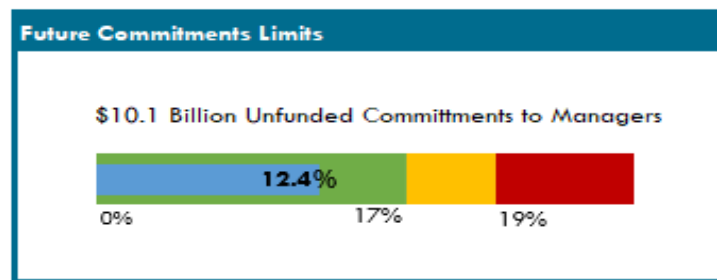
# Liquidity Limits: Private Assets

## Private Assets: Investments Vs Targets

	\$ Billion	% of Total Fund		
		Actual	Target	Actual (Vs) Target
Private Equity	14.9	18.2%	16.0%	2.2%
Private Income	7.0	8.5%	9.0%	-0.5%
Real Estate	8.7	10.6%	10.0%	0.6%
<b>Total</b>	<b>30.7</b>	<b>37.4%</b>	<b>35.0%</b>	

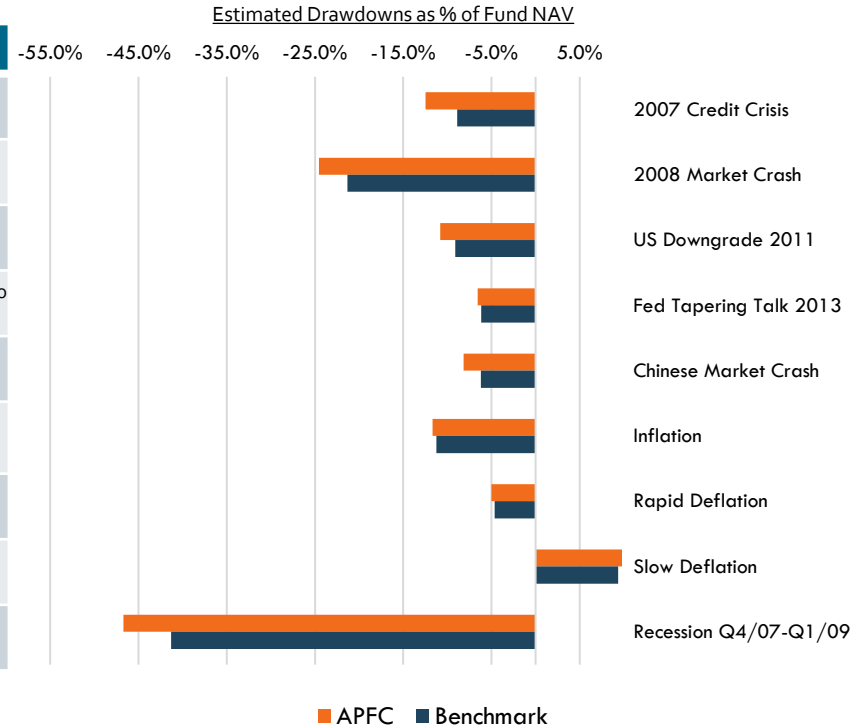
## Private Assets: Future Commitments Vs Targets

	\$ Billion	% of Total Fund		
		Actual	Target	Actual (Vs) Target
Private Equity	4.2	5.1%	7.0%	-1.9%
Private Income	5.6	6.8%	5.0%	1.8%
Real Estate	0.4	0.5%	3.0%	-2.5%
<b>Total</b>	<b>10.1</b>	<b>12.4%</b>	<b>15.0%</b>	



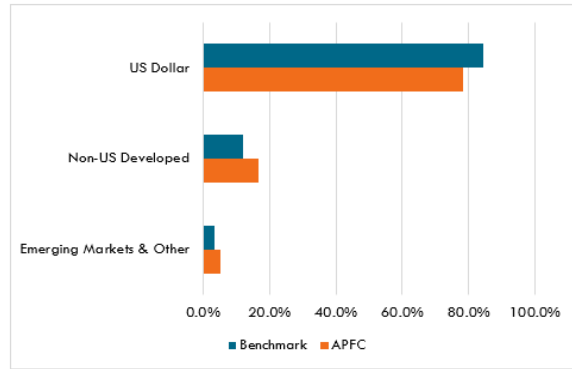
# Tail Risk: Current portfolio during extreme events

Scenario	Definition
2007 Credit Crisis	Credit & liquidity crisis stemming from a severe slowdown in the housing market causing significant widening of credit spreads, higher implied volatility.
2008 Market Crash	S&P 500 down 20% (2000 bps).
US Downgrade 2011	The period starts with 50% chance US downgrade indication from S&P standards and ends with Operational Twist announcement from the Fed
Fed Tapering Talk 2013	Equity & bond markets sold off. EM suffered badly due to hot money flight back to U.S.
Chinese Market Crash	Chinese stock market crash beginning with the popping of the stock market bubble on June 12, 2015.
Inflation Overshoot	Economic recovery, pent-up demand, supply chain bottlenecks, and fiscal stimulus cause a surge in inflation, prompting higher interest rates in a taper tantrum-style sell-off.
Rapid Deflation	Oil down 60% (6000 bps); ST Inflation down 350 bps; Mortgage spreads tighten 25 bps.
Slow Deflation	LT deflation down 200 bps; LT Treasury Rates down 100 bps; Mortgage spreads tighten 25 bps.
Recession Q4/07-Q1/09	Recent recessionary period starting Dec 3, 2007 and ending March 9, 2009.



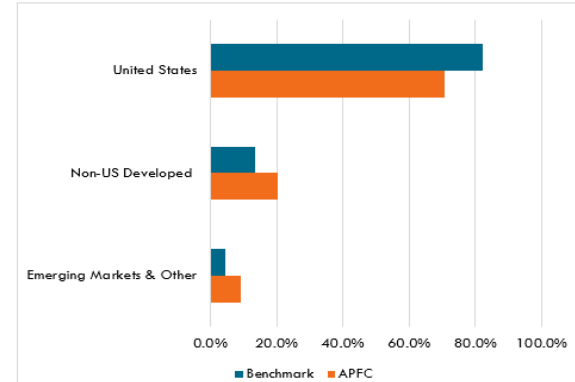
# Currency & Geography: breakdowns

## Currency breakdown



Currency Name	Exposure (\$ millions)
Euro	\$5,576,661
British Pound	\$2,239,689
Japanese Yen	\$2,047,797
Hong Kong Dollar	\$969,581
Canadian Dollar	\$912,788
Australian Dollar	\$623,829
<b>Sub-Total</b>	<b>12,370,345 (15.1% of NAV)</b>
<b>Total Non-US DM Exposure</b>	<b>13,568,791 (16.5% of NAV)</b>

## Country breakdown

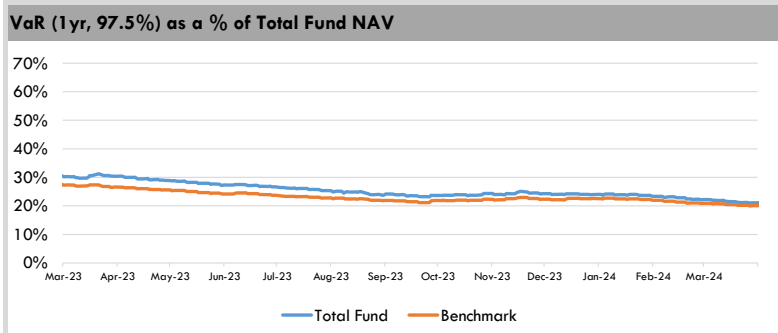
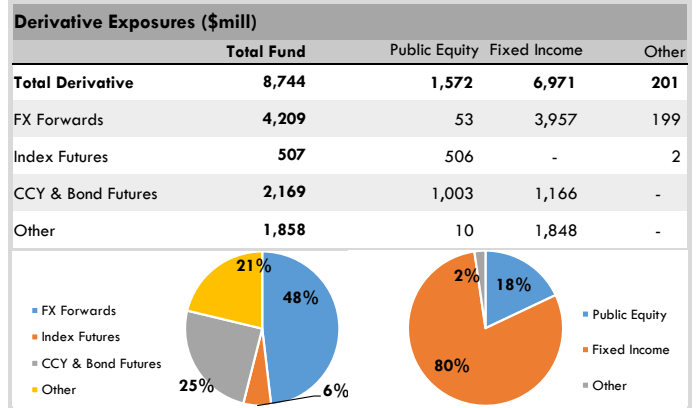
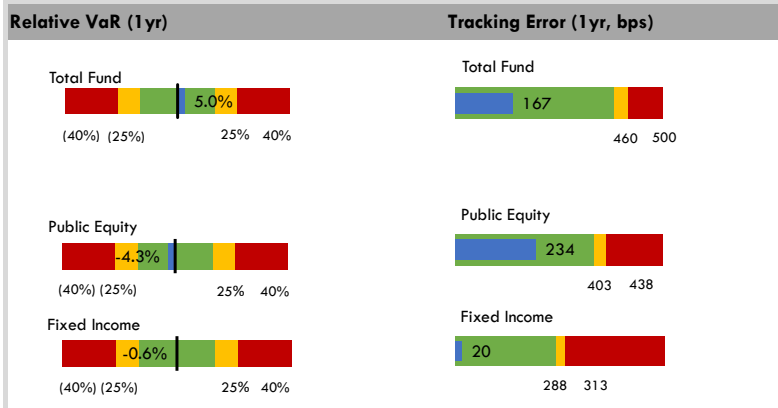


Country Name	Exposure (\$ millions)
China	1,925,496
India	819,406
Taiwan	659,538
Korea (South)	574,192
Brazil	387,418
Mexico	213,455
<b>Sub-Total</b>	<b>4,579,504 (5.6% of NAV)</b>
<b>Total EM Exposure</b>	<b>5,620,753 (6.9% of NAV)</b>

**Daily Dashboard - March 29, 2024**

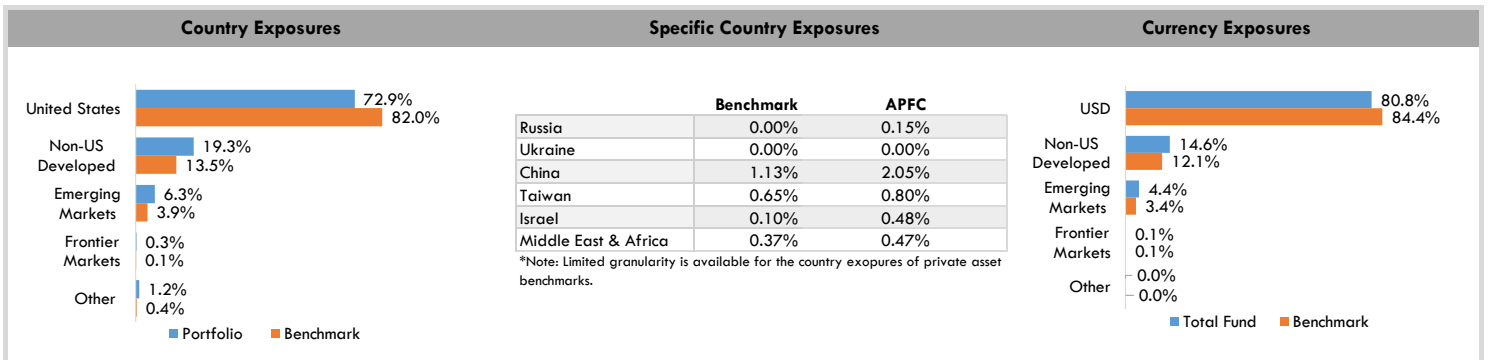
**NAV : \$ 81,922,843,948**

Risk	Performance (%)								Asset Allocation				
	1 SD	Rel VaR	TE	MTD	FYTD	CYTD	1 Year	NAV (\$mill)	NAV	Target	Compliance	Under/Over	
<b>Total Fund</b>	<b>10.8%</b>	<b>5.0%</b>	<b>1.7%</b>	<b>1.8</b>	<b>6.3</b>	<b>2.5</b>	<b>9.1</b>	<b>81,923</b>					
Public Equity	13%	-4.3%	2.3%	4.2	15.8	7.3	22.8	27,875	34.0%	34%	█	0.0%	
Fixed Income	6%	-0.6%	0.2%	1.1	4.6	-0.1	5.2	14,989	18.3%	20%	█	-1.7%	
Private Equity	19%	3.3%	7.1%	0.2	-0.6	0.0	0.6	14,899	18.2%	16%	█	2.2%	
Real Estate	10%	-13.9%	4.2%	0.2	-3.7	-2.7	-3.2	8,668	10.6%	10%	█	0.6%	
Inf. & Private Income	17%	43.6%	8.8%	0.4	3.2	1.3	4.7	6,924	8.5%	9%	█	-0.5%	
Absolute Return	3%	-26.3%	3.6%	0.3	5.2	1.8	6.5	5,875	7.2%	7%	█	0.2%	
Tactical Opps	14%	-8.4%	2.0%	3.9	23.0	11.0		1,105	1.3%	2%	█	-0.7%	
Total Fund Cash	0%	-20.8%	0.1%	0.0	3.6	0.9	4.5	1,582	1.9%	2%	█	-0.1%	



**Economic Indicators**

	3/29/24	3/28/24	% Change
VIX	13.01	13.01	0.0%
U.S. Dollar/Euro	1.08	1.08	0.0%
Credit Index OAS	0.85	0.85	0.0%
Crude Oil (WTI) (\$)	83.17	83.17	0.0%
10-Year Treasury Yield	4.20	4.20	0.0%
30-Year Treasury Yield	4.34	4.34	0.0%
S&P 500	5,254.35	5,254.35	0.0%
MSCI ACWI	2,726.22	2,724.55	0.1%





SUBJECT: APFC Presentation to the North Slope Borough

ACTION:

DATE: May 29, 2024

INFORMATION: X

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BACKGROUND:

Holding the APFC Board meeting in Utqiagvik presents the opportunity to provide local officials and residents with additional information on the Alaska Permanent Fund and the Alaska Permanent Fund Corporation. We are honored to have members of the North Slope Borough Assembly join the Board of Trustees and present a short history of APFC and the Permanent Fund.



ALASKA PERMANENT  
FUND CORPORATION

# The Alaska Permanent Fund

May 2024

# Paving the Way for the Creation of the Alaska Permanent Fund

The discovery of oil on the North Slope paved the way for the creation of the Permanent Fund - a remarkable achievement that has benefited Alaskans for decades. The North Slope's land lease sale contributed to the first deposit in the Fund of \$734 million over 40 years ago.

With a current value of around \$80 billion, the Alaska Permanent Fund continues to carry its mission forward as the state's main revenue source, a respected sovereign wealth fund, and a source of stability for communities across Alaska.



**\$734M**

First Deposit in the Fund  
over 40 years ago

# CREATING A RENEWABLE RESOURCE

## A Decade of Action

**1969**

The Prudhoe Bay lease sale brings more than \$900 million to the State for drilling rights

**1971**

President Nixon signs Alaska Native Claims Settlement Act (ANCSA)

**1974**

Pipeline Construction Begins

**1976**

Alaska voters approve Constitutional Amendment establishing the Permanent Fund  
 $\frac{2}{3}$ <sup>rd</sup>s margin 75,588 to 38,518

**1977**

The Permanent Fund receives its first deposit of dedicated oil royalties totaling \$734,000

**1980**

The Alaska Permanent Fund Corporation was established to manage and invest the Fund; the Permanent Fund Dividend was also established.



*a legacy of  
intergenerational  
resource contribution*

As a public endowment, the wealth of the Permanent Fund is the responsibility of every Alaskan.

Together, we are obligated to protect it for both today and tomorrow.

Honoring the vision and sacrifices of the Alaskans who created the Fund and enduring leadership committed to intergenerational benefit.



## **Alaska Constitution Article IX, Section 15 Alaska Permanent Fund**

*At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.*

# Investing for the Long Term

## Legislature's findings for the purpose of the Permanent Fund in AS 37.13.020,

- *the fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;*
- *the fund's goal should be to maintain safety of principal while maximizing total return;*
- *the fund should be used as a savings device managed to allow the maximum use of disposable income from the fund for purposes designated by law.*

## The Board's objective for the Fund, as set forth in the Investment Policy,

Achieve the highest level of performance within the investment responsibilities of AS 37.13.120 and a long-term investment perspective based on

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### Investment Performance

Ability to generate an annualized return of inflation (CPI) + 5% over a 10-year period (long-term target).

### Investment Risk

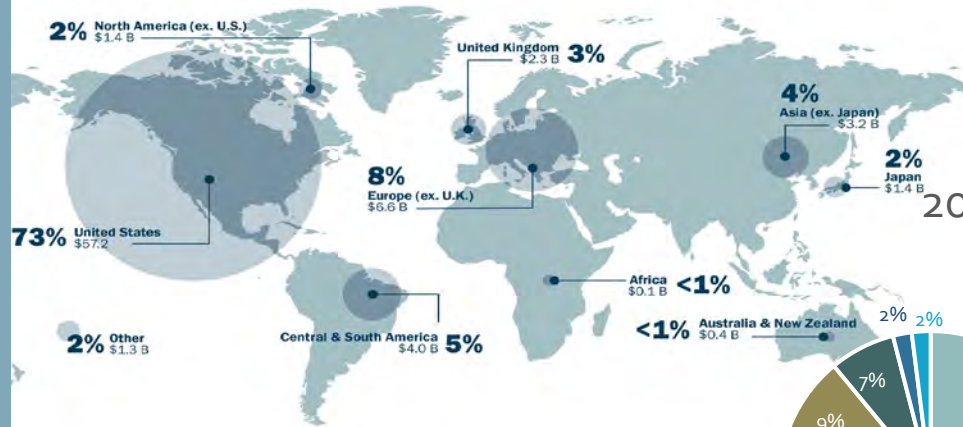
Ability of the Fund to achieve the long-term target while conforming to the Board's approved risk appetite metric.

# Diversification

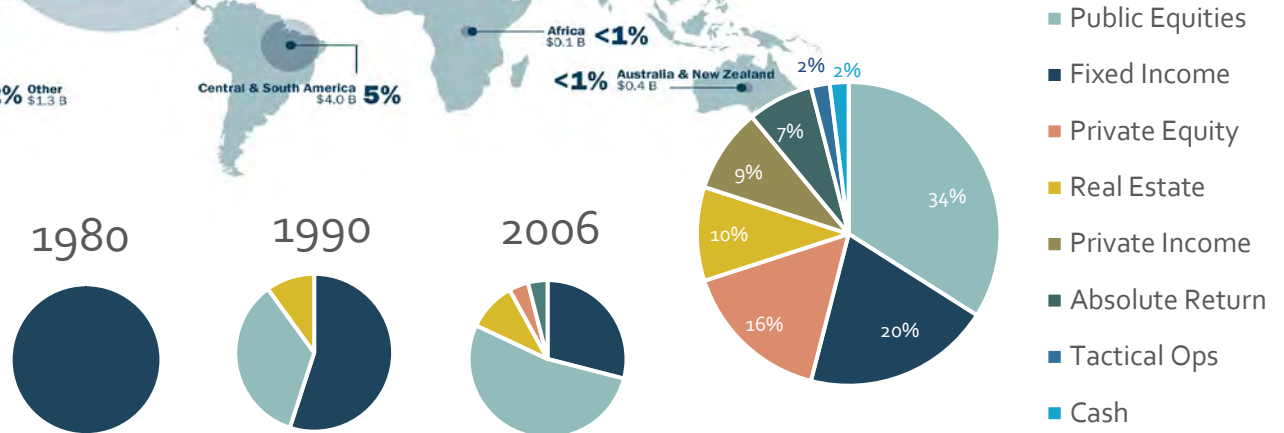
APFC seeks to balance the goals of maximizing returns and minimizing risks.

## Risk Management

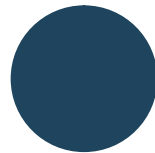
The goal of risk management is not to avoid risk but to identify, understand, and manage it to acceptable levels.



## 2024 Target Allocation



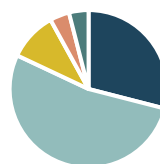
1980



1990



2006

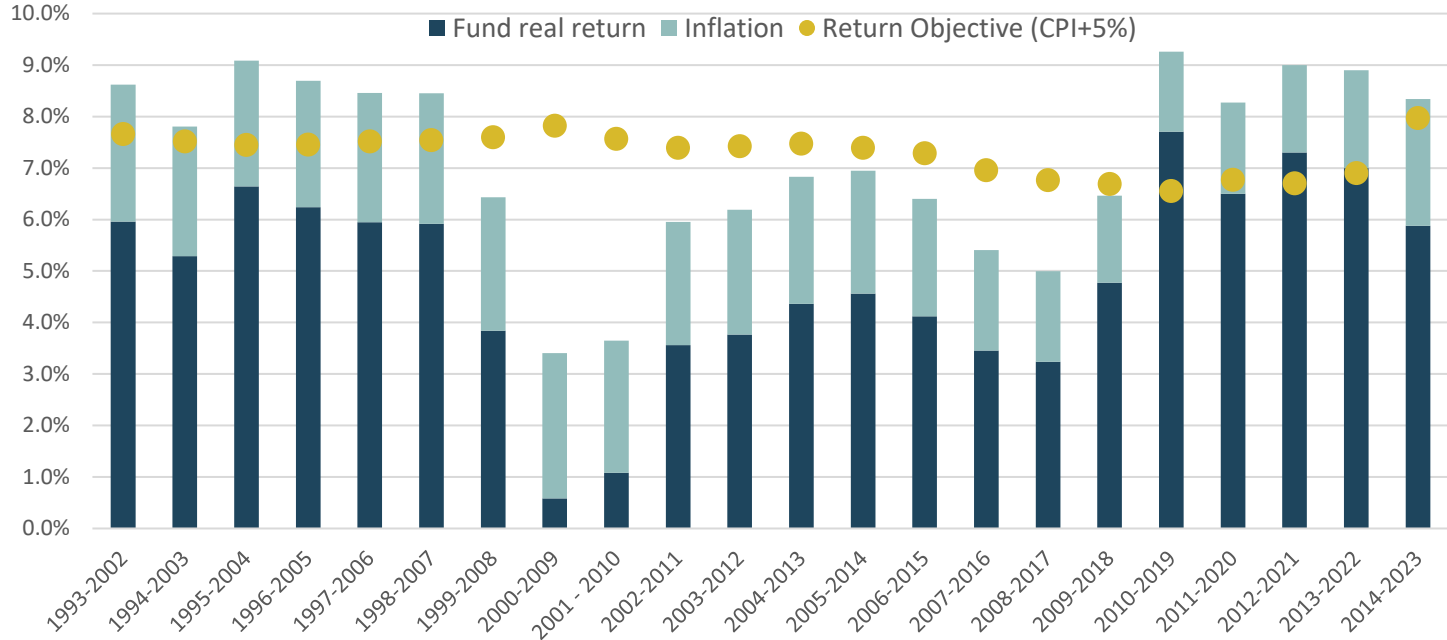


153 of 378

# 10 Year Annualized Returns

Annual investment performance adjusted for inflation indicates **sustained value and purchasing power.**

Long-term target return objective: 5% + inflation (CPI)



# Renewable Financial Resource

inception through December 2023

## Savings

Since the First Royalty Deposit of \$734 thousand,  
The Principal has grown to \$56.8 billion of permanent deposits from  
Oil, Gas, Mining Royalties \* Special Appropriations \* Inflation Proofing.

## Income Producing

Realized Earnings have totaled more than \$85.4 billion.



## Earnings Use

Dividend Draws through FY18 \$24.4 B  
Percent of Market Value Draws FY19-FY24 \$19.0 B

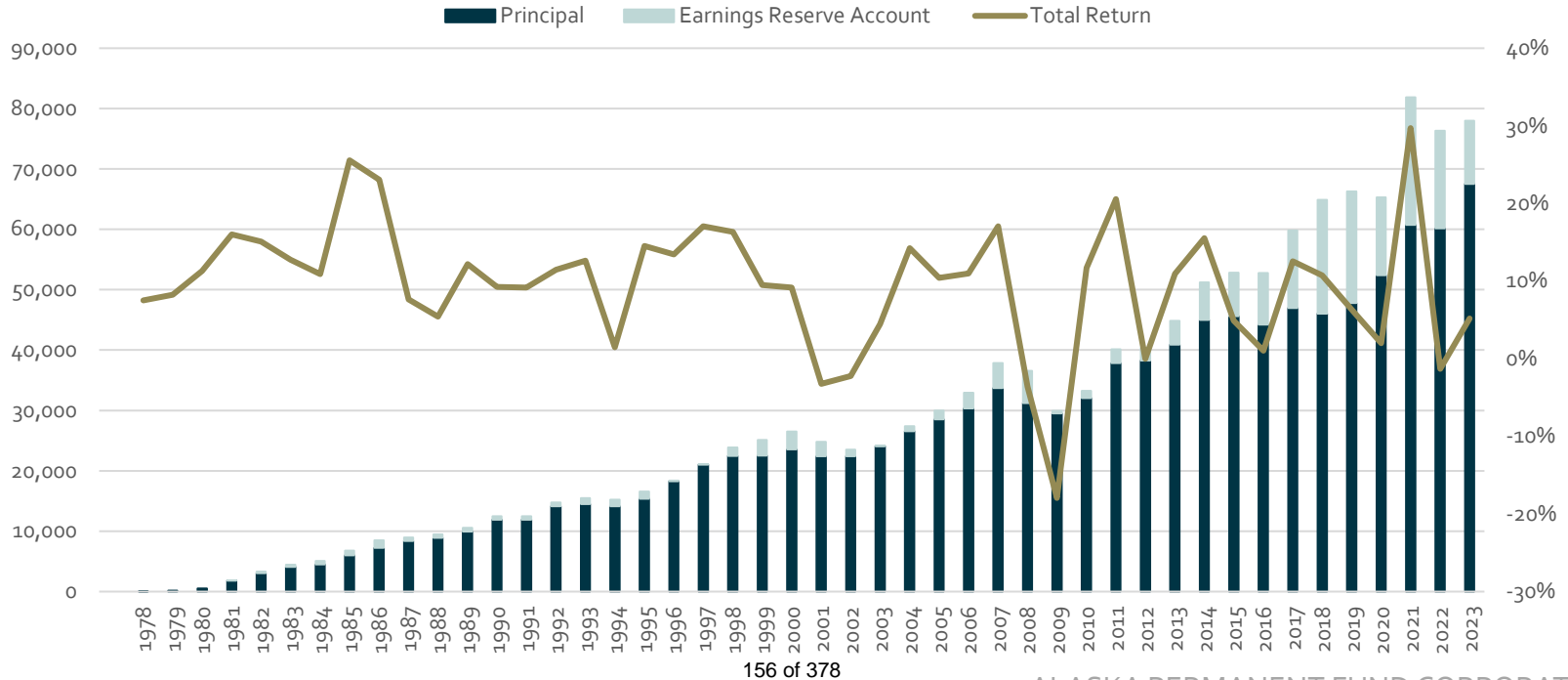
Inflation Proofing Principal \$23.6 B  
ERA Special Appropriations to Principal \$12.3 B  
Alaska Capital Income – Amerada Hess ~\$0.5B

# Values & Returns

in millions

The **PRINCIPAL** is Constitutionally established for permanent savings to be used only for income-producing investments.

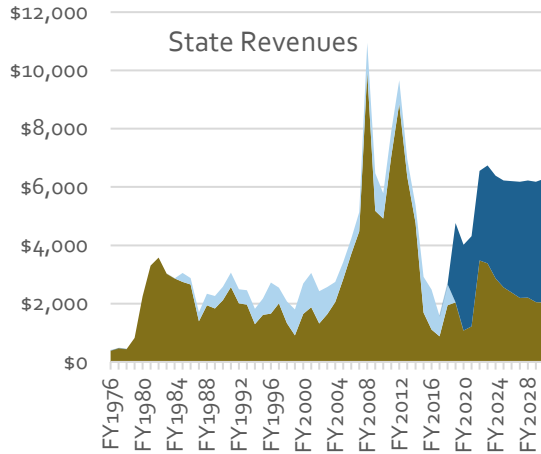
The **EARNINGS RESERVE ACCOUNT** is statutorily established to hold investment net income and be available for appropriation.



# Revenue Stability

Supporting the State's General Fund Revenue

in millions



- POMV from ERA
- PFD from ERA
- Petroleum and Non-Petroleum Revenues

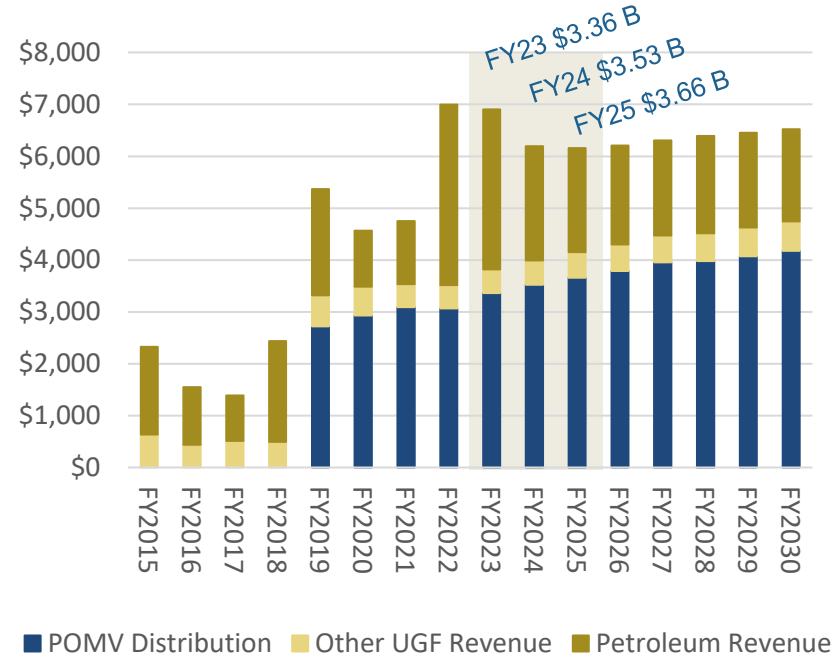
## Percent of Market Value (POMV)

Calculation  
AS 37.13.140 (b)  
Fund Value-Based

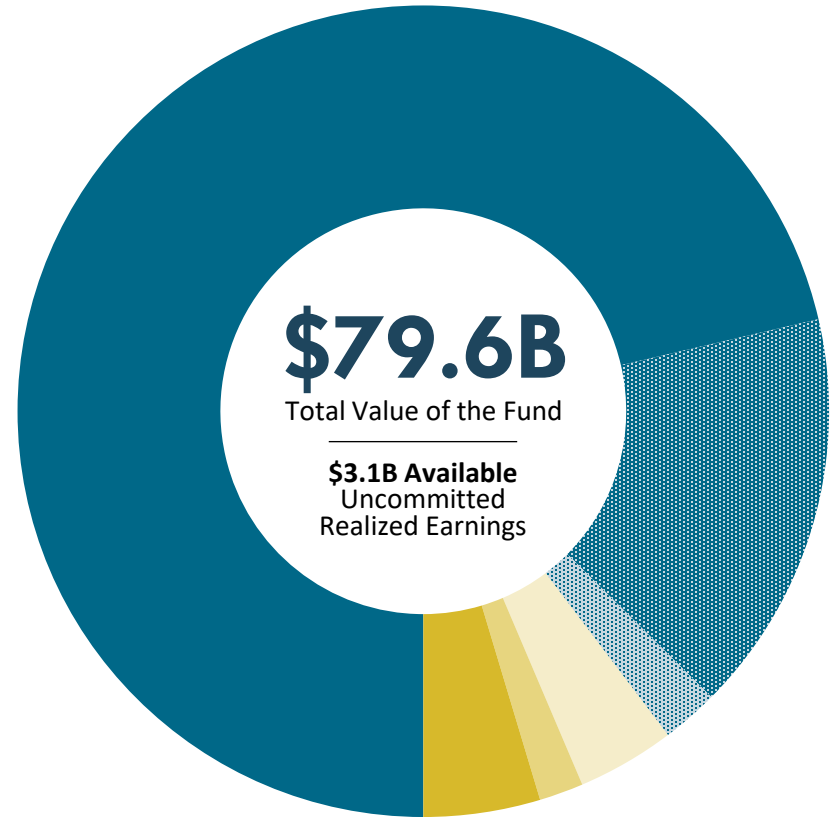
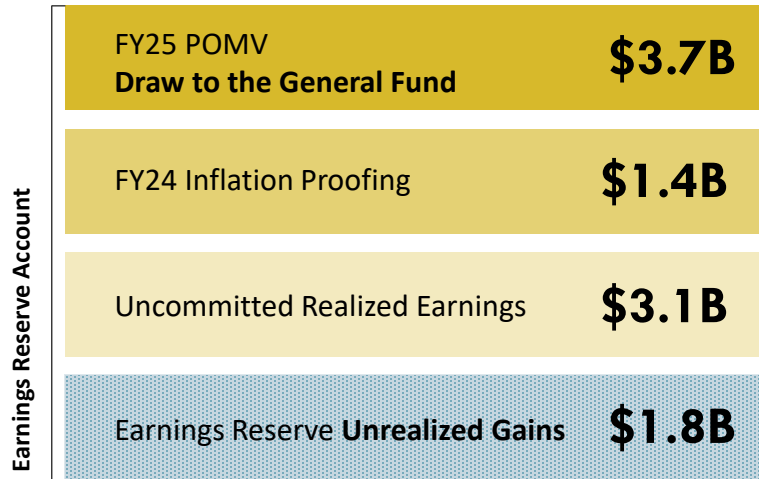
### FY 25 POMV

FY23	\$77,586.8
FY22	\$75,911.5
FY21	\$81,471.5
FY20	\$64,876.5
FY19	\$65,876.0

-----  
Avg.     \$73,144.5  
5%       \$ **3,657.2**



- POMV Distribution
- Other UGF Revenue
- Petroleum Revenue



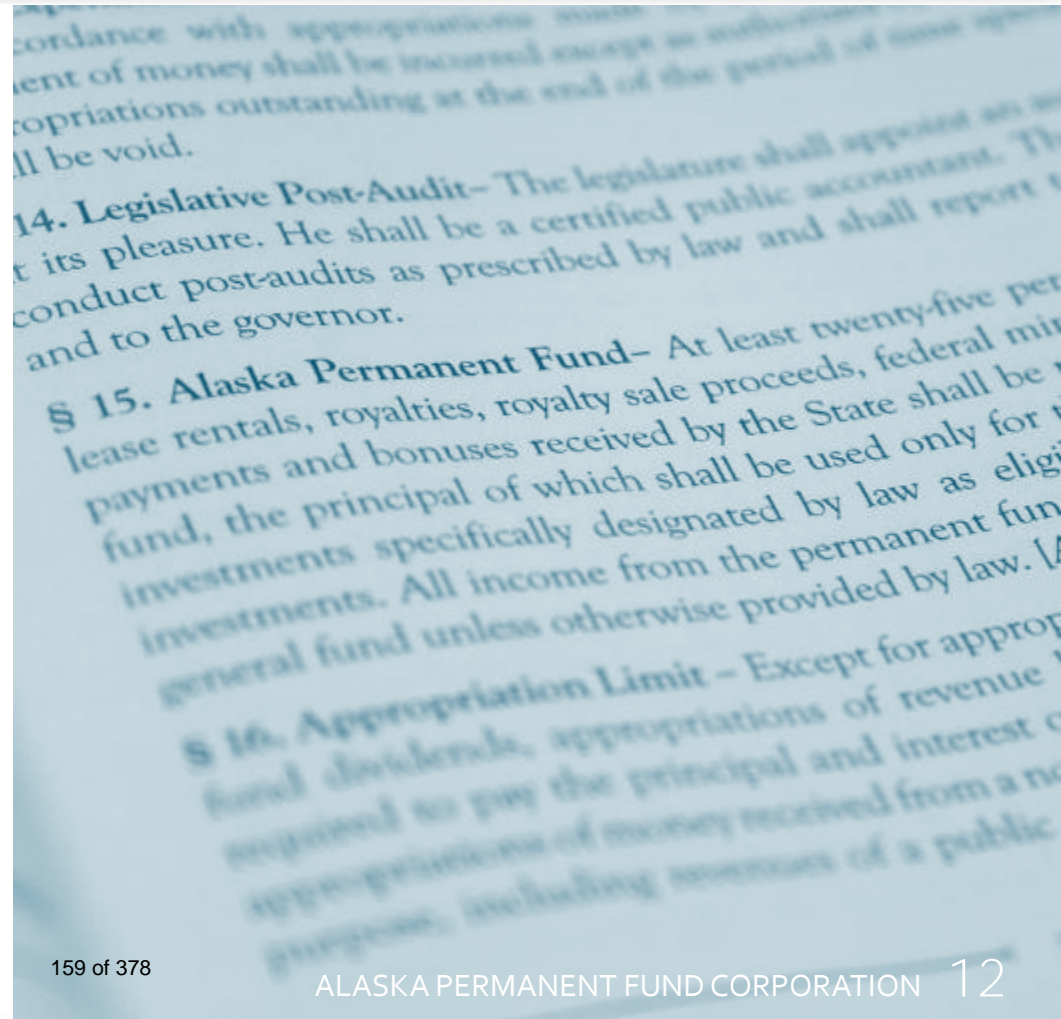
# Constitutional Amendment

The Board of Trustees has been on record for more than 20 years to transition the Fund from its current two-account system to a one unified account system, which would protect the intergenerational sustainability of the Fund to provide for all generations.

## Board Resolutions

00-13, 03-05, 04-09, 18-04, and 20-01

- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.



## Potential Long-Term Stability Approaches

Each approach addresses specific challenges and offers potential solutions.

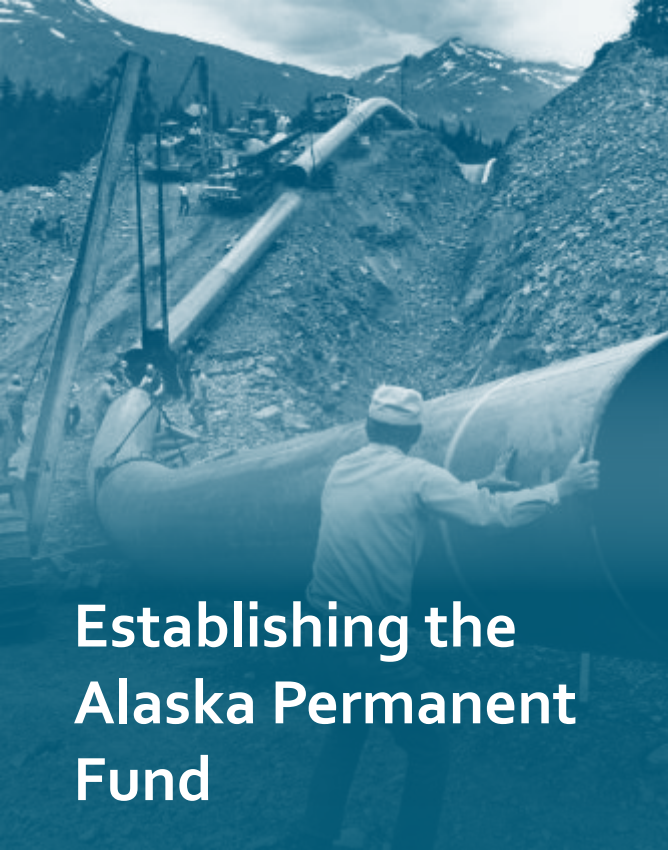
- A constitutional amendment to establish a single-account endowment
- Combining the two accounts and establishing the permanent endowment model in statute
- Suspending inflation-proofing when the ERA balance approaches minimum levels
- Establishing a policy of forced realizations

# Trustees' Paper Volume 10



The risk of depleting the Earnings Reserve Account (ERA) has increased in recent years.

This paper discusses various reforms to mitigate the risk of depleting the ERA.



**Establishing the  
Alaska Permanent  
Fund**



**Duty to manage  
and invest for the  
benefit of  
generations**



**An enduring  
financial resource  
for Alaska**

## **Alaska's Renewable Financial Resource**

The logo for the Alaska Permanent Fund Corporation (APFC) is displayed in a white rectangular box. The letters 'APFC' are rendered in a large, bold, serif font.

ALASKA PERMANENT  
FUND CORPORATION



SUBJECT: Asset Allocation Review

ACTION:     X    

DATE: May 29, 2024

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

**BACKGROUND:**

Traditionally, each year at the May Board of Trustees meeting, the Investment Policy Statement is opened up for any edits. The Fund’s target asset allocation and the benchmarks that correspond to the asset allocation are perhaps the most notable items for review.

**STATUS:**

At this meeting, the CIO and CRO will review three options for asset allocation of the Fund for FY 2025 and beyond – (i) status quo existing plan in Investment Policy Statement, (ii) Option 1 with an upward adjustment to Private Equity and (iii) Option 2 with upward adjustments to both Private Equity and Private Income.

The Board will be asked to approve one of the proposed options for incorporation into the Investment Policy Statement.



ALASKA PERMANENT  
FUND CORPORATION

# Asset Allocation Discussion & Action

May 29, 2024

# Executive Summary

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- Over the past several quarters Staff, Board and Third-Party Consultants/Managers have discussed the Fund's asset allocation
- Proposal outlined herein is based on preference expressed for higher allocations to private equity and private income asset classes with real estate, absolute return and tactical opportunities featuring reduced allocations
- Staff has been managing real estate towards a 13% target allocation, if real estate allocation ends up at 11% (as featured in proposed new targets) we recommend eliminating the REIT aspect of the mandate and benchmark to accommodate recent investment activity done under the premise of a 13% target
- The following pages review return and risk characteristics of the existing policy portfolio and the new proposed asset allocation with the final slide providing a summary of action items to implement the new proposed asset allocation

# Detail on Options and Staff Comments

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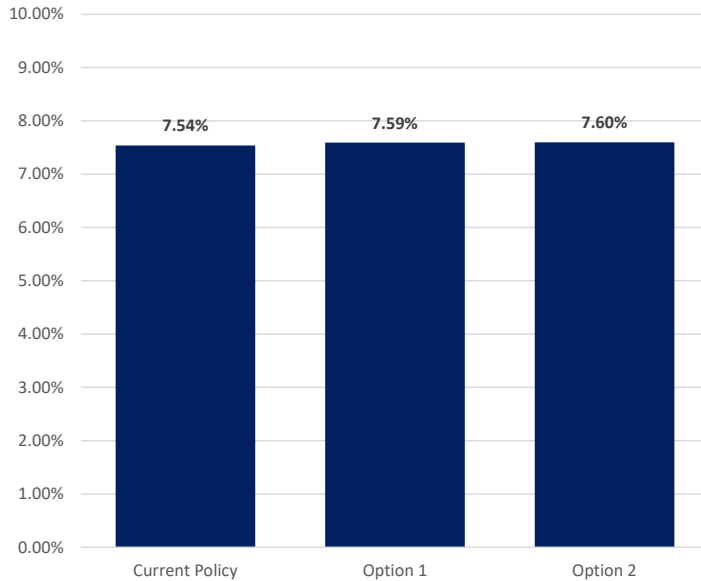
- In the past year, at a high level, we believe that relative attractiveness of major private asset classes have moved in the following fashion:
  - **Real Estate:** We believe that real estate is less attractive, on the margin, than it was twelve months ago; interest rates have remained stubbornly high while capitalization rates of core properties have only adjusted upwards modestly; meanwhile commercial real estate fundamentals are showing some cracks; these developments make real estate a natural place to use as a source of funds for asset allocation adjustments; **(minus 2% adjustment in Option 1 and Option 2)**
  - **Private Equity:** We believe that at the end of CY 2022, the major adjustments to public markets valuations (stocks & bonds) hadn't found their way into private equity valuations; subsequently we have seen LBO multiples tick downwards a couple multiple turns and VC markets are in the process of resetting; with the S&P 500 now having rallied over 20%, the relative case for Private Equity is stronger than it was a year ago in our view; additionally, current Fund NAV relative to target means an increase accommodates current exposure **(plus 2% adjustment in Option 1 and Option 2)**
  - **Private Income/Private Credit:** Private credit remains an area where APFC can expect to earn high single digit or low double digit net of fee returns in soft landing economic scenarios, however, capital deployed here exposed to risk in more pronounced default cycle / economic contraction; current exposure levels don't require increase in target to accommodate **(plus 2% adjustment in Option 2, no adjustment in Option 1)**

# Asset Allocation – Current Policy vs. Options

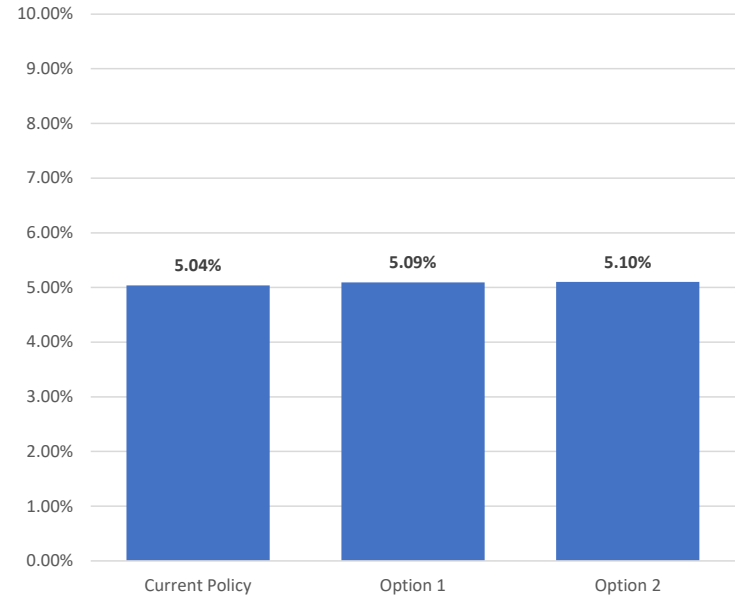
	Target Asset Allocation FY '25 and Beyond					Callan 10-Year Nominal Return
	Current Policy	Option #1		Option #2		
		Proposal	Adjustment	Proposal	Adjustment	
Public Equities	32%	32%		32%		7.85%
Fixed Income	20%	20%		20%		5.25%
Private Equity	15%	17%	+2%	17%	+2%	8.75%
Real Estate	13%	11%	(2%)	11%	(2%)	6.00%
Private Income	9%	9%		11%	+2%	7.20%
Absolute Return	7%	7%		6%	(1%)	6.05%
Tactical Opportunities	2%	2%		1%	(1%)	7.50%
Cash	2%	2%		2%		3.00%
<b>Total</b>	<b>100%</b>	<b>100%</b>		<b>100%</b>		

# Expected Returns

## Nominal Expected Returns



## Real Expected Returns

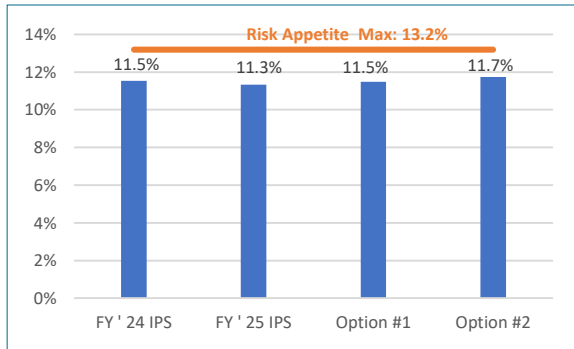


Note: calculations based on Callan Associates 10-year capital market forecasts

# Risk Metrics: all options are within board approved risk appetite

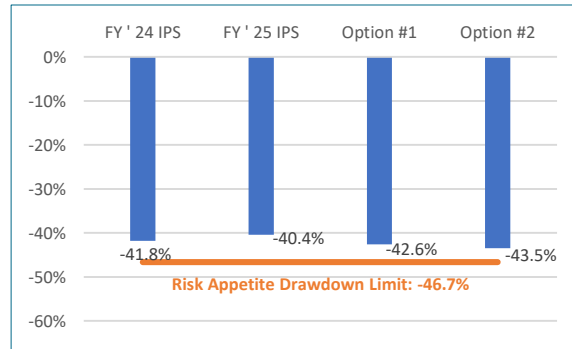
- Risk numbers were computed for the various asset allocation mixes as per board approved risk appetite policy.
- On all three dimensions (VaR, Drawdown, Liquidity), the proposed 2025 allocations were within the Risk Tolerance Portfolio (80/20 bond/equity) levels

Value at Risk (VaR)



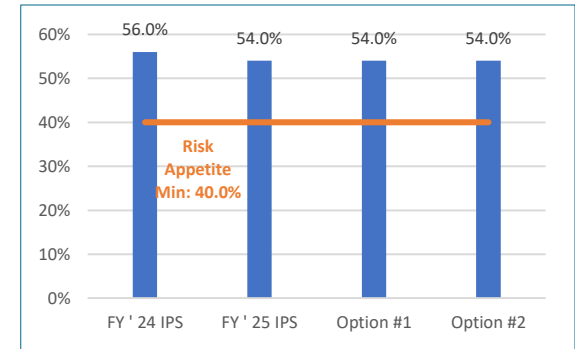
- VaR (1 year, 1SD) was computed based on constant weighted 10 –year historical data
- Private Equity exposure was artificially reduced by 25%, per policy

Stress Drawdown Levels



- The drawdown levels reflect the estimated market value declines, assuming stress levels of the GFC (2007 – 2009 recession scenario)

Liquidity Levels



- Liquidity levels reflect the aggregate proportion of public equities, fixed income and cash portfolios

# Board of Trustees Action

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- Board of Trustees Action items for vote:
  1. Elect either Option 1 or Option 2 asset allocation scenarios as outlined herein
  2. Adjust the Real Estate benchmark to 100% NCREIF NPI Index (Lagged) and eliminate REIT's from the mandate and the benchmark
  3. Adjust total fund performance benchmark to reflect updated target asset allocations
  4. Staff to manage private markets pacing to reflect changed ultimate targets



SUBJECT: Investment Advisor Presentation  
Britt Harris, Investment Advisor

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

DATE: May 29, 2024

INFORMATION:  X

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BACKGROUND:

Britt Harris is under contract with APFC to act as a member of the Investment Advisory Group (IAG) for the Board of Trustees. Mr. Harris' presentation at this meeting is in fulfillment of the contractual requirement to annually present a topic for the Board's consideration on best practices in the management of large institutional funds.



# Alaska Advisor Presentation

**On Eagles Wings Advisors**

**Britt Harris**

*Founding Advisor*

172 of 378  
May 2024



# The Life of an Investment Leader

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**Goal: Give you insight into the way large institutional investors operate**

- **The Foundation**
- **Diversification**





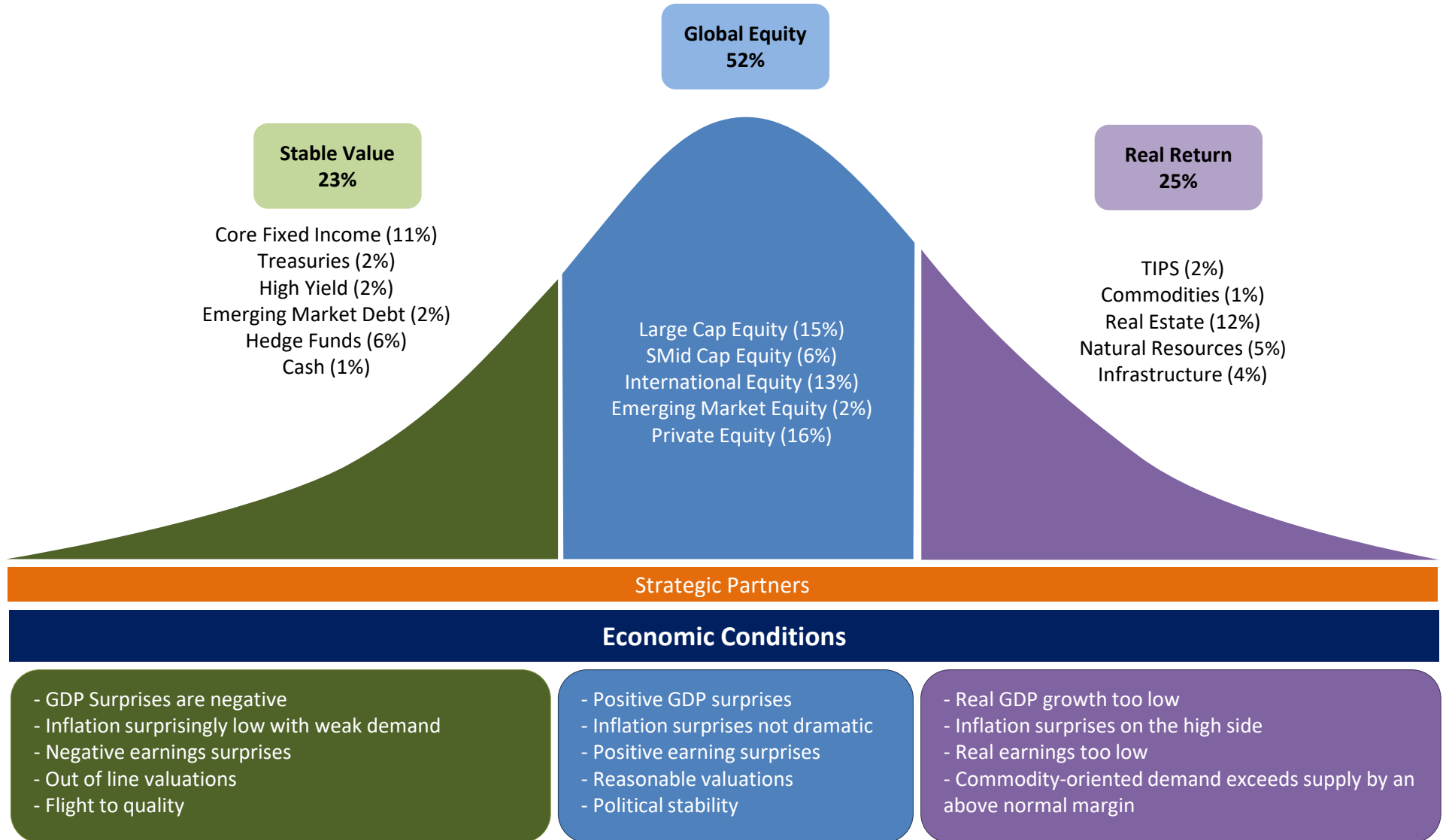
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# The Foundation

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# Regime Framework





# Back to Trend Growth

Exhibit 1: Real GDP, trillions of chained (2017) dollars, seasonally adjusted at annual rates



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19. Data are as of December 13, 2023.



# S&P500 Since 1928 (Log Scale)

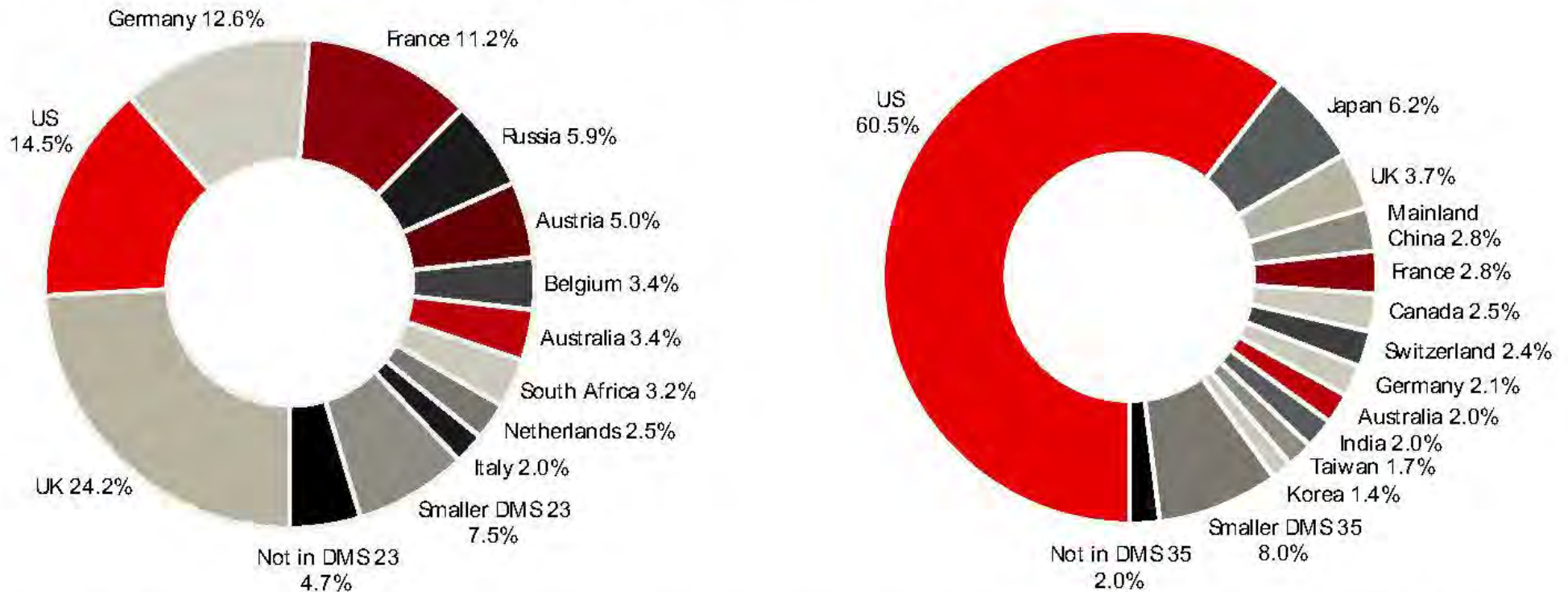
Long Term Investors Win with Equity Allocation  
Professional Investors Manage Intermediate Cycles Well





# Relative Sizes of world Stock Markets

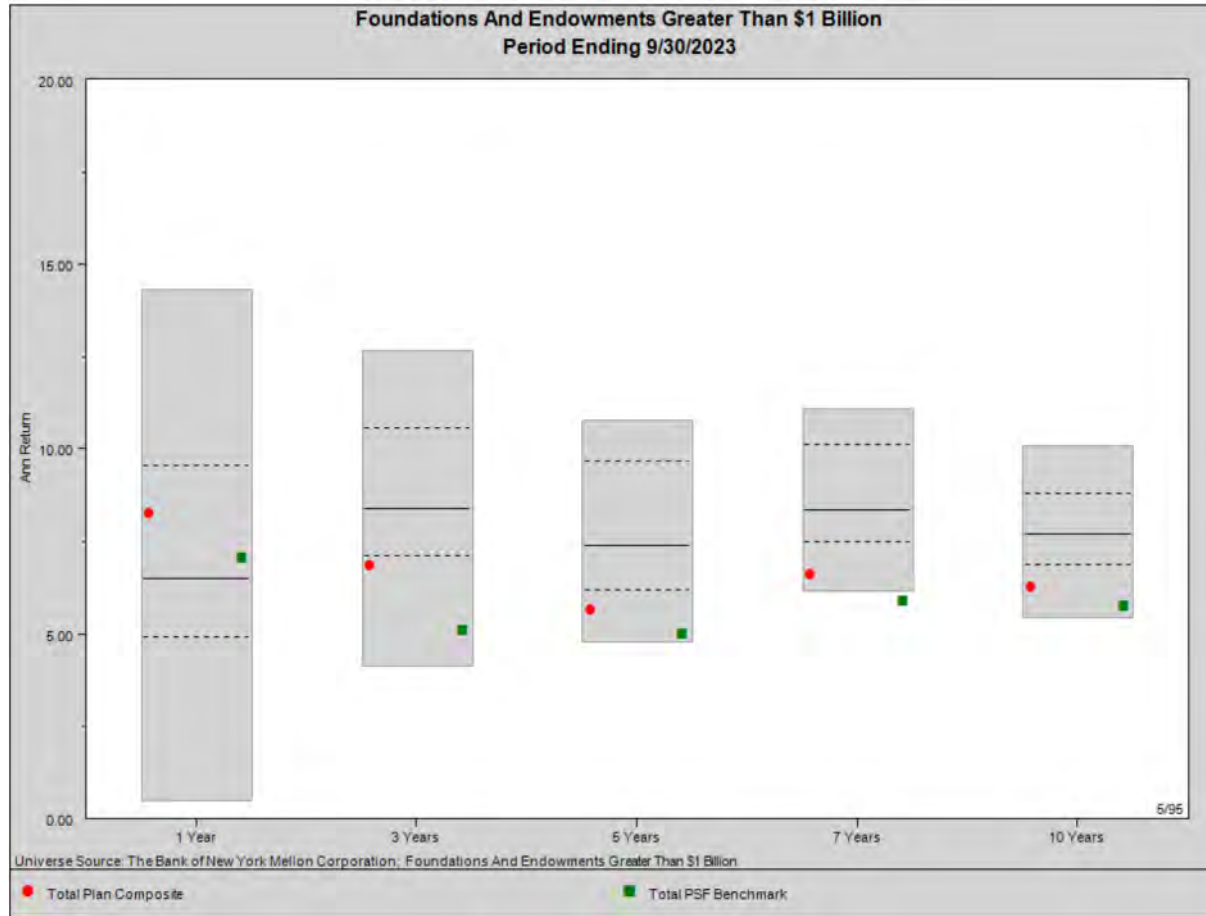
Figure 2: Relative sizes of world stock markets, end-1899 (left) versus start-2024 (right)



Sources: Elroy Dimson, Paul Marsh and Mike Staunton, DMS Database 2024; data for the right-hand chart from FTSE Russell All-World Index Series Monthly Review, December 2023. Not to be reproduced without express written permission from the authors.



# Foundations & Endowments > \$1B



	1 Year	3 Years	5 Year	7 Years	10 Years
<b>5th Percentile</b>	14.3	12.7	10.8	11.1	10.1
<b>25th Percentile</b>	9.6	10.6	9.7	10.1	8.8
<b>Median Percentile</b>	6.5	8.4	7.4	8.4	7.7
<b>75th Percentile</b>	4.9	7.1	6.2	7.5	6.9
<b>95th Percentile</b>	0.5	4.1	4.8	6.2	5.5
<b># of Portfolios</b>	50	44	43	42	40

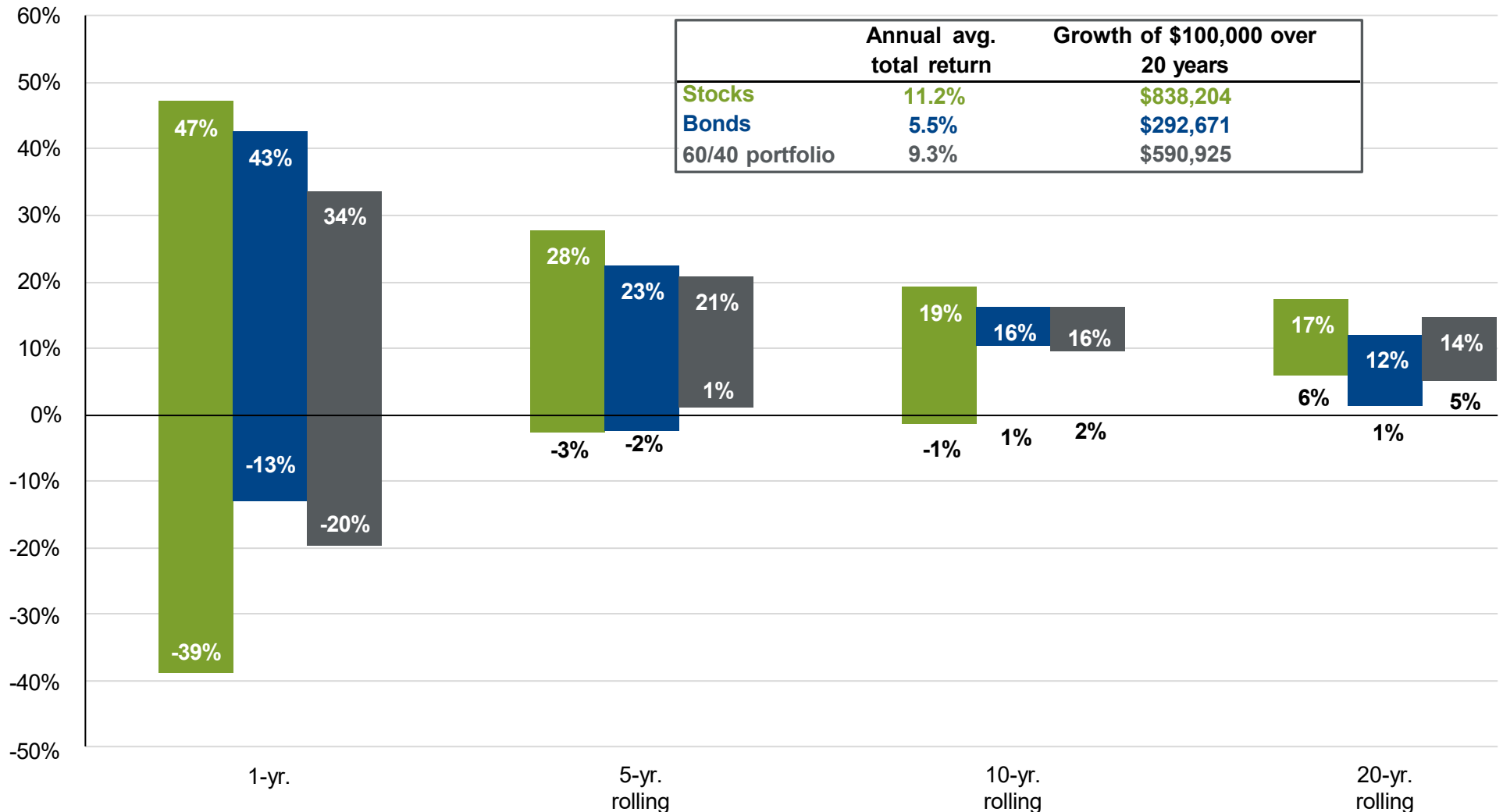
	Value	%Tile	Value	%Tile	Value	%Tile	Value	%Tile	Value	%Tile
<b>Total Plan Composite</b>	8.3	35	6.9	79	5.6	88	6.6	89	6.3	86
<b>Total PSF Benchmark</b>	7.1	40	5.1	88	5.0	94	5.9	96	5.8	94



# Time, Diversification and the Volatility of Returns

## Range of stock, bond and blended total returns

Annual total returns, 1950-2023



	Annual avg. total return	Growth of \$100,000 over 20 years
<b>Stocks</b>	11.2%	\$838,204
<b>Bonds</b>	5.5%	\$292,671
<b>60/40 portfolio</b>	9.3%	\$590,925

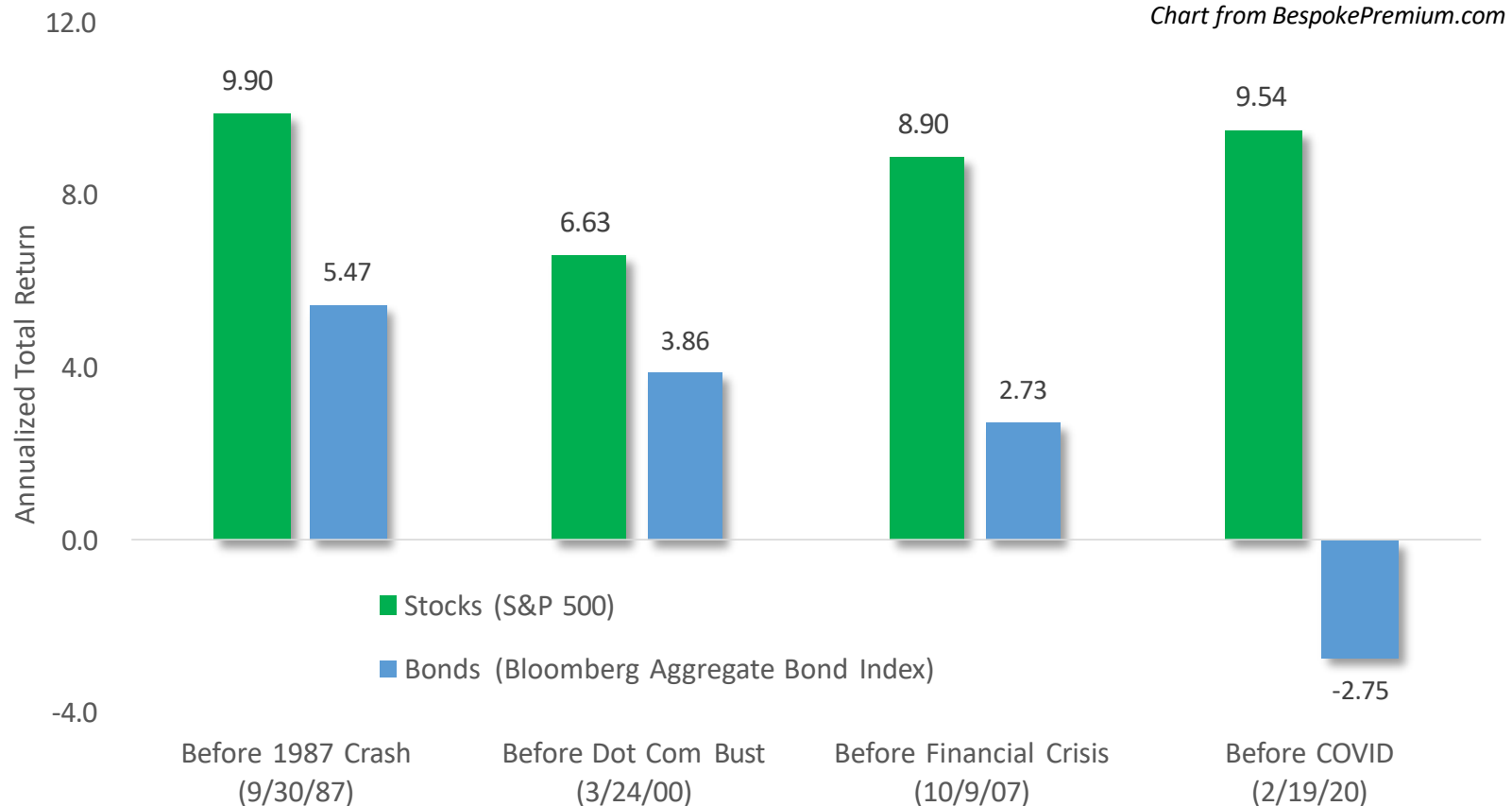
Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2023.  
 Guide to the Markets - U.S. Data are as of December 31, 2023.



# Time Heals

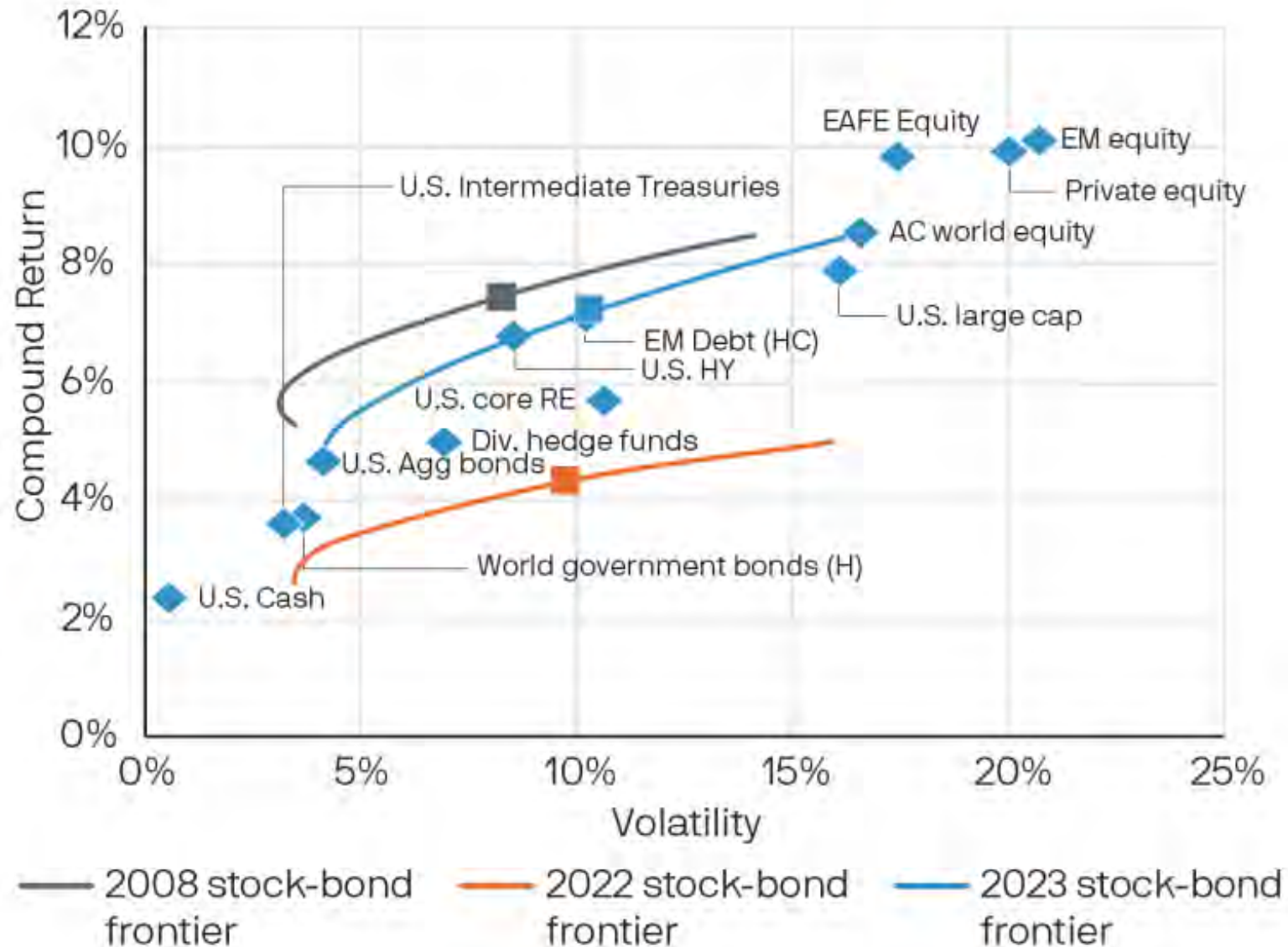
The stock market can be very forgiving if you give it time. The four worst times to buy equities over the last forty years were in September 1987 (before the 1987 crash), March 2000 (before the dot-com peak), October 2007 (before the Financial Crisis peak), and February 2020 (before the COVID crash). Since each of those four ill-fated buy points, stocks have still returned *at least* 6.6% on an annualized basis and have outperformed bonds over all four spans.

## Performance of Stocks vs Bonds Since Previous Market Peaks





# Future Higher Returns





# Expected Return Premiums & Correlations by Asset Class

Asset Classes	2024 Exp. Return (%)	Volatility (%)	Risk Premium (%)	Sharpe Ratio	Correlation to SPS00	Correlation to CPI
CPI	2.50	1.52	0.00	0.00	0.01	1.00
Gold	4.10	16.90	1.60	0.09	0.03	(0.04)
<b>Stable Value</b>						
U.S. Cash	2.90	0.59	0.40	0.68	(0.04)	(0.02)
U.S. Intermediate Treasuries	4.60	3.27	2.10	0.64	(0.11)	(0.26)
Diversified Hedge Funds	5.00	5.80	2.50	0.43	0.68	0.09
U.S. Long Treasuries	5.20	12.39	2.70	0.22	(0.10)	(0.21)
U.S. Inv Grade Corporate Debt	5.80	7.14	3.30	0.46	0.46	(0.17)
<b>Global Equities</b>						
U.S. High Yield Debt	6.50	8.36	4.00	0.48	0.74	0.01
Emerging Market Debt	6.80	9.64	4.30	0.45	0.60	(0.12)
U.S. Large Cap Equities	7.00	16.19	4.50	0.28	1.00	0.01
U.S. Small Cap Equities	7.20	20.44	4.70	0.23	0.90	(0.02)
U.S. Mid Cap Equities	7.60	18.13	5.10	0.28	0.96	0.01
UK Equities	8.60	17.76	6.10	0.34	0.83	0.05
Emerging Markets Equities	8.80	21.20	6.30	0.30	0.74	0.00
Asia ex. Japan Equities	8.90	20.98	6.40	0.31	0.71	(0.05)
EAFE Equities	9.20	17.64	6.70	0.38	0.88	(0.01)
Venture Capital	9.20	22.17	6.70	0.30	0.65	(0.07)
Europe Equities	9.70	22.15	7.20	0.33	0.85	(0.02)
Private Equity	9.70	20.06	7.20	0.36	0.79	0.09
China Equities	10.80	29.33	8.30	0.28	0.36	(0.05)
<b>Real Return</b>						
Commodities	3.80	18.00	1.30	0.07	0.45	0.27
TIPS	4.60	5.75	2.10	0.37	0.29	0.00
Global Core Infrastructure	6.80	11.24	4.30	0.38	0.46	0.20
U.S. Core Real Estate	7.50	10.60	5.00	0.47	0.38	0.31
U.S. Value-Added Real Estate	9.70	17.66	7.20	0.41	0.38	0.31

Source: 2024 JPM Long-Term Capital Markets Assumptions

Note: Risk premium based on CPI rate of 2.5%; U.S. Large Cap assumed to be proxy for SPS00 correlation



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# Diversification

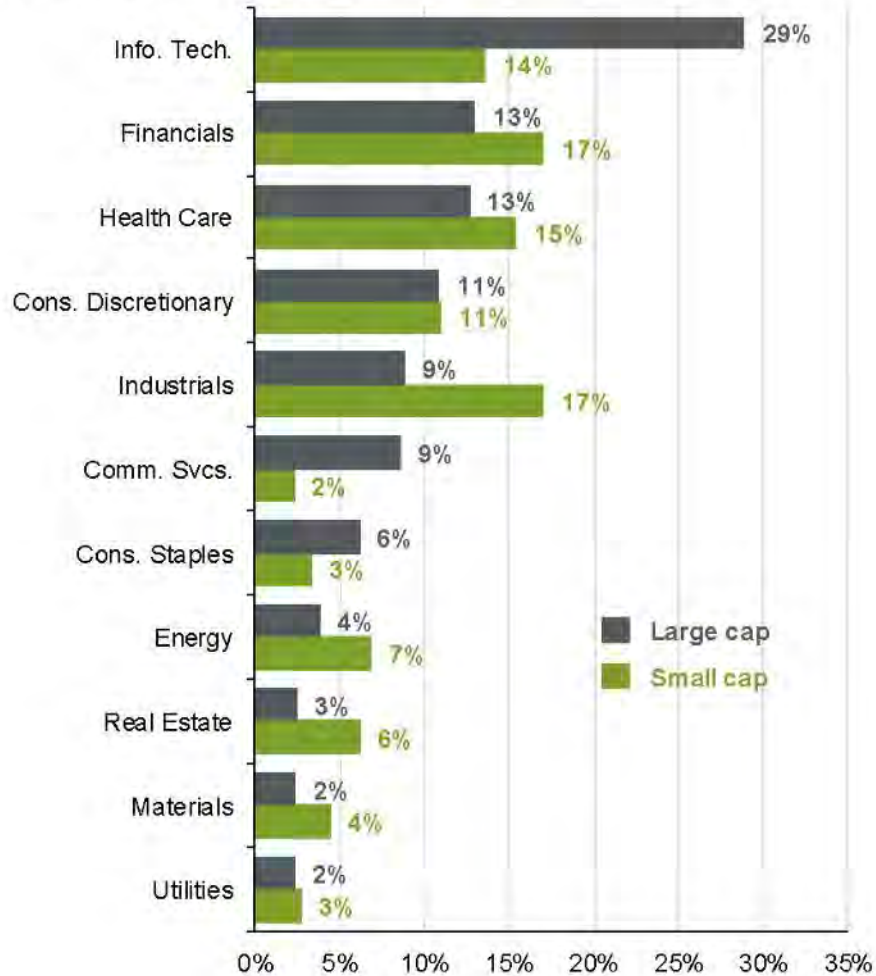
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# Small Cap vs Large Cap Stocks

## Sector composition

% of index market capitalization



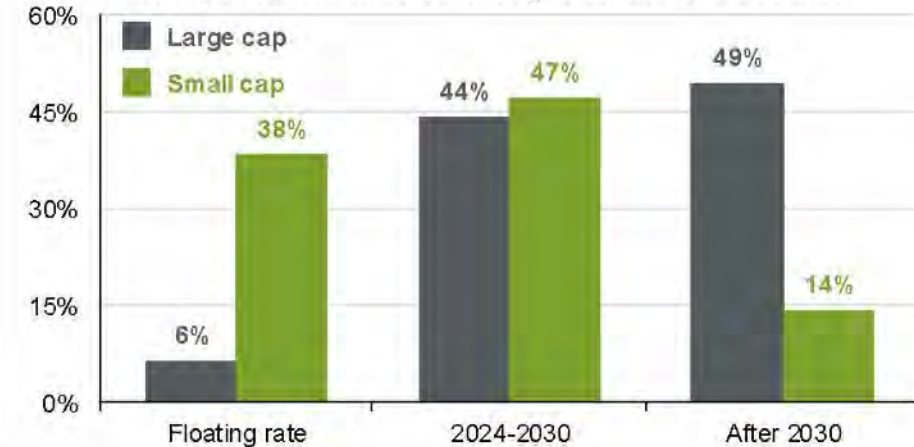
## Percent of unprofitable companies in the Russell 2000

1Q98 – 3Q23



## Outstanding debt by maturity year

Excl. financials, % of total debt outstanding, USD denominated debt



Source: Compustat, FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. The S&P 500 is used for large cap and the Russell 2000 is used for small cap. *Guide to the Markets – U.S.* Data are as of December 31, 2023.



# Value vs Growth: Valuations & Interest Rates

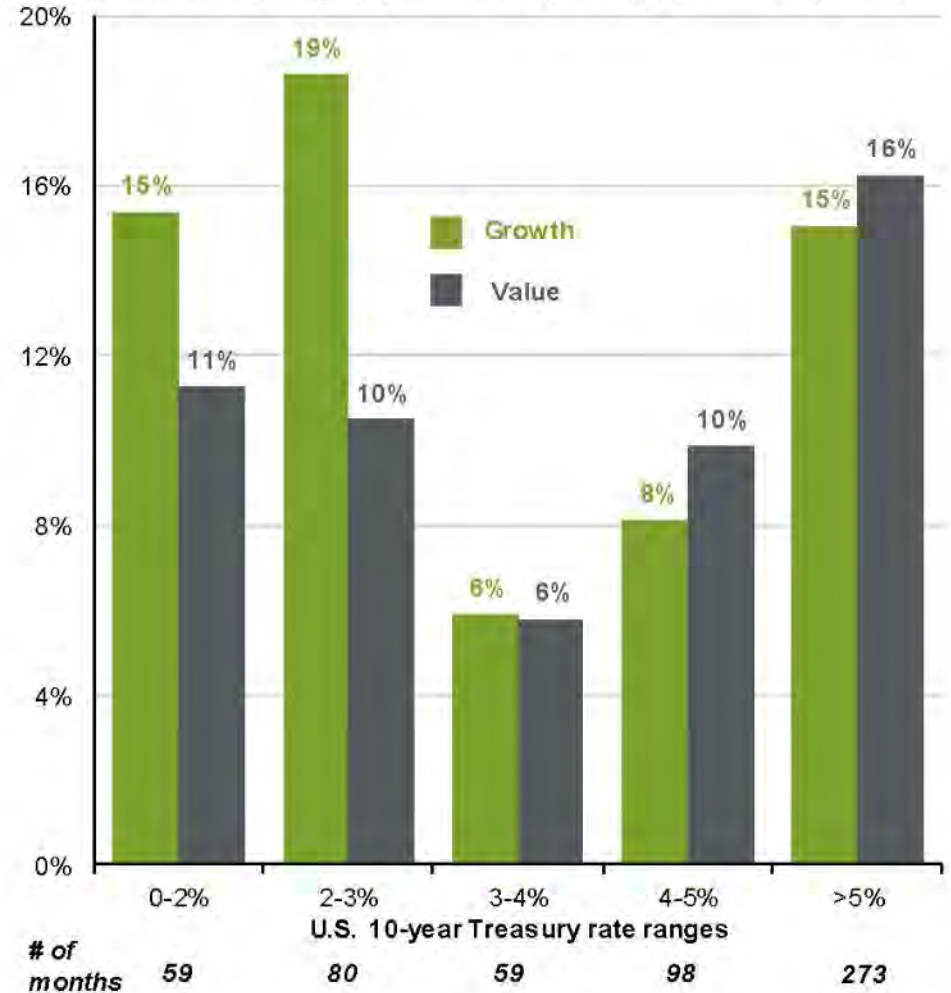
## Value vs. Growth relative valuations

Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



## Value vs. Growth in different interest rate environments

Annualized total return by 10-year Treasury rate ranges, 1979 - present



Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.

Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. (Left) \*Long-term averages are calculated monthly since December 1997. \*\*Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. (Right) Returns are calculated by annualizing the average monthly performance during each interest rate range.

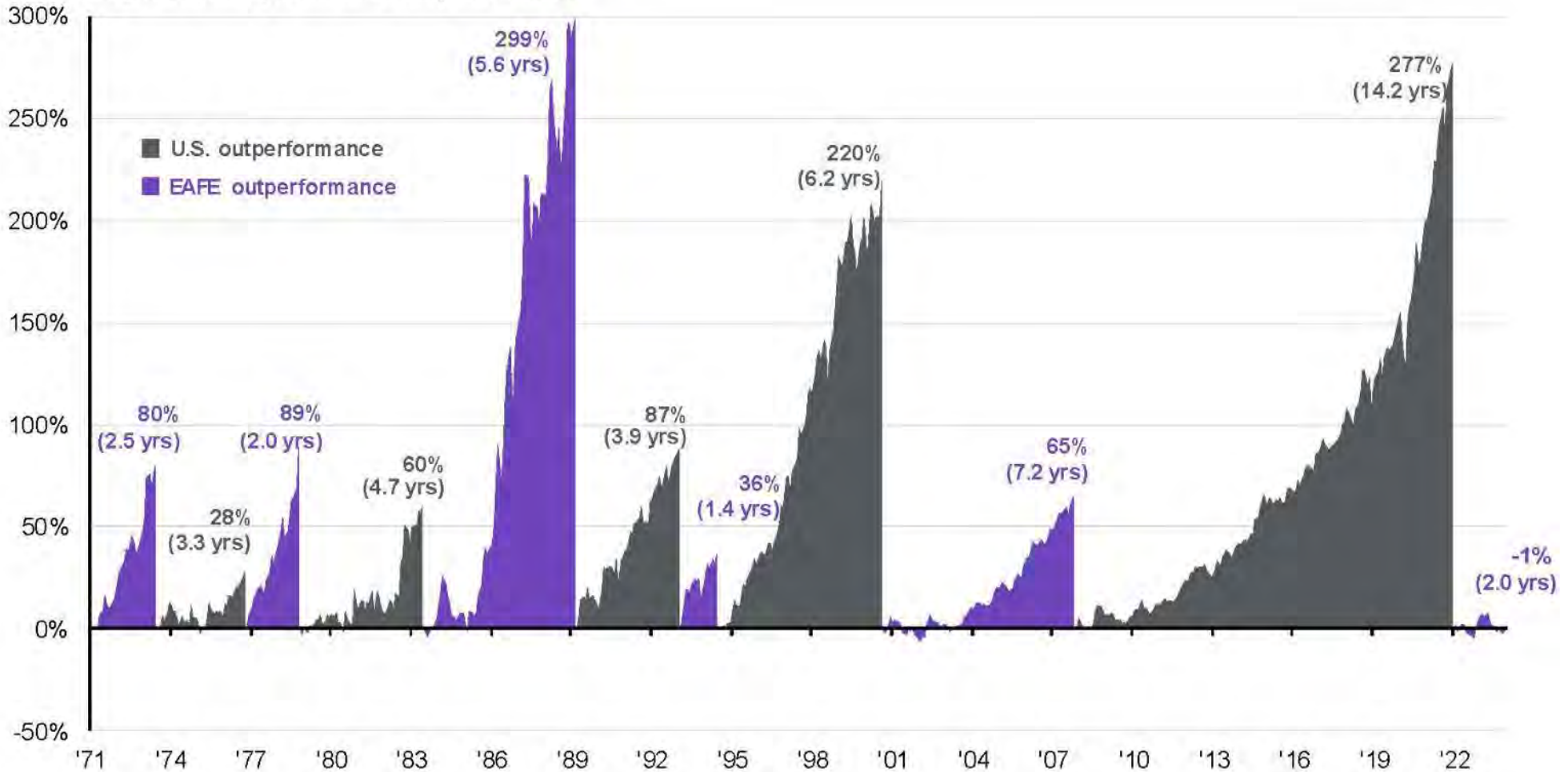
Guide to the Markets - U.S. Data are as of December 31, 2023.



# Cycles of US Equity Outperformance

## MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



Source: FactSet, MSCI, J.P. Morgan Asset Management.

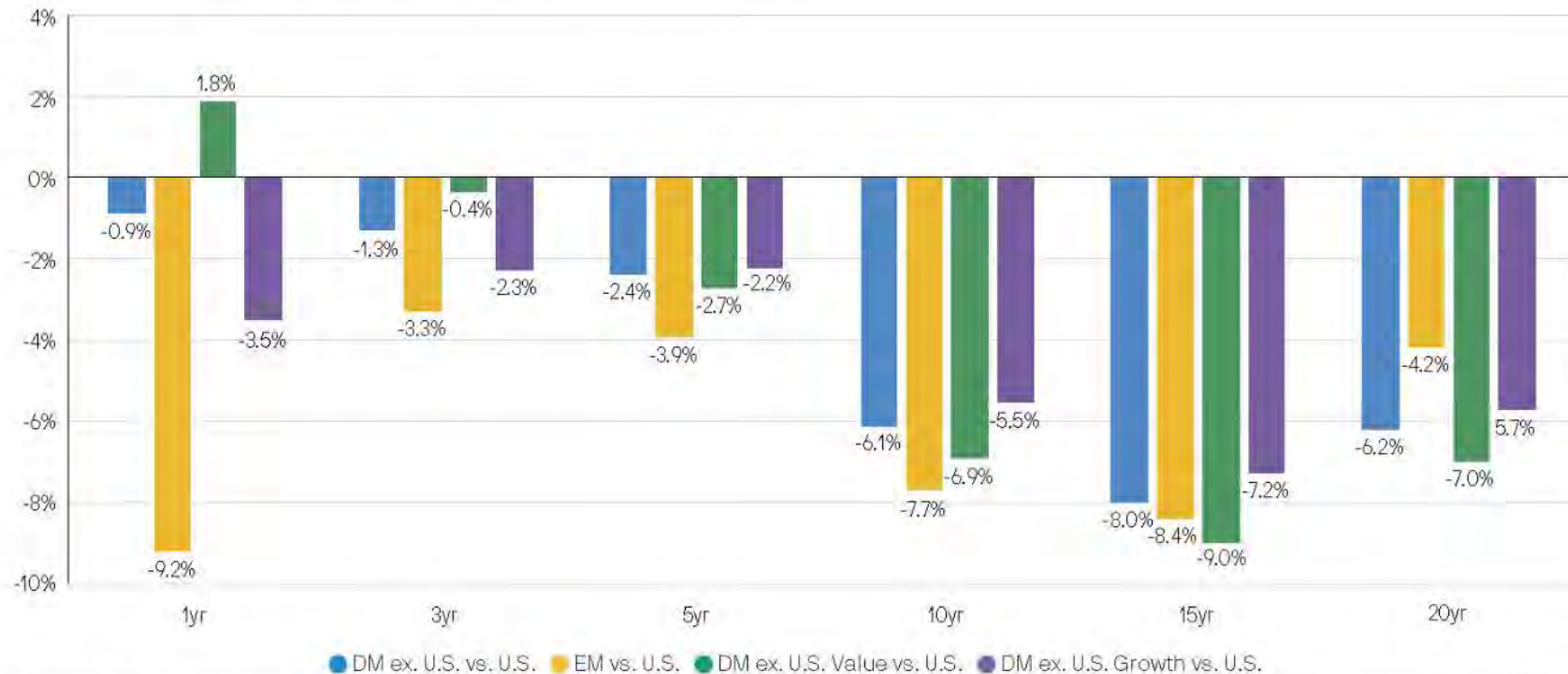
Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period. \*Peak MSCI EAFE outperformance vs. MSCI USA occurred in April 2023. If this is sustained for 12 months, the regime will switch in April 2024.

Guide to the Markets – U.S. Data are as of December 31, 2023.



# International relative performance may be changed, led by Value outperformance

Exhibit 8: Relative returns vs. the U.S., USD, total return, annualized

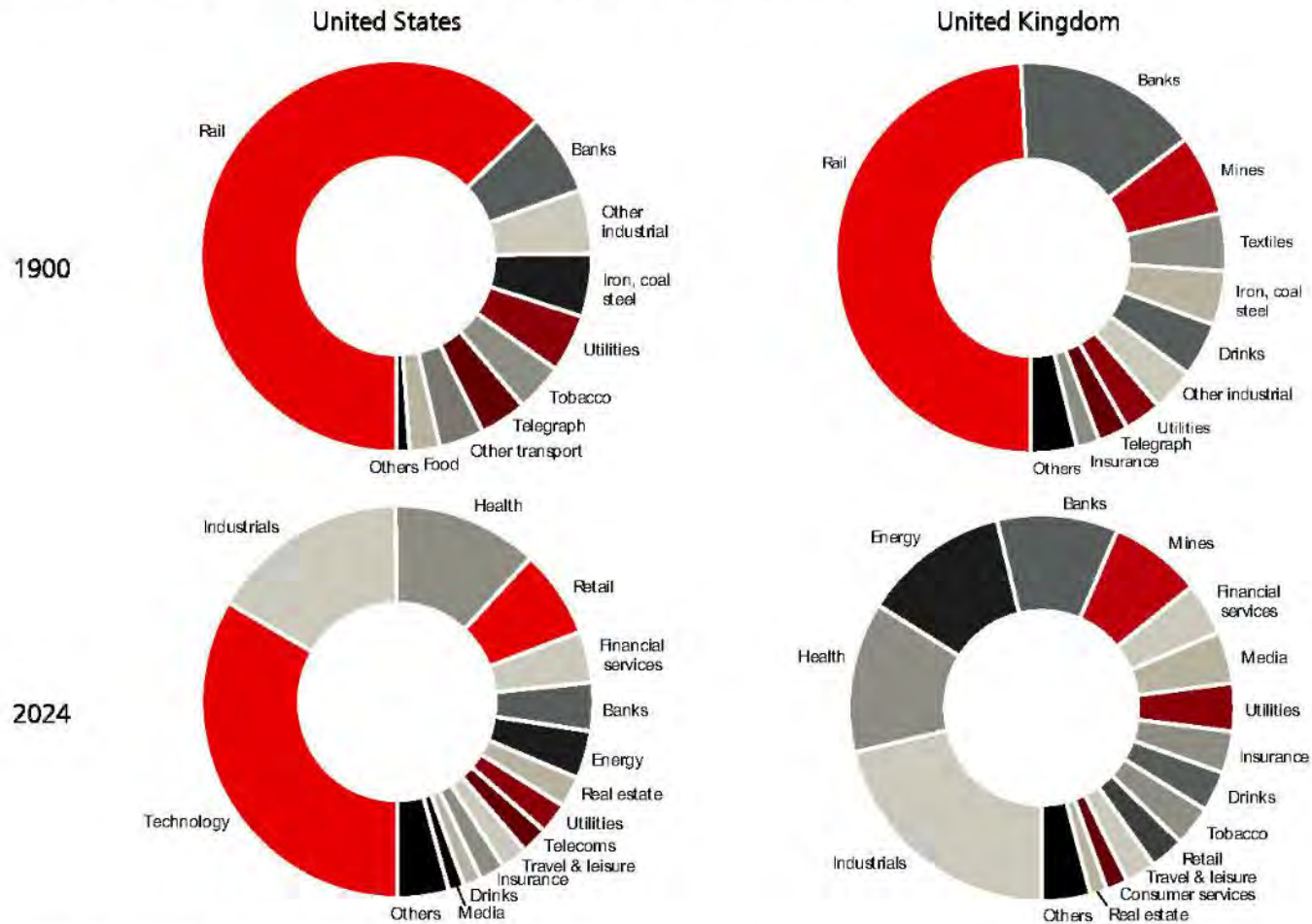


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. "DM ex. U.S." is represented by the MSCI EAFE Index, "U.S." is represented by the S&P 500 Index, "DM ex. U.S. Value" is represented by the MSCI EAFE Value Index, and "DM ex. U.S. Growth" is represented by the MSCI EAFE Growth Index. The 1yr return shown is a cumulative return. Data are as of December 13, 2023.



# Industry Weightings in US and UK

Figure 9: Industry weightings in the US (left) and the UK (right), start-1900 compared with start-2024

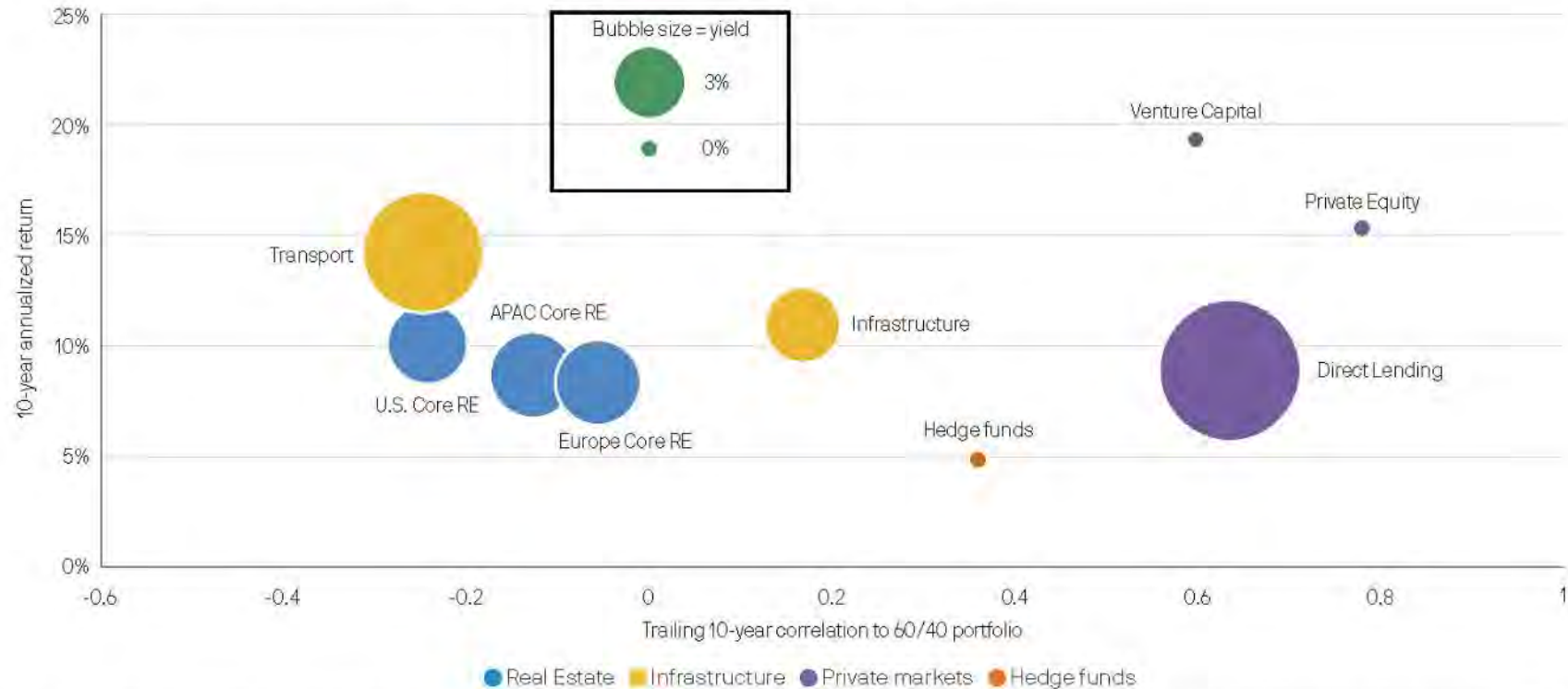


Sources: Elroy Dimson, Paul Marsh and Mike Staunton, DMS Database 2024; Cowles, 1938, FTSE Russell All-World Index Series Monthly Review, December 2023. Not to be reproduced without express written permission from the authors.



# Alternatives can provide alpha, income and diversification

Exhibit 9: 10-year correlations and 10-year annualized total returns, quarterly, 2013-2022



Source: Burgiss, Cliffwater, Gilberto-Levy, HFRI, MSCI, NCREIF, FactSet, J.P. Morgan Asset Management. Correlations are based on quarterly returns over the past 10 years through 2022. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated from 2013 – 2022. Indices and data used for alternative asset class returns and yields are as described on pages 8,9, and 11 of the Guide to Alternatives. Yields are based on latest available data as described on page 8 of the Guide to Alternatives. December 13, 2023.



# Private Alternative Investments

Periods Ending December 31, 2023

	Years			
	1	3	5	10
<b>Private Equity</b>	10.4%	19.0%	17.0%	16.0%
<b>Venture Capital</b>	-7.7%	12.5%	14.8%	14.2%
<b>Real Assets</b>	8.4%	15.2%	7.9%	7.7%
<b>Private Debt</b>	9.8%	10.7%	8.2%	8.3%
<b>Fund of Funds</b>	2.1%	18.3%	15.4%	13.6%
<b>Secondaries</b>	4.6%	20.6%	14.6%	13.4%
<b>All</b>	6.8%	16.2%	13.4%	13.2%



# IRR Fund Performance Dispersion by Strategy

Vintage Years 2005-2018

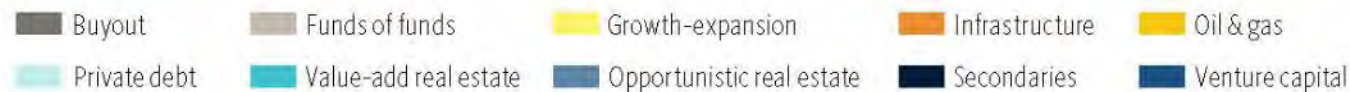


Source: PitchBook • Geography: Global • \*As of September 30, 2023



# Pooled IRR by Vintage Year

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	10-year horizon IRR
29.8%	11.5%	9.1%	13.7%	15.5%	12.6%	19.9%	19.9%	18.0%	18.9%	20.6%	20.1%	23.9%	22.8%	22.1%	27.6%	30.8%	16.7%
14.5%	11.0%	8.2%	10.4%	13.3%	12.4%	14.3%	16.1%	15.8%	15.0%	18.6%	19.0%	21.6%	21.9%	21.6%	23.2%	21.0%	15.9%
11.0%	10.0%	8.0%	10.3%	13.0%	12.2%	12.7%	15.4%	15.6%	14.7%	18.2%	18.4%	18.0%	21.5%	20.1%	21.6%	17.5%	14.2%
10.4%	9.6%	8.0%	8.8%	11.7%	12.1%	12.3%	14.8%	14.1%	14.6%	15.5%	16.4%	17.5%	20.5%	19.9%	19.4%	13.9%	13.6%
9.2%	7.2%	7.2%	7.5%	10.3%	12.1%	12.1%	14.2%	13.2%	12.1%	13.8%	12.8%	16.9%	16.4%	19.2%	18.3%	13.9%	13.4%
8.2%	6.9%	7.1%	6.4%	8.8%	11.0%	10.5%	14.1%	13.1%	10.8%	12.4%	12.4%	13.1%	16.1%	13.7%	17.1%	13.0%	10.8%
5.1%	6.7%	5.8%	5.6%	7.6%	9.2%	8.5%	13.0%	12.8%	10.8%	10.7%	11.9%	11.9%	12.7%	10.7%	15.4%	12.9%	10.5%
5.0%	6.7%	-2.7%	5.0%	6.4%	8.7%	8.3%	7.5%	10.9%	9.5%	10.4%	10.3%	10.0%	10.8%	10.6%	12.1%	10.5%	10.3%
2.2%	1.9%	-2.9%	3.6%	4.1%	6.5%	6.5%	6.8%	6.0%	7.1%	9.1%	8.7%	9.7%	9.5%	9.6%	11.3%	8.8%	8.3%
0.4%	-7.9%	-3.5%	1.9%	-3.2%	0.5%	-6.7%	2.9%	1.4%	4.5%	7.3%	7.3%	6.7%	6.7%	9.2%	9.3%	5.7%	4.1%



Source: PitchBook • Geography: Global • \*As of September 30, 2023



# Diversification Benefit

60, 30, 5

	Cash	+ Diversification	= Total Return
<b>1950s</b>	1.9%	9.9%	11.8%
<b>1960s</b>	3.9%	2.0%	5.8%
<b>1970s</b>	6.1%	-0.1%	6.0%
<b>1980s</b>	8.9%	6.7%	15.6%
<b>1990s</b>	4.5%	9.1%	14.0%
<b>2000s</b>	2.8%	-0.6%	2.2%
<b>2010s</b>	0.5%	9.2%	9.7%
<b>2020s</b>	1.8%	5.0%	6.9%
<b>All</b>	3.9%	5.2%	9.1%



SUBJECT: Capital Markets & Performance Review      ACTION: \_\_\_\_\_  
          Callan

DATE: May 29-30, 2024                                      INFORMATION:   X  

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**BACKGROUND:**

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

**STATUS:**

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



May 29, 2024

**Alaska Permanent Fund  
Corporation**

1<sup>st</sup> Quarter 2024

Capital Markets and Performance  
Review

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**Greg Allen**

CEO and Chief Research Officer

**Steven Center, CFA**

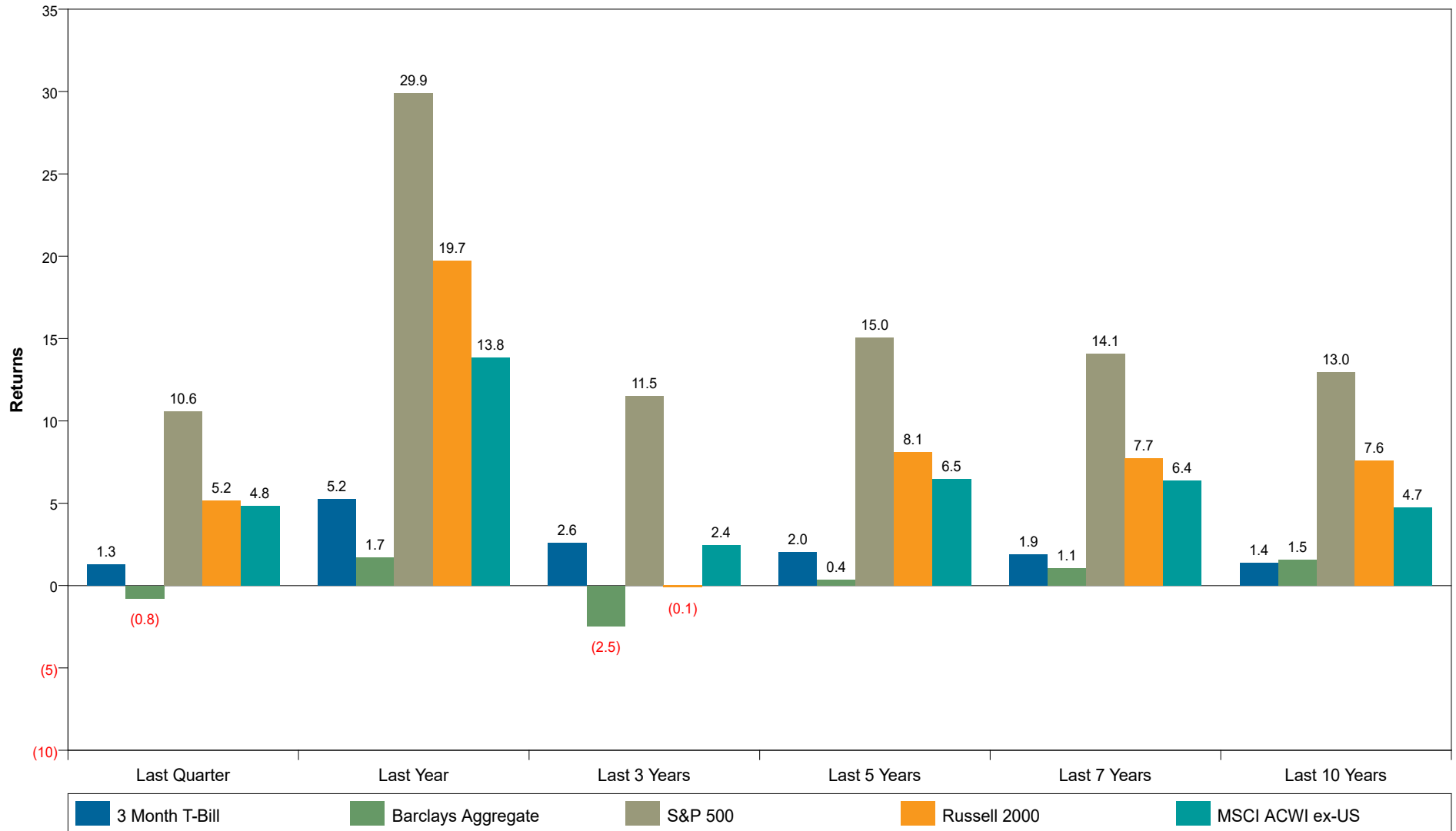
Senior Vice President

**Evan Williams, CFA, CAIA**

Vice President

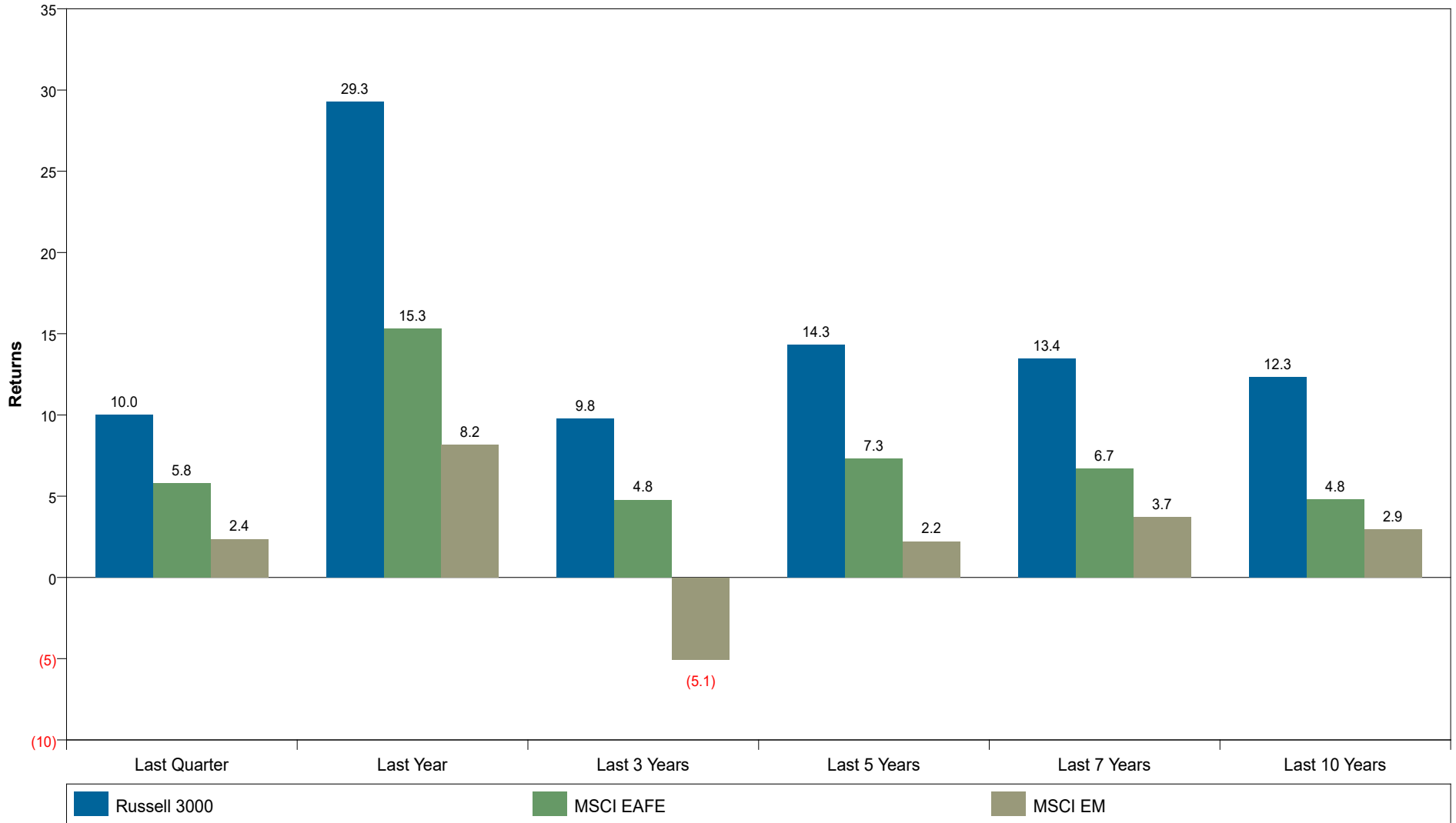
# Broad Capital Market Performance

Periods Ended March 31, 2024



# Public Equity Capital Market Performance

Periods Ended March 31, 2024



# Callan Periodic Table of Investment Returns

## Returns for Key Indices

2015	2016	2017	2018	2019	2020	2021	2022	2023	1 Qtr. 2024
MSCI ACWI ex USA SC <b>2.60%</b>	Russell 2000 <b>21.31%</b>	MSCI Emerging Markets <b>37.28%</b>	Bloomberg Barclays Aggregate <b>0.01%</b>	S&P 500 <b>31.49%</b>	Russell 2000 <b>19.96%</b>	S&P 500 <b>28.71%</b>	Bloomberg Barclays Corp High Yield <b>-11.19%</b>	S&P 500 <b>26.29%</b>	S&P 500 <b>10.56%</b>
S&P 500 <b>1.38%</b>	Bloomberg Barclays Corp High Yield <b>17.13%</b>	MSCI ACWI ex USA SC <b>31.65%</b>	Bloomberg Barclays Corp High Yield <b>-2.08%</b>	Russell 2000 <b>25.52%</b>	S&P 500 <b>18.40%</b>	Russell 2000 <b>14.82%</b>	Bloomberg Barclays Aggregate <b>-13.01%</b>	MSCI World ex USA <b>17.94%</b>	MSCI World ex USA <b>5.59%</b>
Bloomberg Barclays Aggregate <b>0.55%</b>	S&P 500 <b>11.96%</b>	MSCI World ex USA <b>24.21%</b>	Bloomberg Barclays Global Agg ex US <b>-2.15%</b>	MSCI World ex USA <b>22.49%</b>	MSCI Emerging Markets <b>18.31%</b>	MSCI ACWI ex USA SC <b>12.93%</b>	MSCI World ex USA <b>-14.29%</b>	Russell 2000 <b>16.93%</b>	Russell 2000 <b>5.18%</b>
MSCI World ex USA <b>-3.04%</b>	MSCI Emerging Markets <b>11.19%</b>	S&P 500 <b>21.83%</b>	S&P 500 <b>-4.38%</b>	MSCI ACWI ex USA SC <b>22.42%</b>	MSCI ACWI ex USA SC <b>14.24%</b>	MSCI World ex USA <b>12.62%</b>	S&P 500 <b>-18.11%</b>	MSCI ACWI ex USA SC <b>15.66%</b>	MSCI Emerging Markets <b>2.37%</b>
Russell 2000 <b>-4.41%</b>	MSCI ACWI ex USA SC <b>3.91%</b>	Russell 2000 <b>14.65%</b>	Russell 2000 <b>-11.01%</b>	MSCI Emerging Markets <b>18.44%</b>	Bloomberg Barclays Global Agg ex US <b>10.11%</b>	Bloomberg Barclays Corp High Yield <b>5.28%</b>	Bloomberg Barclays Global Agg ex US <b>-18.70%</b>	Bloomberg Barclays Corp High Yield <b>13.44%</b>	MSCI ACWI ex USA SC <b>2.11%</b>
Bloomberg Barclays Corp High Yield <b>-4.47%</b>	MSCI World ex USA <b>2.75%</b>	Bloomberg Barclays Global Agg ex US <b>10.51%</b>	MSCI World ex USA <b>-14.09%</b>	Bloomberg Barclays Corp High Yield <b>14.32%</b>	MSCI World ex USA <b>7.59%</b>	Bloomberg Barclays Aggregate <b>-1.54%</b>	MSCI ACWI ex USA SC <b>-19.97%</b>	MSCI Emerging Markets <b>9.83%</b>	Bloomberg Barclays Corp High Yield <b>1.47%</b>
Bloomberg Barclays Global Agg ex US <b>-6.02%</b>	Bloomberg Barclays Aggregate <b>2.65%</b>	Bloomberg Barclays Corp High Yield <b>7.50%</b>	MSCI Emerging Markets <b>-14.57%</b>	Bloomberg Barclays Aggregate <b>8.72%</b>	Bloomberg Barclays Aggregate <b>7.51%</b>	MSCI Emerging Markets <b>-2.54%</b>	MSCI Emerging Markets <b>-20.09%</b>	Bloomberg Barclays Global Agg ex US <b>5.72%</b>	Bloomberg Barclays Aggregate <b>-0.78%</b>
MSCI Emerging Markets <b>-14.92%</b>	Bloomberg Barclays Global Agg ex US <b>1.49%</b>	Bloomberg Barclays Aggregate <b>3.54%</b>	MSCI ACWI ex USA SC <b>-18.20%</b>	Bloomberg Barclays Global Agg ex US <b>5.09%</b>	Bloomberg Barclays Corp High Yield <b>7.11%</b>	Bloomberg Barclays Global Agg ex US <b>-7.05%</b>	Russell 2000 <b>-20.44%</b>	Bloomberg Barclays Aggregate <b>5.53%</b>	Bloomberg Barclays Global Agg ex US <b>-3.21%</b>

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

# Callan Periodic Table of Investment Returns

## Returns for Key Indices

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
S&P 500 <b>10.56%</b>	S&P 500 <b>29.88%</b>	S&P 500 <b>11.49%</b>	S&P 500 <b>15.05%</b>	S&P 500 <b>14.09%</b>	S&P 500 <b>12.96%</b>	S&P 500 <b>10.15%</b>
MSCI World ex USA <b>5.59%</b>	Russell 2000 <b>19.71%</b>	MSCI World ex USA <b>4.93%</b>	Russell 2000 <b>8.10%</b>	Russell 2000 <b>7.73%</b>	Russell 2000 <b>7.58%</b>	Russell 2000 <b>8.05%</b>
Russell 2000 <b>5.18%</b>	MSCI World ex USA <b>15.29%</b>	Bloomberg Barclays Corp High Yield <b>2.19%</b>	MSCI World ex USA <b>7.48%</b>	MSCI World ex USA <b>6.78%</b>	MSCI World ex USA <b>4.81%</b>	MSCI ACWI ex USA SC <b>7.01%</b>
MSCI Emerging Markets <b>2.37%</b>	MSCI ACWI ex USA SC <b>12.80%</b>	MSCI ACWI ex USA SC <b>0.38%</b>	MSCI ACWI ex USA SC <b>6.24%</b>	MSCI ACWI ex USA SC <b>5.74%</b>	MSCI ACWI ex USA SC <b>4.74%</b>	Bloomberg Barclays Corp High Yield <b>6.54%</b>
MSCI ACWI ex USA SC <b>2.11%</b>	Bloomberg Barclays Corp High Yield <b>11.15%</b>	Russell 2000 <b>-0.10%</b>	Bloomberg Barclays Corp High Yield <b>4.21%</b>	Bloomberg Barclays Corp High Yield <b>4.39%</b>	Bloomberg Barclays Corp High Yield <b>4.44%</b>	MSCI Emerging Markets <b>6.47%</b>
Bloomberg Barclays Corp High Yield <b>1.47%</b>	MSCI Emerging Markets <b>8.15%</b>	Bloomberg Barclays Aggregate <b>-2.46%</b>	MSCI Emerging Markets <b>2.22%</b>	MSCI Emerging Markets <b>3.72%</b>	MSCI Emerging Markets <b>2.95%</b>	MSCI World ex USA <b>5.75%</b>
Bloomberg Barclays Aggregate <b>-0.78%</b>	Bloomberg Barclays Aggregate <b>1.70%</b>	MSCI Emerging Markets <b>-5.05%</b>	Bloomberg Barclays Aggregate <b>0.36%</b>	Bloomberg Barclays Aggregate <b>1.06%</b>	Bloomberg Barclays Aggregate <b>1.54%</b>	Bloomberg Barclays Aggregate <b>2.99%</b>
Bloomberg Barclays Global Agg ex US <b>-3.21%</b>	Bloomberg Barclays Global Agg ex US <b>-0.71%</b>	Bloomberg Barclays Global Agg ex US <b>-6.53%</b>	Bloomberg Barclays Global Agg ex US <b>-2.49%</b>	Bloomberg Barclays Global Agg ex US <b>-0.82%</b>	Bloomberg Barclays Global Agg ex US <b>-1.38%</b>	Bloomberg Barclays Global Agg ex US <b>1.51%</b>

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

# Equity Markets Climb in 1Q, Bonds Falter

Stocks have recovered losses of 2022; bonds still have ground to make up

## S&P 500 climbed 10.6% in 1Q24

- Stocks continued their momentum from the end of last year when the index surged 11.7% in 4Q23.
- The S&P 500 has fully recovered after falling 18.1% in 2022.

## Fixed income faltered in 1Q24

- The Bloomberg Aggregate fell 0.8% amid rising rates in 1Q24.
- Interest rates have been volatile as the markets assess when and how swiftly the Fed will begin easing.
- CPI-U declined during 2023 but remains stalled at 3.5% in 1Q (year-over-year); the inflation index is 13% higher than it was at the start of 2022.
- Grinding out the last bit of stubborn inflation to get to the Fed's broad 2% goal may take longer than expected.

## First signs of cooling for economy

- The initial estimate for 1Q24 GDP growth came in at 1.6%, failing to meet consensus expectations of 2.5% to 3%.

Returns for Periods ended 3/31/24

	Quarter	1 Year	1/1/22 - Current	5 Years	10 Years	25 Years
<b>U.S. Equity</b>						
Russell 3000	10.02	29.29	5.15	14.34	12.33	8.01
S&P 500	10.56	29.88	6.13	15.05	12.96	7.78
Russell 2000	5.18	19.71	-0.96	8.10	7.58	8.37
<b>Global ex-U.S. Equity</b>						
MSCI World ex USA	5.59	15.29	2.94	7.48	4.81	4.78
MSCI Emerging Markets	2.37	8.15	-4.65	2.22	2.95	--
MSCI ACWI ex USA Small Cap	2.11	12.80	-2.48	6.24	4.74	7.20
<b>Fixed Income</b>						
Bloomberg Aggregate	-0.78	1.70	-4.06	0.36	1.54	3.84
90-day T-Bill	1.29	5.24	3.45	2.02	1.38	1.91
Bloomberg Long Gov/Credit	-2.41	-1.15	-11.36	-0.62	2.32	5.25
Bloomberg Global Agg ex-US	-3.21	-0.71	-7.85	-2.49	-1.38	2.34
<b>Real Estate</b>						
NCREIF Property	-0.98	-7.16	-1.71	3.76	6.41	7.88
FTSE Nareit Equity	-0.20	10.54	-6.56	4.15	6.61	9.48
<b>Alternatives</b>						
Cambridge Private Equity*	-0.42	4.17	2.69	14.59	14.27	13.87
Cambridge Senior Debt*	0.13	11.34	4.05	5.86	6.69	--
HFRI Fund Weighted	4.44	11.60	3.58	6.91	4.93	6.34
Bloomberg Commodity	2.19	-0.56	4.01	6.38	-1.56	2.70
<b>CPI-U</b>	1.82	3.48	5.18	4.20	2.83	2.58

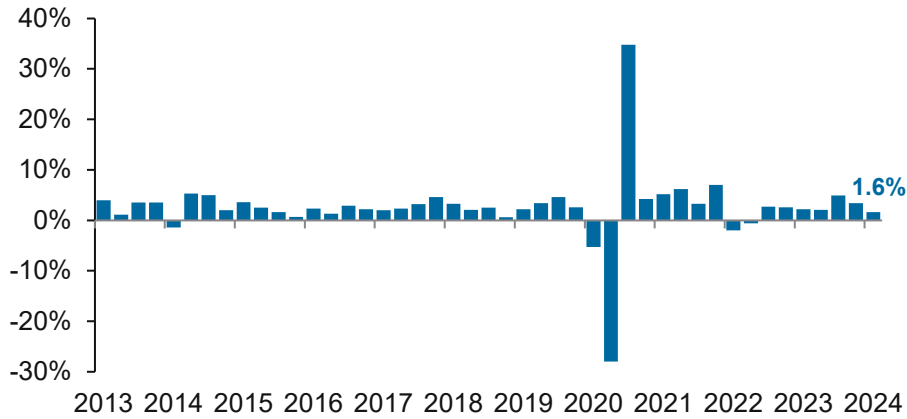
\*Cambridge Private Equity and Cambridge Senior Debt data as of 9/30/23.

Returns greater than one year are annualized. Sources: Bloomberg, Callan, Cambridge, FTSE Russell, HFRI, MSCI, NCREIF, S&P Dow Jones Indices

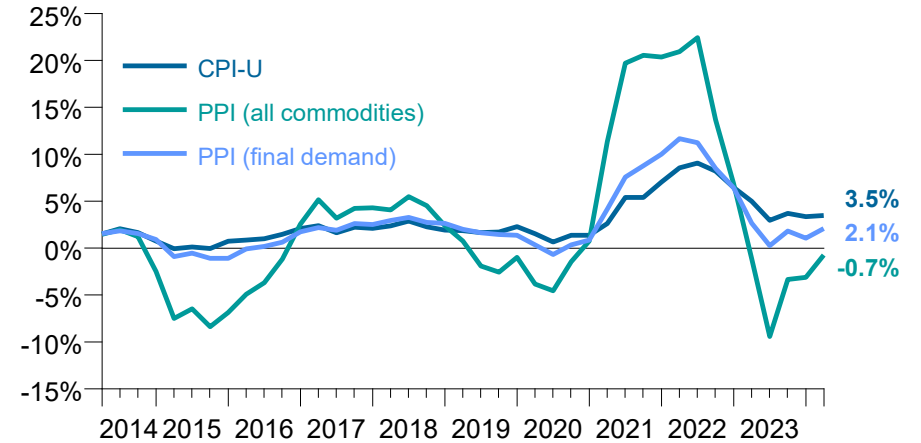
# U.S. Economy—Summary

For periods ended 3/31/24

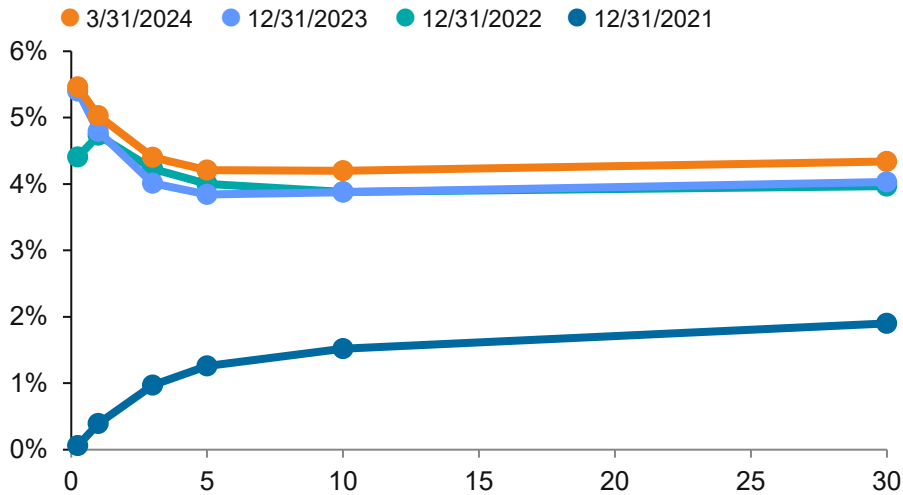
Quarterly Real GDP Growth



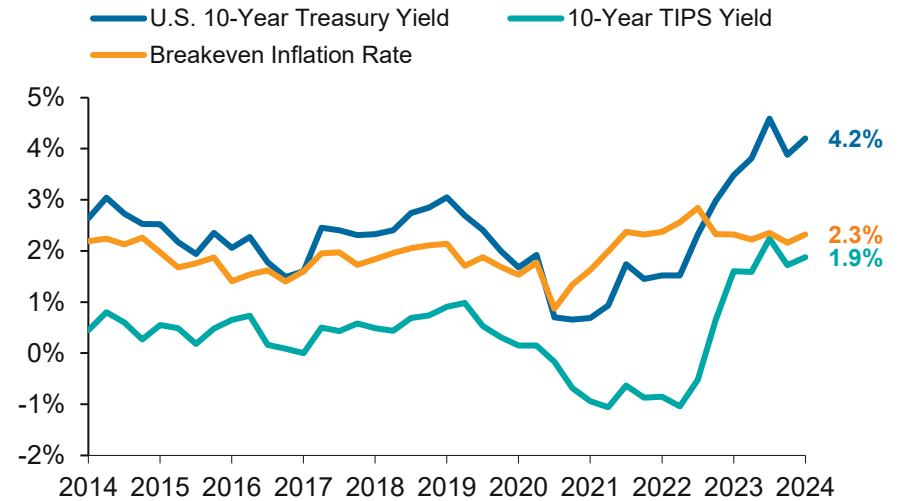
Inflation Year-Over-Year



U.S. Treasury Yield Curves



Historical 10-Year Yields



Sources: Bloomberg, Bureau of Labor Statistics, Callan

# The Stock Market Is Not the Economy



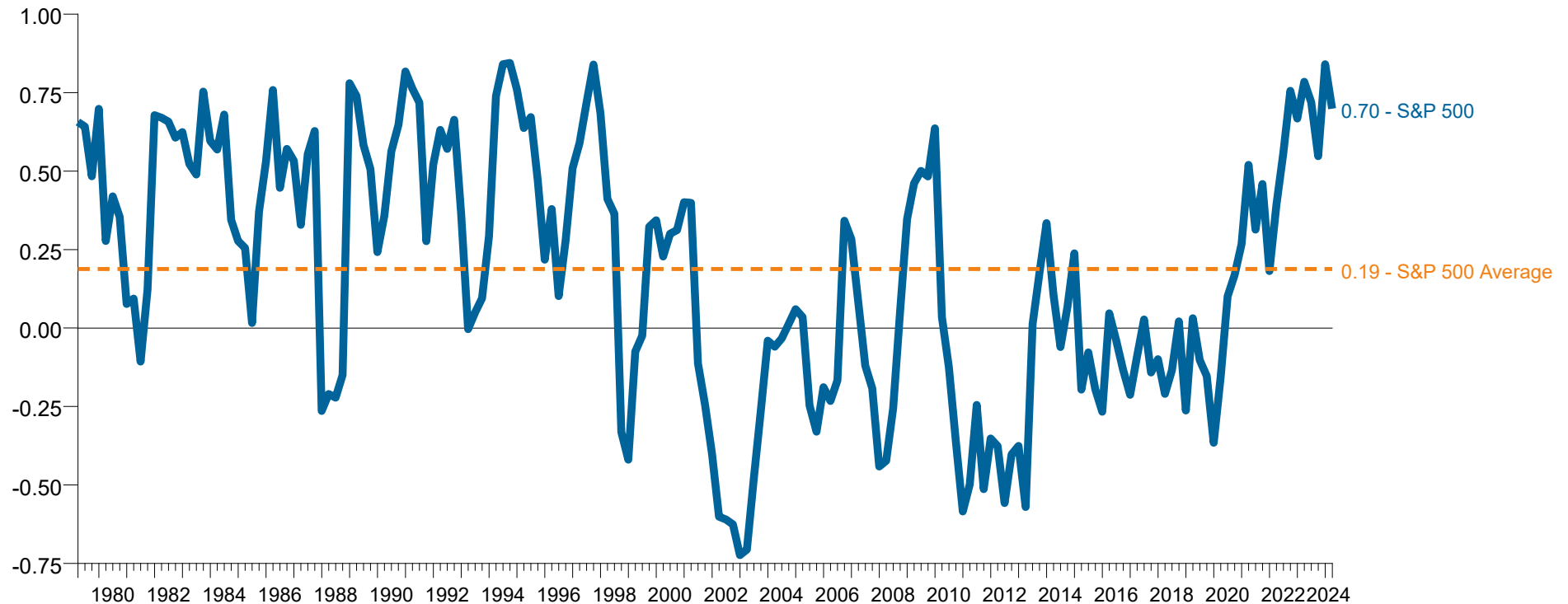
- The U.S. lost over 22 million jobs in the pandemic but regained the pre-pandemic high-water mark in the spring of 2022.
- Job growth remained robust through the market upheaval in 2022 and has held up through the first quarter of 2024.
- A strong job market could complicate the Fed's efforts to bring inflation down if wage gains outstrip price increases and fuel further demand for goods and services.

Sources: Federal Reserve Bank of St. Louis, S&P Dow Jones Indices

# Is the Stock-bond Correlation Shifting to a Higher Level?

Stocks and bonds diverge in 1Q24; 1-year correlation drops from recent highs

Rolling 1 Year Correlation of S&P 500 to Bloomberg Aggregate for 45 Years Ended 3/31/24

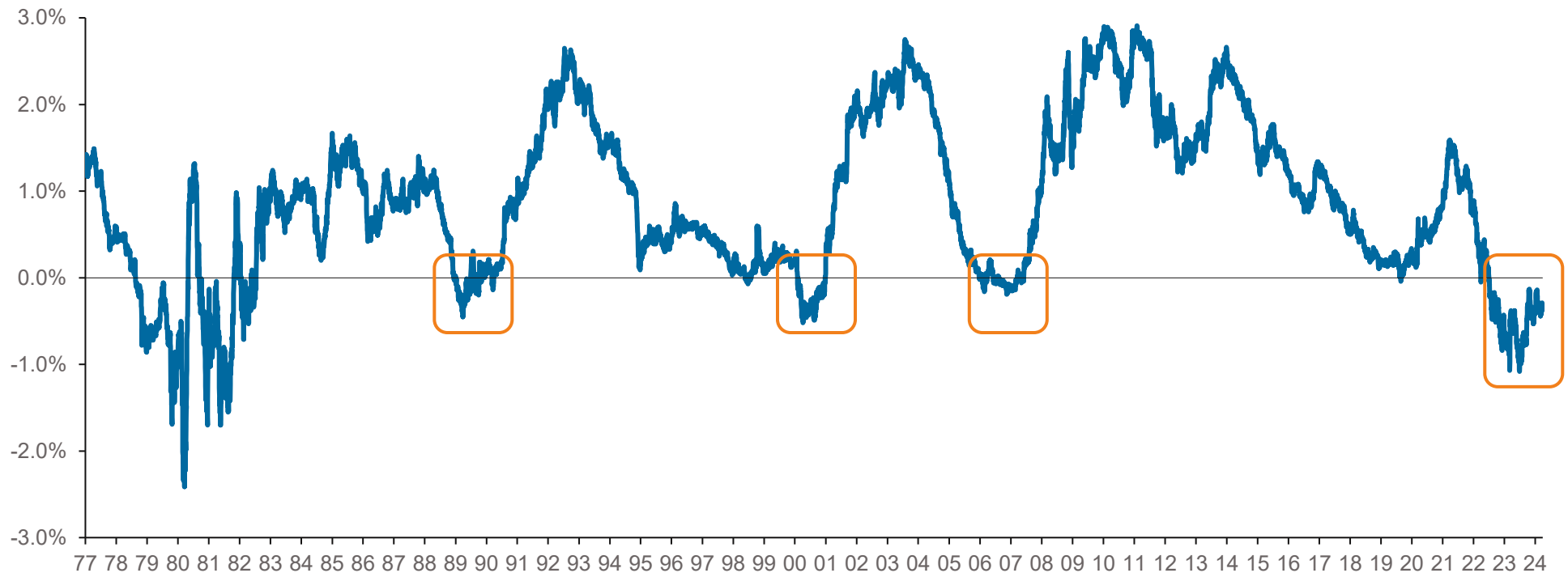


- Forward-looking expected bond returns are now much higher thanks to the rise in interest rates and the resulting higher yields.
- However, the equity risk premium has likely narrowed, and we may be seeing a return to a regime of higher correlation between stocks and bonds, potentially lessening the diversification benefit of bonds to stocks.

Sources: Bloomberg, Callan, S&P Dow Jones Indices

# Bond Market Has Been Expecting a Recession Since July 2022

## 10-Year Treasury vs. 2-Year Treasury Spread



- Inversion in the 10-year to 2-year Treasury yields does not always forecast a recession, but most recessions are preceded by a yield curve inversion.
- Yield curve inversion means investors expect a recession will occur and interest rates will be cut, and therefore increase their demand for securities with longer duration with higher potential for capital gain when rates fall.
- Bond investors beginning to anticipate “higher for longer” rate regime?
- Inversion started in July 2022, bottomed at -1.08% in July 2023, and ended March 2024 at -0.39%.

Source: Federal Reserve Bank of St. Louis

# Contributors to Recent Inflation: Primary Categories

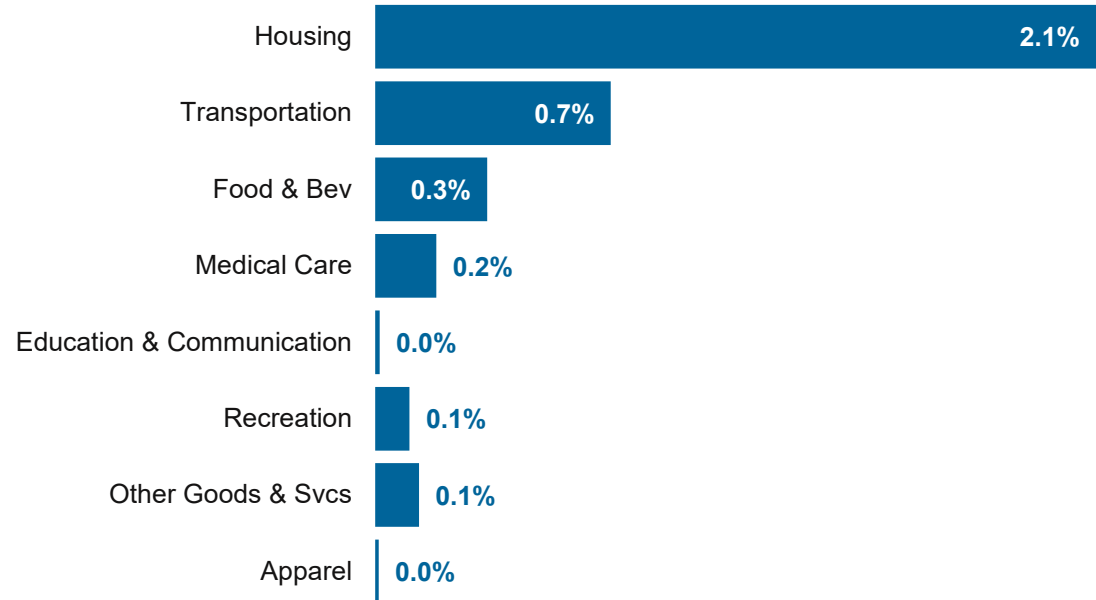
Housing is a broad category that includes Shelter, Fuels and Utilities, and Household Furnishings and Operations as sub-components.

- Shelter makes up 34.6% of the overall index and accounted for over half of March's increase in year-over-year headline CPI.

Energy is not shown in this view of CPI because it is a sub-component of other categories.

- Energy makes up 6.9% of the index and is split evenly between Housing (fuel for powering homes) and Transportation (motor fuel).

Contribution to March 2024 Year-Over-Year Inflation



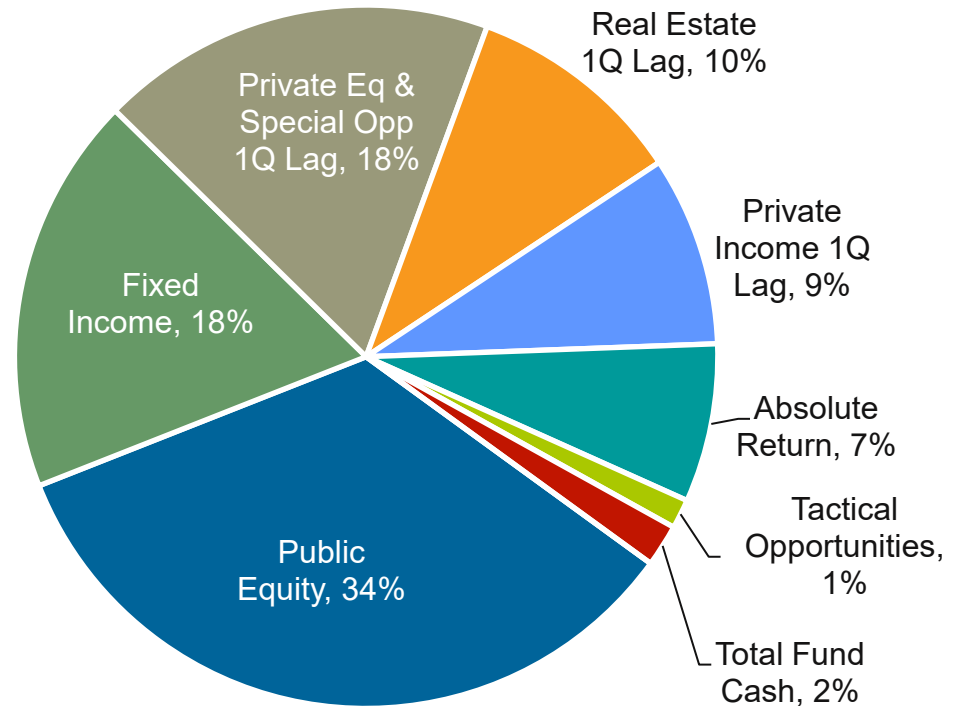
Primary Category	Primary Category Weight	Year-Over-Year Change											
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
All Items	100.0%	4.9%	4.0%	3.0%	3.2%	3.7%	3.7%	3.2%	3.1%	3.4%	3.1%	3.2%	3.5%
Housing	44.5%	7.5%	6.8%	6.3%	6.2%	5.7%	5.6%	5.2%	5.2%	4.8%	4.6%	4.5%	4.7%
Transportation	16.9%	0.2%	-2.0%	-5.1%	-3.0%	1.4%	2.4%	0.8%	0.9%	2.9%	1.6%	2.7%	4.0%
Food & Bev	14.3%	7.5%	6.6%	5.7%	4.8%	4.2%	3.7%	3.3%	2.9%	2.7%	2.6%	2.2%	2.2%
Medical Care	7.9%	1.1%	0.7%	0.1%	-0.5%	-1.0%	-1.4%	-0.8%	0.2%	0.5%	1.1%	1.4%	2.2%
Education & Communication	5.8%	1.6%	1.5%	1.1%	1.2%	1.0%	1.0%	0.9%	-0.1%	-0.1%	0.0%	0.4%	0.2%
Recreation	5.4%	5.0%	4.5%	4.3%	4.1%	3.5%	3.9%	3.2%	2.5%	2.7%	2.8%	2.1%	1.8%
Other Goods & Svcs	2.7%	6.6%	6.7%	6.3%	6.1%	5.8%	6.0%	6.2%	5.6%	5.5%	5.7%	4.7%	4.7%
Apparel	2.6%	3.6%	3.5%	3.1%	3.2%	3.1%	2.3%	2.6%	1.1%	1.0%	0.1%	0.0%	0.4%

Source: U.S. Bureau of Labor Statistics

# Total Fund Asset Allocation

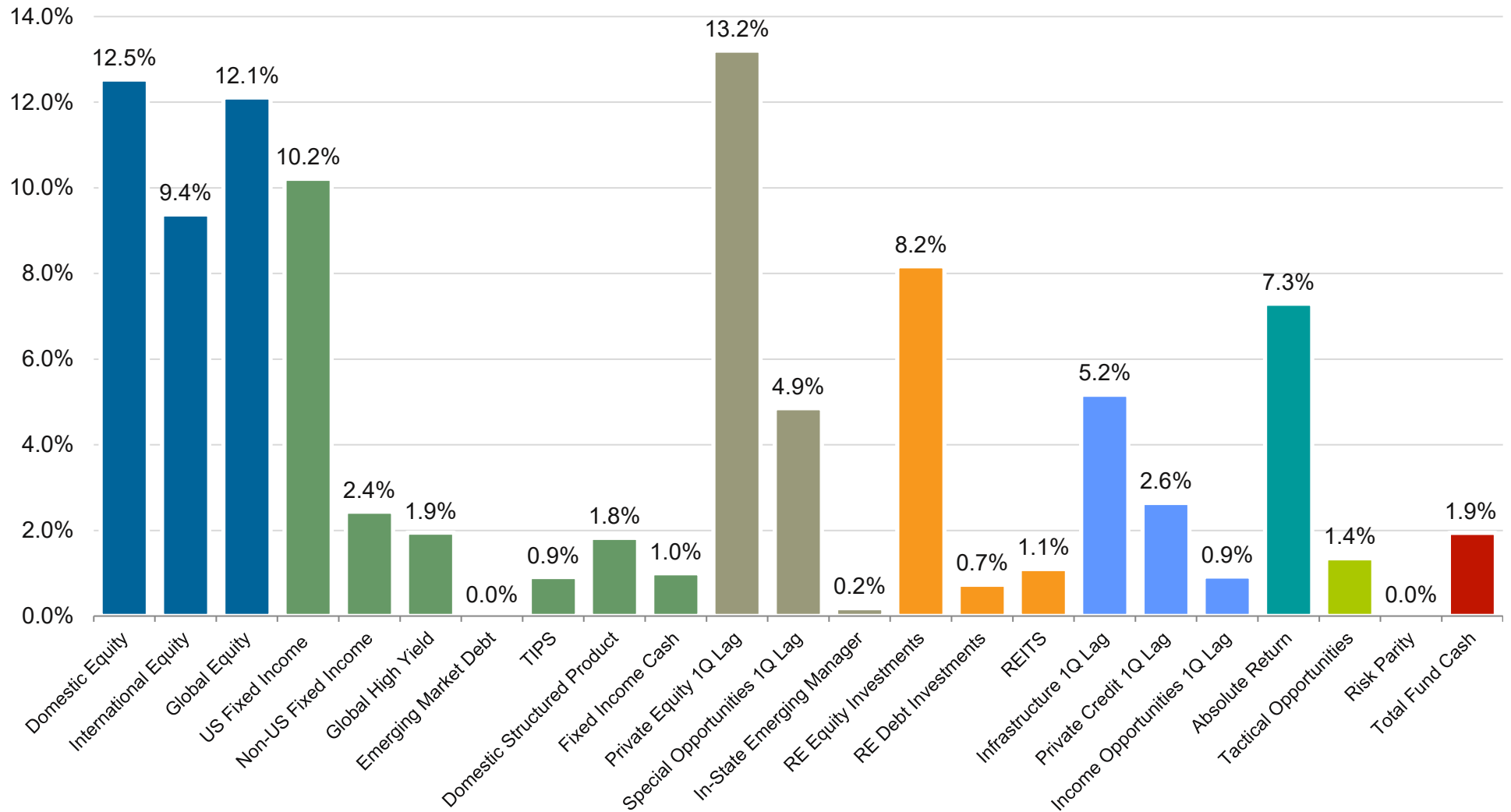
As of March 31, 2024: \$81.80B

- APFC portfolio is well diversified across all major asset classes employed by institutional investors.
- Using institutional standard asset class definitions, the portfolio is currently allocated 34% to public equity, 18% to fixed income, 46% to alternative investments and 2% cash.
- Compared to allocations in the fourth quarter, weights to fixed income, real estate and private equity & special opportunities decreased modestly while weights to public equity increased.
- Alternatives include private equity, special opportunities, real estate, private infrastructure, private credit, private income, absolute return, and risk parity.
- Private Equity & Special Opportunities, Real Estate, and Infrastructure & Private Income are reported on a one-quarter lag.



# Total Fund Asset Allocation

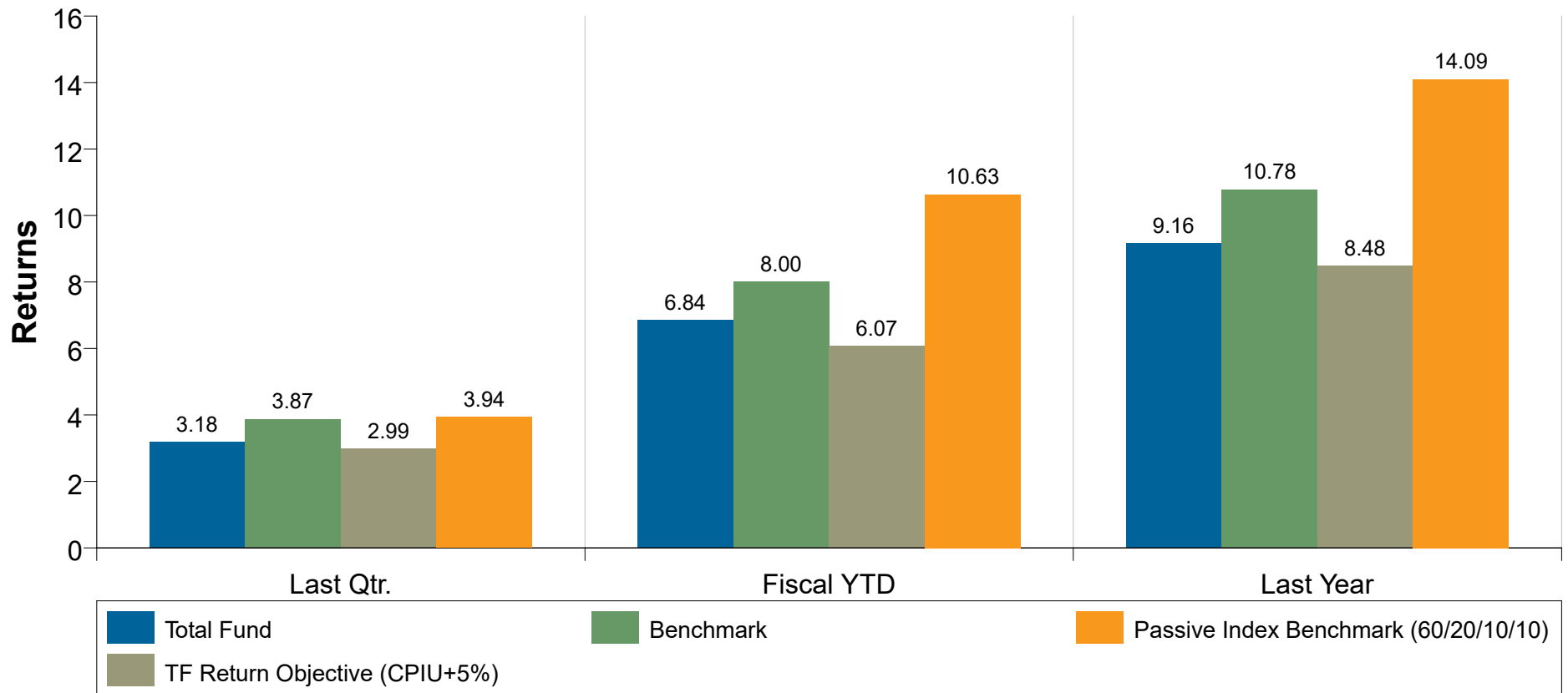
Periods Ended March 31, 2024



# APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets

Returns for Periods Ending March 31, 2024

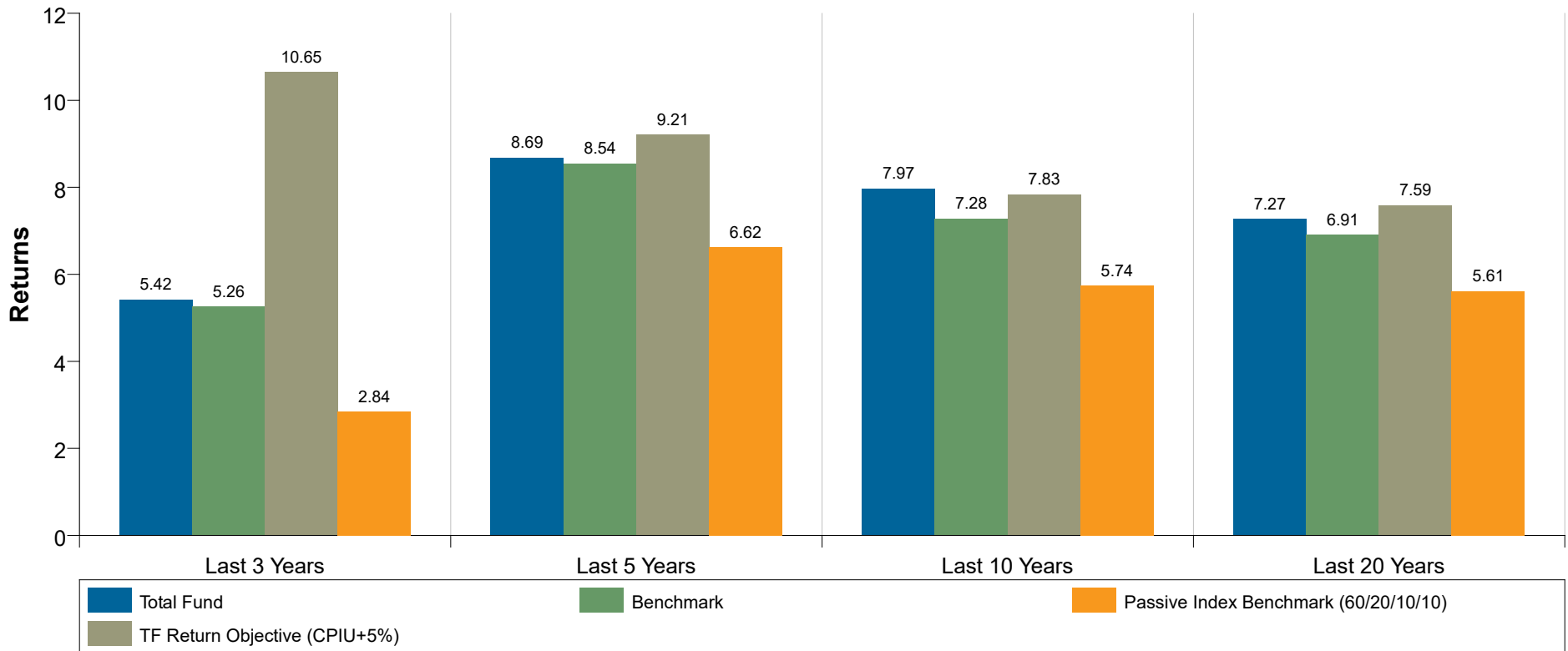


- Benchmark (FY23-FY24) = 34% MSCI ACWI IMI, 1.0% 90 Day T-Bills, 1.0% BB US TIPS, 5.5% BB Agg, 5.5% BB Corp IG, 3.0% BB Global Treasury xUS Hdgd, 2.0% BB US BB HY, 2.0% BB US Securitized, 16% Cambridge PE (lagged), 8.5% NCREIF Total Index (lagged), 1.5% MSCI US REIT (lagged), 5.4% Cambridge Global Pvt. Infrastructure (lagged), 3.6% Cliffwater Direct Lending TR (lagged), 3.5% HFRI EH Equity Market Neutral, 3.5% HFRI Macro, 2% 90 Day T-Bills, and 2% S&P 500 Index.

# APFC Total Fund Cumulative Returns

## Total Fund versus Total Fund Targets

Returns for Periods Ending March 31, 2024



- Benchmark (FY23-FY24) = 34% MSCI ACWI IMI, 1.0% 90 Day T-Bills, 1.0% BB US TIPS, 5.5% BB Agg, 5.5% BB Corp IG, 3.0% BB Global Treasury xUS Hdgd, 2.0% BB US BB HY, 2.0% BB US Securitized, 16% Cambridge PE (lagged), 8.5% NCREIF Total Index (lagged), 1.5% MSCI US REIT (lagged), 5.4% Cambridge Global Pvt. Infrastructure (lagged), 3.6% Cliffwater Direct Lending TR (lagged), 3.5% HFRI EH Equity Market Neutral, 3.5% HFRI Macro, 2% 90 Day T-Bills, and 2% S&P 500 Index.

# APFC Total Fund Attribution

One Quarter Ended March 31, 2024

## Relative Attribution Effects for Quarter ended March 31, 2024

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Public Equity	33%	34%	7.24%	7.72%	(0.15%)	(0.03%)	(0.18%)
Fixed Income	19%	20%	(0.07%)	(0.17%)	0.02%	0.05%	0.08%
Private Eq & Special Opp	19%	16%	1.09%	2.63%	(0.29%)	(0.03%)	(0.32%)
Real Estate	10%	10%	(1.26%)	(0.22%)	(0.11%)	(0.01%)	(0.12%)
Private Income	9%	9%	3.34%	3.35%	(0.00%)	0.00%	(0.00%)
Absolute Return	7%	7%	4.03%	5.29%	(0.09%)	0.00%	(0.09%)
Tactical Opportunities	1%	2%	11.04%	10.56%	0.01%	(0.06%)	(0.05%)
Total Fund Cash	2%	2%	1.27%	1.29%	(0.00%)	(0.00%)	(0.00%)
<b>Total</b>			<b>3.18%</b>	<b>= 3.87%</b>	<b>+ (0.61%)</b>	<b>+ (0.07%)</b>	<b>(0.69%)</b>

- In the first quarter, the Total Fund underperformed the Performance Benchmark by 69 basis points.
- Manager effects in Private Eq & Special Opportunities and Public Equity were the largest detractors to relative returns.
- In aggregate, active management detracted 61 basis points from relative performance, while deviations from the Policy Target lost an additional 7 basis points.

# APFC Total Fund Attribution

One Year Ended March 31, 2024

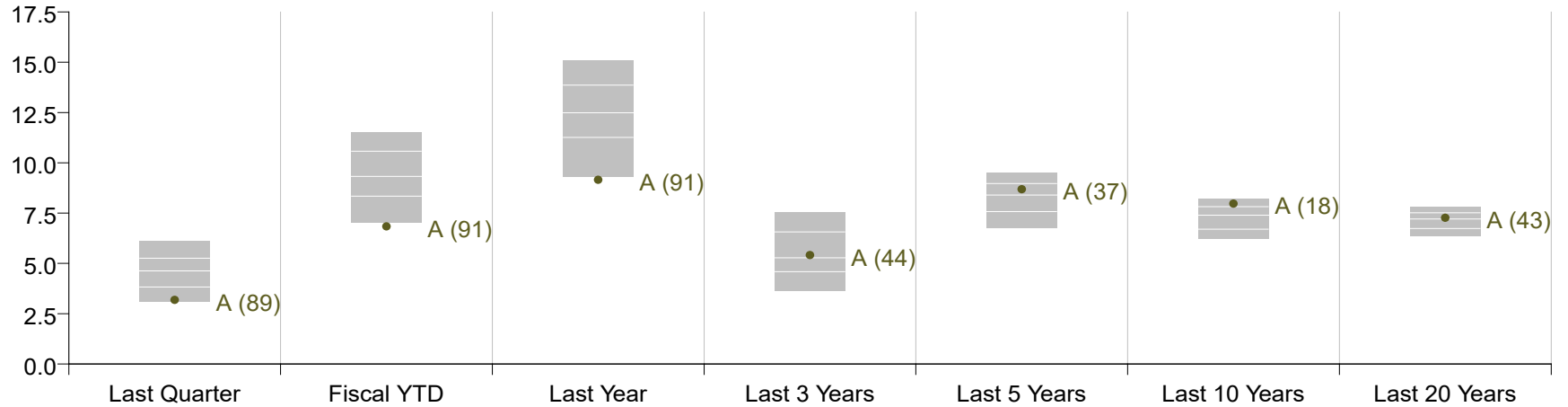
## One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Public Equity	33%	34%	20.43%	22.45%	(0.62%)	(0.23%)	(0.85%)
Fixed Income	18%	20%	4.53%	3.82%	0.14%	0.10%	0.24%
Private Eq & Special Opp	19%	16%	2.12%	5.00%	(0.58%)	(0.19%)	(0.78%)
Real Estate	10%	10%	(2.99%)	(4.68%)	0.18%	(0.09%)	0.09%
Private Income	9%	9%	7.42%	10.31%	(0.25%)	(0.00%)	(0.25%)
Absolute Return	7%	7%	8.83%	9.14%	(0.02%)	(0.04%)	(0.06%)
Tactical Opportunities	1%	1%	27.88%	22.81%	0.02%	(0.12%)	(0.10%)
Total Fund Cash	2%	2%	8.78%	5.24%	0.05%	(0.00%)	0.05%
Risk Parity	0%	0%	-	-	(0.00%)	0.04%	0.04%
<b>Total</b>			<b>9.16%</b>	<b>= 10.78%</b>	<b>+ (1.09%)</b>	<b>+ (0.53%)</b>	<b>(1.62%)</b>

- For the trailing year, the Total Fund underperformed the Performance Benchmark by 162 basis points.
- Weak manager performance in Public Equity, Private Equity & Special Opportunities, and Private Income dampened relative results. Asset allocation effects in Public Equity and Private Equity & Special Opportunities also weighed on relative performance.
- In aggregate, active management detracted 109 basis points from relative performance, while deviations from the Policy Target detracted a further 53 basis points.

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

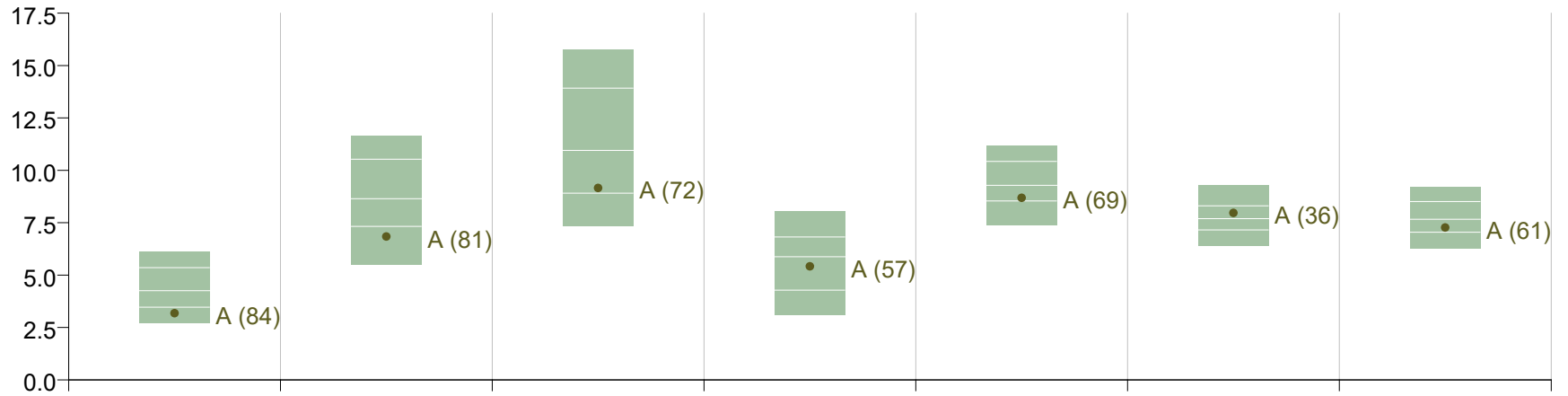
Returns for Periods Ended March 31, 2024  
Group: Callan Public Fund Sponsor - Large (>1B)



	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
10th Percentile	6.12	11.52	15.09	7.52	9.51	8.24	7.80
25th Percentile	5.26	10.58	13.86	6.56	8.97	7.82	7.52
Median	4.63	9.33	12.49	5.28	8.40	7.40	7.21
75th Percentile	3.83	8.34	11.26	4.59	7.58	6.70	6.74
90th Percentile	3.10	7.04	9.30	3.61	6.76	6.24	6.35
Member Count	122	122	122	121	121	119	110
Total Fund • A	3.18	6.84	9.16	5.42	8.69	7.97	7.27

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

Returns for Periods Ended March 31, 2024  
Group: Callan Endow/Foundation - Large (>1B)

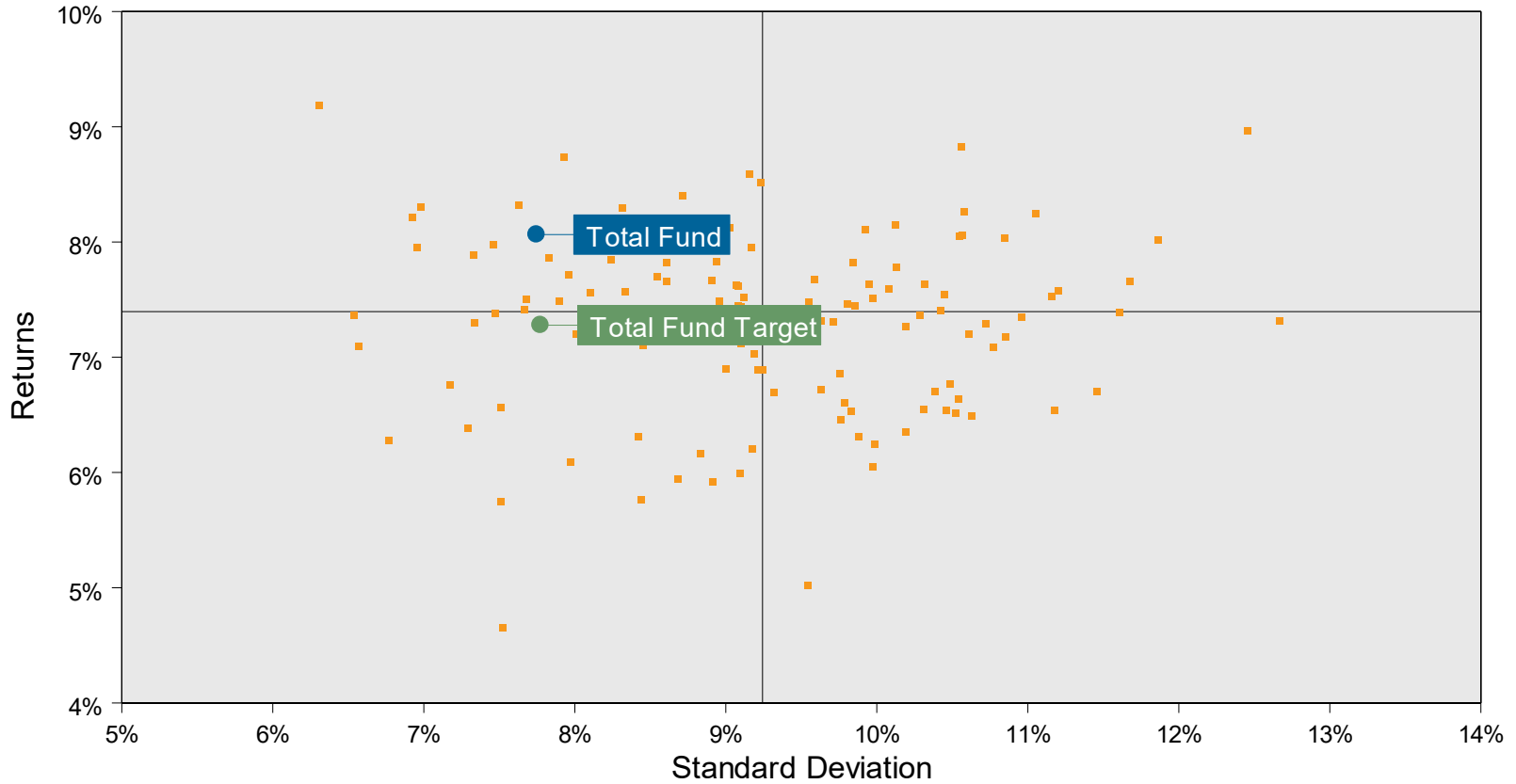


	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
10th Percentile	6.12	11.64	15.76	8.06	11.19	9.27	9.22
25th Percentile	5.36	10.53	13.92	6.82	10.43	8.31	8.51
Median	4.26	8.65	10.96	5.88	9.29	7.70	7.66
75th Percentile	3.47	7.32	8.91	4.28	8.54	7.16	7.05
90th Percentile	2.71	5.50	7.34	3.11	7.40	6.38	6.26
Member Count	69	69	69	69	68	68	54
Total Fund • A	3.18	6.84	9.16	5.42	8.69	7.97	7.27

# APFC Total Fund Return versus Standard Deviations

Relative to Callan's Large Public Fund Database

## Ten Year Annualized Risk vs Return

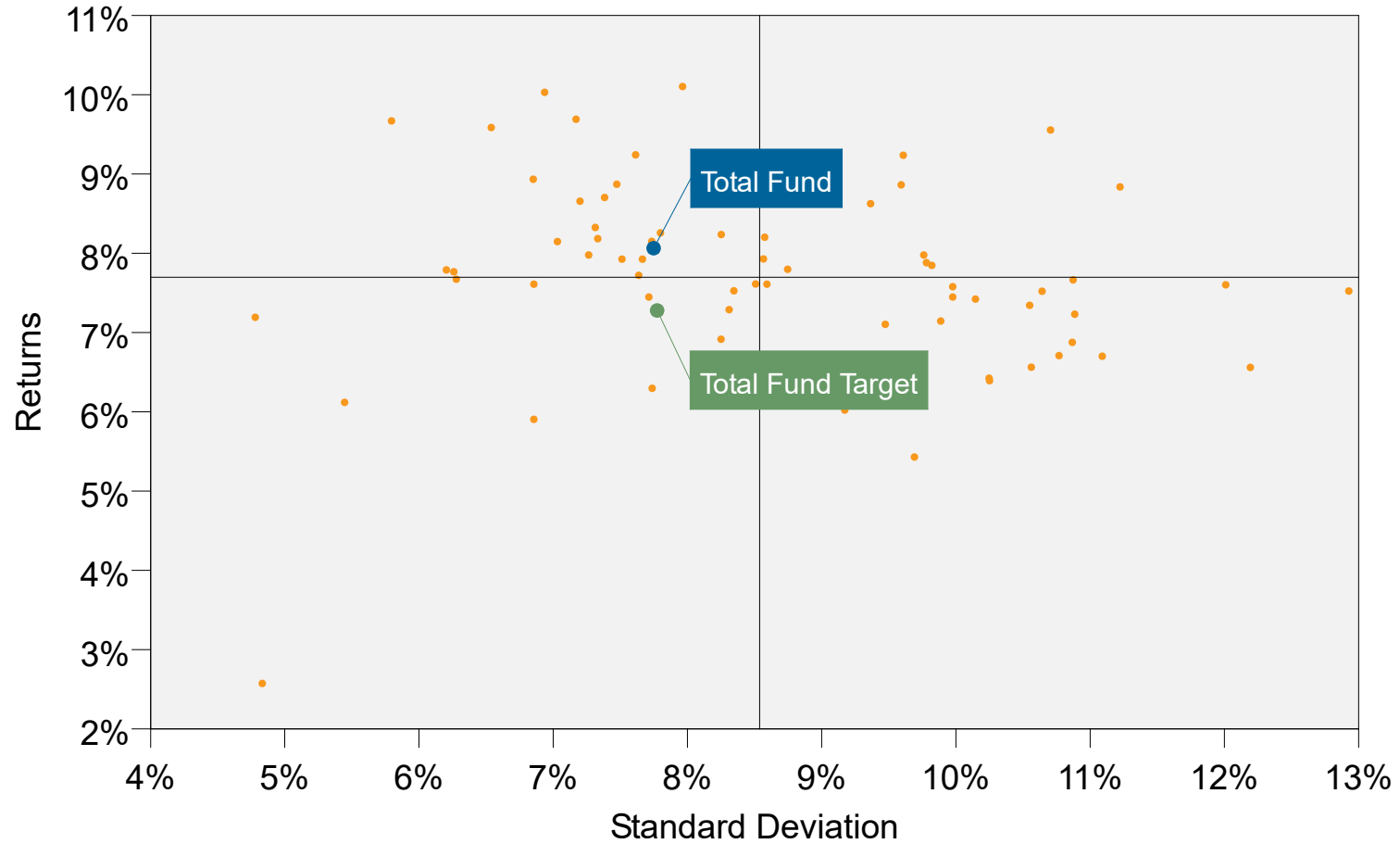


Squares represent membership of the Callan Public Fund Spons - Large (>1B)

# APFC Total Fund Return versus Standard Deviations

Relative to Callan's Large Endowment / Foundation Database

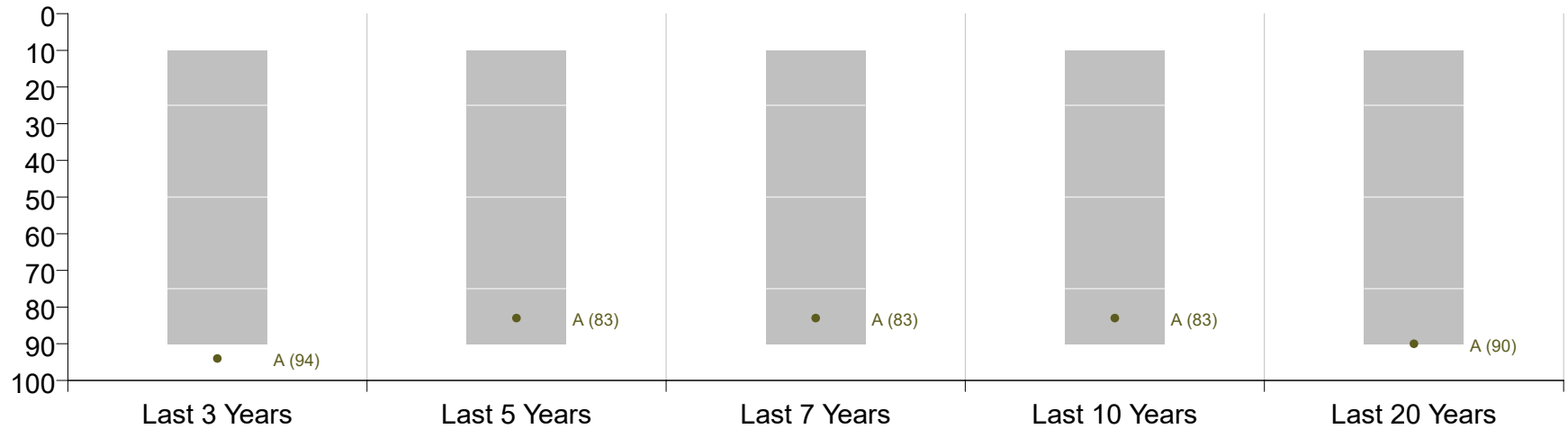
## Ten Year Annualized Risk vs Return



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

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

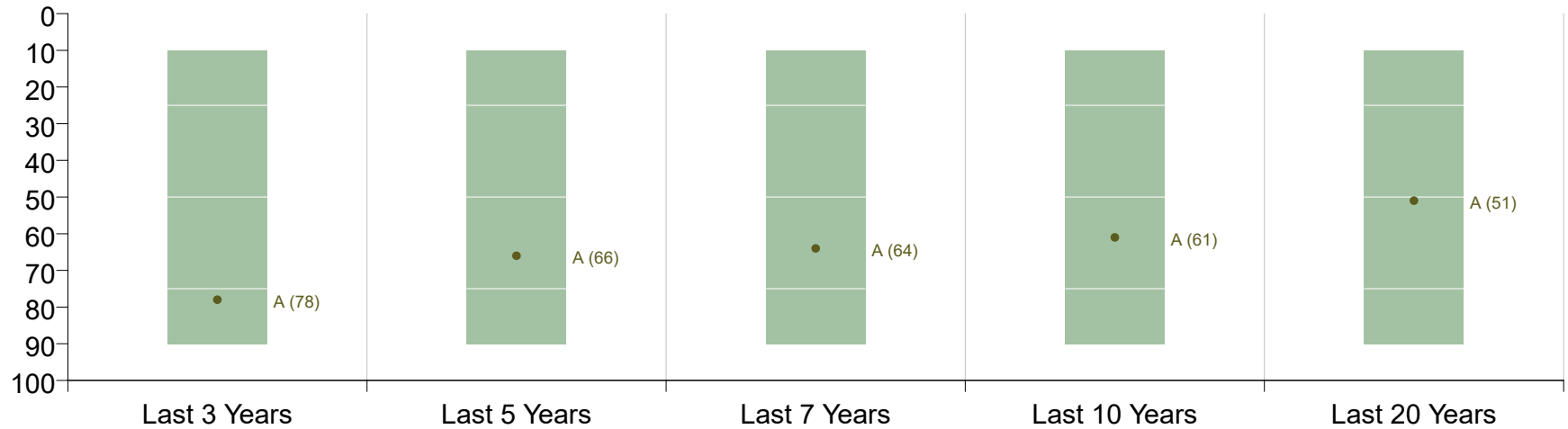
Standard Deviation for Periods Ended March 31, 2024  
Group: Callan Public Fund Sponsor - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	11.61	13.81	12.62	10.91	11.45
25th Percentile	10.77	12.95	11.89	10.37	10.74
Median	9.60	11.67	10.68	9.24	10.07
75th Percentile	8.30	10.39	9.53	8.37	9.49
90th Percentile	7.29	9.06	8.38	7.39	8.90
Member Count	121	121	120	119	110
Total Fund • A	6.96	9.53	8.75	7.75	8.90

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

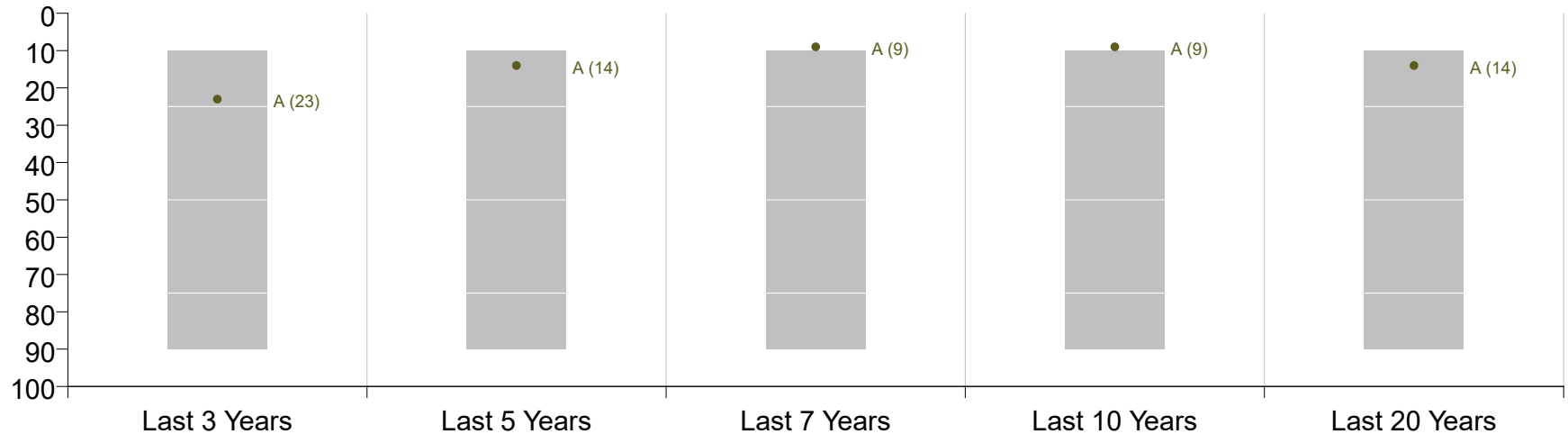
Standard Deviation for Periods Ended March 31, 2024  
Group: Callan Endow/Foundation - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	11.99	13.98	12.63	10.88	11.10
25th Percentile	10.13	12.76	11.58	9.98	9.95
Median	7.97	10.43	9.55	8.54	8.91
75th Percentile	7.22	9.23	8.19	7.32	8.34
90th Percentile	6.51	7.79	7.00	6.28	7.36
Member Count	69	68	68	68	54
Total Fund ● A	6.96	9.53	8.75	7.75	8.90

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

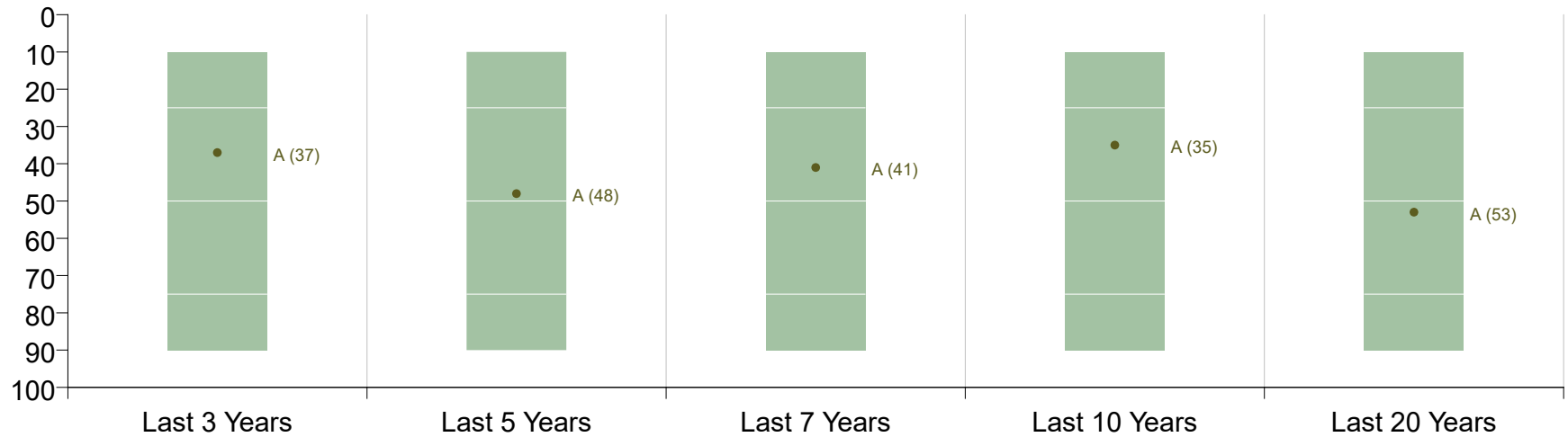
Sharpe Ratio for Periods Ended March 31, 2024  
Group: Callan Public Fund Sponsor - Large (>1B)



	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	0.69	0.75	0.78	0.83	0.66
25th Percentile	0.43	0.64	0.67	0.73	0.61
Median	0.27	0.51	0.56	0.62	0.54
75th Percentile	0.19	0.45	0.49	0.54	0.50
90th Percentile	0.10	0.40	0.44	0.50	0.47
Member Count	121	121	120	119	110
Total Fund ● A	0.44	0.72	0.79	0.86	0.65

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

Sharpe Ratio for Periods Ended March 31, 2024  
Group: Callan Endow/Foundation - Large (>1B)



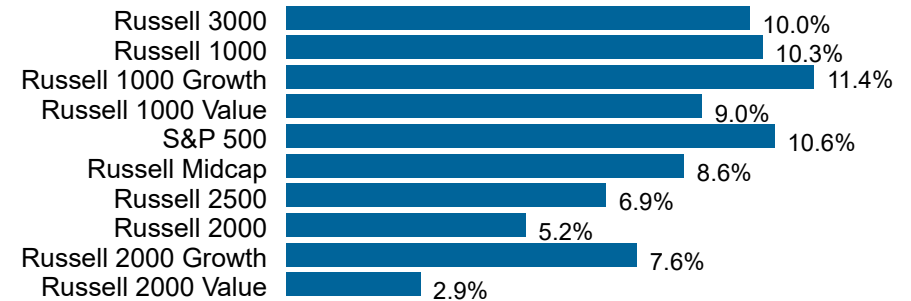
	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 20 Years
10th Percentile	0.72	0.98	1.04	1.10	1.01
25th Percentile	0.59	0.85	0.89	0.92	0.79
Median	0.37	0.69	0.73	0.75	0.67
75th Percentile	0.19	0.53	0.55	0.58	0.55
90th Percentile	0.05	0.39	0.44	0.49	0.49
Member Count	69	68	68	68	54
Total Fund • A	0.44	0.72	0.79	0.86	0.65

# U.S. Equity Performance: 1Q24

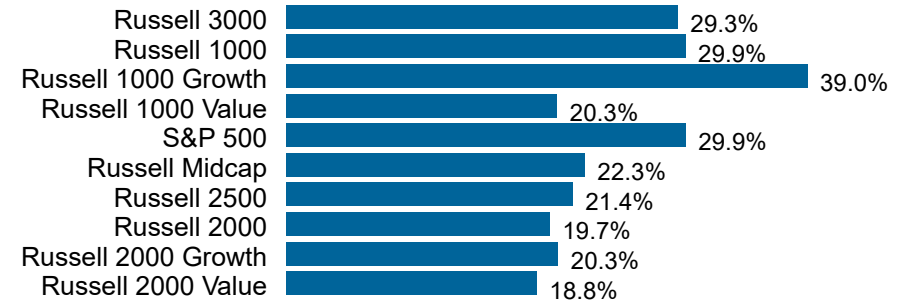
## The market exhibited a strong start to 2024

- The U.S. equity markets had an exceptional start with the S&P 500 posting a YTD gain of nearly 11%, its best first quarter since 2019. Performance was buoyed by continued optimism around a “soft landing” scenario, strong corporate earnings, and the Fed’s projected interest rate cuts in mid-2024.
- Almost all of the 11 S&P 500 sectors posted gains in 1Q24. Real estate was the only sector that posted negative returns, challenged by the interest rate environment and continued negative sentiment around office real estate.
- The best-performing sector was Communication Services, which generated a nearly 16% return during the quarter. Energy, Financials, Information Technology, and Industrials also posted double-digit returns.
- Growth outpaced value across the market cap spectrum once again, and large cap stocks continued to outperform small cap stocks.

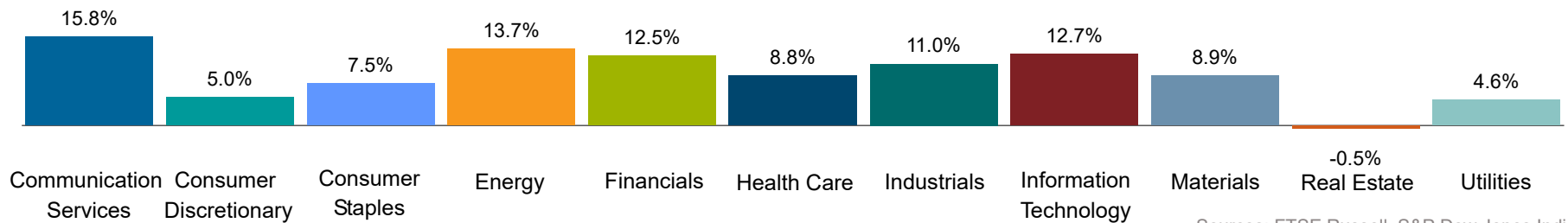
### U.S. Equity: Quarter Ended 3/31/24



### U.S. Equity: One Year Ended 3/31/24



### Industry Sector Quarterly Performance (S&P 500) as of 3/31/24



Sources: FTSE Russell, S&P Dow Jones Indices

## U.S. Equity Key Theme

The ‘Magnificent Seven’ remains an issue for U.S. large cap, but signs point to decoupling

- The “Magnificent Seven” in aggregate continues to outpace the other constituents of the S&P 500 in terms of earnings growth and total returns.
- However, signs point to the broadening of returns within the index including: 1) The narrowing of dispersion in the premium gap of returns/earnings growth: As of 3/31/24, the premium gap of returns/earnings growth between the “Magnificent Seven” and the other 493 stocks in the index was 10%. In recent periods, the gap has been >25%; 2) Only two stocks of the “Magnificent Seven” (Meta and NVIDIA) were among the top 10 performers within the index for the quarter.
- Returns within the “Magnificent Seven” cohort also show signs of disaggregation. Three stocks—Tesla, Apple, and Alphabet—exhibited negative to single-digit returns vs. other constituents, which generated low to high double-digit returns in 1Q24. In 2023, the entire cohort demonstrated positive double- and triple-digit returns.

### Disaggregation of Returns within the Magnificent Seven in 2024

	2023		2024	
	Full Year	S&P 500 Ranking	Year-to-Date	S&P 500 Ranking
NVIDIA	239%	1	82%	2
Meta	194%	2	37%	7
Amazon.com	81%	20	19%	88
Microsoft	57%	49	12%	170
Alphabet	58%	47	8%	236
Apple	48%	63	-11%	476
Tesla	102%	10	-29%	503

S&P ranking based on performance within the S&P 500. All corporate names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security. Supporting documentation for any claims or statistical information is available upon request. Past performance is no guarantee of future results.

### Performance of ‘Magnificent Seven’ in S&P 500

Indexed to 100 on 1/1/21, price return

	2021	2022	2023	YTD 2024
Magnificent Seven	40%	-40%	76%	13%
S&P 500 ex-Mag 7	17%	-8%	8%	6%
S&P 500	27%	-19%	24%	10%

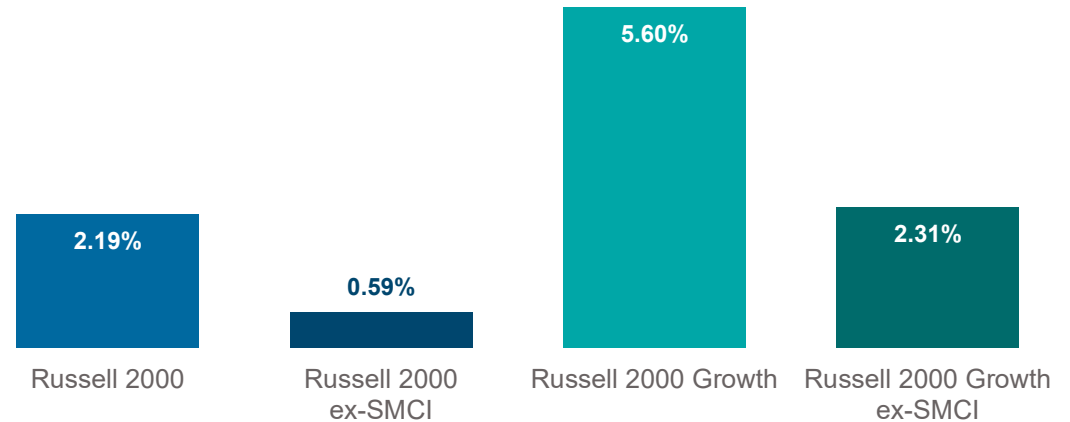
Sources: Bloomberg, J.P. Morgan, Charles Schwab

# U.S. Equity Key Theme

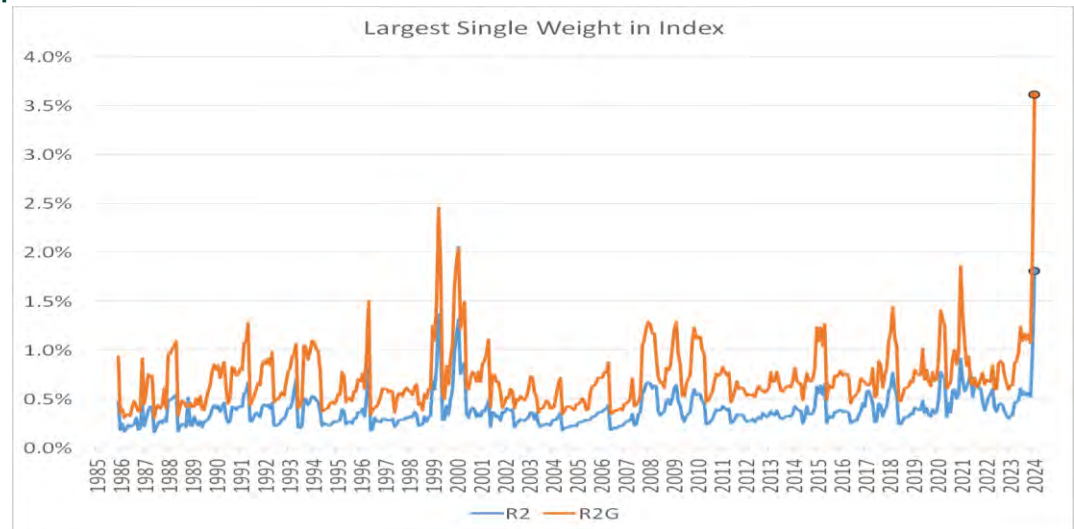
## Supermicro: A headwind for small cap active management

- Supermicro, a manufacturer of generative AI servers, continues to be one of the largest headwinds for small cap core and growth active managers.
- As of the end of 1Q24, the stock had contributed 330 basis points and 160 basis points of return to total attribution for the growth and core benchmarks, respectively. Supermicro is a ~4% position in the growth benchmark and a ~2% position in the core benchmark.
- Many active managers have struggled to actively weight or even own Supermicro due to its market cap. Supermicro rose from a \$5 billion market cap to a \$13 billion market cap in a short period time after the 2023 Russell reconstitution, rendering it too large for most managers to purchase.
- The large position size of Supermicro (and its performance) has created challenges for managers who don't own it or can't establish an active weight.

Largest Single Weight in Index (YTD Returns as of 3/12/24)



Supermicro Contribution to Russell 2000 Growth and Core Returns



Sources: Compustat, FactSet, Furey Research Partners, Goldman Sachs, IBES  
Past performance is no guarantee of future results.

# Global/Global ex-U.S. Equity Performance: 1Q24

Continued optimism lifts all markets, except China

## Broad market

- Broad markets delivered strong returns on the decreasing expected probability of a recession in the U.S. and continued optimism around artificial intelligence.
- Small caps once again trailed large caps in a higher interest rate environment, which tends to more negatively impact smaller companies with more significant borrowing needs.
- Japan performed well yet again, beating the S&P 500 in 1Q24, driven by continued stock buybacks, economic resiliency, and a weakening yen, which helped exports.

## Emerging markets

- Emerging markets underperformed developed markets as China struggled with increased regulatory scrutiny and a continued economic slowdown.
- Commodity exporters such as Peru and Colombia benefited from rising energy and metals prices. Turkey also performed well with a return to orthodox monetary policies after experimenting with counterintuitive methodologies.

## Growth vs. value

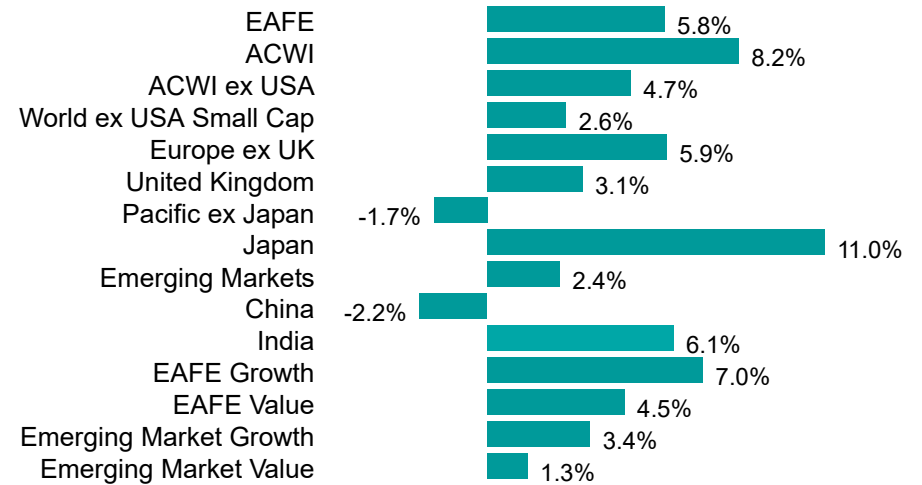
- Energy’s volatility continued; after struggling in 4Q23, energy rebounded and helped deliver stronger performance in the commodity-heavy value space.

## U.S. dollar strength

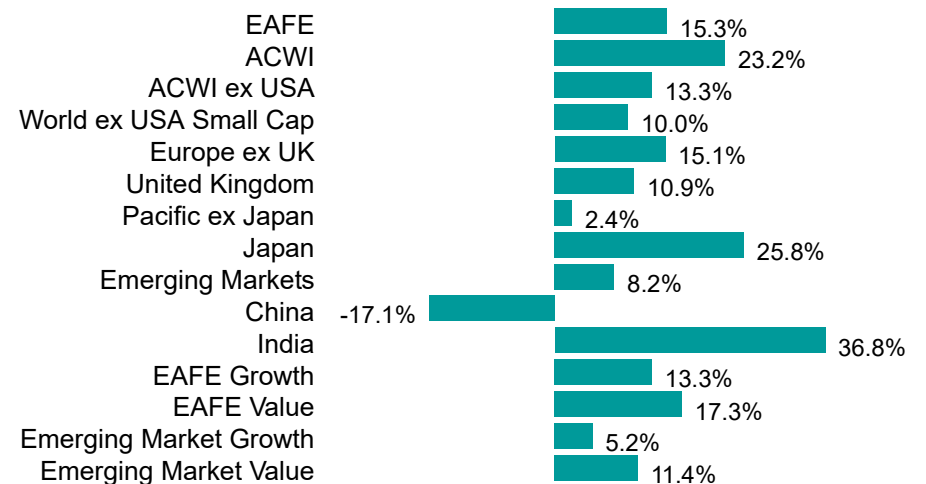
- The U.S. dollar gained in 1Q as investors recalibrated their interest rate expectations, with investors thinking that the U.S. may cut rates only once or twice in 2024.

Source: MSCI

## Global Equity Returns: Quarter Ended 3/31/24



## Global Equity Returns: One Year Ended 3/31/24



# Global/Global ex-U.S. Equity Key Themes

## Japan in the spotlight

### Positive tailwinds

- End of deflation
- Most prolonged period of positive consumption since mid-1990s
- Increase in exports (positive impact to GDP)
- Increased female labor force participation rate, dampening difficult demographics (aging population)
- Reforms support the Japanese equity market through increased M&A and improved corporate governance

### Interest Rate Expectations (Based on 5y5y Swaps)



Sources: Bloomberg, JP Morgan Asset Management

### Japanese Equities Performance vs. Other Regions



### What about the yen and interest rates?

- Investors are selling yen in a carry trade due to its low yield, despite being positive, which is putting further pressure on the currency.
- The U.S. dollar has remained resilient relative to peers, even with future rate cuts planned.
  - The U.S.-Japan 10-year government bond yield gap ended around 370 basis points in the quarter.
- The yen hit a 34-year low vs. the dollar and declined 6.8% over the three-month period.

# Global/Global ex-U.S. Equity Key Themes

## Can China come back, and what about India?

### Growth in China

- Sluggish growth continues, with weak home sales and deflationary pressures. Chinese banks cut rates to support the property sector.

### Market valuation in China

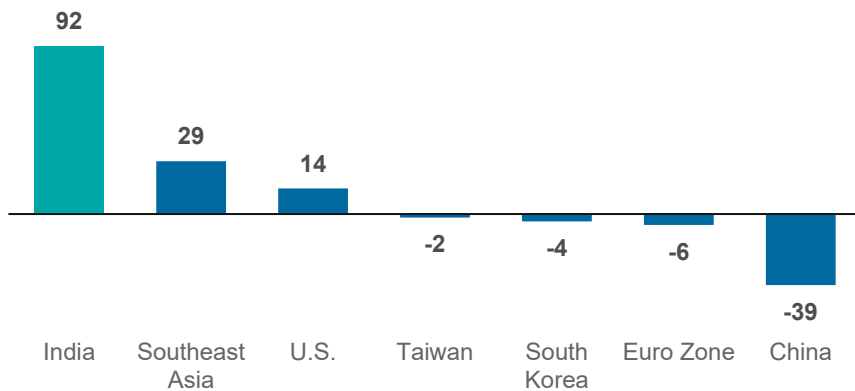
- With Chinese markets now down 60% from a high-water mark in early 2021, Chinese equities are at decade-low allocations in global portfolios.

### Structural challenges or advantages

- Demographics are largely on India’s side with a dramatically higher working-age population; China’s is negative.
- China is run by an authoritarian regime that may act against investors’ best interests.

### Working Age Population Growth

Estimated change between 2023 and 2033\* (millions of people)



### Growth in India

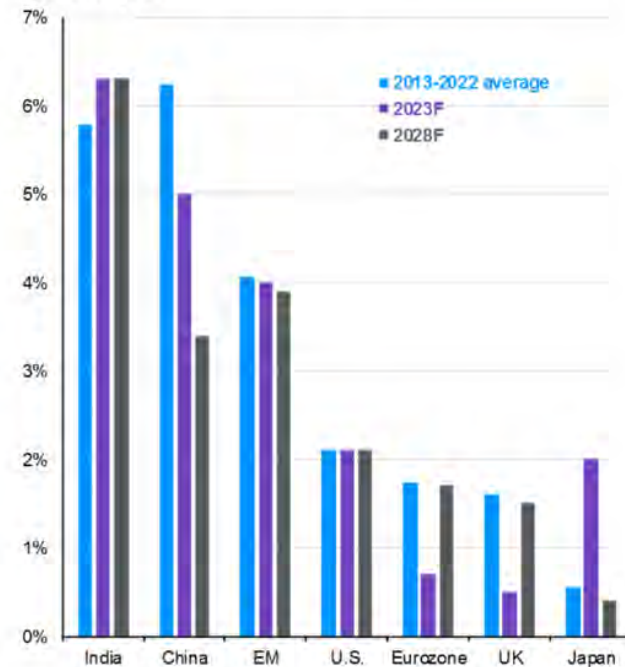
- Highest real GDP growth and one of the only with accelerating GDP growth compared to other major countries/regions. India’s economy expanded 8.4% year on year in 4Q23.

### Market valuation in India

- As of March 31, the MSCI India Index traded at 22.1 times forward earnings—above its 10-year average of 18.9 times.

### Real GDP growth by country

Year-over-year

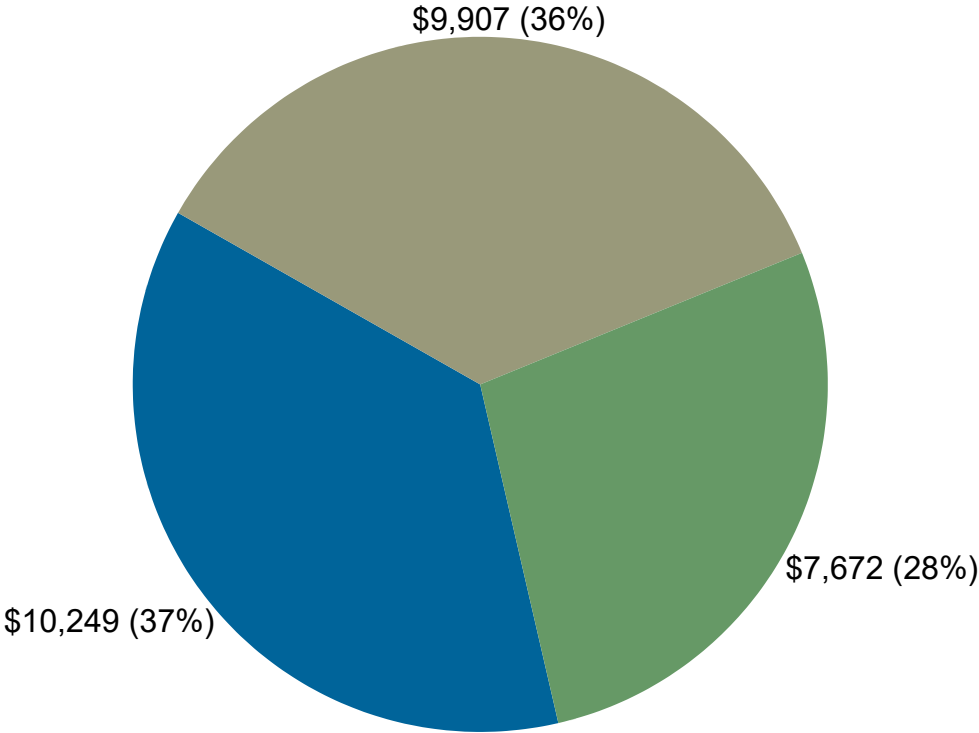
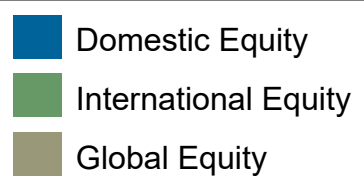


\*Estimates are provided by Oxford Economics. Working age population is defined as those aged 15-64. Southeast Asia includes Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Source: JP Morgan Asset Management

# APFC Public Equity Structure

As of March 31, 2024

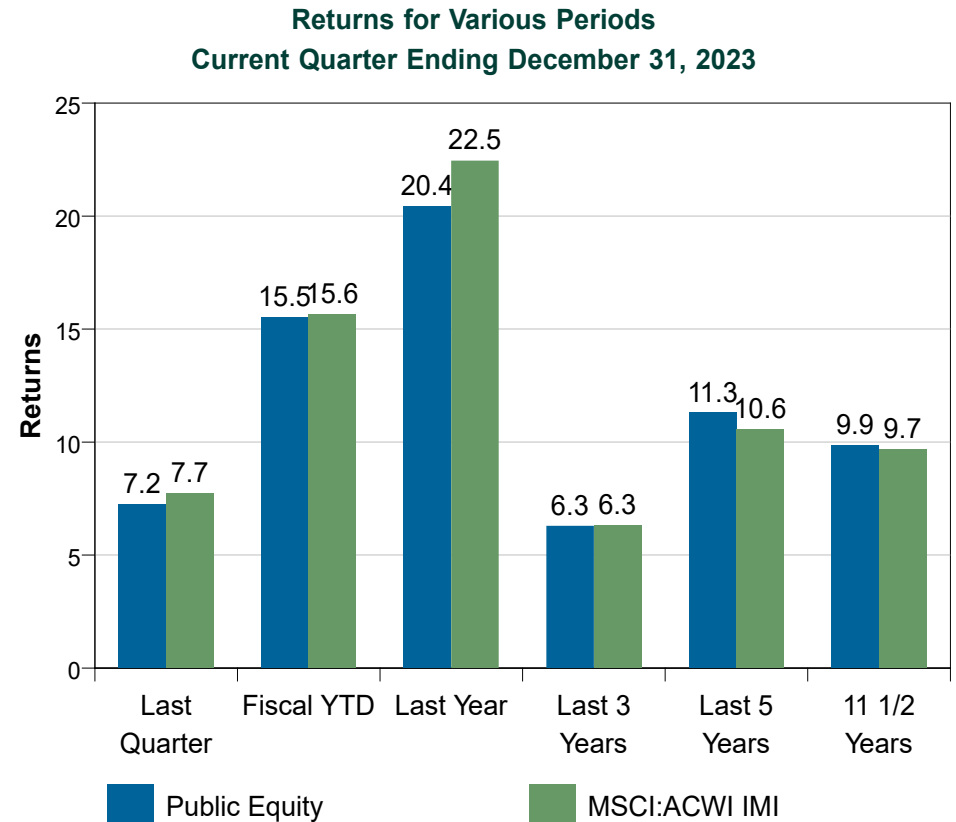
- APFC Public Equity portfolio is comprised of Domestic, International and Global Equity.



# APFC Public Equity vs. MSCI ACWI-IMI

Periods Ended March 31, 2024

- APFC Public Equity portfolio trailed the MSCI ACWI IMI index for the quarter and trailing year, but exceeded the benchmark over the intermediate and long-term.
- Domestic and Global Equity composites ended behind their respective benchmarks for the quarter and trailing year.
- Overall, the portfolio is well diversified across regions, countries, and underlying strategies.

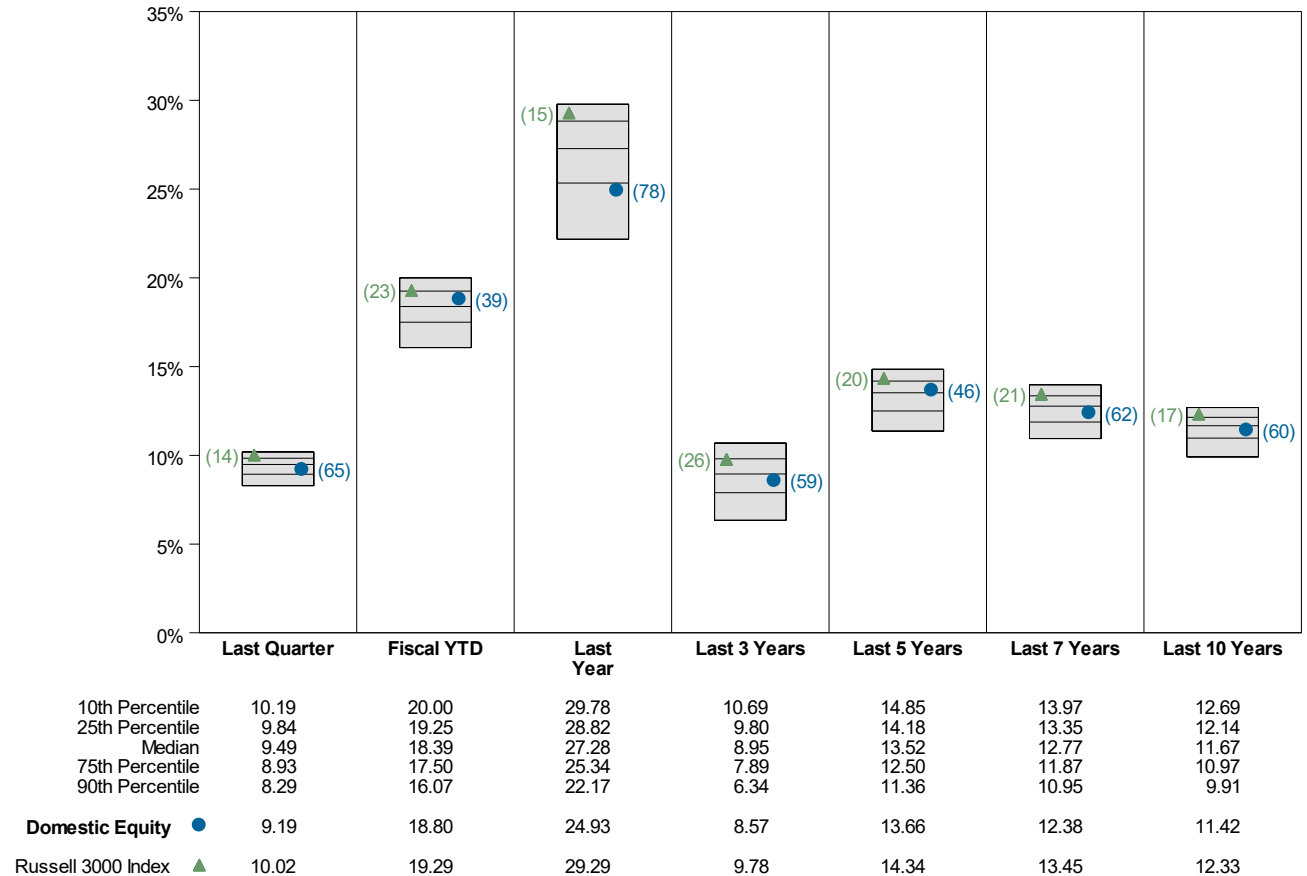


# APFC US Equity Performance vs. Fund Sponsor US Equity

Periods Ended March 31, 2024

- The universe is comprised of total domestic equity portfolios of large institutional investors in Callan's Fund Sponsor Database.
- APFC US Equity portfolio trailed the Russell 3000 Index for the quarter and over the trailing year.
- When compared to US Equity portfolios of other large institutional investors, APFC's US Equity composite ranked near median in longer term periods.

Performance vs Fund Sponsor - Domestic Equity (Gross)



# APFC US Equity Portfolio Risk Adjusted Return Rankings

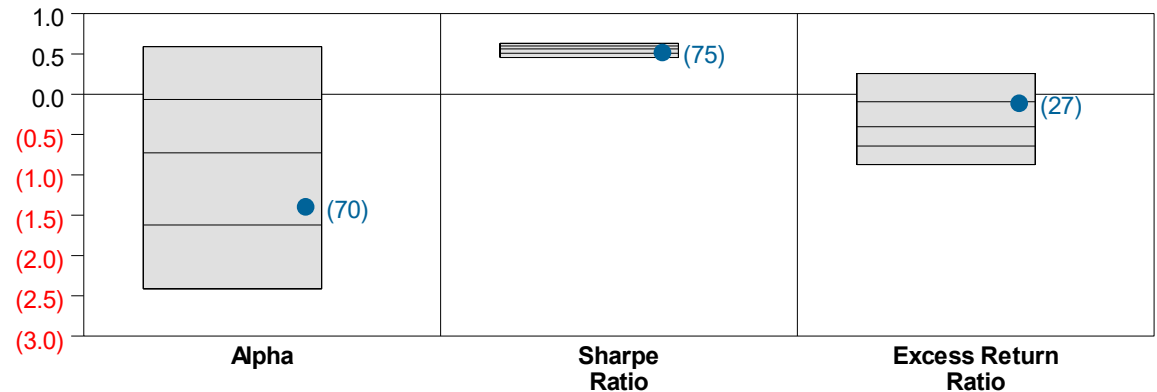
Periods Ended March 31, 2024

- The universe is comprised of total domestic equity portfolios of large institutional investors in Callan's Fund Sponsor Domestic Equity Database.

- For the trailing five-year period, APFC portfolio ranked below median for alpha and Sharpe ratio, and above median for excess return ratio.

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

**Risk Adjusted Return Measures vs Russell 3000 Index Rankings Against Fund Sponsor - Domestic Equity (Gross) Five Years Ended March 31, 2024**

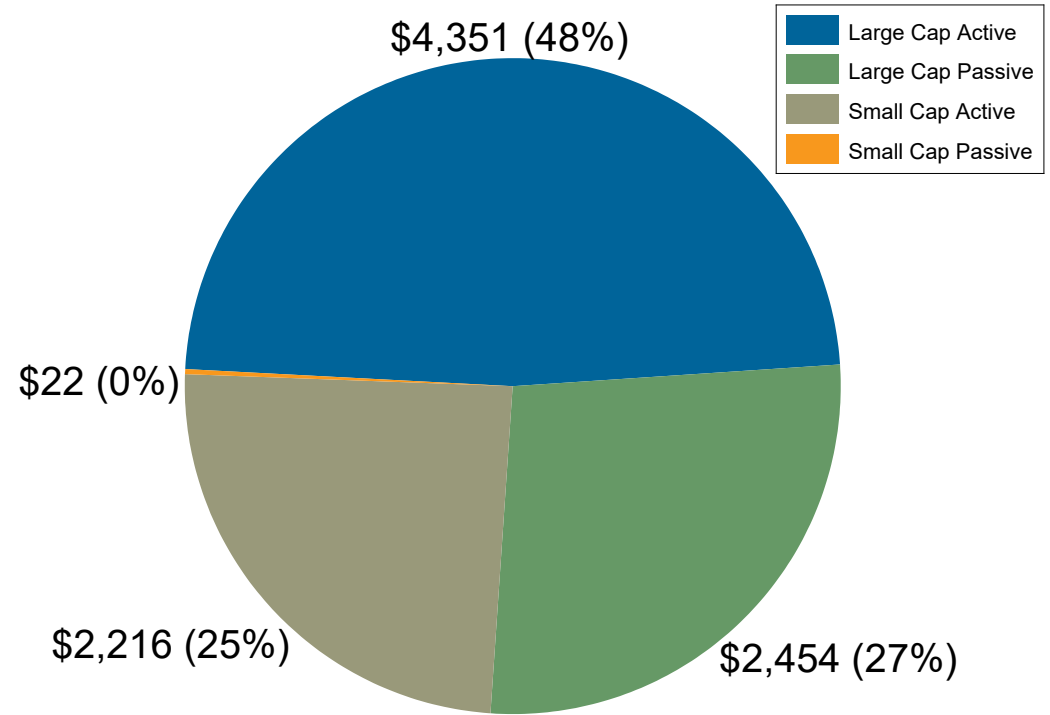


	Alpha	Sharpe Ratio	Excess Return Ratio
10th Percentile	0.59	0.63	0.26
25th Percentile	(0.06)	0.60	(0.09)
Median	(0.73)	0.56	(0.40)
75th Percentile	(1.62)	0.51	(0.64)
90th Percentile	(2.41)	0.46	(0.87)
<b>Domestic Equity</b> ●	<b>(1.41)</b>	<b>0.51</b>	<b>(0.12)</b>

# APFC US Equity Structure

As of March 31, 2024

- US equity portfolio is roughly 73% actively managed and 27% passive (or quasi-passive).
- Roughly 64% of the large cap allocation is actively managed while 99% of the small cap allocation is actively managed.



# APFC Large & Small Cap Equity Relative to Peer Universe

Periods Ended March 31, 2024

- APFC's Large Cap and Small Cap portfolios outperformed their benchmark for the quarter. Over the trailing year the Small Cap portfolios outperformed the benchmark, while Large Cap portfolio missed the benchmark.
- Small Cap portfolios ranked above the peer group median over the quarter and trailing year, while Large Cap portfolios ranked below peer group medians over both time periods.

## Performance vs Callan Large Capitalization (gross)

	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Large Cap Equity	10.75 <sup>(60)</sup>	20.84 <sup>(55)</sup>	27.58 <sup>(63)</sup>	9.62 <sup>(62)</sup>	14.19 <sup>(53)</sup>	12.86 <sup>(60)</sup>	11.83 <sup>(61)</sup>
S&P 500 Index	10.56 <sup>(61)</sup>	19.44 <sup>(68)</sup>	29.88 <sup>(55)</sup>	11.49 <sup>(34)</sup>	15.05 <sup>(45)</sup>	14.09 <sup>(52)</sup>	12.96 <sup>(49)</sup>
Russell 1000 Index	10.30 <sup>(64)</sup>	19.61 <sup>(67)</sup>	29.87 <sup>(55)</sup>	10.45 <sup>(52)</sup>	14.76 <sup>(47)</sup>	13.85 <sup>(54)</sup>	12.68 <sup>(52)</sup>
Callan Large Cap	11.41	21.53	31.06	10.65	14.41	14.18	12.78

## Performance vs Callan Small Capitalization (gross)

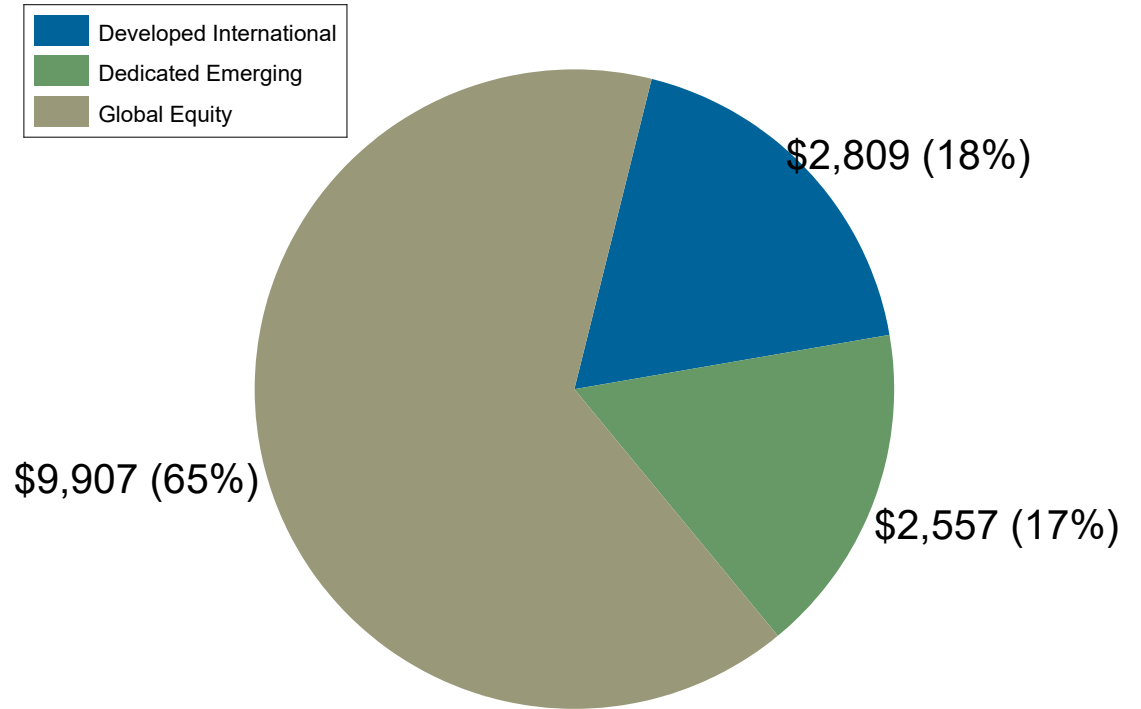
	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Small Cap Equity	6.41 <sup>(44)</sup>	16.74 <sup>(34)</sup>	22.18 <sup>(32)</sup>	4.52 <sup>(43)</sup>	11.65 <sup>(28)</sup>	10.56 <sup>(38)</sup>	10.00 <sup>(33)</sup>
Russell 2000 Index	5.18 <sup>(68)</sup>	13.79 <sup>(54)</sup>	19.71 <sup>(53)</sup>	(0.10) <sup>(80)</sup>	8.10 <sup>(85)</sup>	7.73 <sup>(86)</sup>	7.58 <sup>(92)</sup>
Callan Small Cap	6.09	14.49	19.91	3.81	10.53	9.97	9.37

\*Peer group returns reflect median

# APFC Non-US and Global Equity Structure

As of March 31, 2024

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

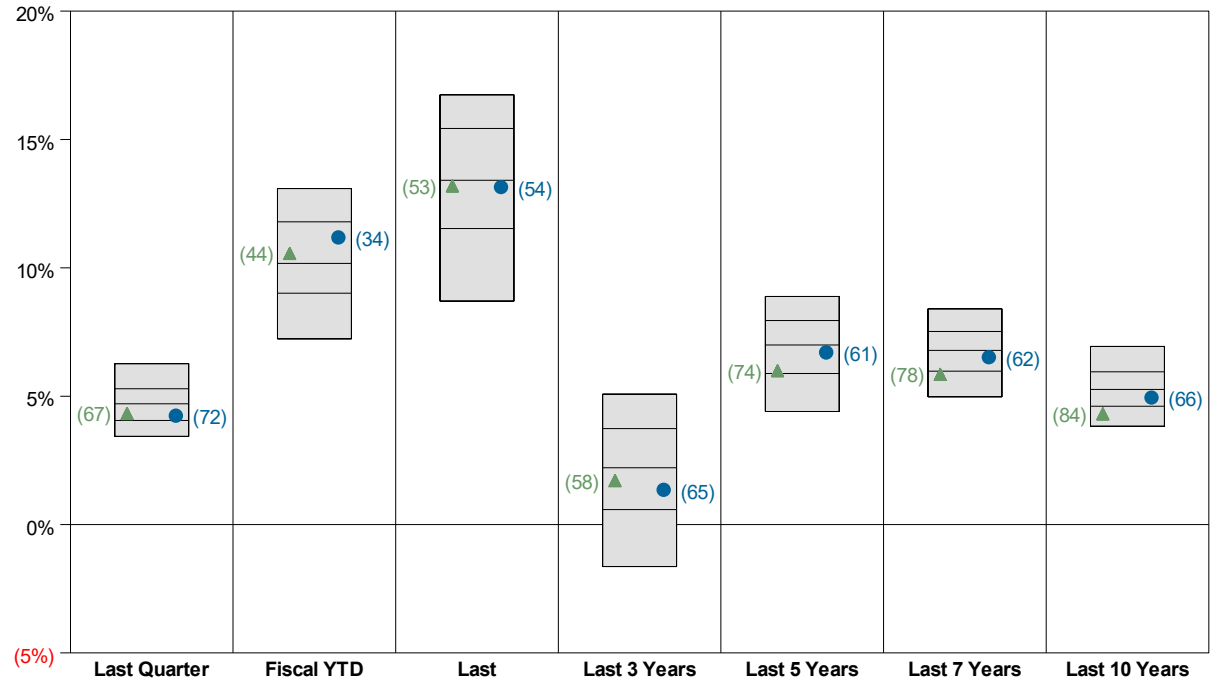


# APFC International Equity Relative to Fund Sponsor Universe

Periods Ended March 31, 2024

- International Equity ended the quarter trailing its benchmark and its peer group median. Over the trailing year, International Equity modestly underperformed the benchmark and peer group median.
- In periods outside the 3-year period, the portfolio outperformed its benchmark.
- Relative to other fund sponsor portfolios, International Equity ranked near median for most longer time periods.

Performance vs Fund Sponsor - International Equity (Gross)



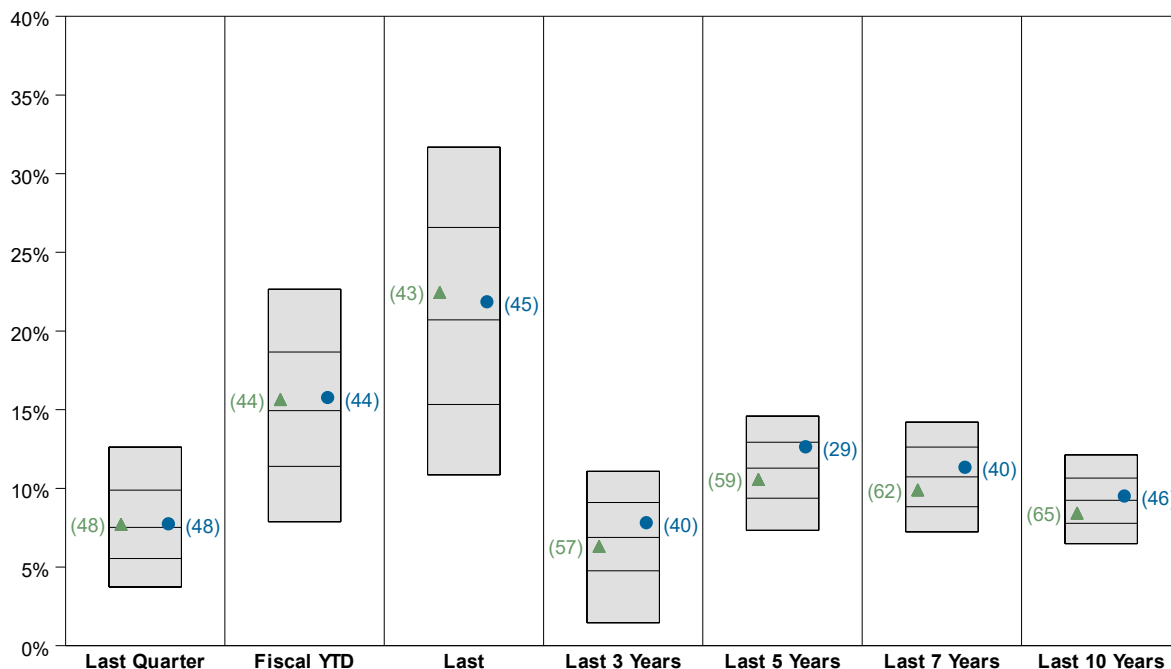
	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	6.27	13.09	16.74	5.08	8.88	8.40	6.94
25th Percentile	5.29	11.79	15.43	3.74	7.95	7.52	5.95
Median	4.71	10.17	13.41	2.21	6.99	6.79	5.26
75th Percentile	4.05	9.01	11.53	0.58	5.89	5.98	4.61
90th Percentile	3.43	7.23	8.70	(1.64)	4.41	4.98	3.83
<b>International Equity</b> ●	4.21	11.16	13.12	1.32	6.68	6.49	4.92
MSCI ACWI xUS IMI ▲	4.33	10.56	13.20	1.72	6.00	5.85	4.32

# APFC Global Equity Relative to Global Universe

Periods Ended March 31, 2024

- APFC Global Equity portfolio trailed its benchmark and for the quarter and trailing year time periods but landed ahead of the peer group median.
- The portfolio was ahead of its peer group median over all time periods and ranked above the benchmark in periods three years and longer.
- Performance from the APFC Tactical Tilts portfolio positively impacted performance over the 5- and 7-year periods but has been a drag on performance in the near-term.

Performance vs Global Equity Database (Gross)



10th Percentile	12.62	22.66	31.69	11.09	14.59	14.21	12.13
25th Percentile	9.89	18.67	26.58	9.10	12.94	12.62	10.65
Median	7.52	14.94	20.71	6.88	11.28	10.74	9.24
75th Percentile	5.54	11.40	15.33	4.76	9.38	8.83	7.77
90th Percentile	3.73	7.88	10.86	1.46	7.34	7.24	6.48
<b>Global Equity</b> ●	7.67	15.70	21.78	7.75	12.57	11.27	9.44
<b>MSCI ACWI IMI</b> ▲	7.72	15.65	22.45	6.31	10.57	9.90	8.43

# APFC International & Global Equity Relative to Fund Sponsor Universe

Periods Ended March 31, 2024

## Performance vs Callan Non-US Equity (gross)

	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
International Developed	5.64 <sup>(50)</sup>	13.09 <sup>(26)</sup>	15.48 <sup>(40)</sup>	4.20 <sup>(43)</sup>	7.97 <sup>(46)</sup>	7.14 <sup>(56)</sup>	5.38 <sup>(57)</sup>
MSCI ACWI xUS (net)	4.69 <sup>(67)</sup>	10.56 <sup>(53)</sup>	13.26 <sup>(62)</sup>	1.94 <sup>(76)</sup>	5.97 <sup>(87)</sup>	5.88 <sup>(82)</sup>	4.25 <sup>(90)</sup>
Callan Non-U.S. (gr)	5.65	10.79	14.52	3.85	7.90	7.33	5.62

## Performance vs Emerging Markets Equity Database (gross)

	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Emerging Markets	1.97 <sup>(63)</sup>	8.03 <sup>(49)</sup>	9.22 <sup>(52)</sup>	(3.50) <sup>(47)</sup>	4.24 <sup>(45)</sup>	5.23 <sup>(47)</sup>	4.03 <sup>(62)</sup>
MSCI EM	2.37 <sup>(55)</sup>	7.19 <sup>(53)</sup>	8.15 <sup>(58)</sup>	(5.05) <sup>(56)</sup>	2.22 <sup>(71)</sup>	3.72 <sup>(76)</sup>	2.95 <sup>(83)</sup>
EM Equity DB (gr)	1.91	7.77	9.62	(4.20)	3.72	4.99	4.58

## Performance vs Global Equity Database (gross)

	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
Global Equity	7.67 <sup>(48)</sup>	15.70 <sup>(44)</sup>	21.78 <sup>(45)</sup>	7.75 <sup>(40)</sup>	12.57 <sup>(29)</sup>	11.27 <sup>(40)</sup>	9.44 <sup>(46)</sup>
MSCI ACWI IM Index	7.72 <sup>(48)</sup>	15.65 <sup>(44)</sup>	22.45 <sup>(43)</sup>	6.31 <sup>(57)</sup>	10.57 <sup>(59)</sup>	9.90 <sup>(62)</sup>	8.43 <sup>(65)</sup>
Global Equity DB (gr)	7.52	14.94	20.71	6.88	11.28	10.74	9.24

\*Peer group returns reflect median

- APFC's International Developed portfolio outperformed its benchmark for the quarter and trailing year. Over the trailing year the Emerging Market portfolio outperformed the benchmark, while it slightly trailed for the quarter.
- The Global Equity portfolio slightly trailed its benchmark over the quarter and trailing year but has moderately outperformed over all other longer time periods.
- All three programs are at or above peer group medians over the trailing 3, 5 & 7 years
- Performance from the APFC US Tactical Tilt portfolio dampened relative results over the quarter and the trailing year.

# U.S. Fixed Income Performance: 1Q24

U.S. Treasury rates rose while risk appetite drove credit spreads tighter

## Macro environment

- Market’s enthusiasm for multiple rate cuts starting in early 2024 was tempered by strong economic data.
- 10-year U.S. Treasury yield rose from 3.88% as of year-end to close the quarter at 4.21%.
- The yield curve remained inverted but less so than one year ago (2-year/10-year 42 bps vs. 57 one year ago).

## Performance and drivers

- The Aggregate fell 0.8% as rates rose.
- Investment grade corporates outperformed like-duration Treasuries, while mortgages underperformed.
- Lower quality also outperformed, with high yield corporates and leveraged loans posting the highest returns.

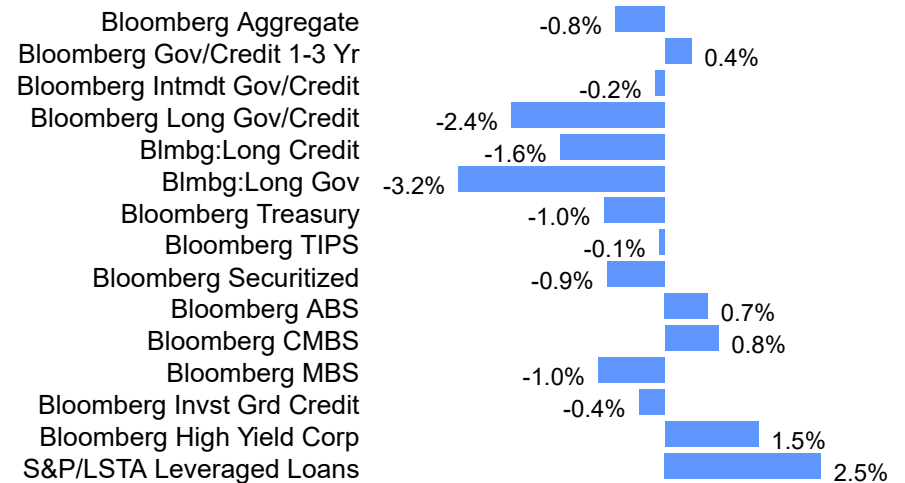
## Valuations

- Investment grade and high yield corporate spreads are tighter than one standard deviation from the trailing 10-year average.

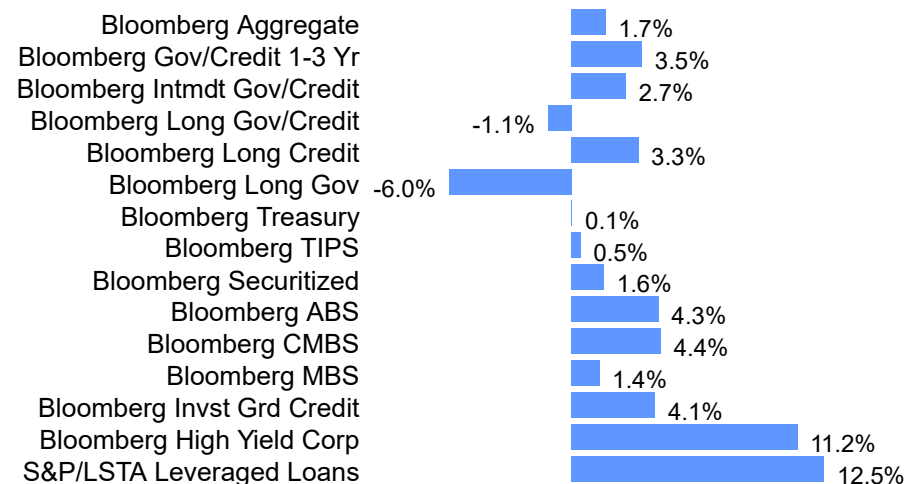
## Record corporate bond issuance

- Highest first quarter of new issuance on record, with \$529 billion in investment grade corporates, surpassing 2020’s \$479 billion.
- High yield quarterly issuance was just as significant with a volume of \$85 billion, a level not seen since 2021.
- Both were met with strong investor demand.

## U.S. Fixed Income Returns: Quarter Ended 3/31/24



## U.S. Fixed Income Returns: One Year Ended 3/31/24



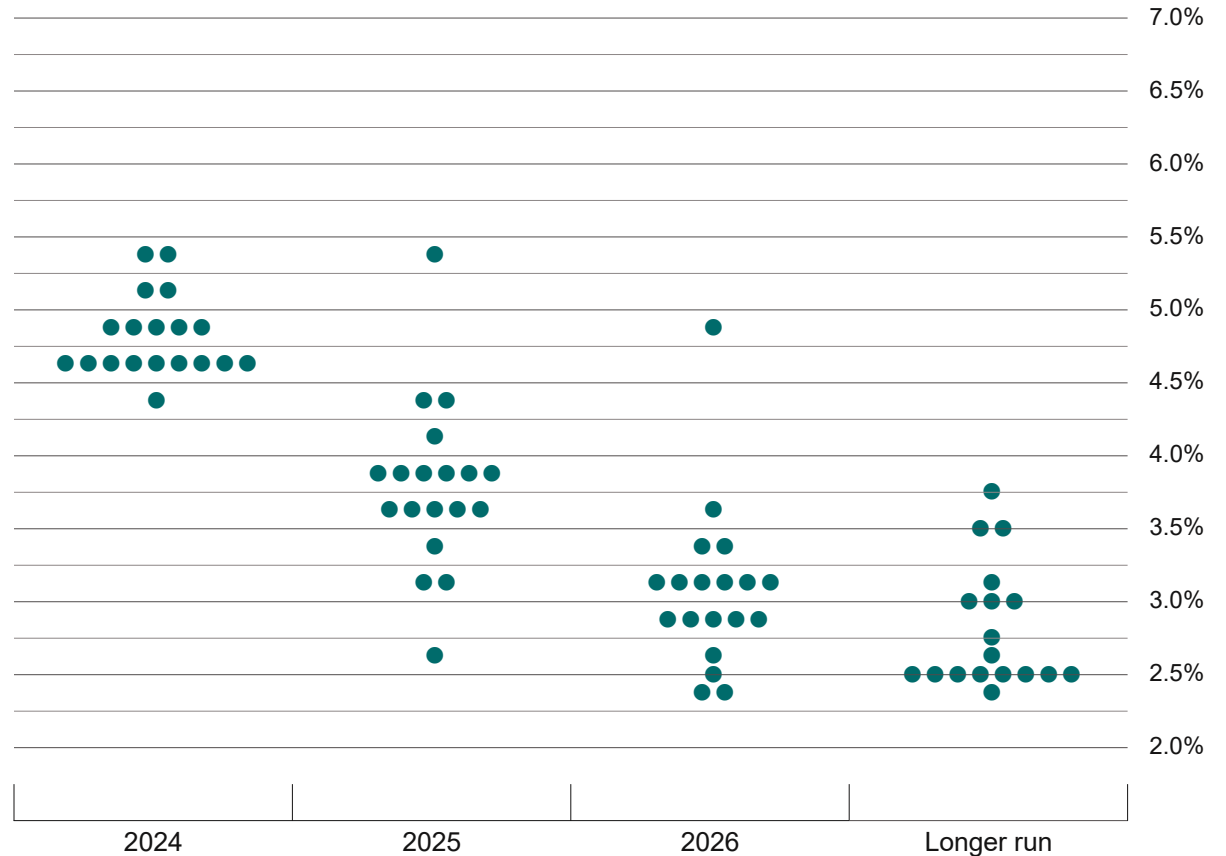
Sources: Bloomberg, Callan, S&P Dow Jones Indices

# The Fed's 'Dot Plot'

March 20, 2024

## Federal Open Market Committee (FOMC) participants' assessments of appropriate monetary policy

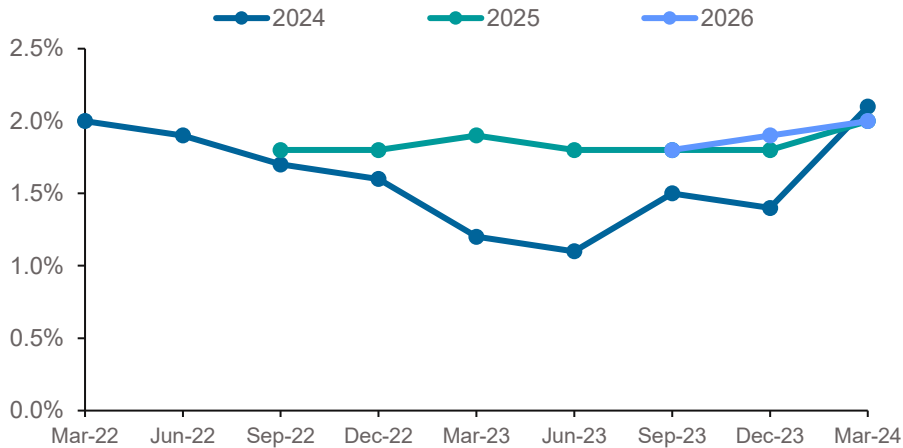
- Median year-end in 2024 = 4.6% (unchanged from December meeting)
- “Longer run” up 10 basis points to 2.6%
- Dispersion of views widens in 2025 and 2026 but narrows over longer run.
- Market expects more cuts next year based on CME FedWatch as of April. Fed Funds expectations for end of 2024:
  - 18% expect 4.50% to 4.75%
  - 35% expect 4.75% to 5.00%
  - 32% expect 5.00% to 5.25%



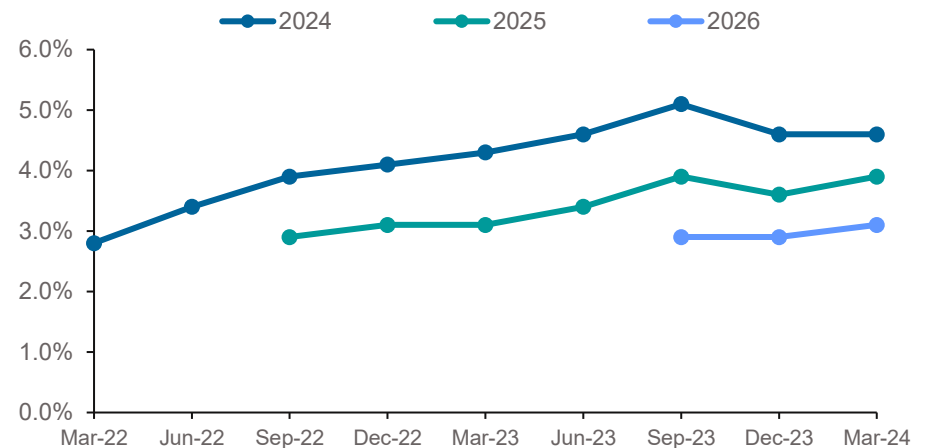
Source: Federal Reserve (One participant did not submit longer-run projections for the Federal Funds rate.)

# The Shifting Mindset at the Fed

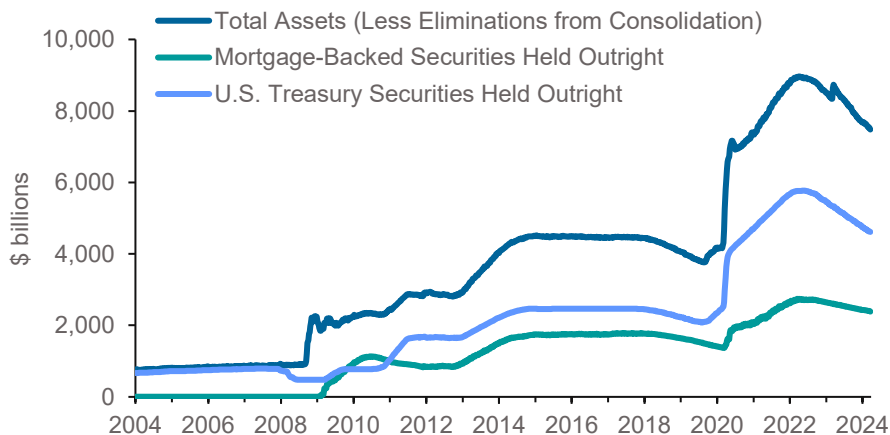
**Fed Projection of Change in Real GDP  
By Fed Meeting Date and Projection Year**



**Fed Projection of Fed Funds Rate  
By Fed Meeting Date and Projection Year**



**Fed Balance Sheet**



**The big swing in the Fed's GDP projection reflects the surprising nature of economic resilience.**

- The Fed steadily increased projections for the appropriate Fed Funds Rate in response to this economic strength.
  - Inflation down from recent highs but well above the Fed's long-term 2% target
- The Fed is also unwinding its balance sheet.
  - This has a more direct impact on longer-term rates than the Fed Funds Rate and could help to slow economic activity if it causes rates to rise.

Sources: Federal Reserve, Financial Times

# Global Fixed Income Performance: 1Q24

Rates rose across developed markets and the U.S. dollar strengthened

## Macro environment

- Rates rose across developed markets.
- Central banks largely kept rates on hold but are getting closer to rate cuts as inflation moderates.
- Switzerland was the first to raise rates with a 25 bps increase.
- Japan was the last to exit negative interest rate policy, raising rates from -0.1% to a range of 0.0%-0.1%.

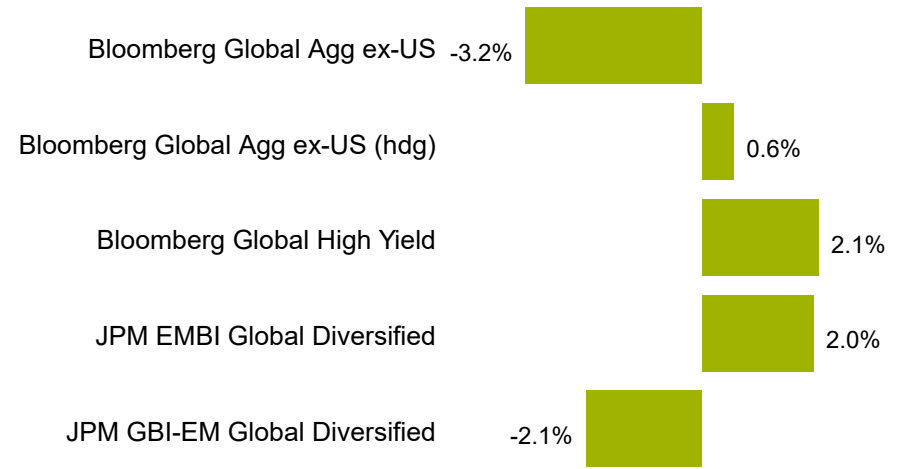
## U.S. dollar strengthened

- Major currencies weakened relative to the dollar, a reversal of fortune from 4Q23.
- Hedged investors saw better returns.

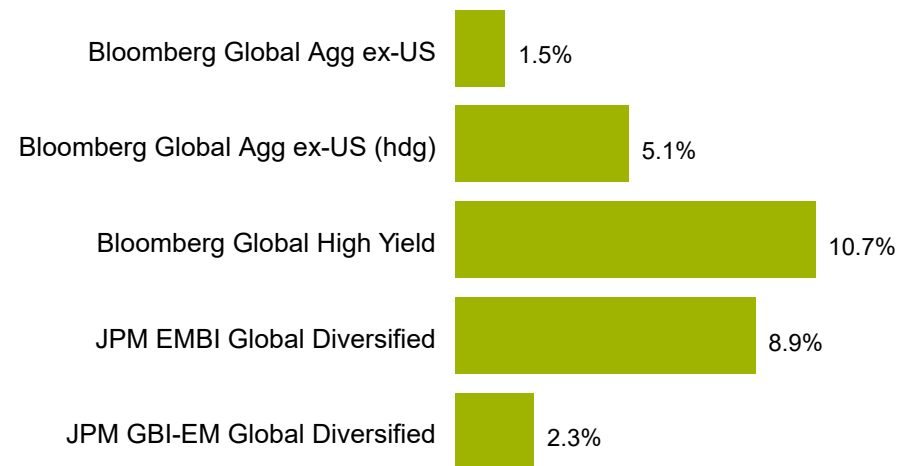
## Emerging markets were mixed

- Hard currency EM debt performed relatively well, especially high yield. The JPM EMBI Global Diversified Index rose 2.0%, with the high yield component up 4.9%.
- Local currencies generally lost ground to the U.S. dollar, hurting returns for the JPM GBI-EM Global Diversified Index.

## Global Fixed Income Returns: Quarter Ended 3/31/24



## Global Fixed Income Returns: One Year Ended 3/31/24

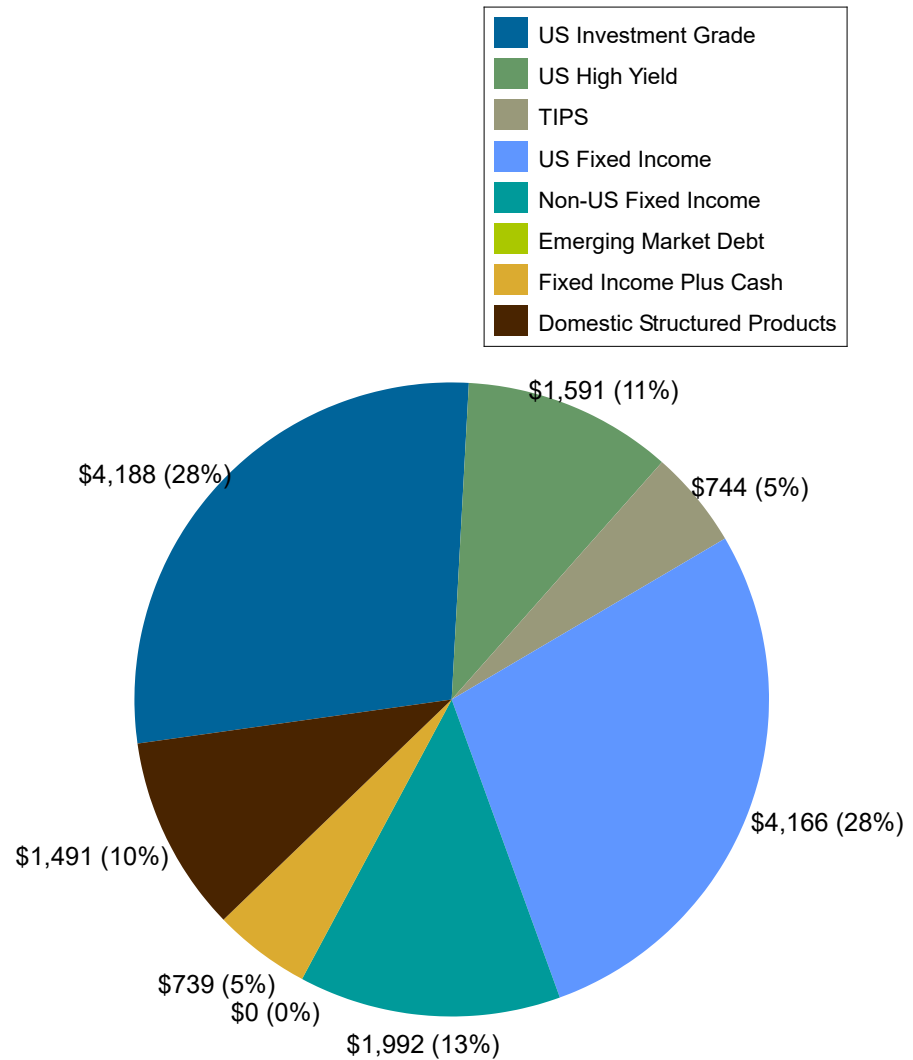


Sources: Bloomberg, JP Morgan

# APFC Fixed Income Structure

As of March 31, 2024

- The fixed income portfolio is now managed internally, including allocations within Fixed Income Plus Cash, US Fixed Income Aggregate, US Investment Grade Corporate, Non-US Fixed Income, Structured Products, Emerging Market Debt, US High Yield and TIPS.
- Small allocations to external managers in liquidation remain in Non-US Fixed Income, US High Yield and Emerging market Debt (~\$0.7M).

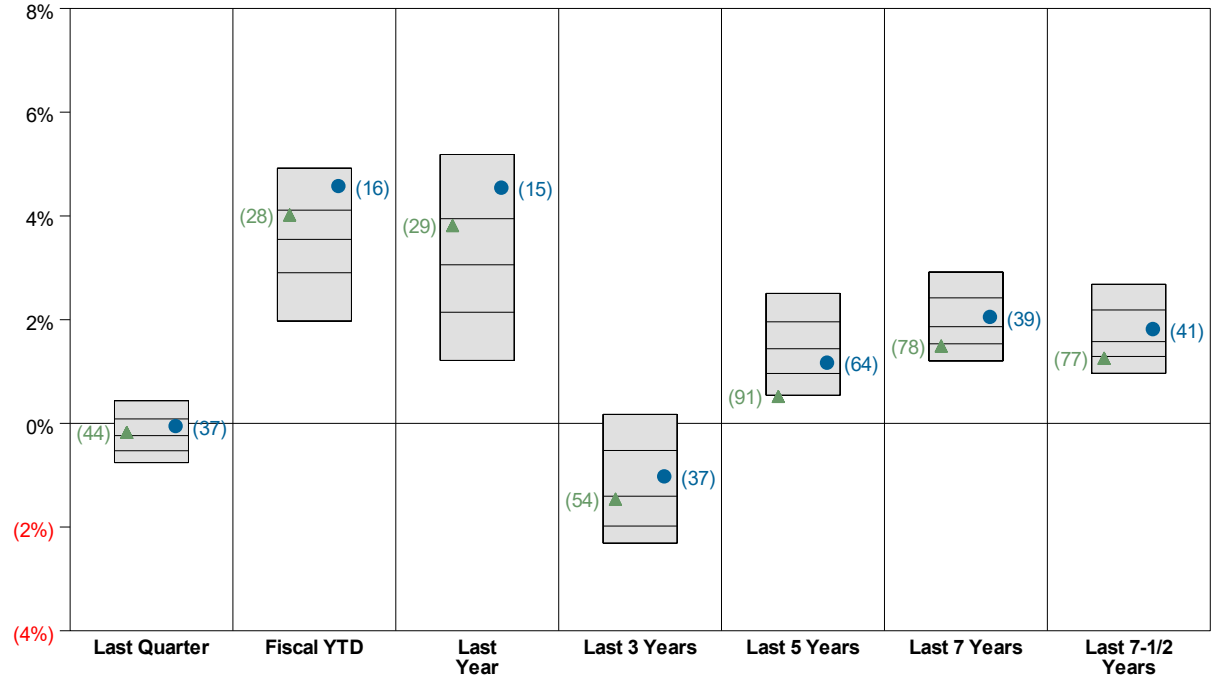


# Fixed Income Relative to Public Fixed Income Funds

Periods Ended March 31, 2024

- The APFC Total Fixed Income portfolio outperformed its benchmark in both the quarter and trailing year. The portfolio ranked above median for the quarter and top quartile for the year.
- The portfolio outperformed its benchmark over the 3-, 5-, and 7-year periods.
- As a reminder, Total Fixed Income included REITs and Listed Infrastructure up to the end of the second quarter of 2020.

Performance vs Public Fund - Domestic Fixed (Gross)



10th Percentile	0.44	4.92	5.18	0.17	2.51	2.92	2.68
25th Percentile	0.09	4.11	3.95	(0.52)	1.96	2.42	2.19
Median	(0.24)	3.55	3.06	(1.40)	1.44	1.87	1.57
75th Percentile	(0.53)	2.91	2.14	(1.98)	0.96	1.53	1.29
90th Percentile	(0.76)	1.97	1.21	(2.31)	0.54	1.20	0.97
<b>Fixed Income</b> ●	(0.07)	4.56	4.53	(1.03)	1.16	2.04	1.81
Fixed Income Benchmark ▲	(0.17)	4.02	3.82	(1.46)	0.52	1.49	1.26

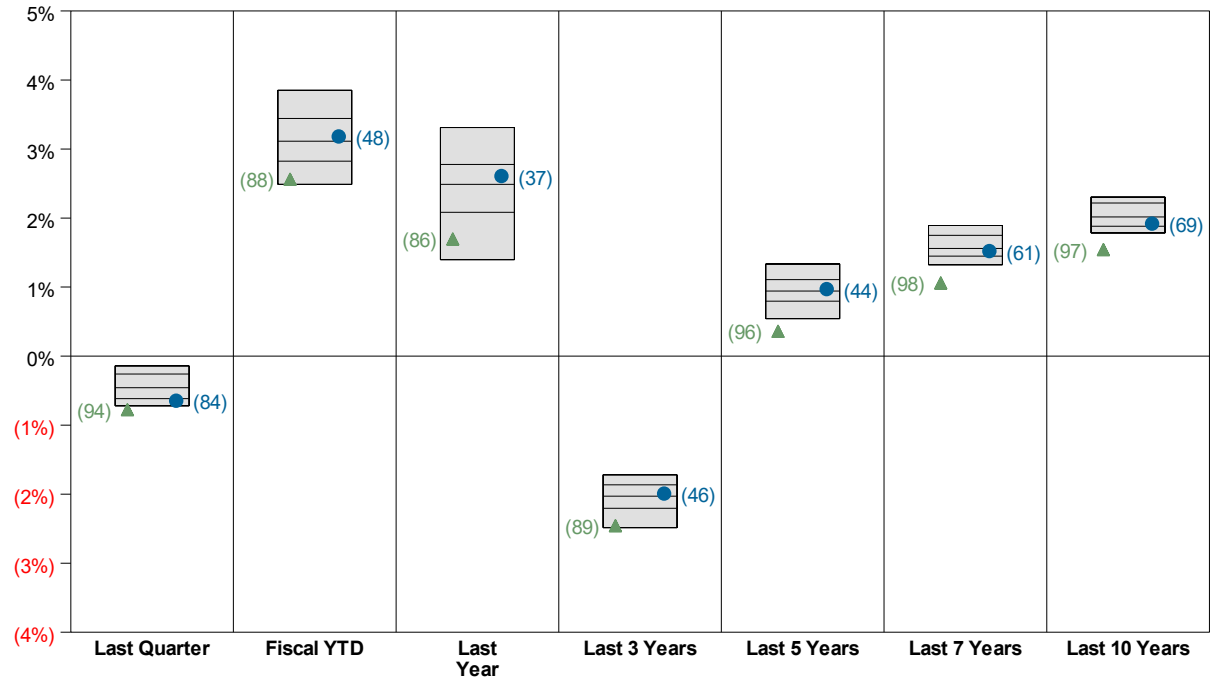
Fixed Income Benchmark components: 5% 90 Day T-Bills, 5% BB US TIPS, 25% BB US Agg, 25% BB US Corp Inv Grade TR, 10% GI Treas xUS Hdg, 2.5% JPM EMBI GI Div, 2.5% JPM GBI-EM GI Div, 10% BB US HY 2% Issuer, 10% S&P GI REIT & 5% S&P GI Listed Inf to 6/30/20, 5% 90 Day T-Bills, 5% BB US TIPS, 27.5% BB US Agg, 27.5% BB US Corp Inv Grade TR, 10% GI Treas xUS Hdg, 2.5% JPM EMBI GI Div, 2.5% JPM GBI-EM GI Div, 10% BB US HY 2% Issuer, and 10% BB US Sec Idx to 6/30/22, and 5% 90 T-Bills, 27.5% BB US Corp Inv Gr TR, 15% GI Treas xUS Hdgd, 27.5% BB US Agg, 10% BB HY Corp Ba, 5% BB US TIPS, and 10% BB US Securitized Idx thereafter.

# US Fixed Income Aggregate Relative to Core Bond Funds

Periods Ended March 31, 2024

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

Performance vs Callan Core Bond Fixed Income (Gross)



10th Percentile	(0.14)	3.85	3.31	(1.72)	1.33	1.89	2.31
25th Percentile	(0.26)	3.44	2.78	(1.87)	1.11	1.75	2.22
Median	(0.46)	3.11	2.49	(2.03)	0.94	1.56	2.02
75th Percentile	(0.62)	2.82	2.08	(2.20)	0.80	1.45	1.88
90th Percentile	(0.72)	2.49	1.40	(2.48)	0.54	1.32	1.78
<b>US Fixed Income Aggregate</b>	● (0.66)	3.17	2.60	(2.00)	0.96	1.51	1.91
Blimbg:Aggregate	▲ (0.78)	2.56	1.70	(2.46)	0.36	1.06	1.54

# US Investment Grade Corp Relative to Investment Grade Funds

Periods Ended March 31, 2024

- APFC US Investment Grade Corporate portfolio ended ahead of its benchmark for the quarter and the trailing year.
- The Investment Grade Corporate composite outperformed its benchmark over all other periods.
- Peer group ranks ended most periods above the median.

Performance vs Callan Investment Grade Credit Fixed Inc (Gross)



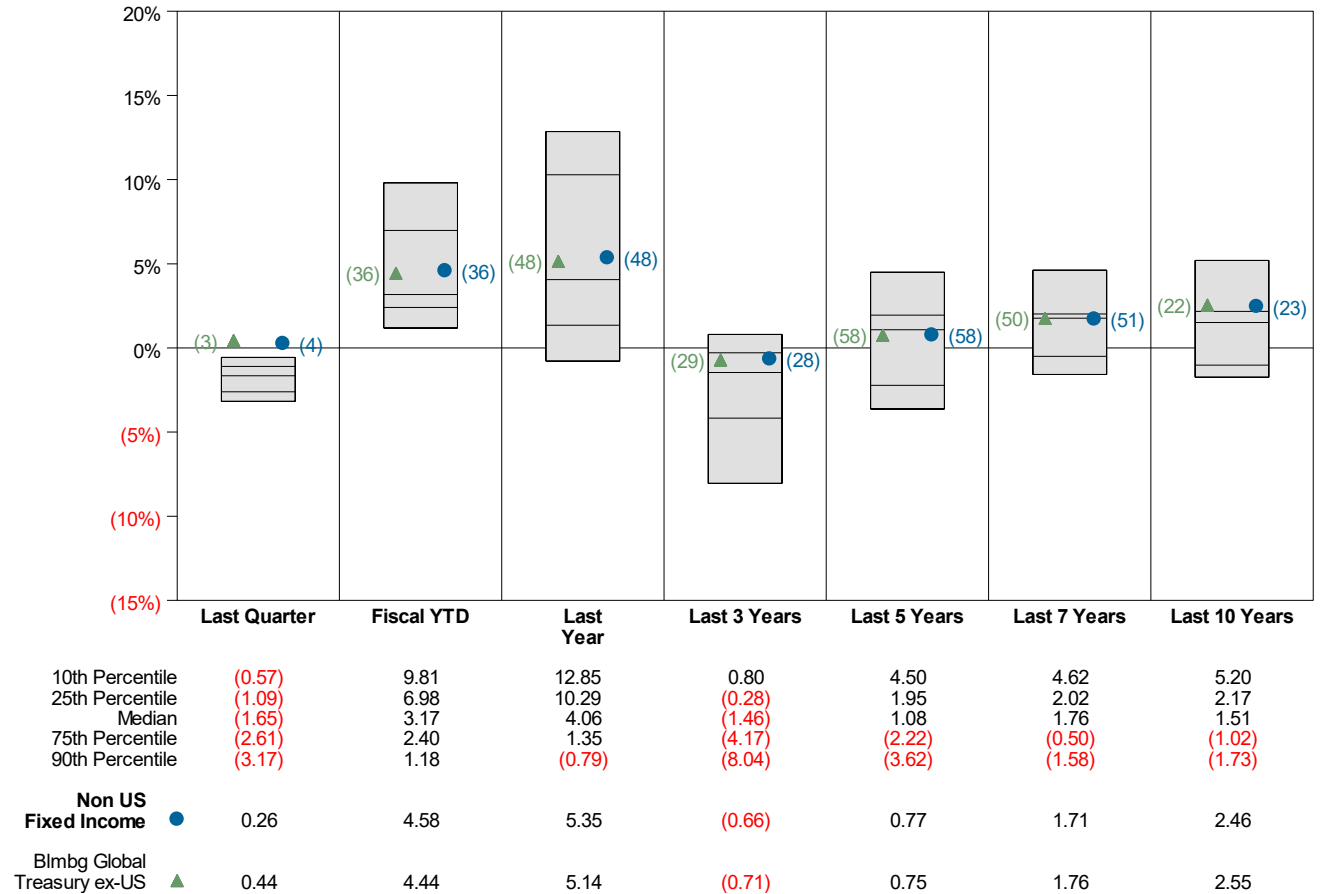
	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	0.31	6.20	6.22	(0.97)	2.70	3.16	3.73
25th Percentile	0.06	5.51	5.46	(1.30)	2.35	2.88	3.48
Median	(0.11)	5.18	5.01	(1.58)	2.14	2.72	3.18
75th Percentile	(0.25)	4.84	4.58	(1.82)	1.94	2.54	2.96
90th Percentile	(0.36)	4.46	3.94	(1.97)	1.61	2.30	2.82
<b>US Investment Grade Corporate</b> ●	(0.30)	5.40	5.15	(1.38)	2.25	2.76	3.24
Blmbg Corporate ▲	(0.40)	4.73	4.43	(1.87)	1.52	2.17	2.61

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

Periods Ended March 31, 2024

- The APFC Non-U.S. Fixed Income portfolio finished the quarter modestly behind its benchmark but ahead over the trailing year.
- Compared to peers, the portfolio ranked top quartile in the quarter, and above median over the trailing year.

Performance vs Public Fund - International Fixed (Gross)

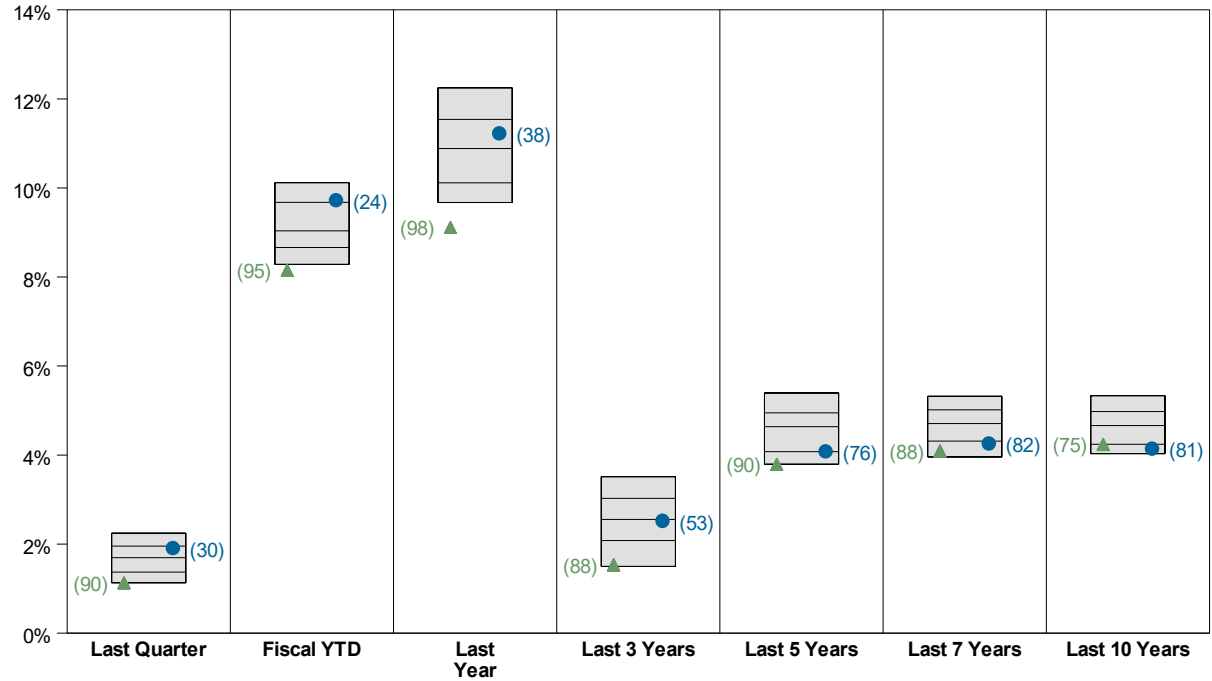


# US High Yield Relative to High Yield Funds

Periods Ended March 31, 2024

- APFC Global High Yield portfolio bested the benchmark in the quarter and over the trailing year.
- The portfolio ranked below median over longer time periods.

Performance vs Callan High Yield Fixed Income (Gross)



10th Percentile	2.25	10.12	12.25	3.51	5.40	5.32	5.33
25th Percentile	1.95	9.67	11.54	3.03	4.95	5.02	4.98
Median	1.69	9.04	10.89	2.56	4.64	4.71	4.66
75th Percentile	1.37	8.66	10.11	2.08	4.08	4.31	4.24
90th Percentile	1.13	8.28	9.67	1.50	3.80	3.96	4.03
<b>US High Yield</b> ●	1.90	9.71	11.21	2.51	4.07	4.25	4.13
US High Yield Benchmark ▲	1.13	8.15	9.11	1.54	3.79	4.09	4.24

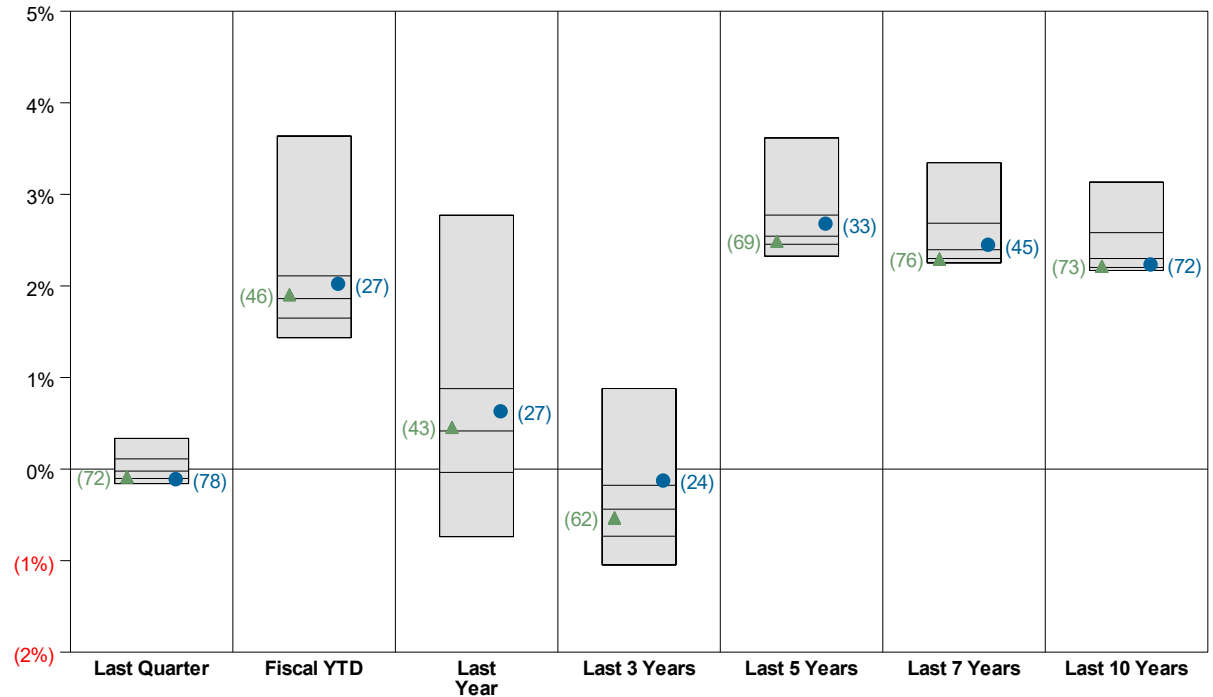
US High Yield Benchmark components: BB US High Yield 2% Issuer Cap through 6/30/22, then BB US BB HY thereafter

# TIPS Relative to Callan's Inflation Linked Bonds database

Periods Ended March 31, 2024

Performance vs Callan Inflation Linked Bonds (Gross)

- APFC TIPS portfolio finished roughly in line with its benchmark for the quarter but outperformed over the trailing year.
- The TIPS composite ranked below median in Callan's Inflation Linked Bonds peer universe for the quarter but above median for the trailing year.
- The TIPS allocation includes an In-House TIPS portfolio; APCM was completely liquidated in Q4 2021.



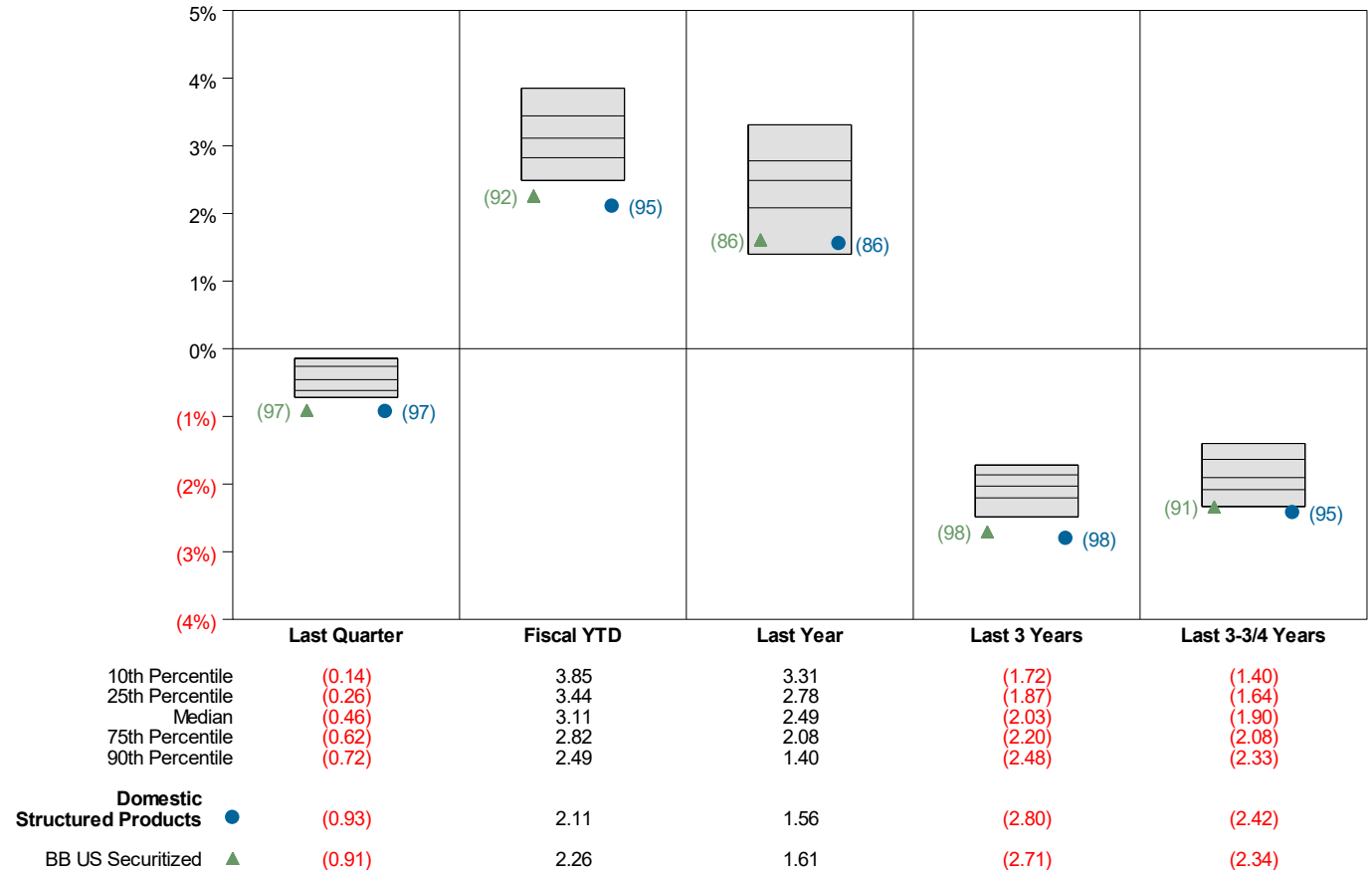
	Last Quarter	Fiscal YTD	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	0.33	3.64	2.77	0.88	3.62	3.35	3.13
25th Percentile	0.11	2.11	0.88	(0.18)	2.77	2.68	2.58
Median	(0.02)	1.86	0.42	(0.44)	2.54	2.40	2.30
75th Percentile	(0.10)	1.65	(0.04)	(0.73)	2.45	2.30	2.20
90th Percentile	(0.16)	1.43	(0.74)	(1.05)	2.32	2.25	2.17
<b>TIPS</b> ●	(0.12)	2.02	0.62	(0.13)	2.67	2.44	2.23
Blmbg TIPS ▲	(0.08)	1.90	0.45	(0.53)	2.49	2.29	2.21

# Domestic Structured Product to Callan's Core Bond database

Periods Ended March 31, 2024

- The Domestic Structured Product portfolio was funded at the end of the second quarter of 2020.
- The portfolio finished roughly in line with its benchmark for the quarter and trailing year.
- The portfolio ranked below the median of the Core Bond Fixed Income peer group for the quarter.

Performance vs Callan Core Bond Fixed Income (Gross)



# U.S. Private Real Estate Performance: 1Q24

Appreciation returns negative once again

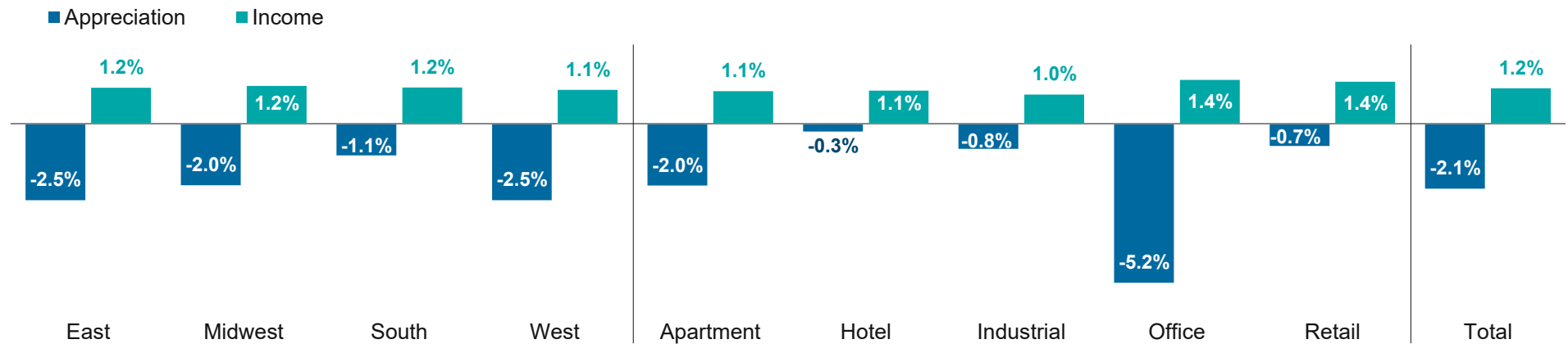
## Valuations reflect higher interest rates

- Income returns were positive across sectors and regions.
- All property sectors and regions experienced negative appreciation.
- Valuations are reflective of higher interest rates, which have put upward pressure on capitalization rate and discount rate assumptions.
- Return dispersion by manager within the ODCE Index was due to the composition of underlying portfolios.

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>NCREIF ODCE</b>	-2.6%	-12.0%	2.5%	2.6%	5.8%
Income	0.8%	2.9%	2.8%	2.9%	3.3%
Appreciation	-3.4%	-14.6%	-0.3%	-0.4%	2.5%
<b>NCREIF Property Index</b>	-1.0%	-7.2%	3.6%	3.8%	6.4%
Income	1.2%	4.5%	4.2%	4.2%	4.5%
Appreciation	-2.1%	-11.2%	-0.5%	-0.5%	1.8%

Returns are geometrically linked

## NCREIF Property Index Quarterly Returns by Region and Property Type

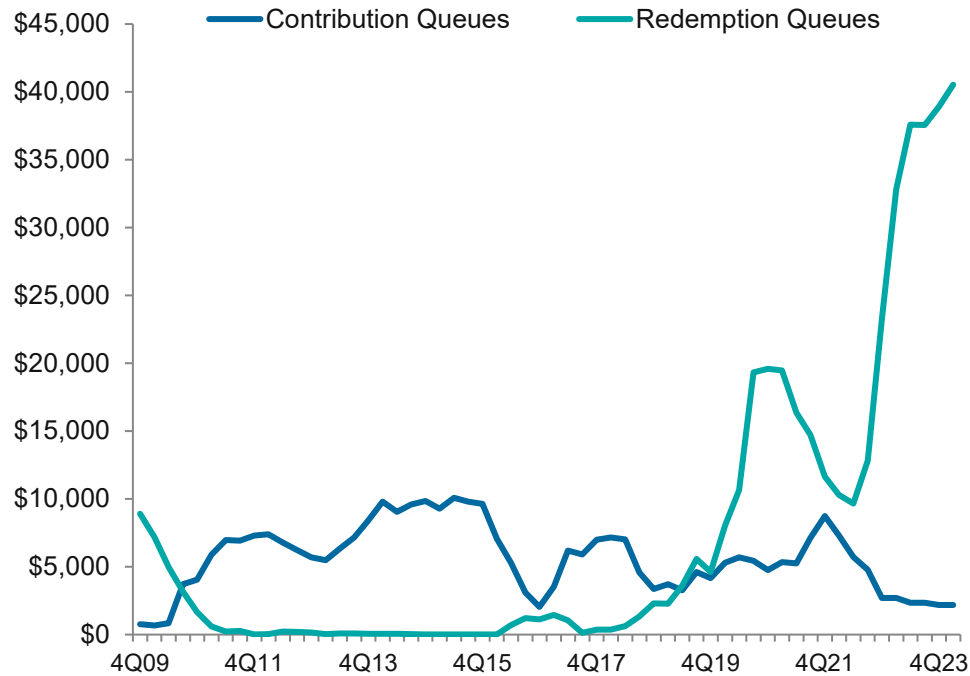


Source: NCREIF; ODCE return is net

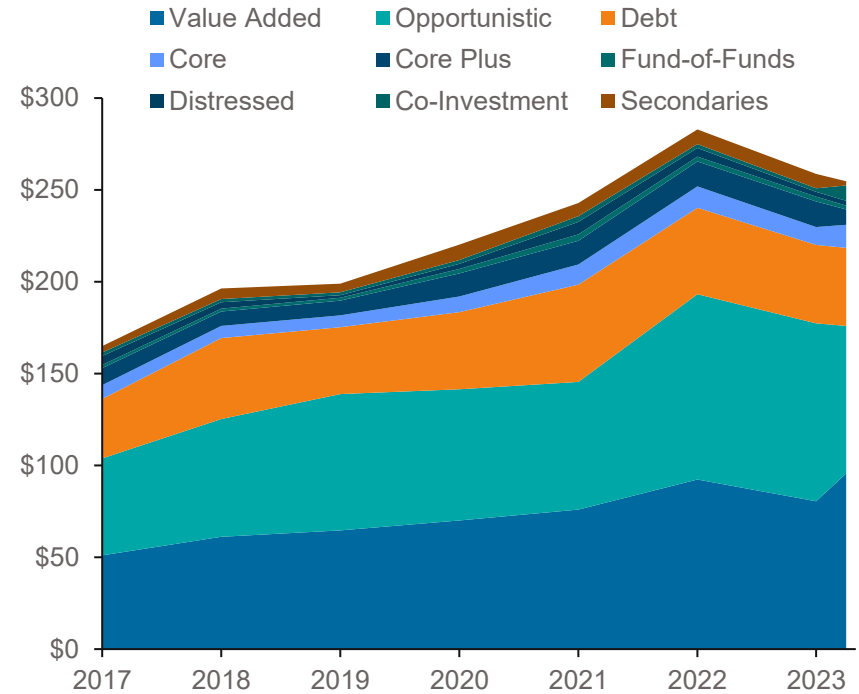
# U.S. Private Real Estate Market Trends

Over \$250 billion of dry powder

Core Fund Contribution/Redemption Queues (\$mm)^



Dry Powder for CRE Investment in North America (\$bn)



- Current ODCE redemption queues are approximately 16.7%, with a median queue of 13.4%. This compares to the GFC when queues peaked at approximately 15% of NAV.
- Outstanding redemption requests for most large ODCE funds are approximately 11% to 20% of net asset value.
- For a large proportion of funds, these redemptions are partial redemptions, due to portfolio rebalancing and liquidity needs. For a smaller underperforming subset, redemption requests are full redemptions indicative of manager termination.

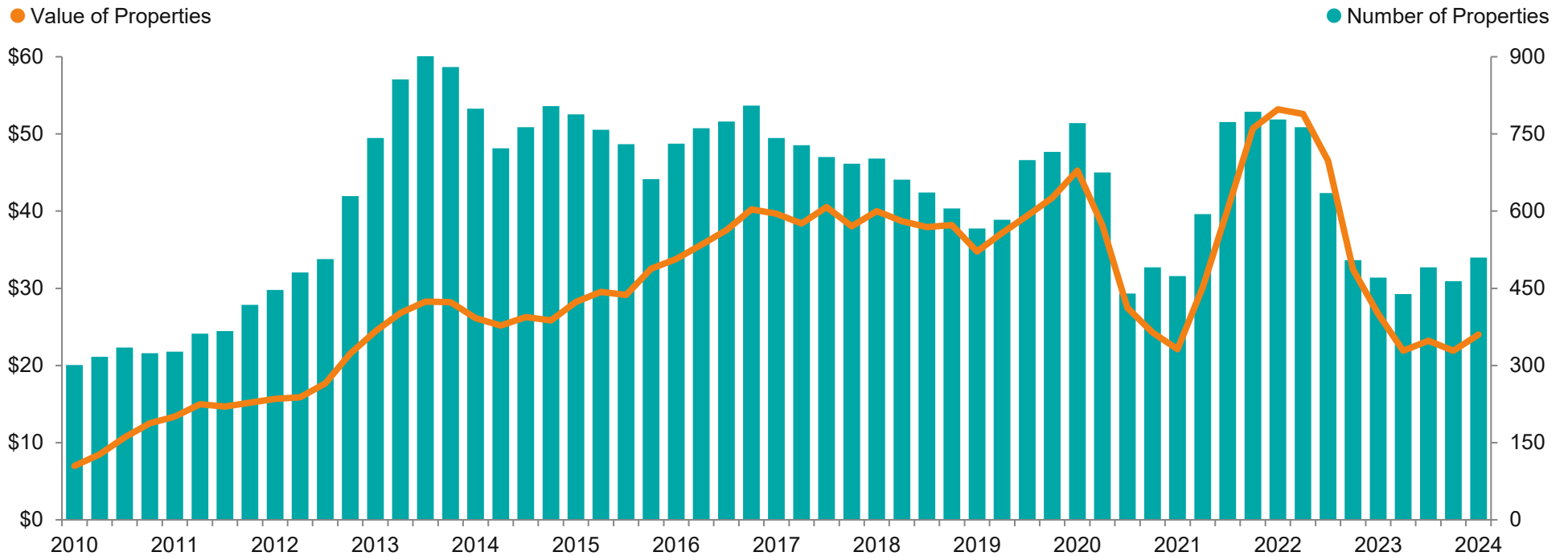
Sources: AEW, NCREIF, Preqin

^ Queue data as of 4Q23, the latest available at time of publication

# U.S. Private Real Estate Market Trends

## Pricing and transaction volumes remain low through 1Q24

NCREIF Property Index Rolling 4-Quarter Transaction Totals

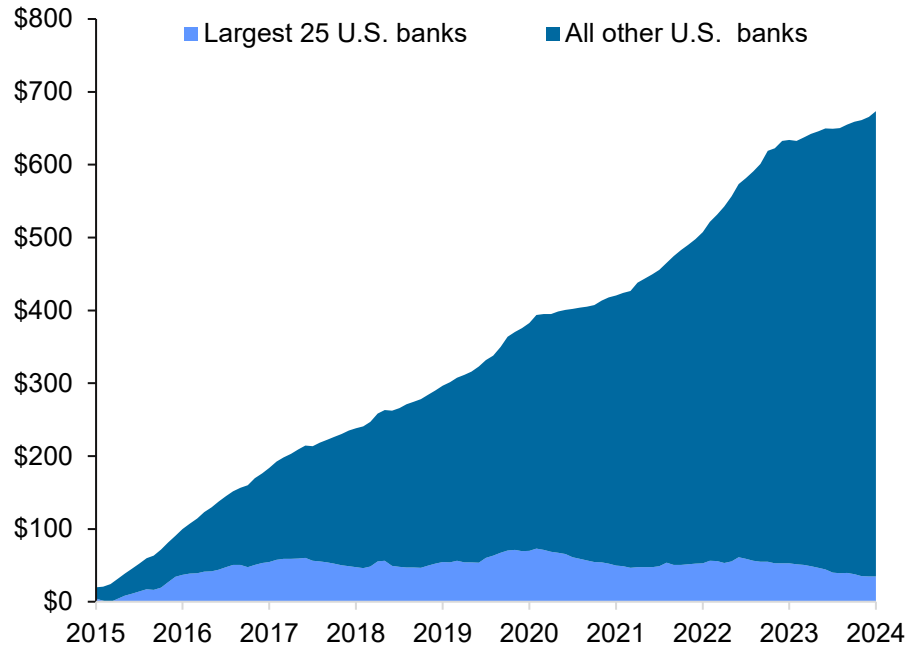


- Transaction volume has flattened on a rolling four-quarter basis and remains well below five-year averages.
- In 1Q24, transaction volume increased slightly on a quarter-over-quarter basis. Transaction volume remains significantly lower compared to 2022.
- The volatile rise in interest rates is the driving force behind the slowdown in transactions. A bid-ask spread remains and price discovery continues to occur among market participants. Values continue to reset adjusting to current base rates.

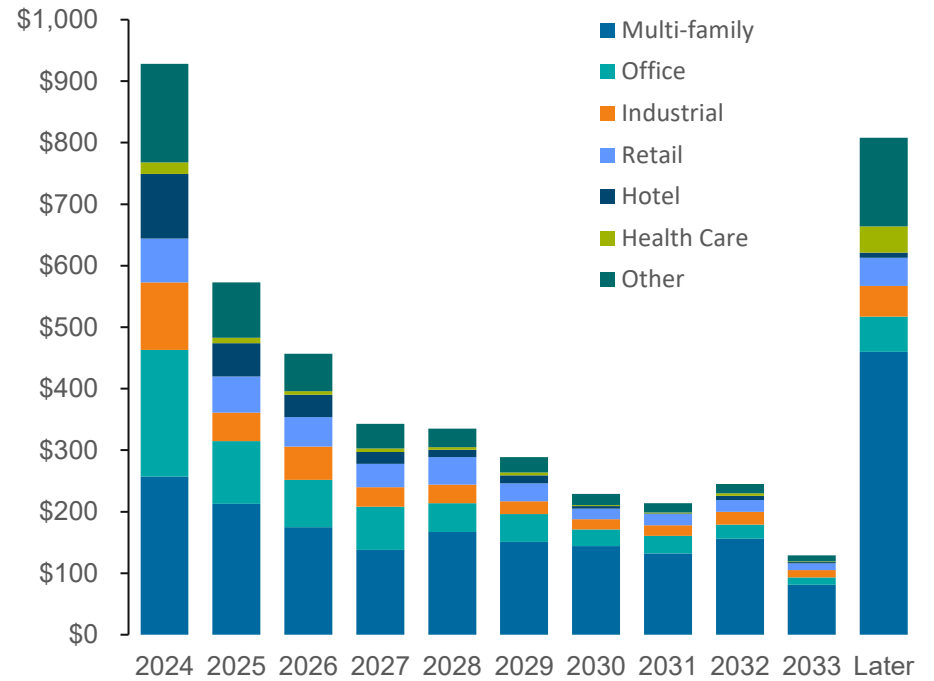
Source: NCREIF

# Real Estate Capital Markets

**Cumulative Increase in Bank Commercial Real Estate Loan Book (excluding Mutual Funds) \$billion**



**Loan Maturities by Sector (\$billion)**



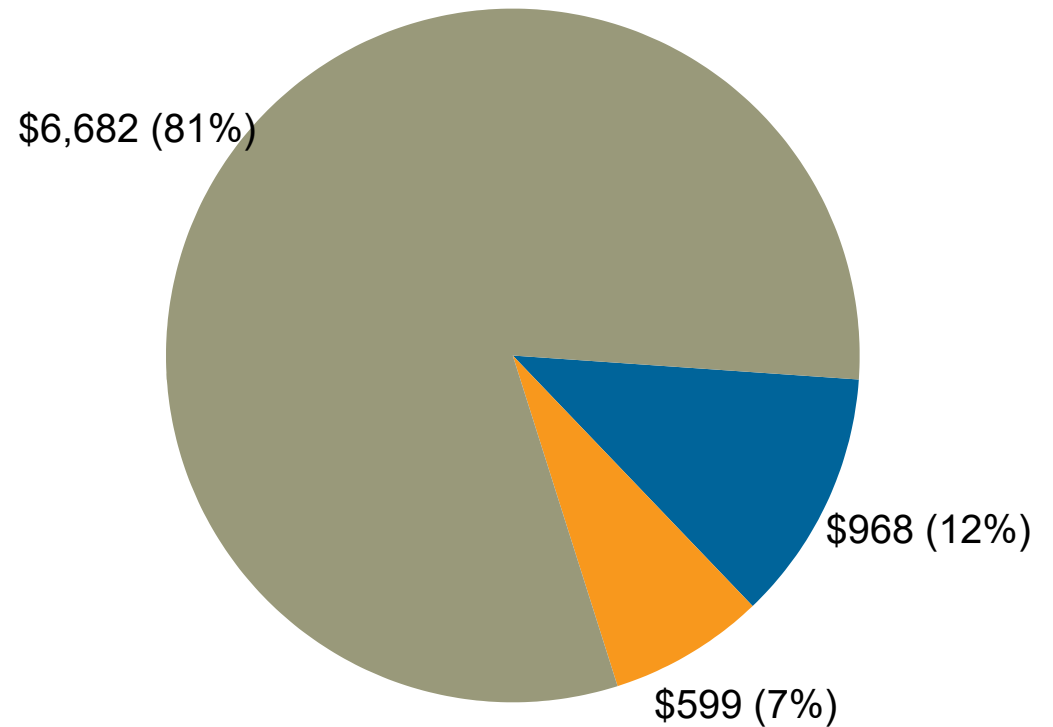
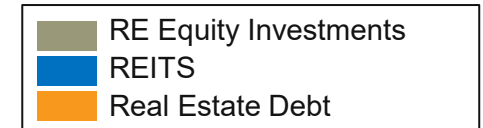
- Smaller and regional banks represent a large and growing share of commercial real estate lending; additional sources of lending are needed, and debt investment opportunities appear increasingly attractive.
- A sizeable pool of loans maturing in 2024 and 2025, particularly office loans, will put further pressure on lending markets.

Sources: FDIC, JP Morgan Asset Management, MBA, Moody's

## APFC Real Estate Structure (1Q LAG)

As of December 31, 2023

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

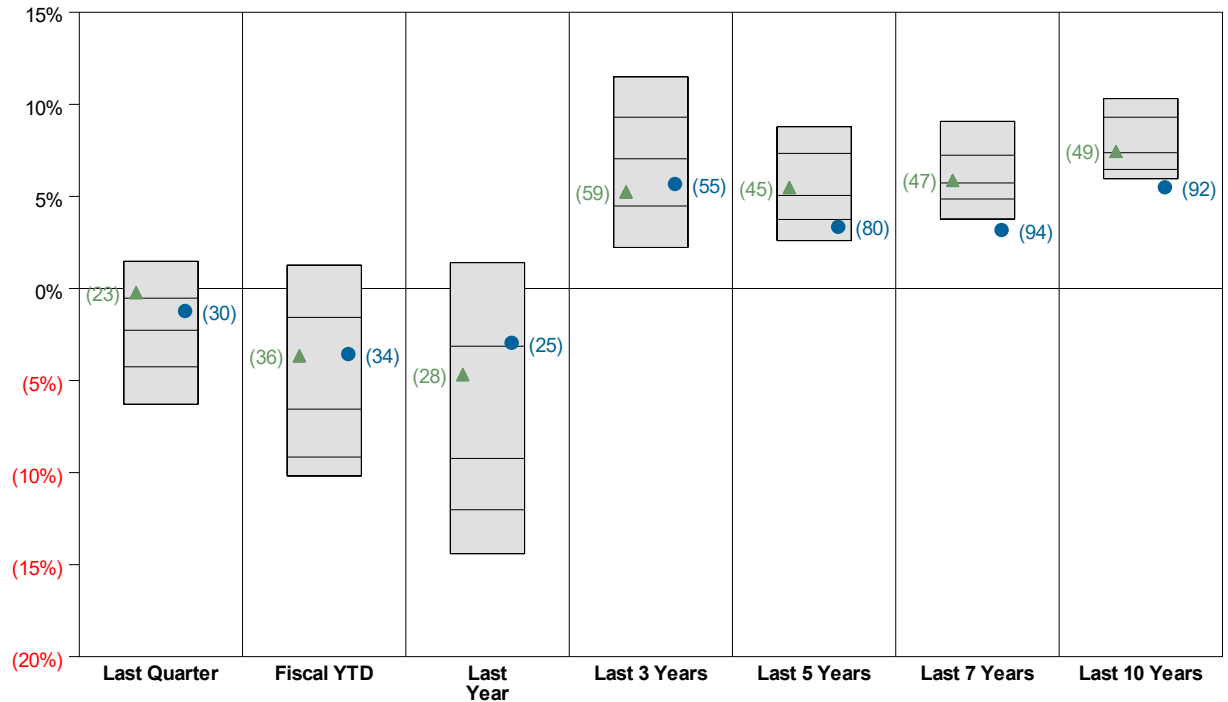


# Real Estate Relative to Callan's Total Real Estate Database (1Q LAG)

Periods Ended December 31, 2023

- APFC Real Estate portfolio performance is shown net of fees for all investments.
- The real estate portfolio underperformed versus its benchmark for the quarter but outperformed on the trailing year.
- The portfolio ranked above median in the Real Estate peer group for the quarter and trailing year.

Performance vs Public Fund - Real Estate (Gross)



10th Percentile	1.47	1.27	1.40	11.50	8.79	9.08	10.31
25th Percentile	(0.53)	(1.57)	(3.14)	9.30	7.34	7.24	9.31
Median	(2.27)	(6.56)	(9.24)	7.04	5.05	5.73	7.37
75th Percentile	(4.26)	(9.16)	(12.02)	4.48	3.75	4.86	6.47
90th Percentile	(6.29)	(10.18)	(14.40)	2.23	2.60	3.76	5.96
<b>Real Estate</b> ●	(1.26)	(3.60)	(2.99)	5.64	3.32	3.14	5.46
Real Estate Target ▲	(0.22)	(3.66)	(4.68)	5.25	5.49	5.87	7.45

Real Estate Target components: Real Estate Custom: NCREIF Total Index through 6/30/20, then 85% NCREIF Total Index and 15% MSCI US REIT thereafter

## Real Estate Performance (1Q LAG)

Periods Ended December 31, 2023

	Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>RE Equity Investments</b>	<b>-3.58</b>	<b>-6.43</b>	<b>4.83</b>	--	--
RE EQ Separate Accts & Direct	-3.99	-7.30	2.79	0.00	3.76
RE EQ Funds & Co-Invest	-2.66	-3.40	11.16	9.89	--
RE EQ Development	-3.39	-10.47	--	--	--
<b>RE Debt Investments</b>	<b>2.94</b>	<b>9.02</b>	<b>11.37</b>	<b>11.35</b>	--
RE Debt Separate Accounts	3.06	9.05	10.63	9.05	--
RE Debt Funds & Co-Invests	2.18	8.52	11.40	--	--
<i>NCREIF Monthly</i>	-3.02	-7.94	4.57	4.33	6.80
<b>REITS</b>	<b>14.95</b>	<b>16.11</b>	<b>8.60</b>	--	--
<i>MSCI:US REIT Index</i>	16.00	13.74	7.10	7.40	7.60
<b>Real Estate Composite</b>	<b>-1.26</b>	<b>-2.99</b>	<b>5.64</b>	<b>3.32</b>	<b>5.46</b>
<i>Real Estate Target</i>	-0.22	-4.68	5.25	5.49	7.45

- In the quarter, APFC's Real Estate Equity and Debt outperformed their respective benchmarks, while the REIT portfolio lagged. Over the trailing year, all three segments outperformed their respective benchmarks.
- Overall, the Real Estate Composite missed its custom benchmark over the quarter but outperformed for the year.

# Private Credit Fundraising Landscape

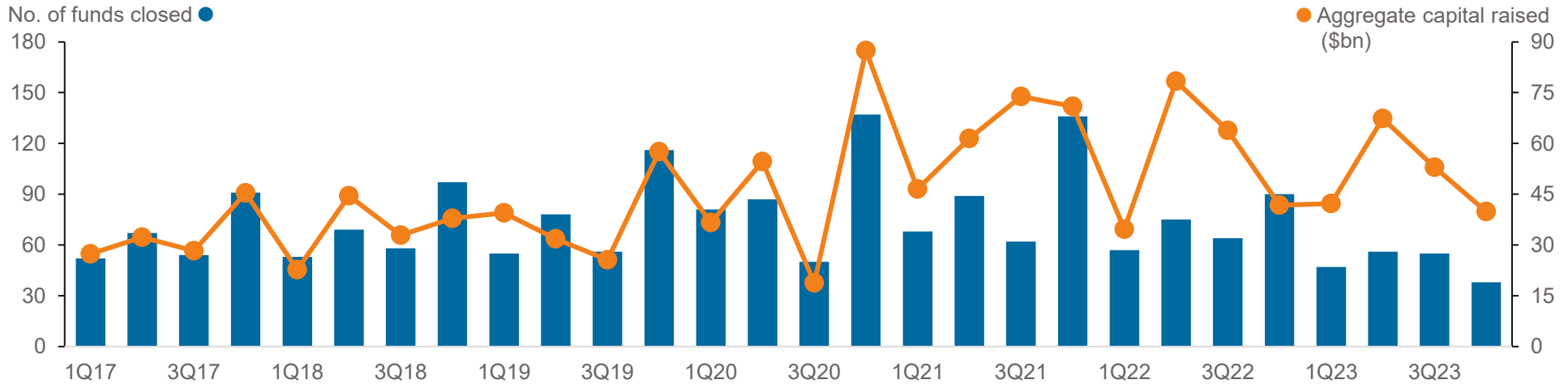
Activity fell at end of 2023

- Private credit remained in high demand across Callan's investor base, and a number of large defined benefit plans are looking to increase their existing private credit allocations from 2%–3% to 5%–10%.
- While we always work to build out diversified client portfolios, we think there is particularly interesting relative value in upper middle market sponsor-backed lending and asset-based lending.
- We are seeing an uptick in stress for some individual names in direct lending portfolios due to a combination of input cost inflation and increased interest expense.

## Largest Funds Holding Closes in 2023

Name	Amount (\$millions)	Strategy
HPS Strategic Investment Partners V	\$17,000	Mezzanine
GS Mezzanine Partners VIII	\$11,700	Mezzanine
HPS Core Senior Lending Fund II	\$10,000	Direct Lending
Crescent Credit Solutions VIII	\$8,000	Mezzanine

## Quarterly Private Debt Fundraising

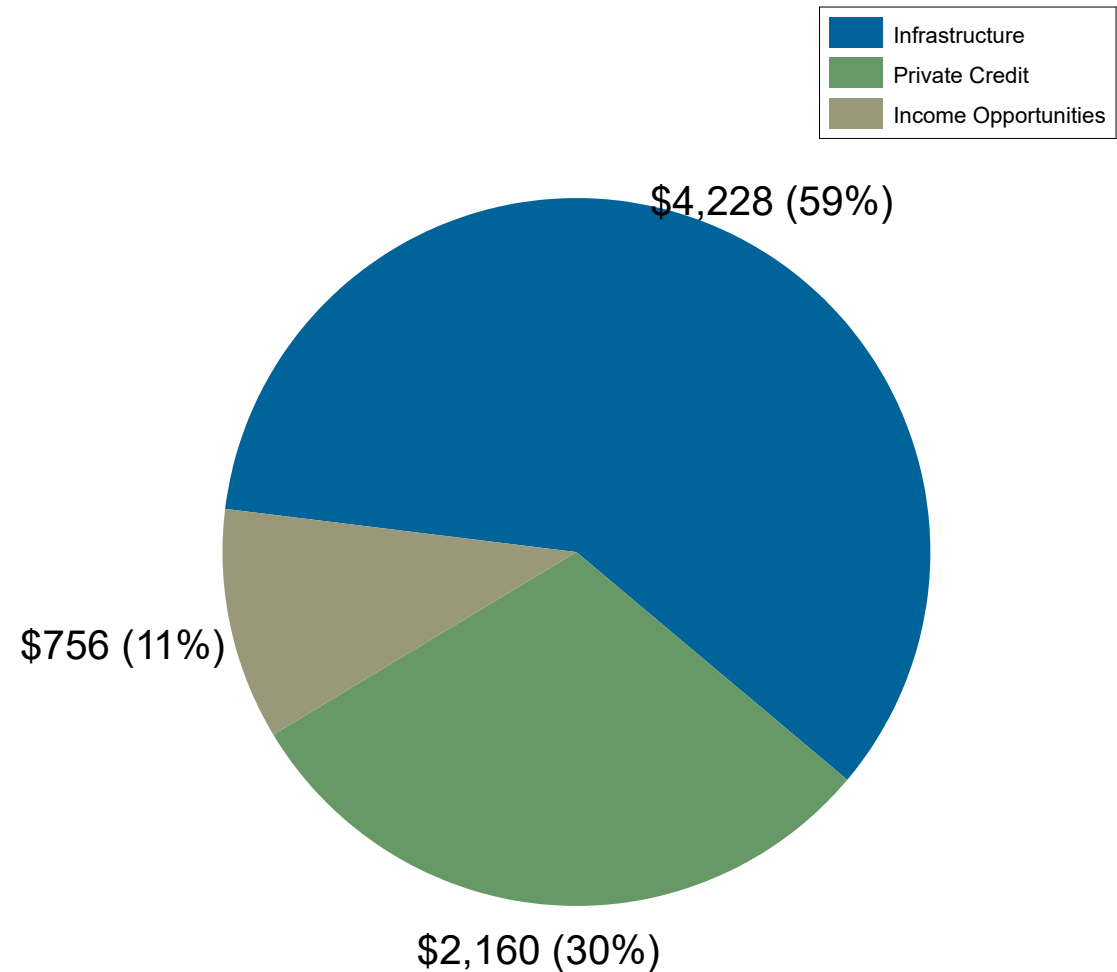


Source: Preqin

## APFC Private Income Structure (1Q LAG)

As of December 31, 2023

- 59% of the structure is invested in infrastructure funds, which includes a diversified portfolio of infrastructure, energy, and generation assets. Listed Infrastructure makes up just 7.4% of this allocation.
- 30% of the structure was invested in private credit mandates including mezzanine debt, opportunistic credit, and direct lending strategies.
- 11% of the structure was invested in income opportunities including structured credit, alternative credit, AH4R2, APFC ADAC and timber.



## Private Income Performance (1Q LAG)

Periods Ended December 31, 2023

	Quarter	Last Year	Last 3 Years	Last 5 Years
<b>Private Income</b>	<b>3.34</b>	<b>7.42</b>	<b>10.02</b>	<b>9.25</b>
Private Income Custom	3.35	10.31	11.60	10.77
<b>Infrastructure</b>	<b>4.13</b>	<b>7.75</b>	<b>13.33</b>	<b>11.00</b>
Cambridge Global Pvt Infrastructure	3.62	9.11	11.71	11.20
<b>Private Credit</b>	<b>2.64</b>	<b>7.91</b>	<b>9.89</b>	<b>8.39</b>
Cliffwater Direct Lending TR	2.95	12.13	11.43	10.07
<b>Income Opportunities</b>	<b>1.01</b>	<b>4.42</b>	<b>2.91</b>	<b>6.12</b>
Private Income Custom	3.35	10.31	11.60	10.77

- APFC's Private Income composite finished roughly inline with its benchmark (60% Cambridge Global Private Infra and 40% Cliffwater Direct Lending TR) for the quarter but underperformed over the trailing year.
- Private Income sub-strategies, Private Credit, and Income Opportunities underperformed their respective benchmarks over the quarter, while Infrastructure outperformed. Private Credit, Income Opportunities, and Infrastructure underperformed their respective benchmarks over the trailing year.

Private Income Custom Benchmark components: 60% FTSE Dev Core Infr and 40% BB US Corp HY 2% to 6/30/20, 60% Cambridge Global Pri Inf and 40% Cambridge Pri Cdt

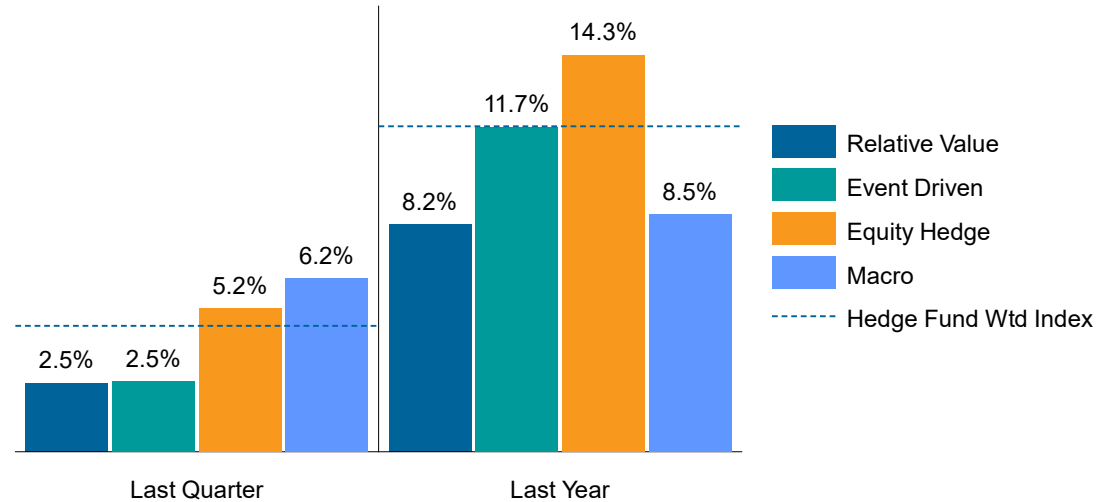
# Hedge Fund Performance: 1Q24

Risk assets soared to start the year, around the explosion of artificial intelligence

## Hedge fund strategies finished strong

- Macro strategies posted their strongest quarter in over 20 years, as long-term yields rose during 1Q24 along with the elimination of three cuts priced into the curve.
- Equity hedge strategies started the year on a strong note, as higher rates led to more dispersion between companies. Gains came from energy and health care companies.
- Event-driven strategies ended the quarter higher, as managers were able to profit off M&A and special situation positions.

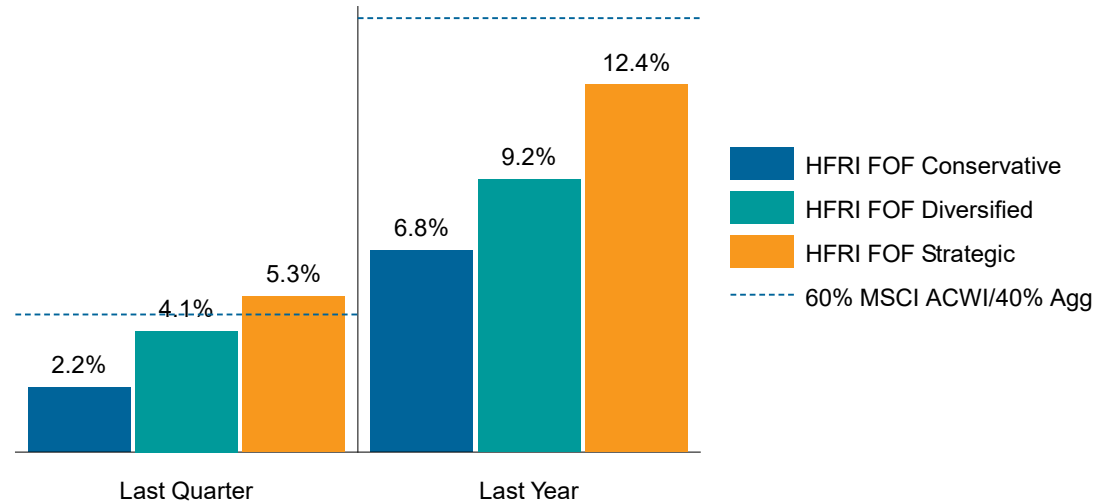
HFRI Strategy Index Returns vs. Broad Hedge Fund Universe as of 3/31/24



## FOFs ended on a strong note

- FOFs with more exposure to macro and equity hedge strategies were top performers to start off the year.
- Those FOFs with less macro strategies underperformed those that had a better mix of managers.

HFRI Fund-of-Funds Returns vs. 60% Stock/40% Bond Mix as of 3/31/24



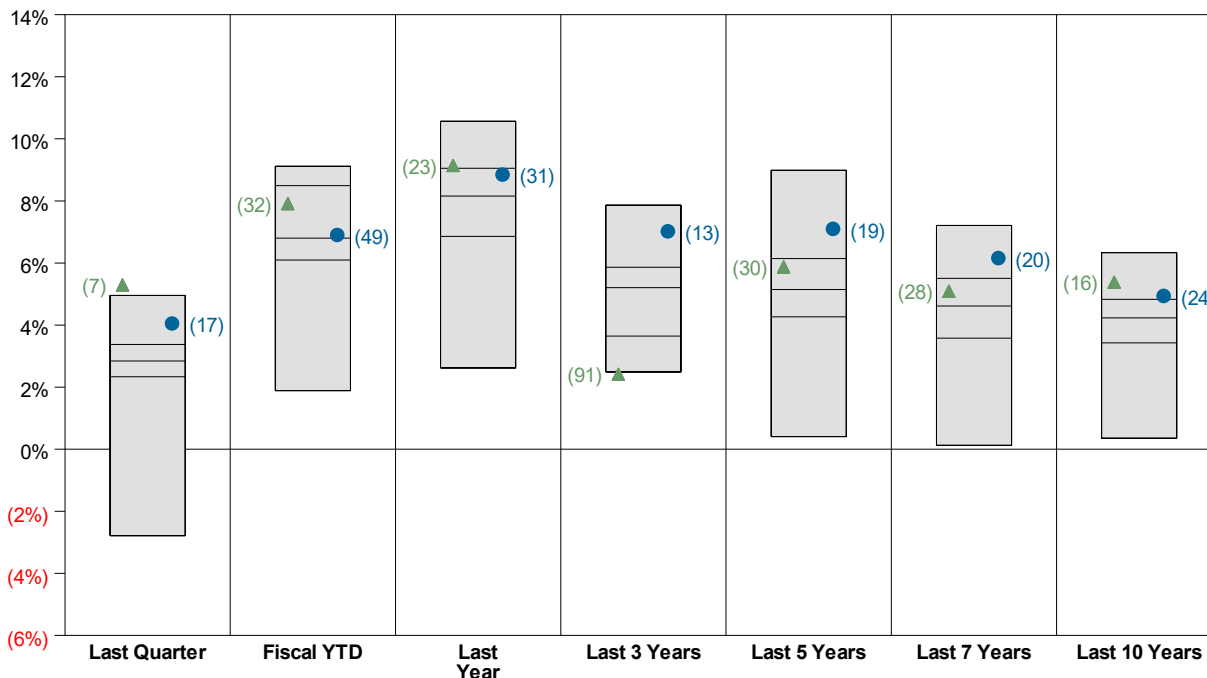
Source: Hedge Fund Research ([www.hedgefundresearch.com](http://www.hedgefundresearch.com))

# Absolute Return Portfolio Relative to HFOF Universe

Periods Ended March 31, 2024

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

- The Absolute Return portfolio missed its benchmark but landed in the top quartile relative to the peer group in the quarter.
- The portfolio underperformed its benchmark but outperformed the peer group median for the trailing year.
- Over most periods, the Absolute Return portfolio ranked above the median of its peer group.



10th Percentile	4.96	9.12	10.57	7.86	8.98	7.21	6.34
25th Percentile	3.37	8.49	9.05	5.86	6.14	5.50	4.83
Median	2.84	6.80	8.16	5.20	5.14	4.61	4.23
75th Percentile	2.33	6.10	6.86	3.64	4.27	3.58	3.42
90th Percentile	(2.79)	1.89	2.62	2.49	0.41	0.13	0.35
<b>Absolute Return</b>	● 4.03	6.88	8.83	7.00	7.08	6.14	4.92
Absolute Return Benchmark	▲ 5.29	7.91	9.14	2.42	5.88	5.09	5.38

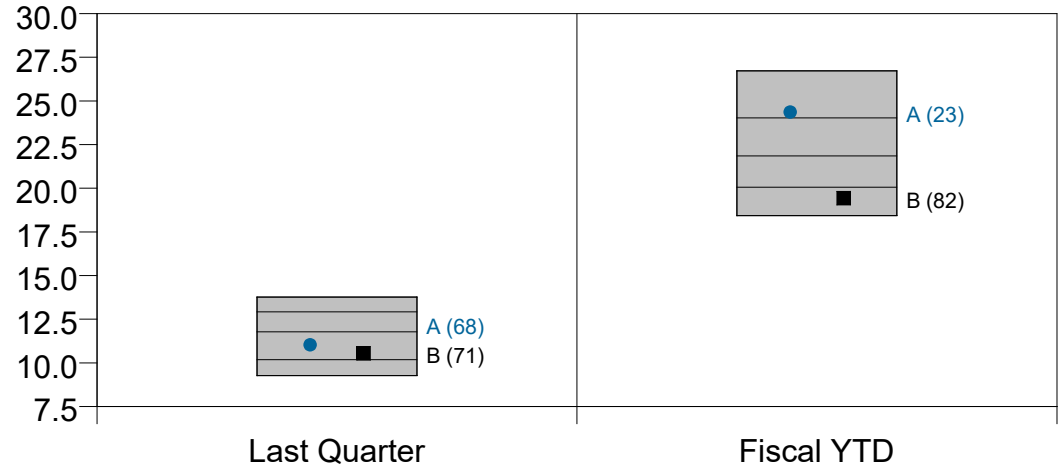
Absolute Return Benchmark components: LIBOR + 4% to 6/30/13, LIBOR + 6% to 6/30/15, LIBOR + 5% to 9/30/16, HFRI Total HFOF Universe to 6/30/22, and 50% HFRI EH Equity Market Neutral and 50% HFRI Macro thereafter

# Tactical Opportunities Relative to S&P 500 Index

Periods Ended March 31, 2024

- The Tactical Opportunities portfolio is managed internally to complement the bottom-up stock selection strategies employed by external managers and achieve excess returns from top-down selection decisions emphasizing sectors/industries, countries/regions, and style factors.
- The Tactical Opportunities portfolio outperformed the benchmark and peer group median in the FYTD period. Over the most recent quarter the segment bested the benchmark but finished below median relative to peers.

Performance vs Callan Large Cap Core (Gross)



	Last Quarter	Fiscal YTD
10th Percentile	13.77	26.73
25th Percentile	12.92	24.04
Median	11.78	21.86
75th Percentile	10.19	20.06
90th Percentile	9.28	18.43
Member Count	36	36
Tactical Opportunities (A)	11.04	24.37
S&P:500 (B)	10.56	19.44

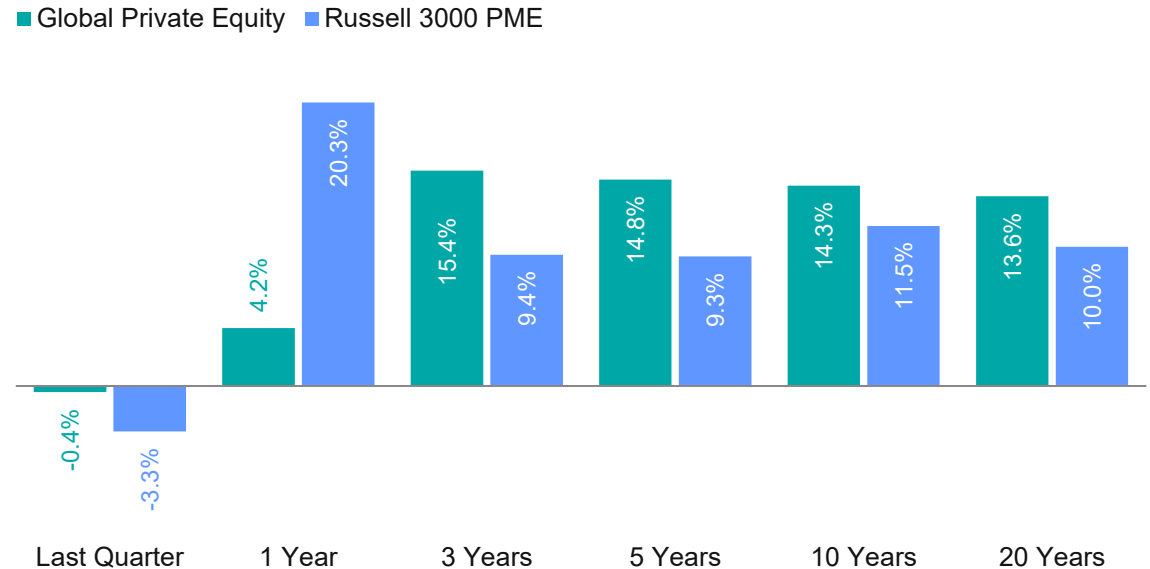
# Private Equity Market Trends

## Gains for stocks not shared by private equity

### Smoothing effect in performance

- Public equity's strong recovery in 2023 (led by the "Magnificent Seven" technology stocks) has left private equity in its wake.
- Private equity doesn't recover as quickly as the public markets, because the smoothing effect dampens private equity returns in both up and down markets.
- Private equity only saw about a fifth of the gains of the public markets over the last year, on a PME basis.
- While buyouts saw solid performance for the year, venture capital and growth equity continued to struggle. These strategies have seen the largest valuation adjustments from the highs of 2021.

Net IRRs as of 09/30/23



Net IRRs by Strategy as of 09/30/23

Strategy	Last Quarter	1 Year	3 Years	5 Years	10 Years	15 Years
Venture Capital	-2.4%	-8.9%	14.8%	17.2%	17.2%	12.5%
Growth Equity	-0.6%	0.8%	12.3%	14.8%	14.3%	13.8%
Buyouts	0.1%	10.2%	16.8%	15.0%	14.6%	14.6%
Mezzanine	1.8%	13.0%	13.5%	11.0%	11.1%	11.1%
Credit Opportunities	1.2%	8.2%	11.1%	7.1%	7.5%	9.3%
Control-Oriented Distressed	0.4%	5.6%	19.4%	13.6%	11.7%	11.6%
<b>Total Private Equity</b>	<b>-0.4%</b>	<b>4.2%</b>	<b>15.4%</b>	<b>14.8%</b>	<b>14.3%</b>	<b>13.6%</b>

Source: Refinitiv/Cambridge  
PME: Public Market Equivalent

# Private Equity Trends

## Fundraising and deal activity both plunge

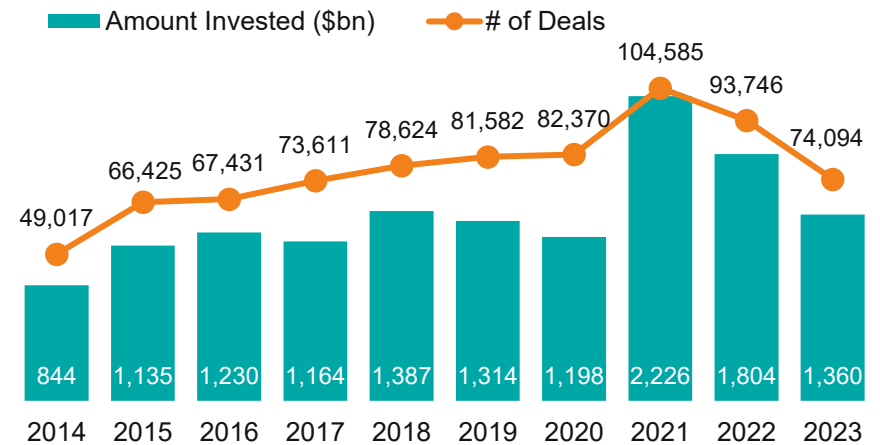
### Fundraising

- In 2023 the number of funds raised sharply declined by ~50% from the highs of 2021–22. The 2023 vintage experienced the full impact of the denominator effect, which when combined with slower deal activity and exits, left minimal capital for new commitments.
- As investors' mindsets shifted from growth to value, fundraising concentrated on large and medium buyouts, at the expense of growth equity and venture capital.
- Going into 2024 there is less uncertainty surrounding the private markets: valuations have adjusted, public markets have rebounded, and denominator effects have waned. Assuming deal activity picks up, fundraising should follow suit.

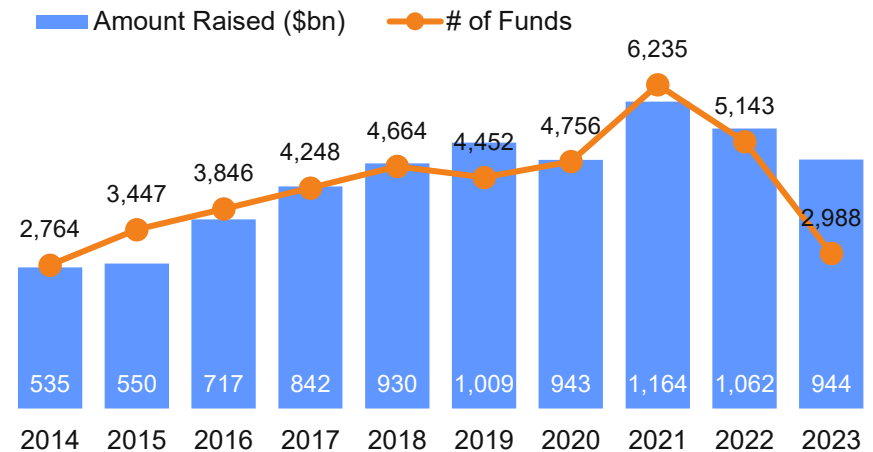
### Deal activity

- 3Q23 appears to be the trough in PE deal-making, dropping by a third from its 2021 peak.
- There are small, but promising, signs of recovery with a few noteworthy exits and IPOs (i.e., SRS Distribution and Reddit). A broader snapback in exits, however, is needed to spark the next wave of deal activity.

### Annual Deal Activity



### Annual Fundraising

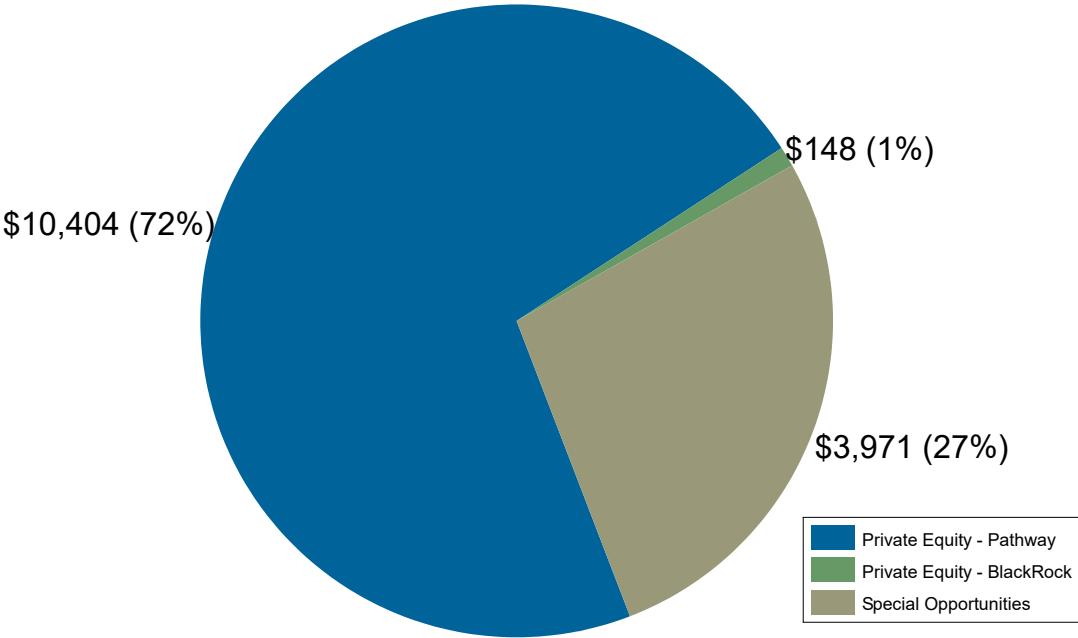


Source: PitchBook

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

As of December 31, 2023

- 73% of the structure was invested in private equity.
- 27% of the structure was invested in special opportunities.



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

As of September 30, 2023

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



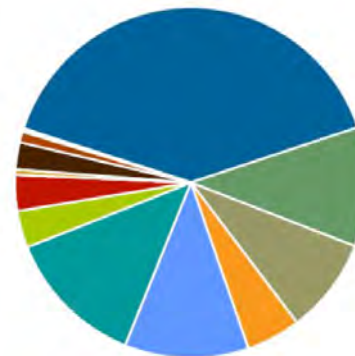
## Strategy Mix by Net Asset Value

Venture Capital	23.38%
Buyout	50.22%
Special Situations	23.67%
Distressed for Control	2.57%
Secondary Interest	0.04%
Mezzanine	0.12%



## Geographic Mix by Net Asset Value

West/Pacific Northwest	21.30%
North Atlantic	15.52%
Mid-West	9.91%
Southeast	9.99%
Southwest/Rockies	11.56%
Mid-Atlantic	3.51%
Europe	15.82%
Asia/Pacific	4.71%
Other	7.69%



## Industry Mix by Net Asset Value

Technology	39.87%
Financial	11.00%
Consumer Discretionary	8.77%
Communication Services	5.02%
Health Care	11.43%
Industrials	12.93%
Energy	3.40%
Consumer Staples	3.33%
Other/Misc	0.52%
Materials	2.52%
Real Estate	0.95%
Utilities	0.27%

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

Periods Ended December 31, 2023

	Last Quarter	FYTD	Last Year	Last 3 Years	Last 5 Years
Private Equity and Special Opportunities	1.09	0.79	2.12	8.93	15.29
Cambridge Private Equity	2.63	3.24	5.00	9.50	15.41

- APFC's Private Equity and Special Opportunities composite underperformed the Cambridge Private Equity benchmark over intermediate and long timeframes.
- In the last reported quarter, Private Equity was up 1.3% and Special Opportunities was up 0.9%.

## Total Fund Cash

Periods Ended March 31, 2024

	Quarter	Last Year	Last 3 Years	Last 5 Years
<b>TOTAL FUND CASH</b>	<b>1.27</b>	<b>8.78</b>	<b>4.11</b>	--
3 Month T-Bill	1.29	5.24	2.58	2.02
<b>APF Operating Cash</b>	<b>1.20</b>	<b>4.95</b>	<b>2.66</b>	--
<b>APF Internal Cash</b>	<b>1.30</b>	<b>5.07</b>	<b>2.55</b>	--

- APFC's cash accounts were within expectations relative to the 3-month Treasury Bill Index.
- Funded in the first quarter of 2022 and included in the Total Fund Cash composite, the allocation to Gold was liquidated during the second quarter of 2023 (approximately \$320M).

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## Closing Remarks

- Total Fund ended the first quarter of 2024 with \$81.8 billion in assets up from \$80.3 billion in the prior quarter. The trailing quarter performance placed the Total Fund in the bottom quartile relative to other large public funds and relative to large endowments/foundations peer group.
- For the quarter, the Total Fund underperformed the Passive Index Benchmarks but bested the CPI + 5% Benchmark. Over the long-term, the Fund outperformed the passive and performance benchmarks.
- The Public Equity portfolio fell short of its benchmark for the quarter and the trailing year. Domestic, International, and Global Equity composites lagged their respective benchmarks over the trailing quarter and year as well, but longer-term performance remains favorable.
- The Fixed Income portfolio outperformed its benchmark in the latest quarter and over the trailing year. In the quarter, sub-strategies: US Fixed Income Aggregate, US Investment Grade Corporate, and US High Yield outperformed their respective benchmarks, while Non-US Fixed Income, and Structured Products fell just shy of their benchmarks.
- In the Alternatives portfolio, Private Equity & Special Opportunities, Real Estate, Absolute Return, and Private Income underperformed their respective benchmarks in the quarter.
- Prudent asset allocation with appropriate levels of diversification and a long-term perspective remain Callan's recommended course.

# Callan

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## Callan Update

# Published Research Highlights: 1Q24

**STAR Report Executive Summary: Year-End 2023**



**A Primer on Investable Types of Rental Housing**



**The Callan Periodic Table Collection: Year-End 2023**



**Callan 2024-2033 Capital Markets Assumptions**



## Recent Blog Posts

**SEC Releases Final Climate Disclosure Rule**

Kristin Bradbury

**A Strong Finish to 2023 Bodes Well for Hedge Funds in 2024**

Joe McGuane

**The Magnificent Seven and Large Cap Portfolios**

Nicole Wubbena

## Additional Reading

*Alternatives Focus* quarterly newsletter

Active vs. Passive quarterly charts

*Capital Markets Review* quarterly newsletter

Monthly Updates to the Periodic Table

*Market Pulse Flipbook* quarterly markets update

*Real Estate Indicators* market outlook

# Callan Institute Events

Upcoming conferences, workshops, and webinars

## Callan College

### Intro to Investments—Learn the Fundamentals

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

- June 18-19, 2024 – In-Person Session in Chicago
- September 24-26, 2024 – Virtual Session via Zoom

### Intro to Alternatives

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

- August 21-22, 2024 – Virtual Session via Zoom

Please visit our website at [callan.com/events-education](https://callan.com/events-education) as we add dates to our 2024 calendar!

## Mark Your Calendar

### 2024 Regional Workshops

- June 25, 2024 – Atlanta
- June 27, 2024 – San Francisco
- October 22, 2024 – Denver
- October 23, 2024 – Chicago

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

## Webinars & Research Café Sessions

### Webinar: Market Intelligence

April 26, 2024 – Virtual Session via Zoom

### Webinar: Fee Study Results (National Conference)

May 16, 2024 – Virtual Session via Zoom

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Past performance is no guarantee of future results.



SUBJECT: Governance Committee Recommendations

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

DATE: May 29, 2024

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

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During the May 20, 2024 Governance Committee Meeting Trustees and staff discussed items to continue working on and present to the full board in July. If materials are provided at the May 29, 2024 meeting, this is a placeholder where the material will be added following the meeting.



SUBJECT: APFC Public Equities  
Asset Class Update

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

DATE: May 30, 2024

INFORMATION: \_\_\_\_\_X\_\_\_\_\_

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**BACKGROUND:**

The Public Equities presentation provides information on the APFC Public Equities Portfolio.

**STATUS:**

At this meeting, Fawad A Razzaque, Director of Public Equity, will review all aspects of APFC Public Equity Portfolio, including Allocation (positioning versus benchmark), External Management program, and Internal Management.



ALASKA PERMANENT  
FUND CORPORATION

# Public Equities Asset Class & Active Management Review Dec 31, 2023

# Asset Class: Public Equities

History	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
External	82%	82%	84%	79%	84%	86%	87%	91%	97%	100%	100%	100%
Internal	18%	18%	16%	21%	16%	14%	13%	9%	3%	0%	0%	0%

**Excess Return Target:**  
Investment Universe/Index:

+ 30 bps net of fee  
Global/ MSCI ACWI IMI

**Drivers of excess return target:**

Active Allocation, Active Selection

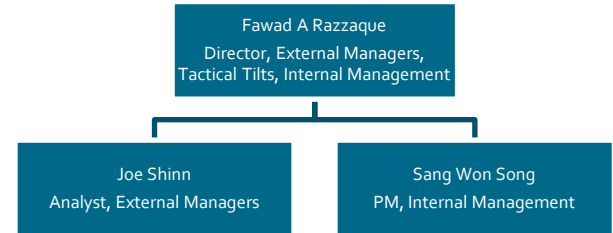
**External Management:**  
**Internal Management:**

Primarily Active Selection  
Primarily Active Allocation

**Balance between Internal vs. External**

Organic, thoughtful, gradual

## Investment Team



# Public Equities: Performance as of Dec 31, 2023

Performance (Gross)	CY 2023	3 Yr	5 Yr	10 Yr
Public Equities	18.1%	6.8%	12.4%	8.0%
MSCI ACWI IMI	21.6%	5.5%	11.5%	7.8%
Excess Returns (%)	-3.5%	+1.3%	+0.9%	+0.2%

Performance	CY 2023	CY 2022	CY 2021	CY 2020	CY 2019	CY 2018
Rolling 5-Yr Excess Returns	+0.9%	+1.3%	+0.5%	+0.3%	-	-0.3%

# Public Equities: Active Management – Allocation and Selection

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## 1. Active Selection

- Seek consistent net-of fee outperformance through active selection
- Primary source of active selection is our External Manager Program, representing approximately two-thirds of APFC Public Equity assets
- Long term success depends on skillful manager selection and allocation across strategies
- Over the past 12 years, APFC's track record suggests, we have been executing successfully, and results have exceeded our expectations

## 2. Active Allocation

- Seek positive active returns over a 5-year horizon
- Focus on valuation spreads and Reversion-to-the-Mean - investor behavior never changes
- Lower starting valuations enhances the probability of greater long-term returns but may add volatility to the short-term return profile
- Over the past 7 years, active allocation has delivered modest positive returns, valuation spreads are still very wide relative to history and have yet to revert

## 3. Internal Management

- Primary objective is outperformance through active allocation and active selection
- Strategies we can execute better internally (active allocation, and simple factor-based strategies)
- Strategies are internally designed with respect to portfolio requirements
- Scope of internal management has increased gradually and organically

# Active Selection - External Management Program Overview

Active Selection (External) – Assets*	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
External Active Managers (%)	69	64	66	65	66	65	66	62	59	58	57	55
External Factor-Based (%)	8	9	10	10	11	11	11	13	19	20	20	19
Passive - index (%)	5	9	8	4	7	10	10	16	19	22	23	26
<b>Total External Assets (%)</b>	<b>82</b>	<b>82</b>	<b>84</b>	<b>79</b>	<b>84</b>	<b>86</b>	<b>87</b>	<b>91</b>	<b>97</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Fixed Fee</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>13</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>21</b>	<b>19</b>	<b>24</b>	<b>25</b>
<b>Incentive Fee</b>	<b>17</b>	<b>19</b>	<b>14</b>	<b>27</b>	<b>13</b>	<b>11</b>	<b>11</b>	<b>8</b>	<b>4</b>	<b>3</b>	<b>&lt;1</b>	<b>0</b>
<b>Total External Fee (bps)**</b>	<b>32</b>	<b>34</b>	<b>28</b>	<b>40</b>	<b>28</b>	<b>27</b>	<b>28</b>	<b>26</b>	<b>25</b>	<b>22</b>	<b>24</b>	<b>25</b>

- \*Average assets over the four calendar quarters
- \*\* Weighted Manager fee

# Active Selection (External) - External Manager Program

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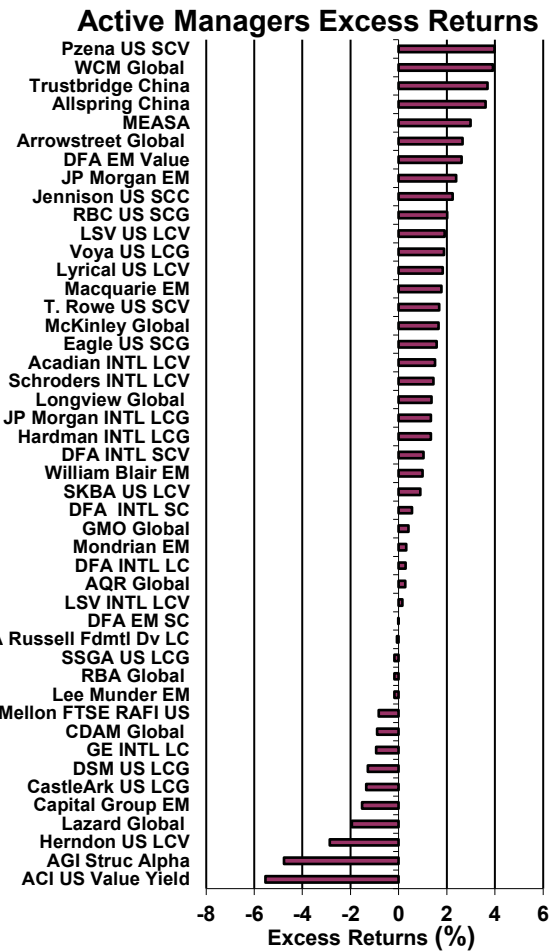
Success of the External Management Program depends on skill of execution measured as:

- 1) Manager Selection: Above average (>50%) or below average (<50%)
- 2) Manager Performance Skew: Positive or negative (average of outperformance vs. average underperformance)
- 3) Allocation Effect: Allocation to outperforming vs underperforming managers
- 4) Outperformance (Gross): Positive or negative
- 5) Outperformance (Net-of-Fee): Positive or negative (fee paid to managers is an important factor)
- 6) Consistency in execution: Mitigate volatility in the (net-of-fee) outperformance over time

# External Manager Program – History of Success Rate & Skew

Managers	Annualized	Terminated
Pzena US SCV	3.98%	
WCM Global	3.92%	
Trustbridge China	3.69%	
Allspring China	3.61%	
MEASA	2.99%	
Arrowstreet Global	2.65%	
DFA EM Value	2.61%	
JP Morgan EM	2.39%	
Jennison US SCC	2.25%	
RBC US SCG	2.02%	
LSV INTL LCV	1.91%	
Voya US LCG	1.88%	
Lyrical US LCV	1.83%	
Macquarie EM	1.78%	
T. Rowe US SCV	1.69%	
McKinley Global	1.66%	
Eagle US SCG	1.58%	
Acadian INTL LCV	1.51%	
Schroders INTL LCV	1.45%	
Longview Global	1.37%	
Hardman INTL LCG	1.34%	
JP Morgan INTL LCG	1.34%	
DFA INTL SCV	1.04%	
William Blair EM	1.00%	
SKBA US LCV	0.90%	
DFA INTL SC	0.56%	
GMO Global	0.41%	4/2007 - 5/2014
Mondrian EM	0.31%	
DFA INTL LC	0.29%	
AQR Global	0.27%	
LSV US LCV	0.16%	
DFA EM SC	-0.01%	
SSgA Russell Fdmtl Dv LC	-0.07%	
SSGA US LCG	-0.17%	
RBA Global	-0.17%	
Lee Munder EM	-0.18%	12/2013 - 04/2018
Mellon FTSE RAFI US	-0.83%	
CDAM Global	-0.89%	
GE INTL LC	-0.93%	10/2007 - 11/2017
DSM US LCG	-1.28%	
CastleArk US LCG	-1.34%	
Capital Group EM	-1.52%	7/1999 - 10/2015
Lazard Global	-1.95%	
Herndon US LCV	-2.86%	4/2013 - 10/2017
AGI Struc Alpha	-4.77%	1/2016 - 7/2021
ACI US Value Yield	-5.54%	

- Inception to Date Performance as of 12/31/2023
- 31/46 Managers outperformed (include 6 terminations)
- **Success rate: 67%** managers outperformed on inception-to-date basis (till 12/31/2023)
- Average outperforming manager beat the benchmark by: **+175 bps**
- Average underperforming manager lagged the benchmark by: **-150 bps**
- **Positive skew:** Average outperformance more than the average underperformance
- **No survivorship bias since March 2012**



## Active Selection (External) - Gross and Net-of-Fee Excess Returns in CY 2023

External Managers: Calendar 2023	Percent of Public Equities	Weighted Average Fee	Active Returns Gross	Active Returns Net-of Fee	Net Value Add USD
Active Managers (37 Managers)	68.7%	0.31%	0.46%	0.15%	\$38,310,954
Factor-Based (Value bias)	8.0%	0.01%	-0.33%	-0.34%	-\$89,751,093
Passive (9 Index Managers)	5.0%	<0.01%	0.00%		
<b>Total External</b>	<b>81.8%</b>	<b>0.32%</b>	<b>0.12%</b>	<b>-0.19%</b>	<b>-\$51,440,139</b>

External Factor-Based (Value bias)	Percent Allocation	Weighted Average Fee	Active Returns Gross	Active Returns Net-of Fee	Net Value Add USD
MCM FTSE RAFI – US LC	1.67%	0.001%	-0.17%	-0.17%	-\$46,220,619
SSGA Russell Fdmtl – Global	3.99%	0.002%	-0.17%	-0.18%	-\$46,383,444
DFA International Large Cap	2.33%	0.003%	0.01%	0.01%	\$2,852,970
<b>Total External (Factor-Based)</b>	<b>7.99%</b>	<b>0.010%</b>	<b>-0.33%</b>	<b>-0.34%</b>	<b>-\$89,751,093</b>

## Active Selection (External) - Gross and Net-of-Fee Excess Returns in CY 2022

External Managers: Calendar 2022	Percent of Public Equities	Weighted Average Fee	Active Returns Gross	Active Returns Net-of Fee	Net Value Add USD
Active Managers (36 Managers)	64.3%	0.33%	1.17%	0.84%	\$231,536,044
Factor-Based (3 Managers)	8.9%	0.01%	0.85%	0.85%	\$232,432,845
Passive (9 Index Managers)	9.2%	<0.01%	0.00%		
<b>Total External</b>	<b>82.4%</b>	<b>0.34%</b>	<b>2.02%</b>	<b>1.69%</b>	<b>\$463,968,889</b>

External Factor-Based (Value bias)	Percent Allocation	Weighted Average Fee	Active Returns Gross	Active Returns Net-of Fee	Net Value Add USD
MCM FTSE RAFI – US LC	2.69%	0.002%	0.34%	0.34%	\$92,369,066
SSGA Russell Fdmtl – Global LC	4.18%	0.003%	0.44%	0.43%	\$119,234,413
DFA International Large Cap	2.05%	0.003%	0.08%	0.08%	\$20,829,367
<b>Total External (Factor-Based)</b>	<b>8.91%</b>	<b>0.01%</b>	<b>0.85%</b>	<b>0.85%</b>	<b>\$232,432,845</b>

# Active Selection (External) - Annualized Outperformance Over the 12-Year Period

Year	Fee	Gross-of-Fee Outperformance	Net-of-fee Outperformance	Rolling Net-of-fee Outperformance	Net-of Fee Outperformance in USD
2023	0.32%	0.12%	-0.19%	0.43% (12 yrs)	-\$51.4mm
2022	0.34%	2.02%	1.69%	0.49% (11 yrs)	+463.9mm
2021	0.28%	1.23%	0.96%	0.37% (10 yrs)	+294.1mm
2020	0.40%	0.85%	0.45%	0.30% (9 yrs)	+118.7mm
2019	0.28%	0.58%	0.30%	0.28% (8 yrs)	+62.7mm
2018	0.27%	-0.80%	-1.07%	0.28% (7 yrs)	-216.4mm
2017	0.28%	1.51%	1.23%	0.51% (6 yrs)	+253.2mm
2016	0.26%	-0.17%	-0.44%	0.36% (5 yrs)	-71.8mm
2015	0.25%	0.97%	0.72%	0.56% (4 yrs)	+120.0mm
2014	0.22%	-0.12%	-0.34%	0.51% (3 yrs)	-57.8mm
2013	0.24%	1.50%	1.26%	0.93% (2 yrs)	+195.6mm
2012	0.25%	0.84%	0.60%	0.60% (1 yr)	+75.1mm
<b>Average Annualized</b>	<b>0.28%</b>	<b>0.72%</b>	<b>0.43%</b>		
<b>Cumulative (12 yrs)</b>					<b>\$1,186,127,978</b>

# Active Selection (External) - External Manager Program

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Success of the External Management Program depends on skill of execution, measured as:

- 1) Manager Selection: **67%** of External Managers outperformed
- 2) Manager Performance Skew: **Positive** (avg. outperformance +175 bps > avg. underperformance -150 bps)
- 3) Allocation Effect: **Positive**
- 4) Outperformance (Gross): **72** bps per year over the past 12 years
- 5) Outperformance (Net-of-Fee): **43** bps per year over the past 12 years
- 6) Consistency in Execution: Achieve relatively consistent outperformance over time

# Public Equities: Active Management – Active Allocation

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## Active Allocation

- Utilizes valuation and reversion-to-the-mean
- Make active allocations only when valuation spreads are very wide relative to history
- Increases the probability of greater long-term expected return but adds volatility to the expected return profile.

### Active weights in the order of importance:

- Value (approx. 20% overweight): valuation spreads are historically wide and favor Value vs. growth.
- Small Caps (approx. 10% overweight): valuation ratio of small/large historically low and favor small vs. large.
- Emerging Markets (approx. 5% overweight): attractive relative valuation versus US Equities.

## Performance Expectations

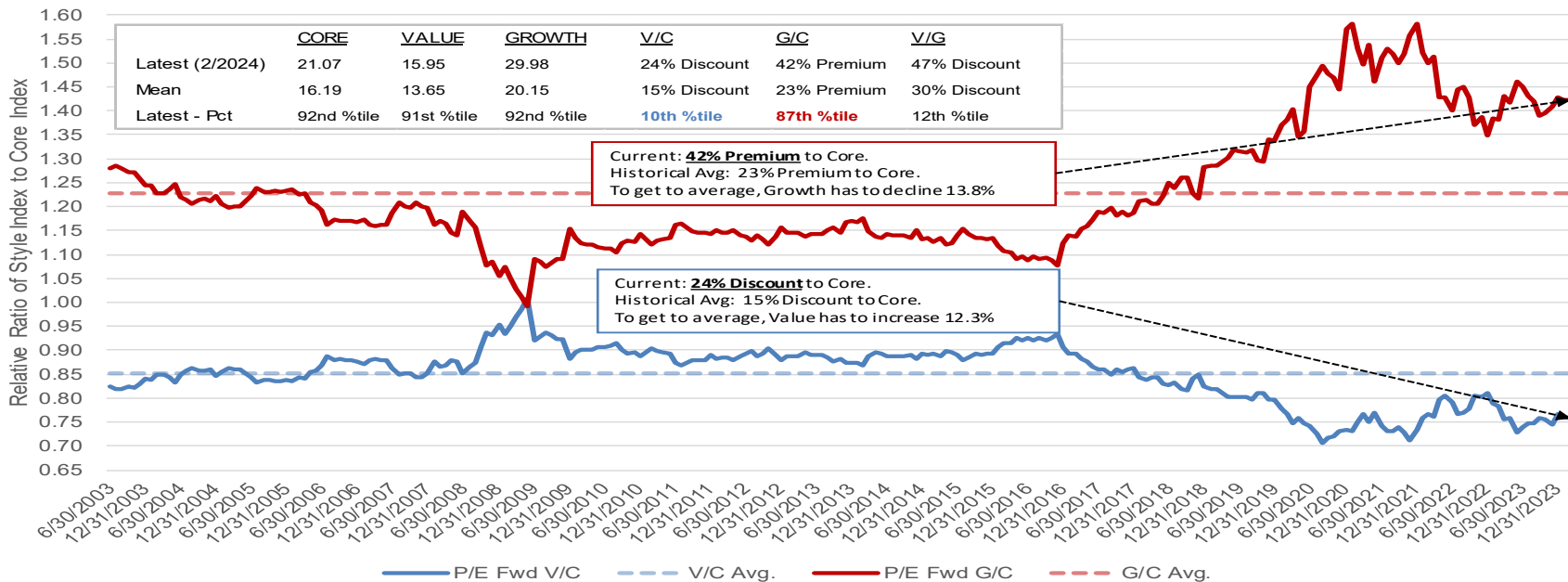
*Over the short term, APFC Public Equity could underperform in significantly narrow market environments led by the most expensive stocks in the global equity benchmark.*

*APFC Public Equity is expected to outperform in most other market environments.*

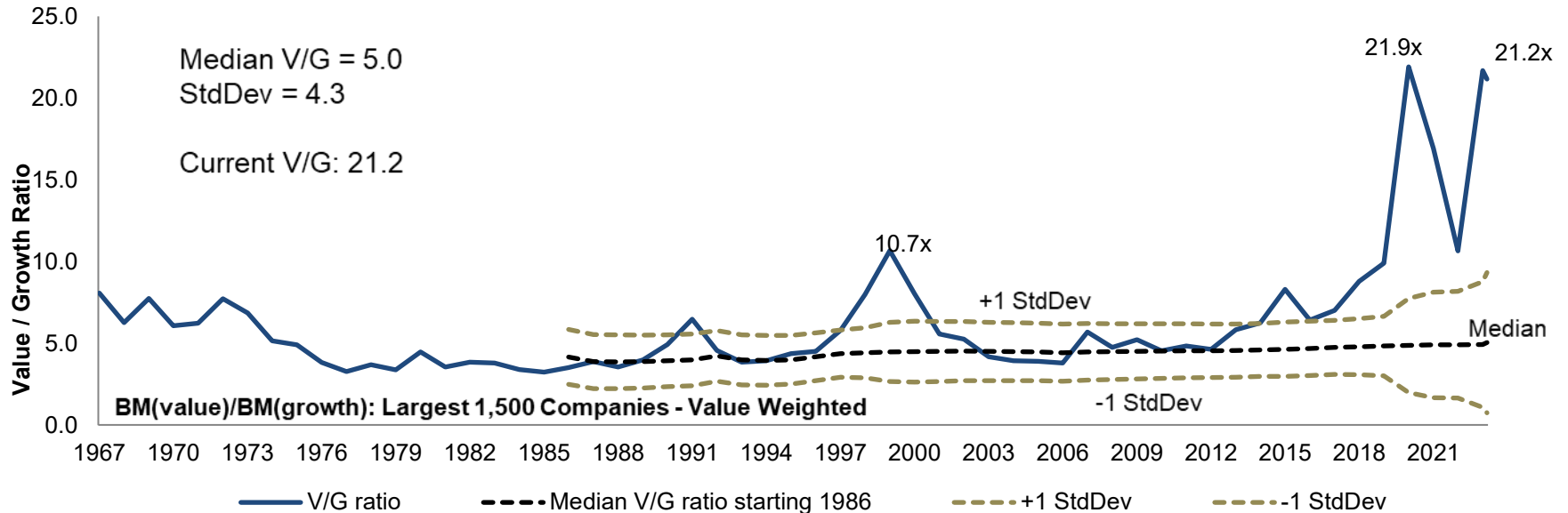
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# Active Allocation: Value-Valuations of Value vs. Growth at Extreme Levels

Forward PE Ratio for MSCI USA Value and Growth Index Relative to MSCI USA Core (Feb-2024)

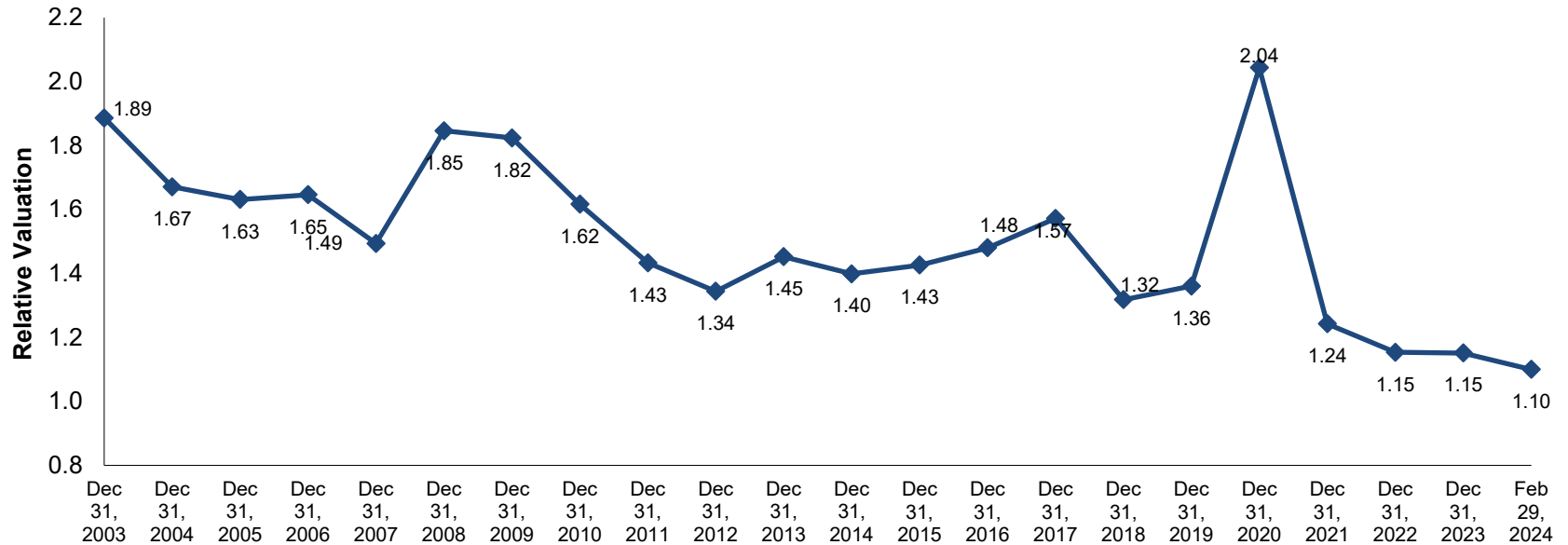


# Active Allocation: Value-Value vs. Growth Relative Valuation in the U.S. – B/M ratios



- Historically, value has been about 5.0 times cheaper than growth in the U.S.
- As of February 29, 2024, value is 21.2 times cheaper than growth; still higher than 1999.
- 300% above the median (3.7 StdDev)

# Active Allocation: Small Caps - Russell 2000 P/E (FY1) / S&P 500 P/E (FY1)

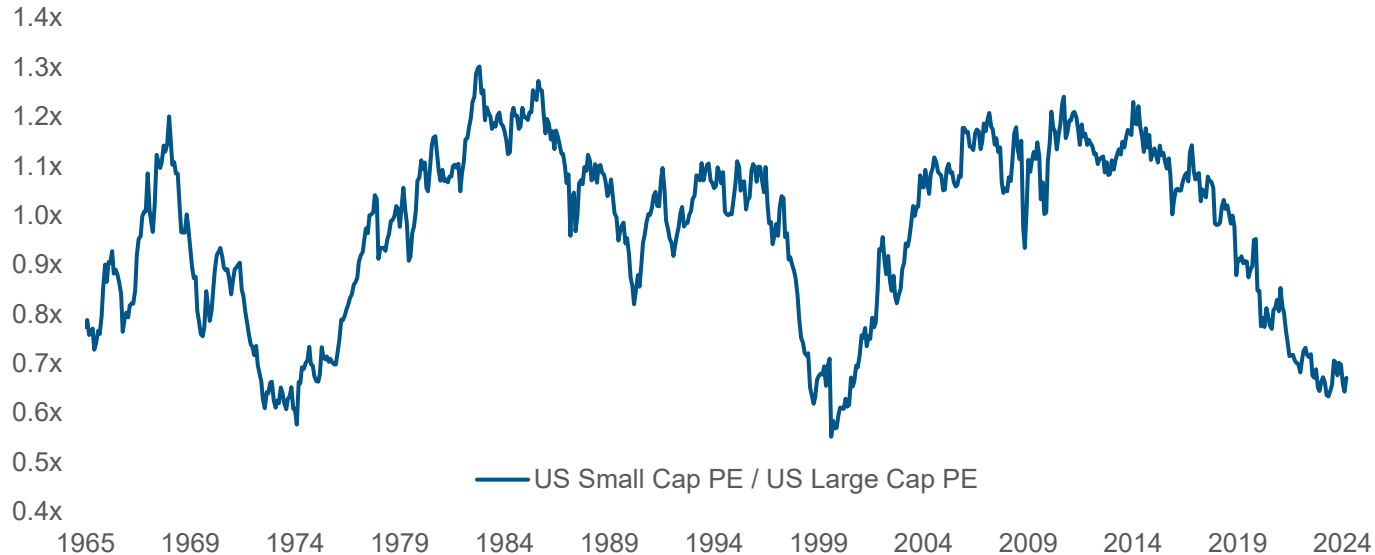


Source: LSV Asset Management

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# Active Allocation: Small Caps - US Small Cap Near Record Low Valuation versus Large Cap

## US Small & Large Cap Relative P/E Ratio



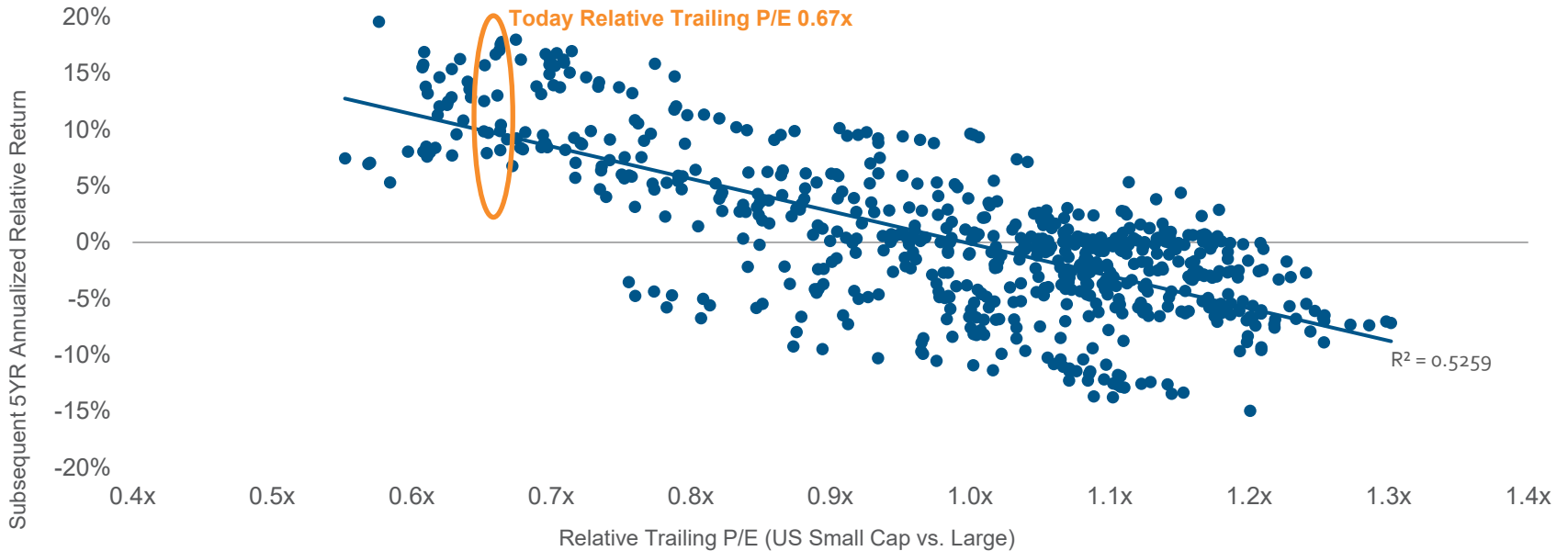
Source: Empirical Research Partners, Pzena analysis

Large Cap = Largest 1000 US stock universe. Small Cap = Next 2000 largest stock universe.

Trailing price/earnings data from January 31, 1965 – March 31, 2024.

# Active Allocation: US Small Cap vs. Large Cap Relative Valuation & Forward Returns

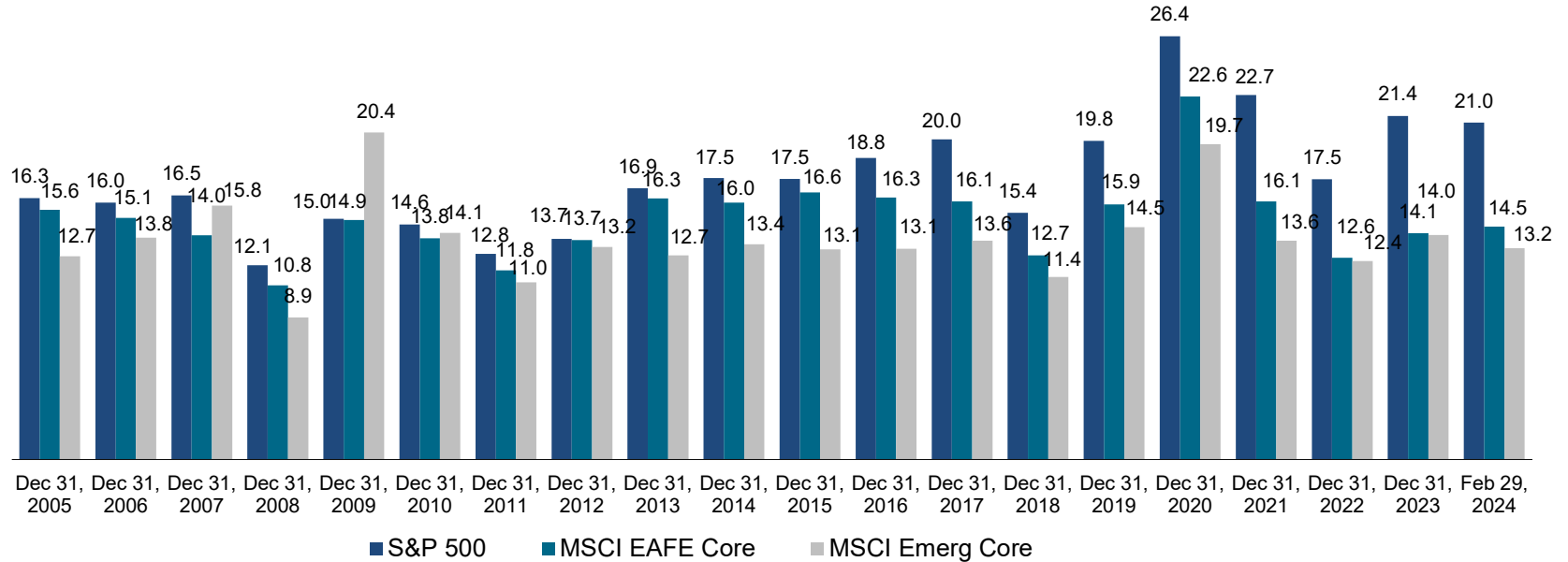
Relative Trailing P/E of US Small Cap vs. US Large Cap  
& Subsequent 5YR Annualized Relative Returns (1965 - Mar 2024)



Source: Empirical Research Partners, Pzena analysis  
Large Cap = Largest 1000 US stock universe. Small Cap = Next 2000 largest stock universe.  
Trailing price/earnings and US dollar total return data from January 31, 1965 – March 31, 2024.

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# Active Allocation: Emerging Markets - U.S. vs. EAFE vs. Emerging – P/E (FY1): 2005-2023



- The MSCI Emerging Markets Core Index is currently trading at a 37.3% discount to S&P 500 on Price-to-Forward Earnings

# Valuation and Underweight Companies

Indicator	Portfolio	Benchmark	+/-
Price to Earnings Ratio (P/E)	14.62	19.35	-4.73
Price to Cash Flow Ratio (P/CF)	8.16	11.40	-3.24
Price to Book Ratio (P/B)	1.90	2.73	-0.83
Beta (last 1 year)	0.97	1.00	-0.03
Beta (last 5 years)	1.00	1.00	0.00
Total Debt to Common Equity	158.45	155.91	2.54
Return on Common Equity	14.80	17.11	-2.31

Top 10 Underweight Companies	Wgt
APPLE INC	-2.79
MICROSOFT CORP	-1.61
AMAZON.COM INC	-1.01
ALPHABET INC	-1.00
NVIDIA CORP	-0.94
TESLA INC	-0.74
META PLATFORMS INC	-0.48
JPMORGAN CHASE & CO	-0.41
BROADCOM INC	-0.41
ELI LILLY & CO	-0.38

As of Dec 29, 2023

# Public Equities: Excess Return Attribution as of Dec 31, 2023

Performance (Gross)	CY 2023	CY 2022	CY 2021	CY 2020	CY 2019	CY 2018	CY 2017	7-Yr Annualized
Public Equities	18.09%	-14.47%	20.53%	16.76%	26.53%	-11.07%	25.30%	
MSCI ACWI IMI	21.58%	-18.40%	18.22%	16.25%	26.35%	-10.08%	23.95%	
<b>Excess Returns (bps)</b>	<b>-349</b>	<b>+393</b>	<b>+231</b>	<b>+51</b>	<b>+18</b>	<b>-99</b>	<b>+135</b>	<b>+52</b>
<b>Breakdown:</b>								
<b>Active Selection (bps)</b>	<b>-19</b>	<b>+169</b>	<b>+96</b>	<b>+45</b>	<b>+30</b>	<b>-107</b>	<b>+123</b>	<b>+48</b>
<b>Active Allocation* (bps)</b>	<b>-330</b>	<b>+224</b>	<b>+135</b>	<b>+6</b>	<b>-12</b>	<b>+8</b>	<b>+12</b>	<b>+5</b>

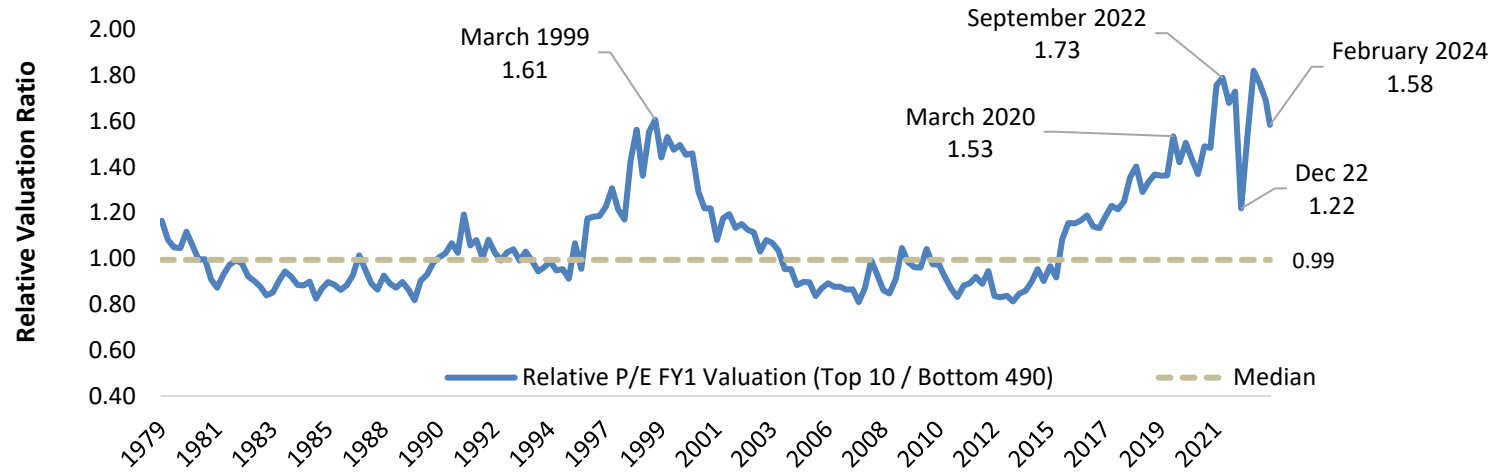
\*Plug figure

*In CY 2023, the primary detractor to performance was the negative allocation effect, as market was led by a narrow set of expensive stocks that contributed most of the index returns.*

*APFC Public Equity is expected to outperform in most market environments.*

*Over the short term, APFC Public Equity could lag in significantly narrow market led by the most expensive stocks in the global equity benchmark.*

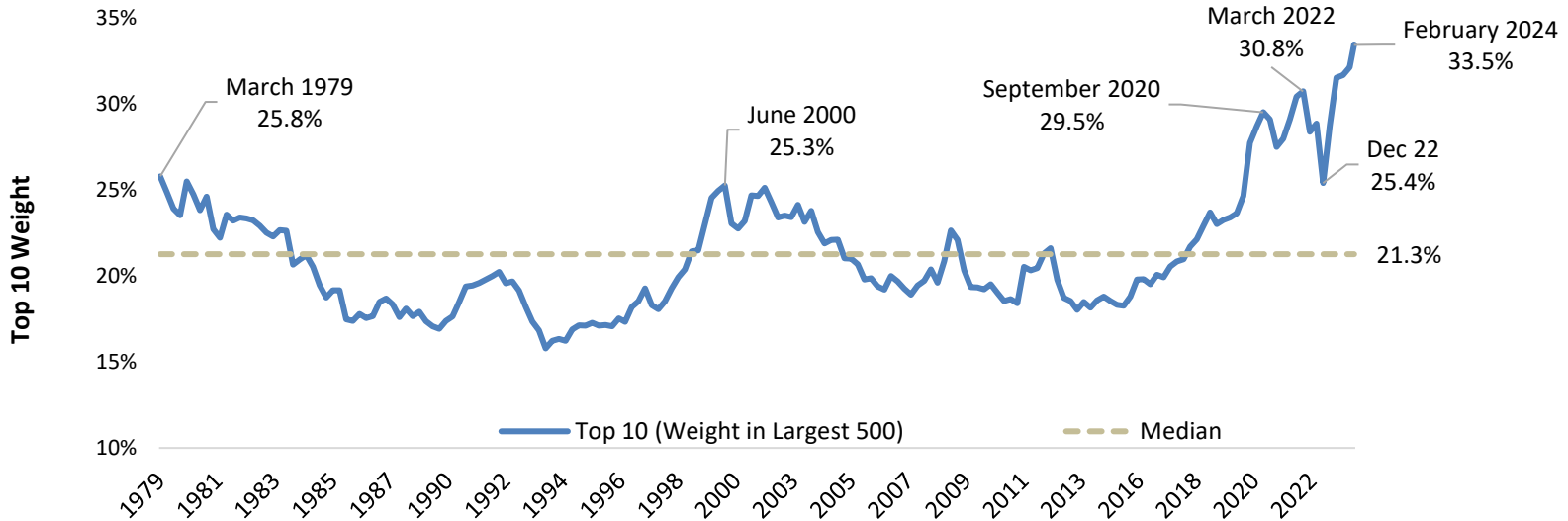
# Relative Valuation of Top 10 Stocks vs. Bottom 490 in the U.S. Over Time



- **The Top 10 stocks in the U.S. are also incredibly expensive today relative to the Bottom 490 companies**
  - Historically, the Top 10 stocks and Bottom 490 trade on par with one another.
  - As of February 2024, the relative valuation ratio stands at 1.58.

Source: LSV Asset Management

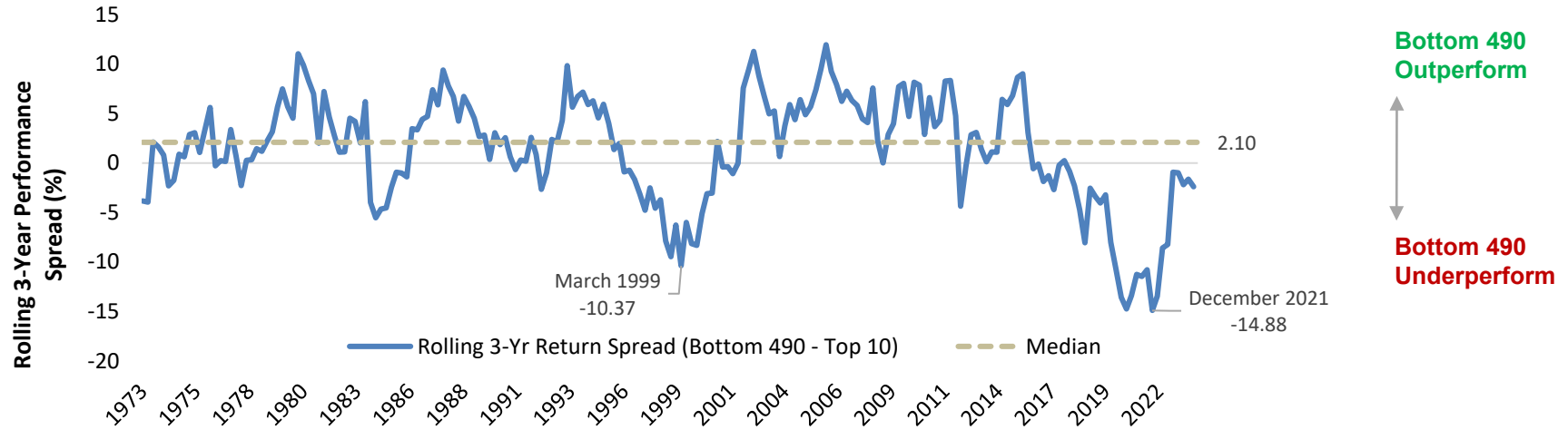
# Market Concentration: Weight of Top 10 Stocks in the U.S. Over Time



- **As of February 2024, the Top 10 stocks in the U.S. represent 33.5% of the market cap of the largest 500 companies, one of the highest on record dating back to the 1970's**
  - The historical median weight of the top 10 names is 21.3%.

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# Performance of Top 10 Stocks in the U.S. Over Time



- Historically, the Top 10 stocks in the U.S. have underperformed the Bottom 490 by 2.10% annualized over rolling 3-year periods (historical median)
  - Over the past 3 years, the Top 10 stocks outperformed the Bottom 490 by 2.39% annualized.
- It is extremely rare to find periods in which the Top 10 stocks are 1) highly concentrated 2) expensive and 3) have outperformed significantly over the past 3 years. History would suggest that now is a good time to be contrarian.

# 2023 Return Contributions of Selective Stocks

S&P 500 (521 stocks)	Top 10 companies	Top 7 tech companies
Average Weight	28.37%	25.99%
Total return	17.56%	15.83%
S&P 500 return	26.29%	26.29%
Return attribution	66.79%	60.21%
All others	33.21%	39.79%

MSCI ACWI IMI (9980 stocks)	Top 10 companies	Top 7 tech companies
Average Weight	14.89%	13.65%
Total return	8.95%	8.06%
ACWI IMI Net return	21.58%	21.58%
Return attribution	41.47%	37.35%
All others	58.53%	62.65%

Portfolio	P/E (TTM)
Domestic Equities	15.75
S&P 500 Index	24.03

Portfolio	P/E (TTM)
Total Public Equities	14.62
MSCI All-Country World Investible Mkt Index	19.35

Top 7: Microsoft, Apple, Nvidia, Alphabet, Amazon, Meta, Tesla

Top 10: Top 7 + Broadcom, Eli Lilly, AMD

# Internal Management Program Overview

Internal Management	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Active Allocation (Tactical Tilts)	10%	11%	9%	15%	10%	9%	9%	6%	3%	0	0	0
Active Selection (Factor-based)	8%	7%	6%	6%	6%	4%	4%	4%	0	0	0	0
<b>Total Internal Assets (%)</b>	<b>18%</b>	<b>18%</b>	<b>15%</b>	<b>21%</b>	<b>16%</b>	<b>13%</b>	<b>13%</b>	<b>10%</b>	<b>3%</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Primary Objective
- Scope
- Ideas
- Program Expansion

Generate excess returns  
 Strategies that we are likely to execute better internally  
 Opportunistically  
 Organic and gradual approach

# APFC Internal Management

## APFC Internal Management Program – What can we do better internally?

### Active Allocation (ETFs)

- APF Tactical Tilts
- APF US Tactical Tilt

June 2015  
July 2021

Tactical Tilts marked the beginning of internal management program.

### Active Selection

#### Factor Based (Stocks)

- APF Domestic Low P/E
- APF R1000 Low Vol
- APF R1000 Low Vol Value
- APF International Low Vol
- APF International Low Vol Value
- APF Global Low Vol
- APF Global Low Vol Value

Sep 2019  
Dec 2021  
Dec 2021  
Mar 2024  
Mar 2024  
Mar 2024  
Mar 2024

The greatest scope of internal active management resides with factor-based strategies. These strategies are internally designed and executed.

# Active Allocation (Internal) – APFC Tactical Tilts

Performance	1 Yr	3 Yr	5 Yr
APF Tactical Tilts	14.3%	7.7%	15.4%
MSCI ACWI IMI	21.6%	5.5%	11.5%
<b>Excess Returns</b>	<b>-7.3%</b>	<b>+2.2%</b>	<b>+3.9%</b>

- Tactical Tilts, as the name implies, is a tactical strategy. It utilizes Exchange Traded Funds (ETFs), employs top-down allocation decisions, and has positions with time horizons anywhere from less than a month to 18 months with flexibility to hold a larger cash position when necessary.
- Key Objective:** Achieve excess returns vs. MSCI ACWI IMI from asset allocation decisions across sectors, regions, and style factors.
- Current sector and geographic positioning favors **small caps, value, defensives, gold miners, and emerging markets.**

Performance	CY 2023	CY 2022	CY 2021	CY 2020	CY 2019	CY 2018	CY 2017	CY 2016
APF Tactical Tilts	14.3%	-10.9%	22.8%	27.2%	28.9%	-11.4%	21.7%	8.6%
MSCI ACWI IMI	21.6%	-18.4%	18.2%	16.3%	26.4%	-10.0%	24.0%	8.4%
<b>Excess Returns</b>	<b>-7.3%</b>	<b>+7.5%</b>	<b>+4.6%</b>	<b>+10.9%</b>	<b>+2.5%</b>	<b>-1.4%</b>	<b>-2.3%</b>	<b>+0.2%</b>

# Active Selection (Internal) – APFC Domestic Low P/E

Strategy	1 Yr	3 Yrs	Since Inception (9/19)
APF Domestic Low P/E	16.7%	12.6%	11.7%
Russell 1000 Value	11.5%	8.9%	9.4%
<b>Excess Returns</b>	<b>+5.2%</b>	<b>+3.7%</b>	<b>2.3%</b>

- First internally managed factor-based (selection) strategy.
- Opportune time to add to Deep Value style (V-G spreads became historically wide).
- Objective: Capture the Value premium within the US R1000 universe.
- All stocks are equally weighted in the portfolio.

# Public Equities: Active Management – Summary

## 1. Active Selection

- Delivered positive net-of-fee outperformance over the past 12 years.
- The most consistent source of APFC Public Equity active performance.

External Managers	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Annualized 12 Yrs
Net Excess Returns (bps)	-19	+169	+96	+45	+30	-107	+123	-44	+72	-34	+126	+60	+43

## 2. Active Allocation

- Delivered modest positive returns over the past 7 years, spreads are still historically wide and have yet to revert to their means.
- Active return profile has been volatile as valuation is not a timing tool.
- Execution requires patience, commitment and discipline.

Active Allocation	2023	2022	2021	2020	2019	2018	2017	Annualized 7 Yrs
Excess Returns (bps)	-330	+224	+135	+6	-13	+13	+12	+5

## 3. Internal Management

- The scope and scale of internal management is a function of developing in-house investment skills and operational support.
- Primary objective is to generate positive excess returns<sup>303 of 378</sup>
- Strategies we can execute better internally.

# Asset Class: Public Equities

History	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
External	82%	82%	84%	79%	84%	86%	87%	91%	97%	100%	100%	100%
Internal	18%	18%	16%	21%	16%	14%	13%	9%	3%	0%	0%	0%

**Excess Return Target:**  
**Investment Universe/Index:**

+ 30 bps net of fee  
 Global/ MSCI ACWI IMI

**Drivers of excess return target:**

Active Allocation, Active Selection

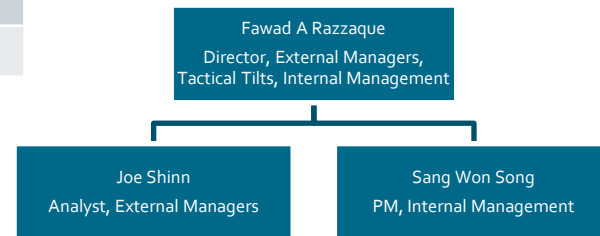
**External Management:**  
**Internal Management:**

Primarily Active Selection  
 Primarily Active Allocation

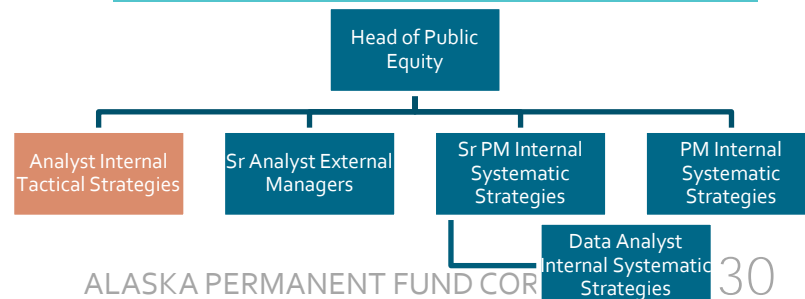
**Balance between Internal vs. External**

Organic, thoughtful, gradual

## Investment Team



## Investment Team (3-5 Yrs)





SUBJECT: Richard Bernstein Advisors Presentation  
Richard Bernstein, CEO/CIO

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

DATE: May 30, 2024

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

BACKGROUND

Richard Bernstein Advisors (RBA) is an investment manager focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. RBA was founded by Richard Bernstein in 2009 and is headquartered in New York City.

RBA’s top-down macro, research-driven approach differentiates the firm from the more common, traditional bottom-up approach of most asset managers. That research starts with Richard Bernstein, the CEO, who is widely recognized as an expert in style investing and asset allocation.

RBA was added to APFC Public Equity External manager program (within Global Equities) in December 2017.

RBA has a unique top-down perspective on global public markets and will share RBA’s views on compelling investment opportunities as RBA currently sees it.

Biographies of Attendees:

**Richard Bernstein  
Chief Executive Officer & Chief Investment Officer**

Richard Bernstein is the chief executive officer and chief investment officer of Richard Bernstein Advisors LLC. In his role as CIO, Rich leads RBA’s Investment Committee, which manages all of the firm’s investments, and performs executive management functions as CEO.

Mr. Bernstein founded Richard Bernstein Advisors LLC (RBA) in 2009. The firm utilizes a unique top-down approach to investing, focusing on macro trends rather than individual stock selection. Mr. Bernstein has over 40 years' experience on Wall Street, most recently as the Chief Investment Strategist at Merrill Lynch & Co. Prior to joining Merrill Lynch in 1988, he held positions at E.F. Hutton and Chase Econometrics/IDC.

A much-noted expert on equity, style and asset allocation, Mr. Bernstein was voted to Institutional Investor magazine's annual "All-America Research Team" eighteen times, and has been inducted into the Institutional Investor "Hall of Fame". He was also twice named to both Fortune magazine's "All-Star Analysts" and to Smart Money magazine's "Power 30," and was a member of Registered Rep's "Ten to Watch" for 2012. His book "Style Investing: Unique Insight into Equity Management" is widely viewed as the seminal book on style-oriented investment strategies. He donates the profits

from that and his other book, "Navigate the Noise: Investing in the New Age of Media and Hype," to charity.

Mr. Bernstein is chair of the Alfred P. Sloan Foundation endowment's Investment Committee (~\$2.0 billion) and sits on the Hamilton College endowment's Investment Committee (~\$1.0 billion); he is a trustee of both institutions. He is also a member of the Journal of Portfolio Management's Advisory Committee, a Program Reviewer for the CFA Curriculum, and former adjunct faculty of the NYU/Stern Graduate School of Business.

Mr. Bernstein holds an MBA in finance, with Beta Gamma Sigma distinction, from New York University, and a BA in economics from Hamilton College. He has lectured on finance and economics at numerous colleges, universities, and professional forums.



Richard  
Bernstein  
Advisors

# Alaska Permanent Fund

Board of Trustees Meeting

May 30, 2024



## Let's Revisit our 3 Themes for 2023

**Theme #1: Play defense. Worry later about playing offense**

**Theme #2: Diversify geographically**

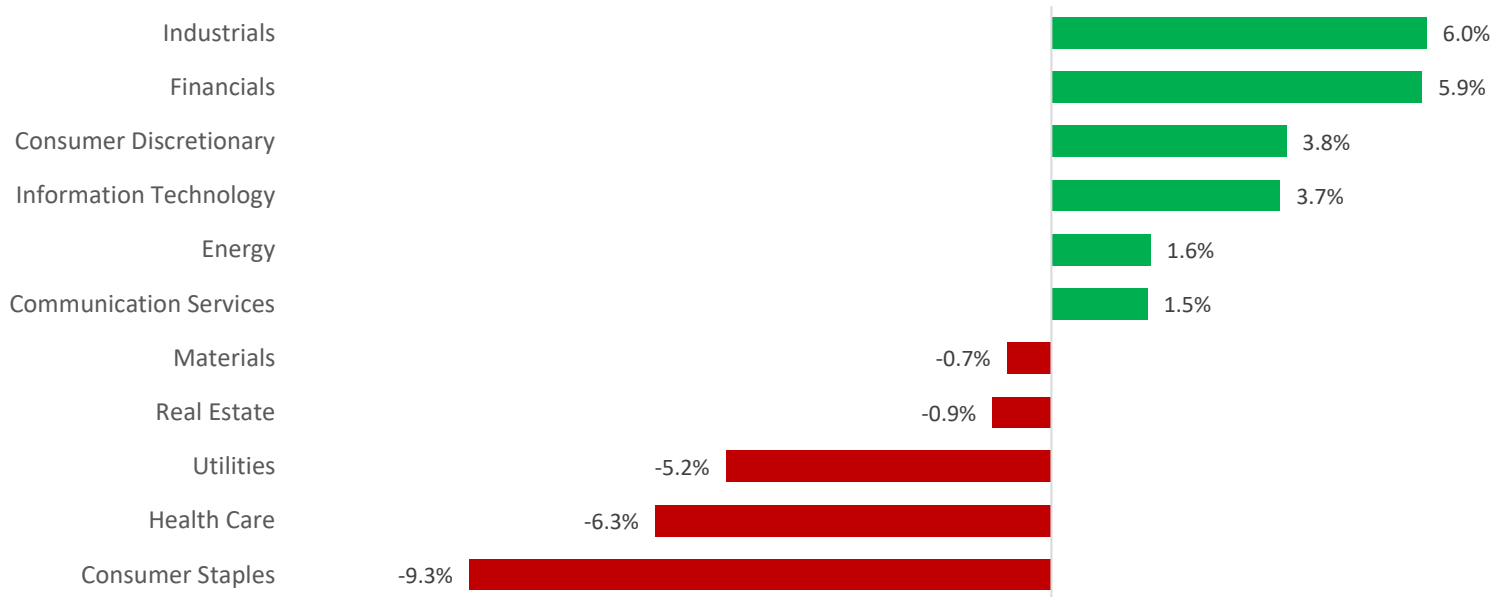
**Theme #3: Accept that the world is changing**

# Theme #1: Play defense

RBA's portfolios remained defensive at the beginning of last year and added more cyclicality towards the end of the year.

## Change in RBA Global Equity Strategy Sector Allocation

(Change from 4/30/2023 to 12/31/2023)

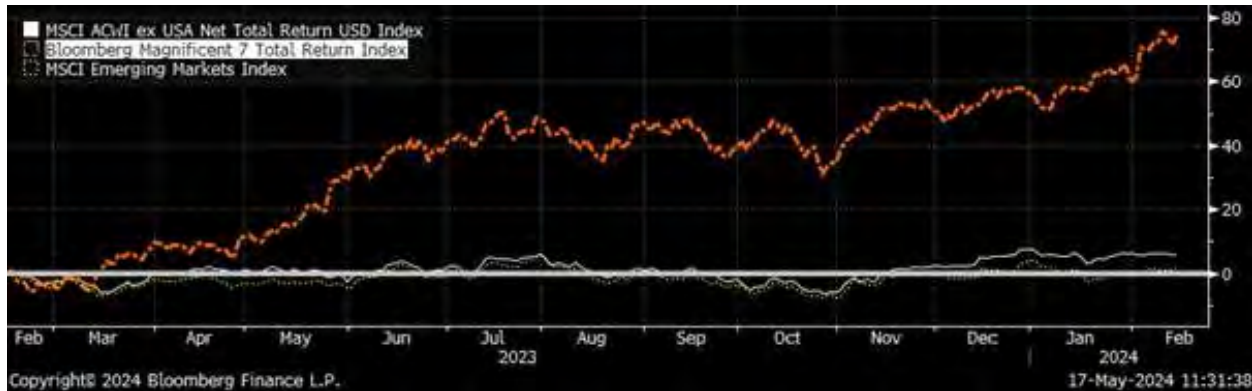


Source: Richard Bernstein Advisors, Bloomberg Finance L.P.

# Theme #2: Diversify geographically

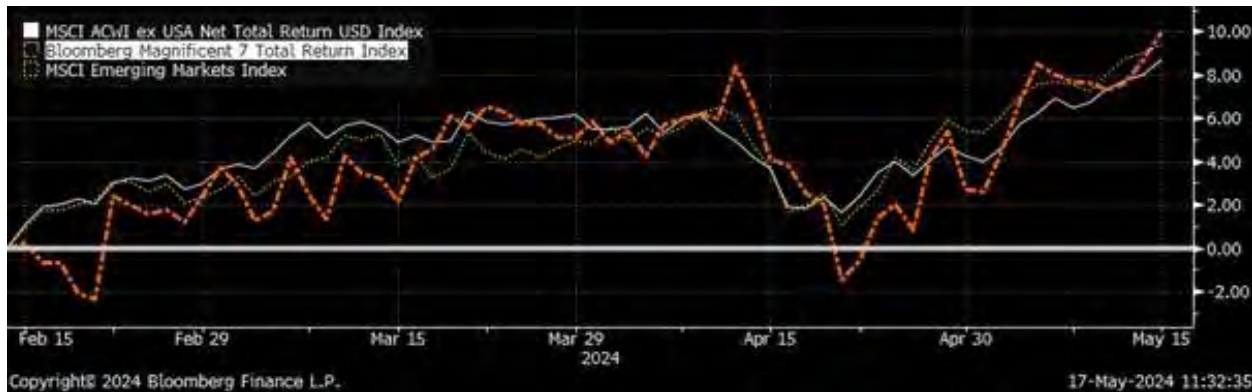
## ACWI ex-US & MSCI Emerging Markets vs. Magnificent 7

(2/14/2023 – 2/14/2024)



## ACWI ex-US & MSCI Emerging Markets vs. Magnificent 7

(2/14/2024 – 5/15/2024)



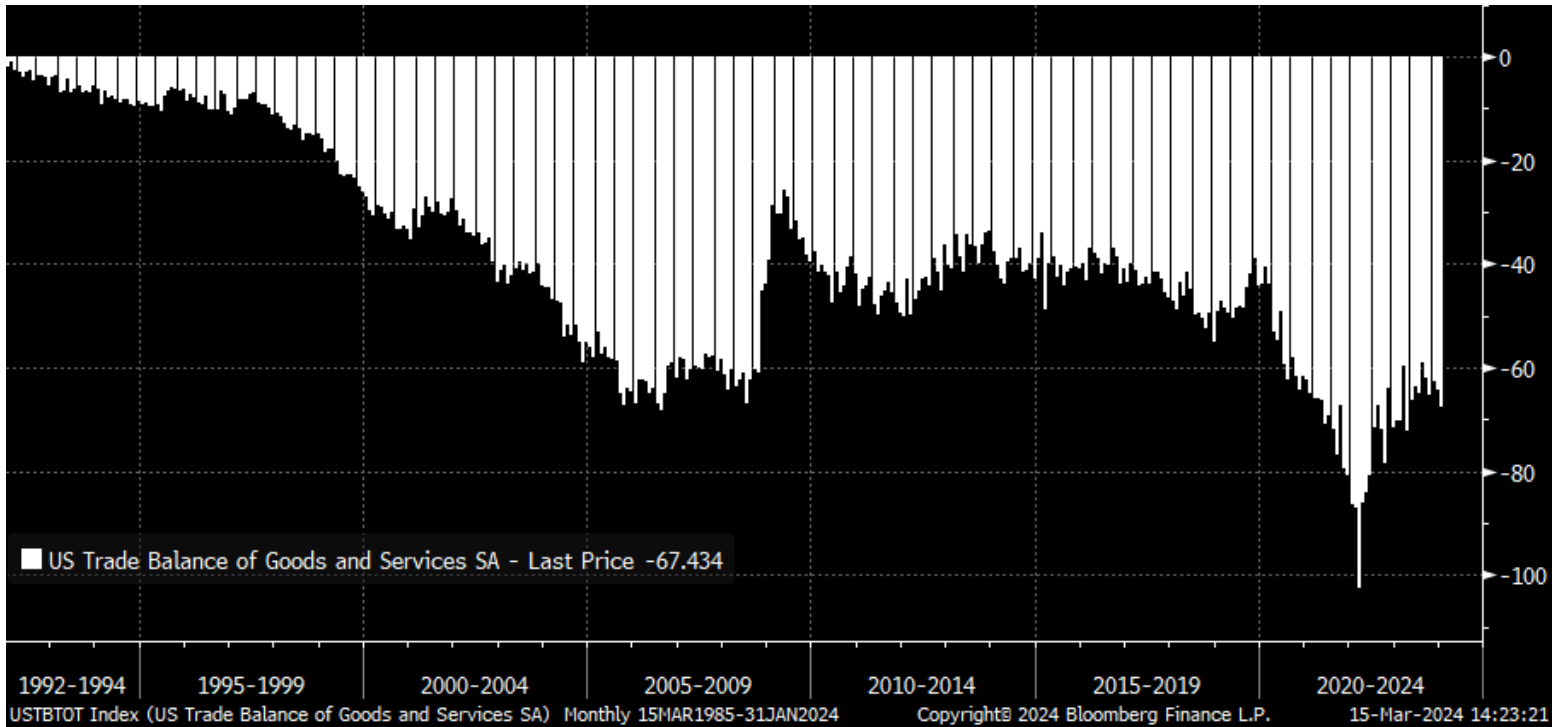


## Theme #3: Accept the world is changing

# Deglobalization: Long-term Investment Opportunity

# US is increasingly dependent on other countries

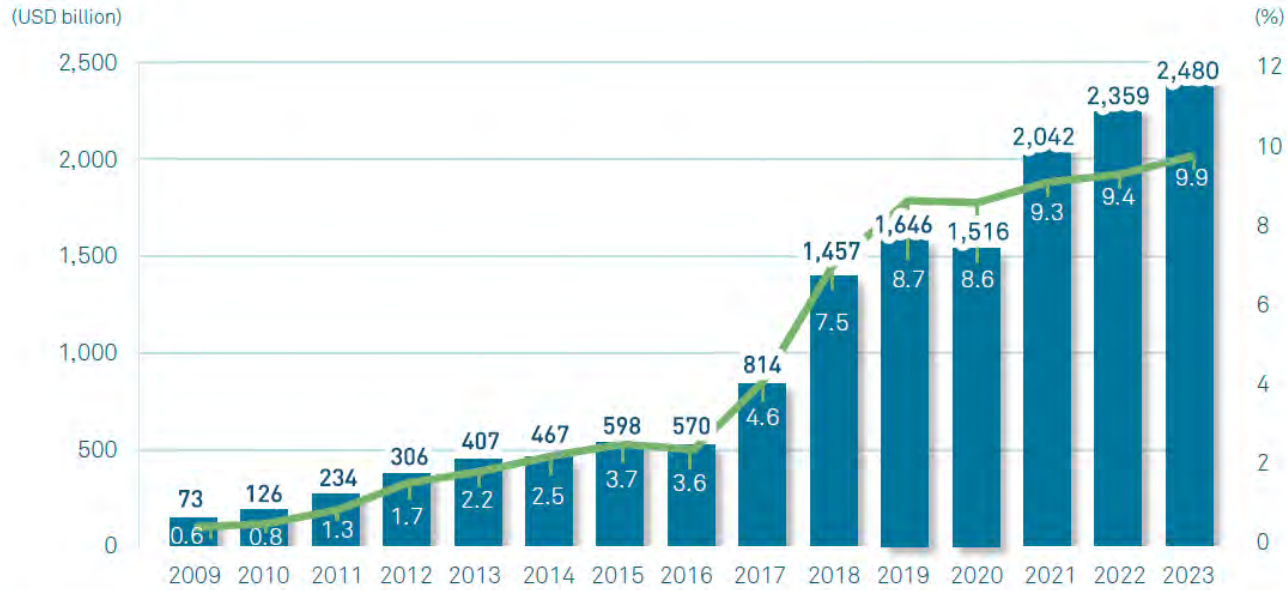
**US Trade Deficit**  
(3/31/1985 – 1/31/2024)



Source: Bloomberg Finance L.P.

# Restrictive trade regulations

## Cumulative trade coverage of import-restrictive measures on goods since 2009



**Source:** WTO Secretariat ■ Import restrictions in force (left axis) — % of world imports (right axis)

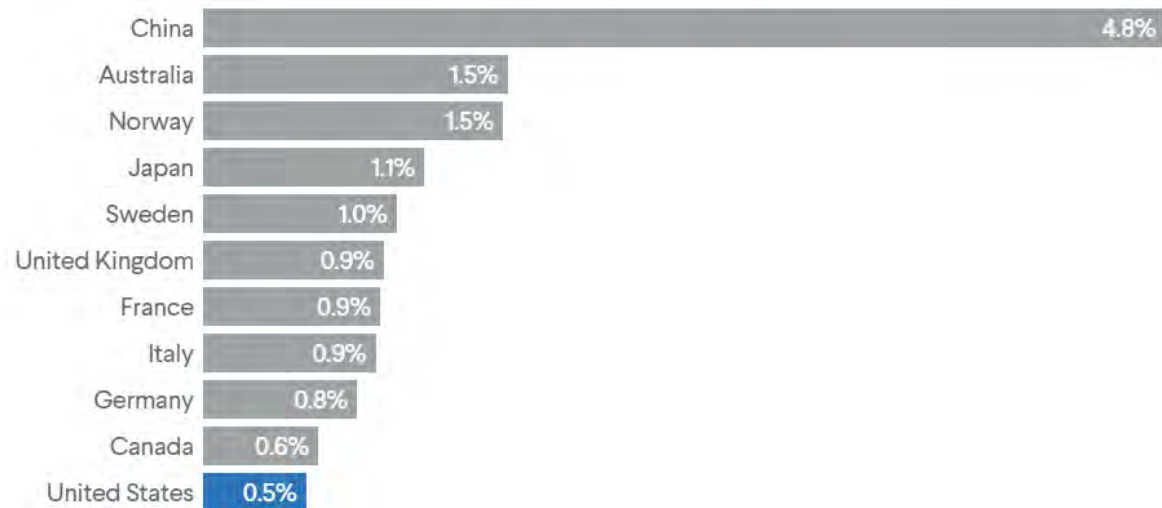
**Note:** The cumulative trade coverage estimated by the Secretariat is based on information available in the TMDB on import measures recorded since 2009 and considered to have a trade-restrictive effect. The estimates include import measures for which HS codes were available. The figures do not include trade remedy measures. The import values were sourced by the UN Comtrade database.

Source: World Trade Organization Secretariat (WTO)

## US ranks last in transportation investment

### U.S. Invests Less in Transportation Than Other Developed Countries, China

Annual inland infrastructure investment as a percentage of GDP, selected countries



Note: Data is from 2021 or the most recent year available. Inland infrastructure includes roads, rail, inland waterways, maritime ports, and airports. All sources of financing are accounted for.

Source: Organization for Economic Cooperation and Development.

COUNCIL *on*  
FOREIGN  
RELATIONS

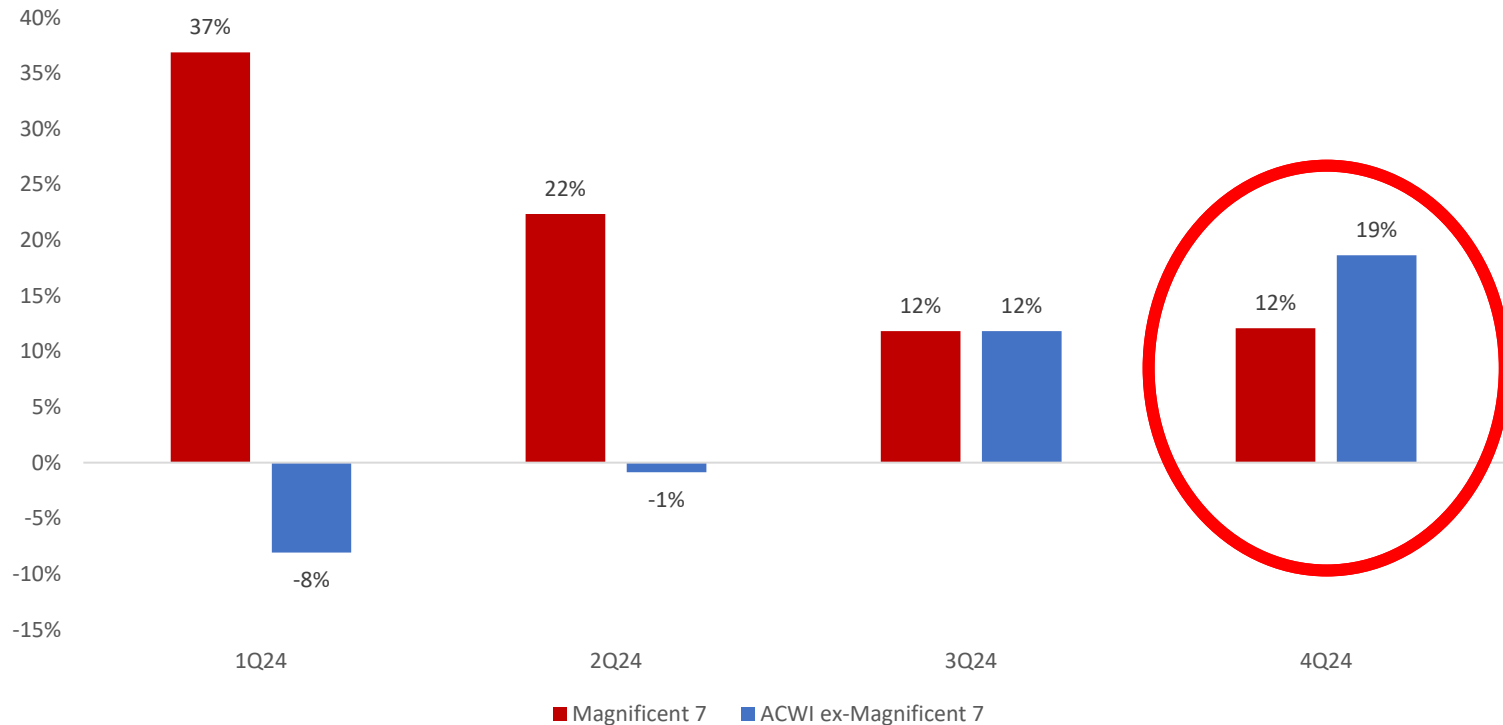
Source: OECD



# Current State of the Economy

# Global profits are accelerating

ACWI consensus quarterly EPS growth YoY\*



Source: Bloomberg Finance L.P. \*Estimated consensus forecast for aggregated float-adjusted earnings growth for companies where sufficient earnings estimates are available.

## Global profits are accelerating

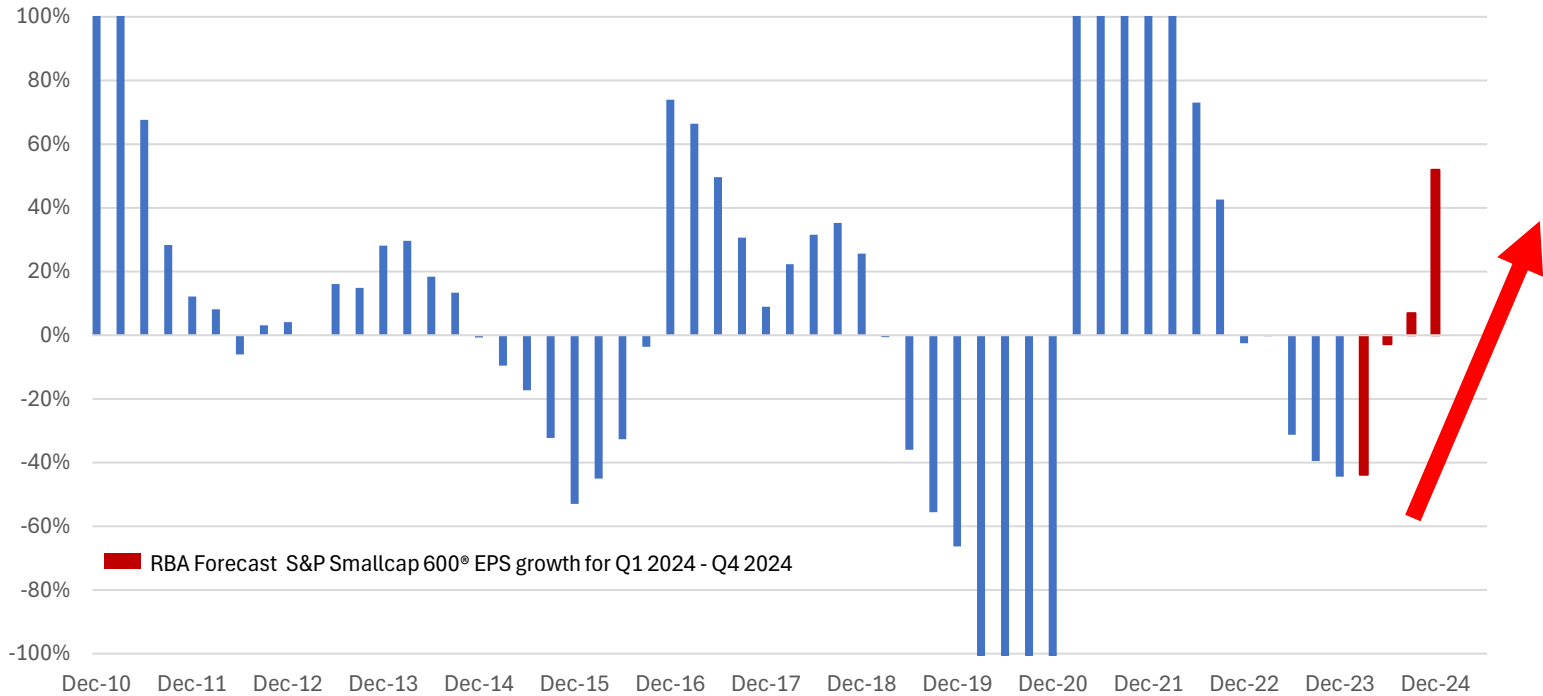
**Profits: Our forward-looking indicators continue to suggest accelerating profits growth in most major regions/countries in 2024.**

RBA Profit Indicator Models:		
Trailing 4-Quarter EPS Growth thru 4Q 2023 (latest reported)		Latest Forecast Signal
US	Accelerating and turned positive with 4 <sup>th</sup> quarter reported.	Acceleration likely through late '24
Europe	Profits decelerated in 4Q 23 but remained positive.	We expect continued deceleration in 1Q and for next several quarters.
Japan	Profits accelerated in the 4Q 23 and are positive.	Profits growth to moderate slightly through 2Q24 before decelerating further into late 2024.
Canada	Profits growth still negative but improved in 4Q 23.	Expect profits growth likely troughed in 3Q23 acceleration throughout 2024
EM	Profits growth still negative and decelerating in 4Q 23	Profits growth likely troughed in 4Q 23. We expect healthy acceleration though 2024.
China	Decelerated in 4Q, but remained positive.	Expect acceleration through mid-2024, followed by a slight moderation in late 2024.

\* Preliminary for 2Q 2023 as of 7/31/23, note many countries with less than 50% reported.  
Source: Richard Bernstein Advisors LLC, MSCI, Bloomberg Finance L.P.

# Small Cap profits are poised to accelerate

S&P Small Cap 600® YoY Trailing GAAP EPS Growth  
(Dec 2010 – Dec. 2023)



Source: Richard Bernstein Advisors, S&P Global, Factset

# Unusual disconnect between junk bonds and junk stocks

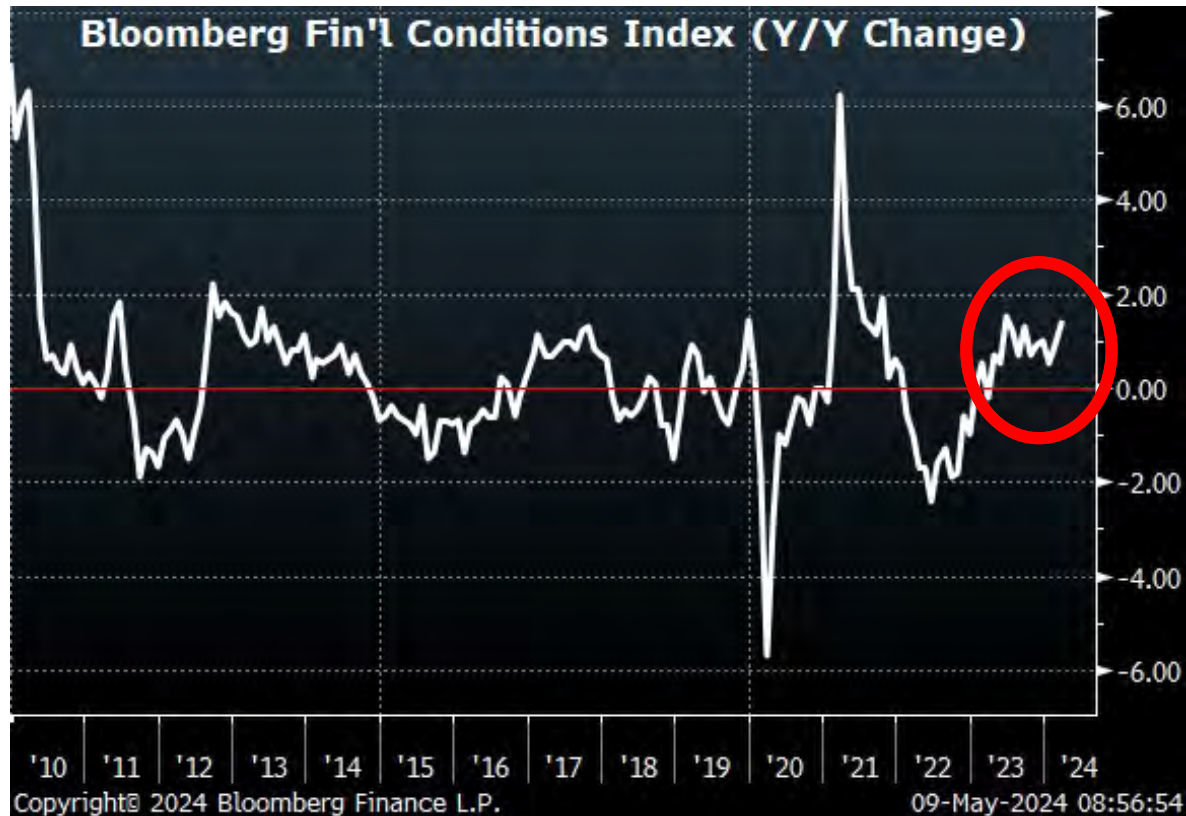
**S&P 500® Index/Russell 2000 Index & High-Yield Corporate Spread**  
(as of May 17, 2024)



Source: Bloomberg Finance L.P.

# Bloomberg Financial Conditions Index remain positive despite the Fed raising rates

Bloomberg Financial Conditions Index  
(2010 – May 9, 2024)



Source: Bloomberg Finance L.P.

320 of 378

Not FDIC Insured.

Not Bank Guaranteed.

May Lose Value.

# Copper breaking out

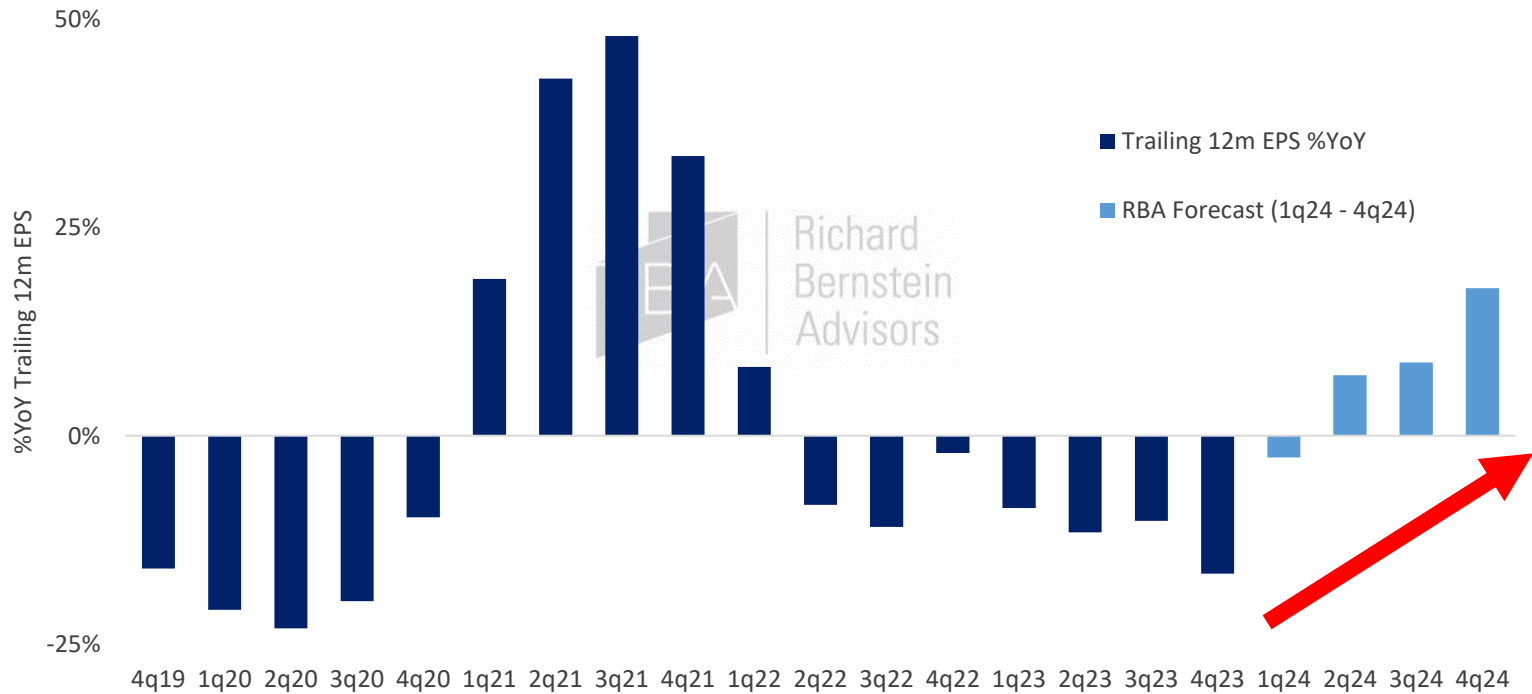
**Copper**  
(as of May 14, 2024)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

# Emerging markets showing signs of acceleration

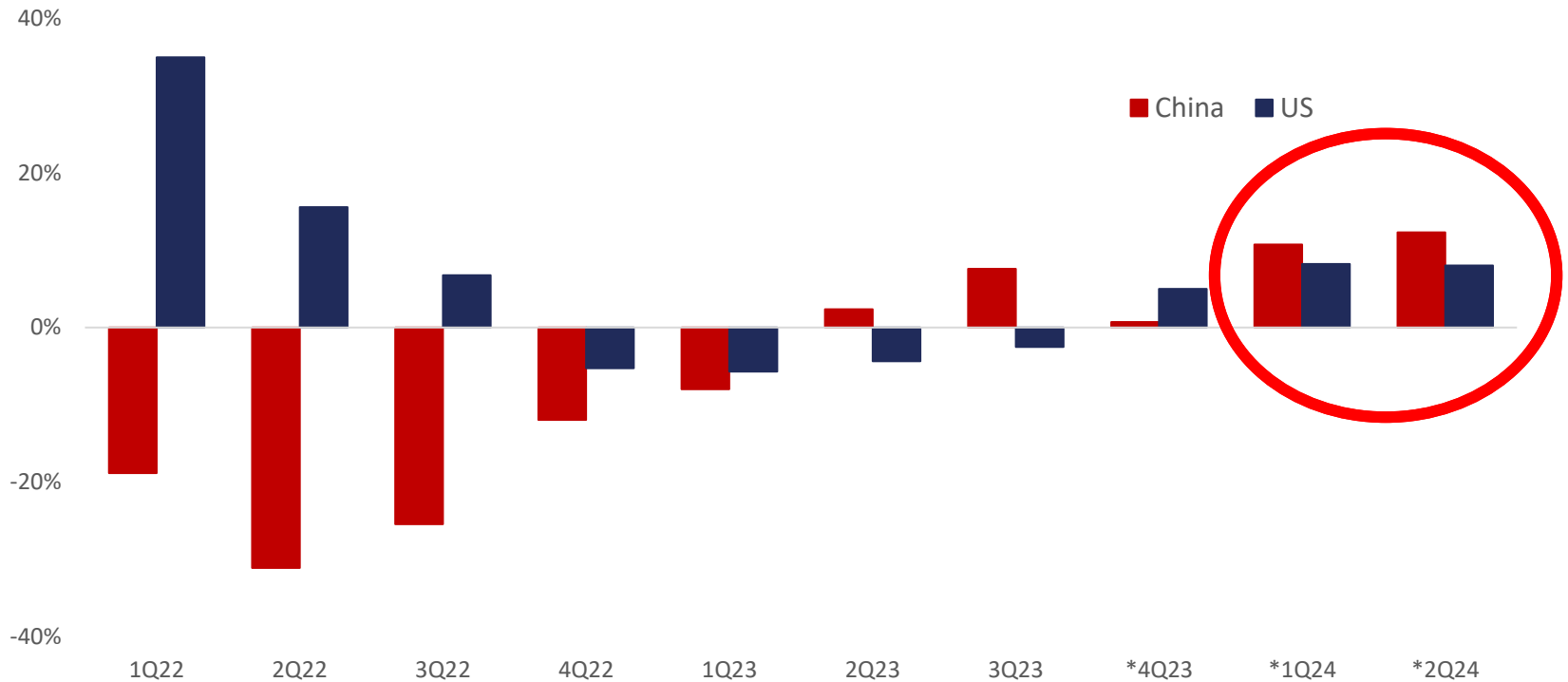
**MSCI Emerging Markets Profits Cycle**  
(12/31/2019 – 12/31/2023)



Source: Bloomberg Finance, MSCI

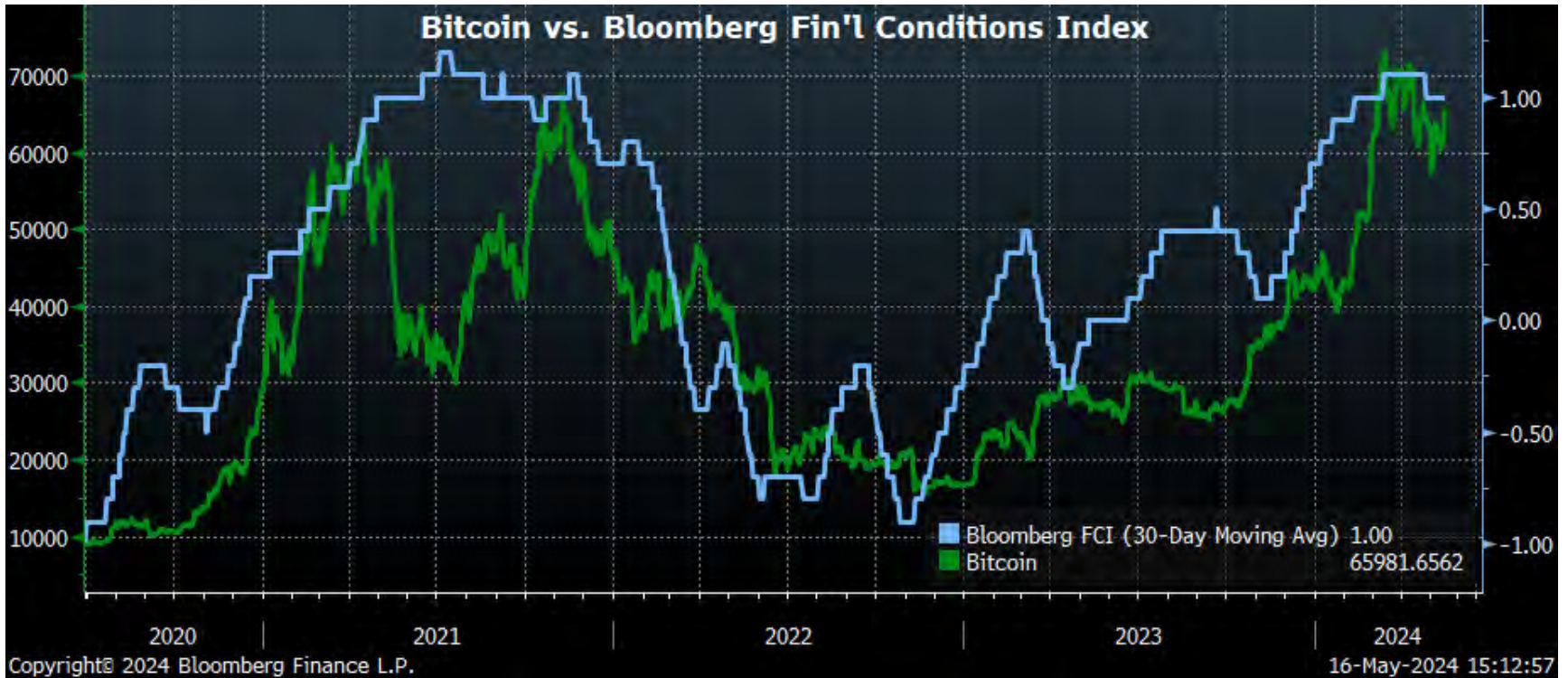
# China's earnings showing signs of acceleration

Earnings Growth



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.  
\*4Q23 is preliminary data. 1Q24 and 2Q24 are RBA forecasts.

# Don't follow the hype, focus on fundamentals



Source: Bloomberg Finance

**INDEX DESCRIPTIONS:**

*The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.*

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results.

**Indices are not actively managed and investors cannot invest directly in the indices.**

**MSCI ACWI®: MSCI All Country World Index (ACWI®).** The MSCI ACWI® is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets.

**S&P 500®: S&P 500® Index:** The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

**Country performance: MSCI All Country Indices.** The MSCI All Country indices are a set of free-float-adjusted, market-capitalization-weighted indices designed to measure the equity-market performance of each country included in the MSCI All Country World Index.

**Sector/Industries:** Sector/industry references in this report are in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

**S&P Small Cap Industrials:** The S&P 600 Industrials Sector GICS level 1 Index. S&P Global's Smallcap Industrials Index is a capitalization-weighted index. The index was developed with a base value of 100 as of December 31, 1993.

**S&P Mid Cap Industrials:** The S&P 400 Industrials Sector GICS level 1 Index. S&P Global's Midcap Industrials Index is a capitalization-weighted index. The index was developed with a base value of 100 as of December 31, 1990.

**Bloomberg Financial Conditions Index:** The Bloomberg U.S. Financial Conditions Index is a Z-score tracking the overall level of financial stress in the U.S. money, bond, and equity markets to help assess the availability and cost of credit.



The views expressed in this presentation are those of (portfolio manager/team) and are current only through the date stated and are not intended as investment advice or a recommendation to purchase or sell specific securities. These opinions may change at any time without notice, and there is no assurance that any securities discussed herein will remain in an account at the time you receive this report. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy. It should not be assumed that any of the securities or transactions listed were or will be profitable. Actual portfolio holdings will vary for each client, and there is no guarantee that a particular client's account will hold any or all of the securities mentioned. It is not possible to invest directly in an Index.

This material may contain statements that are not historical facts, referred to as forward-looking statements. Future results may differ significantly from those stated in forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions.

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RBA23-265

SUBJECT: Pzena Small Cap Focused Value Strategy ACTION: \_\_\_\_\_  
Pzena Investment Management, LLC

DATE: May 30, 2024 INFORMATION: \_\_\_\_\_ X

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BACKGROUND:

Pzena Investment Management (Pzena) is an investment manager specializing in value investing across US, non-US Developed, and Emerging Markets. Pzena was founded by Richard Pzena in 1995 and is headquartered in New York City.

Pzena's bottom-up, research intensive, deep value investment approach differentiates the firm from other asset managers that employ similar strategies.

Pzena was added to APFC Public Equity External manager program (within US Small Cap Equities) in March 2008.

Pzena has broad and deep bottom-up perspective on investing in global public markets and will share Pzena's views on compelling investment opportunities as Pzena currently sees it.

Biography of Presenters:

**Richard S. Pzena, Founder, Principal, Chairman, Co-Chief Investment Officer, Portfolio Manager**

Mr. Pzena is the architect of the firm's investment strategy and conceived and developed the firm's proprietary screening model. Mr. Pzena serves as co-portfolio manager for the U.S. Large Cap strategies, along with the U.S. Best Ideas service. Prior to forming Pzena Investment Management, Mr. Pzena was the Director of U.S. Equity Investments and Chief Research Officer for Sanford C. Bernstein & Company. Mr. Pzena joined Bernstein as an oil industry analyst and was named to the Institutional Investor All America Research Team for three years running and subsequently went on to serve as Chief Investment Officer, Small Cap Equities. Prior to joining Bernstein, Mr. Pzena worked for the Amoco Corporation in various financial and planning roles. Mr Pzena earned a B.S. summa cum laude and an M.B.A. from the Wharton School of the University of Pennsylvania.

**Allison Fisch, Managing Principal, President, Portfolio Manager, and a member of the firm's Executive Committee.**

Ms. Fisch became a member of the firm in 2001 and helped to launch the Emerging Markets strategies in 2008, on which she has been a co-portfolio manager since inception. Ms. Fisch joined the International portfolio management team in 2016. Ms. Fisch also co-managed the International Small Cap Value strategy and oversaw Global Best Ideas from 2017 to 2022. Ms. Fisch was promoted to President in 2023. Prior to joining

Pzena Investment Management, Ms. Fisch was a business analyst at McKinsey & Company. Ms. Fisch earned a B.A. summa cum laude in Psychology and a minor in Drama from Dartmouth College.

**V. Michel Hanigan, Principal and Director of Client and Portfolio Services.**

Mr. Hanigan became a member of the firm in 2005. Prior to joining Pzena Investment Management, Mr. Hanigan was a senior vice president at U.S. Trust, founded and ran VMH Global Partners LP, an equity limited partnership for high-net-worth investors, and held positions at UBS Warburg, where he was head of ADR research and sales and Sanford C. Bernstein & Co., where he was a partner in institutional sales. Mr. Hanigan earned his B.A. in History from Franklin Pierce College.

PREPARED FOR



PRESENTERS

**Richard S. Pzena**, Principal, Chairman, Co-Chief Investment Officer, and Portfolio Manager

**Allison Fisch**, Managing Principal, President, and Portfolio Manager

**Michel Hanigan**, Principal and Director of Business Development & Client Services



## Alaska Permanent's Relationship with Pzena Investment Management

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Mandate:	Pzena Small Cap Focused Value Strategy
Inception Date:	03/31/2008
Portfolios:	ALASKA PERMANENT FUND CORPORATION
Assets Under Management:	\$709 million

## Unwavering Commitment to Deep Value Investing

- Concentrated portfolio of deeply undervalued businesses
  - Intensive Proprietary Research
  - Systematic Process
- Long-term investment horizon

## The Right Investment Team

- 30-person global investment team with 19 together for 7+ years
- Business people focused on evaluating businesses

## Culture of Ownership

- Broad and significant equity ownership
- 68 Partners – fosters a culture of shared purpose with clients

As of March 31, 2024

## Our Goal: Ability to search for value anywhere

	1996	2000	2004	2008	Today
Research Universe	<ul style="list-style-type: none"> <li>US Focused Value*</li> <li>US Small Cap</li> </ul>	<ul style="list-style-type: none"> <li>US Large Cap</li> <li>US Mid Cap</li> <li>US Best Ideas</li> </ul>	<ul style="list-style-type: none"> <li>Global</li> <li>International</li> </ul>	<ul style="list-style-type: none"> <li>European</li> <li>Emerging Markets</li> </ul>	<ul style="list-style-type: none"> <li>Japan</li> <li>Global Small Cap</li> <li>International Small Cap</li> </ul>
Investment Team	5	8	12	20	30

**Firm AUM as March 31, 2024: \$64.3 Billion**

\*US Focused Value strategy universe is the top 1,000 largest US companies

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# Opportunities in Value

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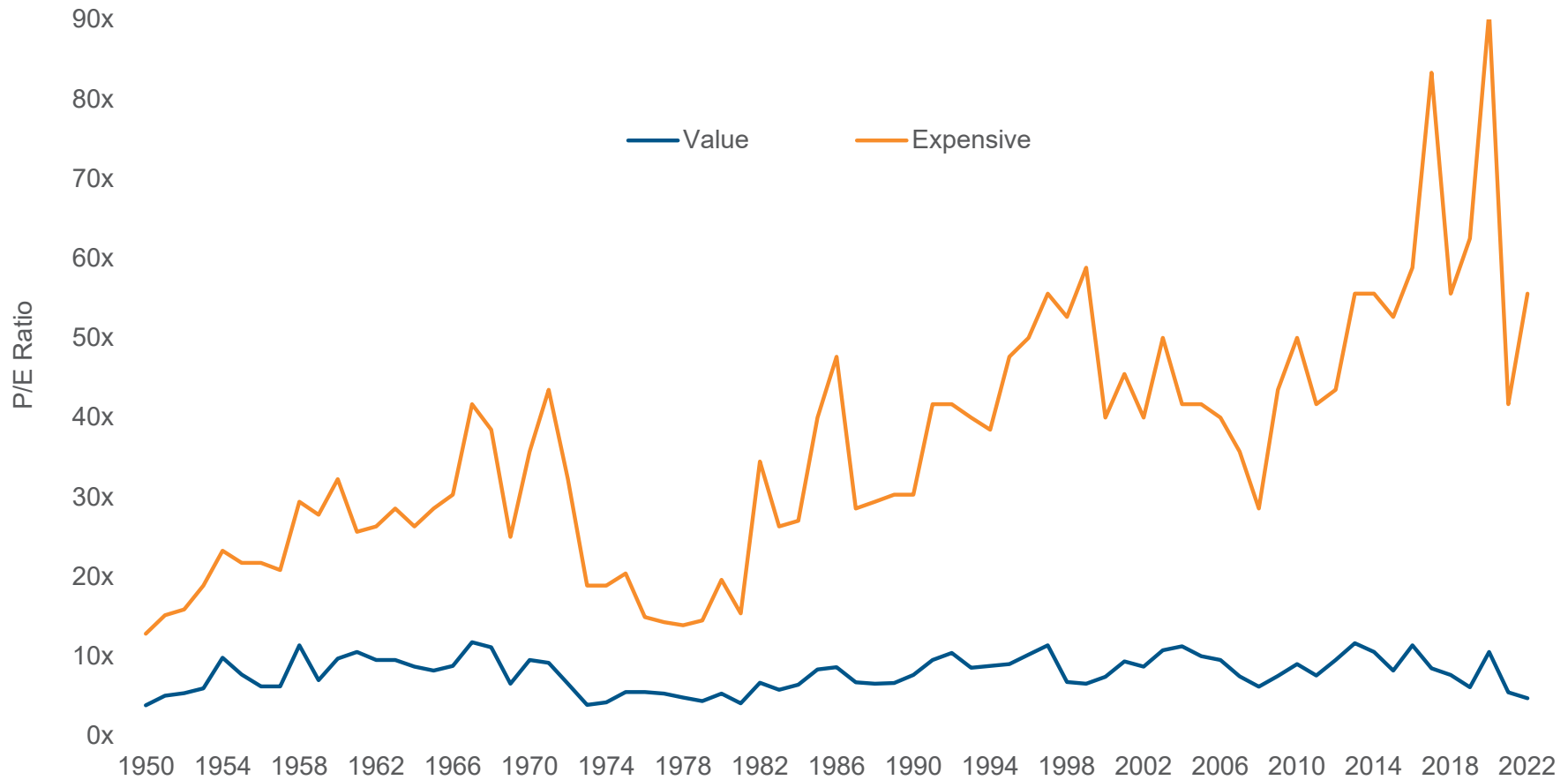
Annualized Return	Low P/B* (Cheap)	High P/B* (Expensive)
1926 - 2023	11.3%	9.2%
2013 - 2023	11.1%	<b>14.4%</b>

Source: Kenneth R. French, Pzena analysis

\*Cheapest and most expensive quintiles based on price/book within the largest 20% of stocks of Ken French's US Market universe. Universe is all NYSE, AMEX, and NASDAQ stocks defined by Kenneth R. French data library.

Total return annualized in US dollars from July 1, 1926 – December 31, 2023 (equal-weighted returns).

Past performance is not indicative of future returns.

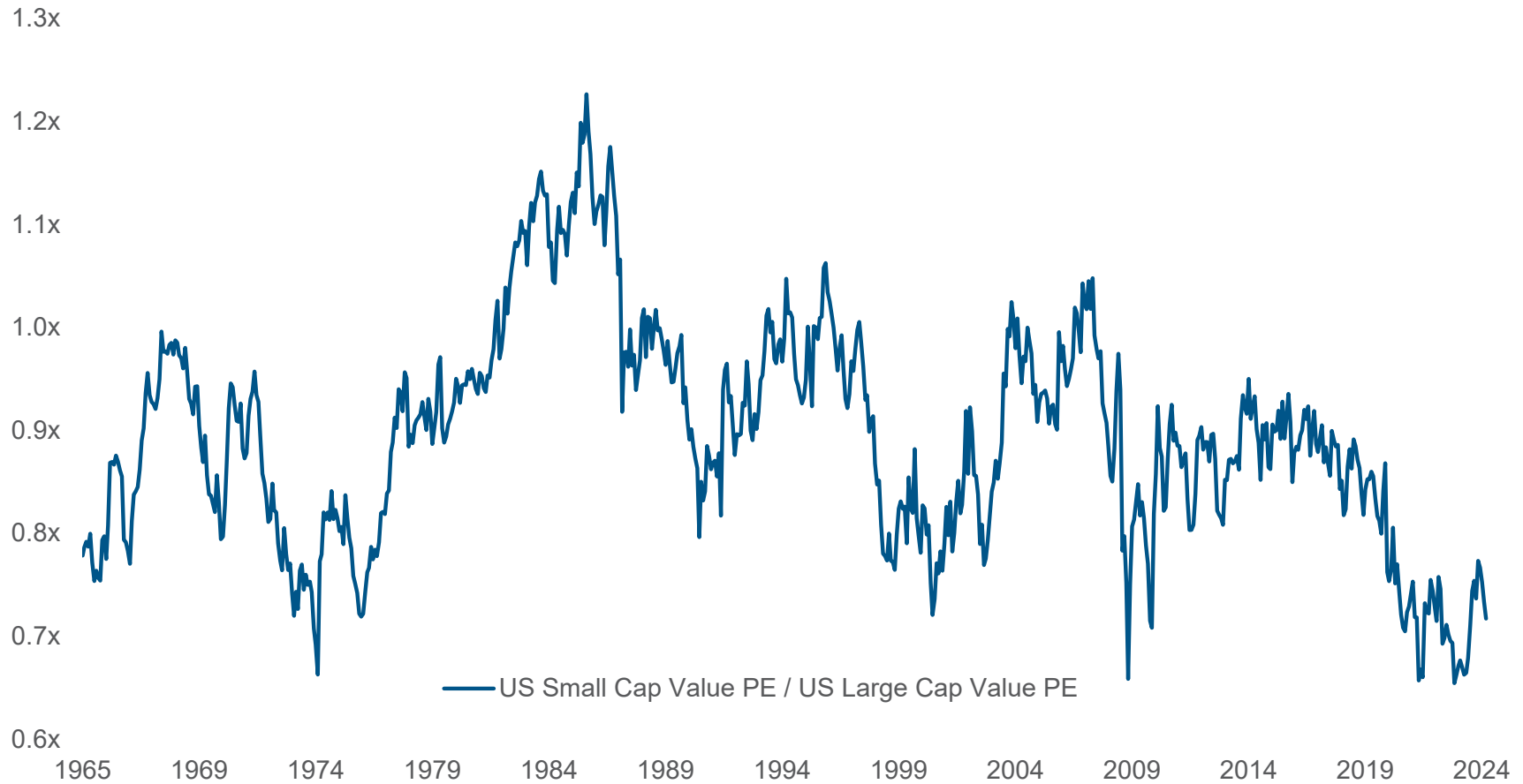


Source: Kenneth R. French, Pzena analysis

The lines show the market-cap weighted trailing P/E ratios for the most expensive and cheapest (value) quintiles of the US market.

Annual December data from 1950 - 2022. Universe is all NYSE, AMEX, and NASDAQ stocks defined by Kenneth R. French data library.

## US Small Cap Value & Large Cap Value Relative P/E Ratio



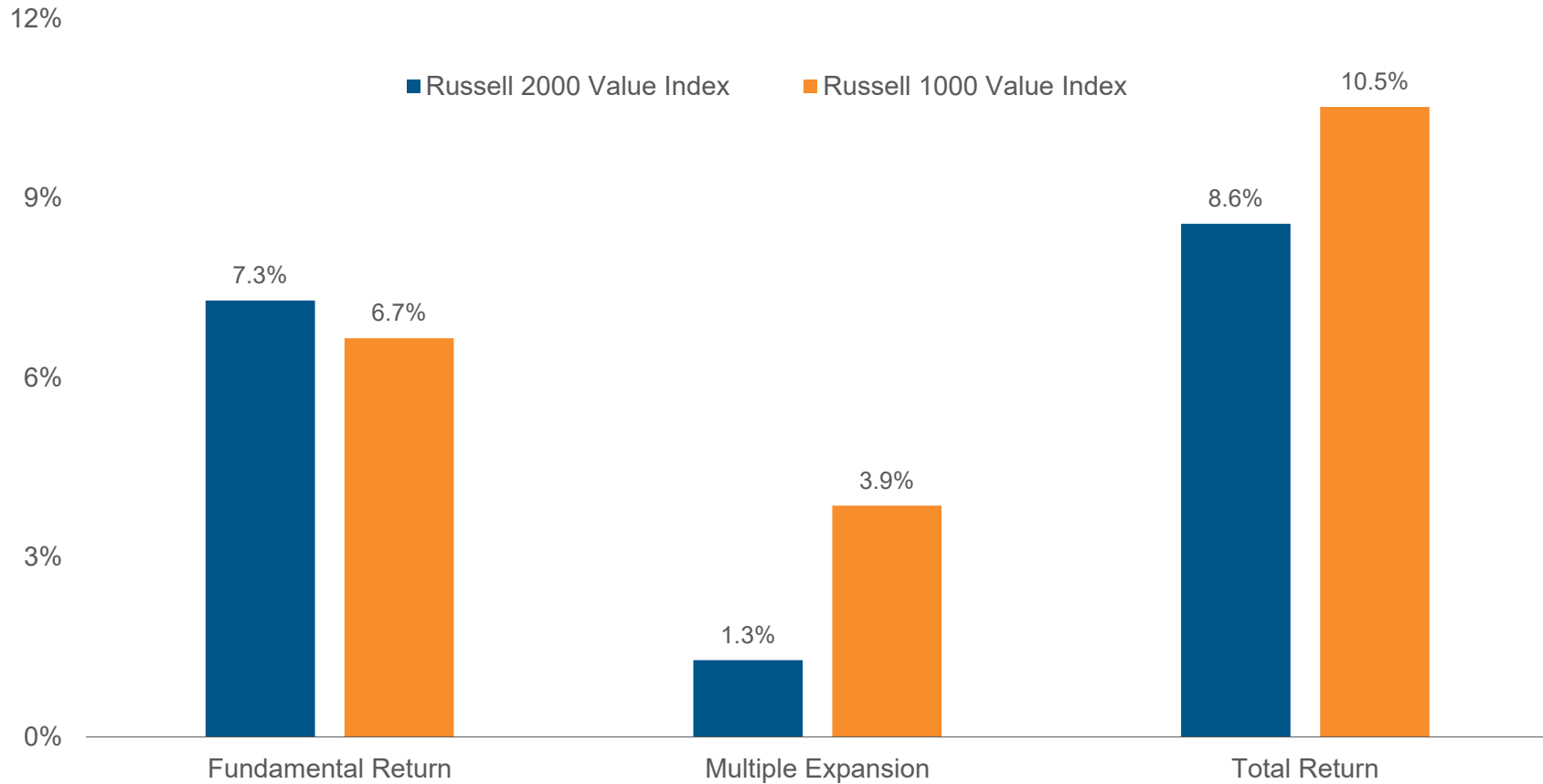
Source: Empirical Research Partners, Pzena analysis

Large Cap Value = Cheapest quintile of stocks based on P/E within the largest 1000 US stock universe.

Small Cap Value = Next 2000 largest stock universe cheapest quintile of stocks based on P/E.

All data is trailing price/earnings and equal-weighted from January 31, 1965 – March 31, 2024.

Small Value vs. Large Value Performance Drivers Based on FCF  
 Since Start of Latest US Large Cap Cycle (Apr 2010 - Mar 2024)



Source: FactSet, Pzena analysis

Fundamental Return = dividend return + free cash flow growth.

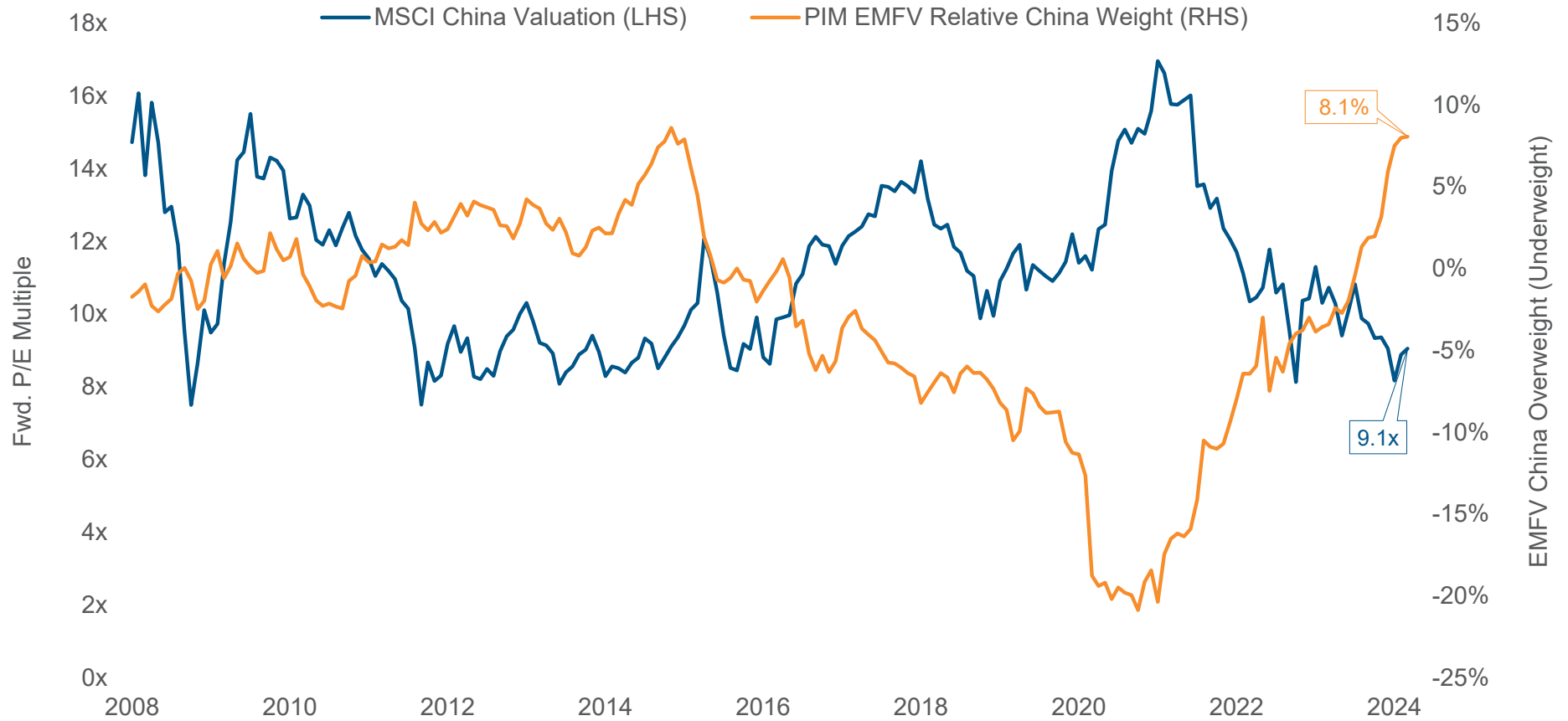
Analysis uses LTM free cash flow data. Free cash flow was chosen instead of the more commonly used GAAP EPS because write-downs and unusual expenses for small cap stocks are commonplace.

All data annualized in US dollars as of March 31, 2024. Past performance is not indicative of future returns.

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# Opportunity in China Value

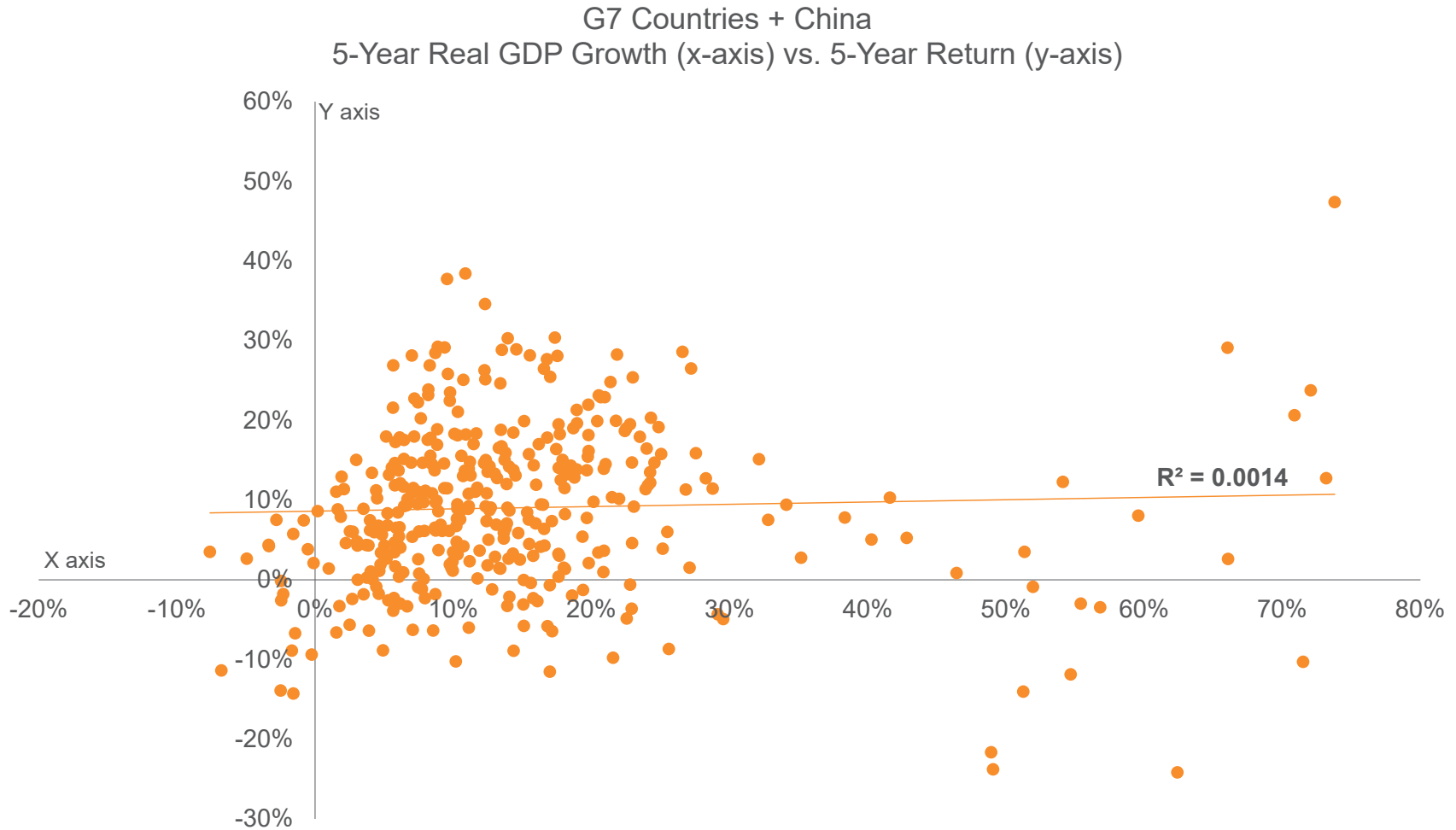
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Source: FactSet, Pzena analysis

\*Pzena Emerging Markets Focused Value Composite estimate; includes both China and Hong Kong. MSCI China valuation uses NTM P/E. Data from January 1, 2008 – March 31, 2024.

# GDP Growth Has Historically Been an Unreliable Indicator for Equity Performance

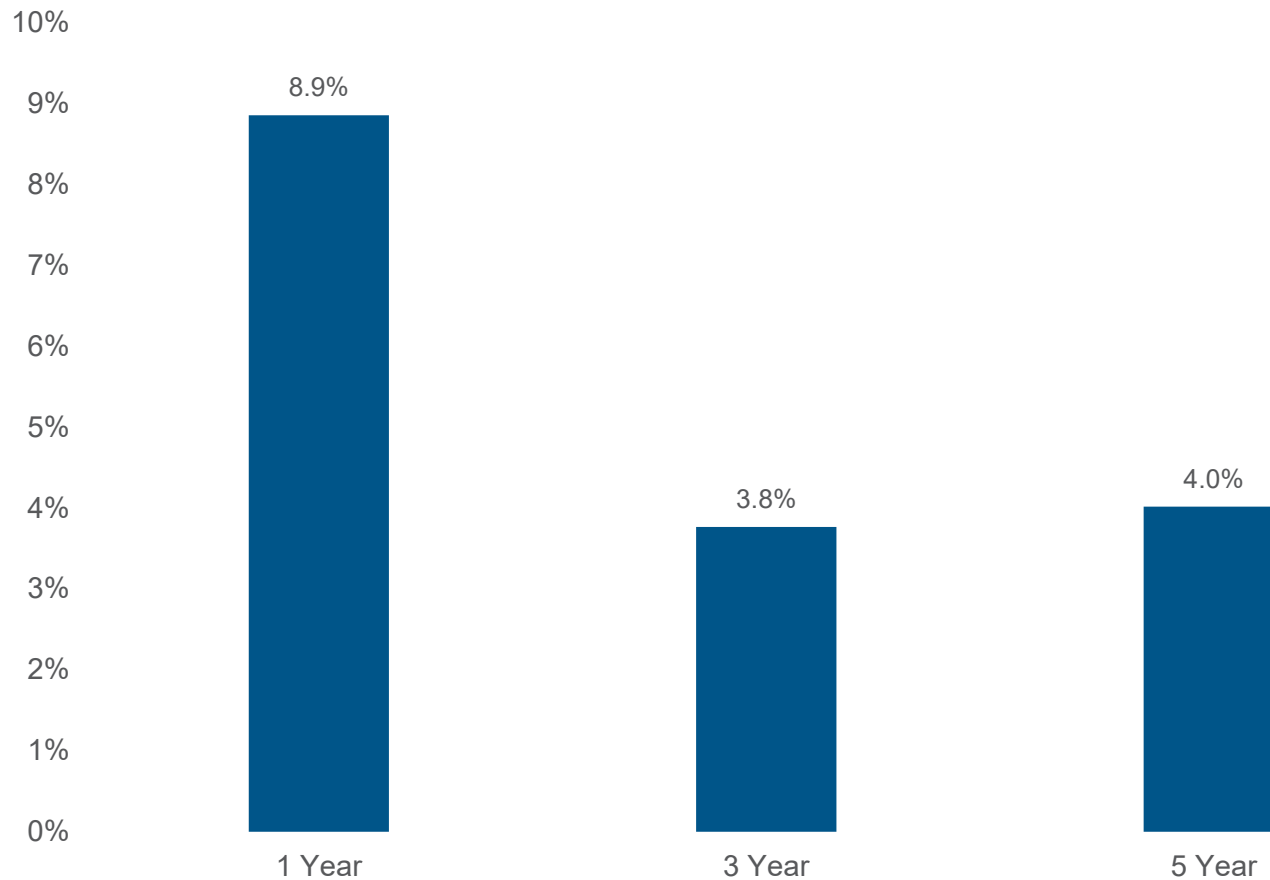


Source: World Bank, MSCI, Sanford C. Bernstein & Co., Pzena analysis

Chart displays all five-year data points available since 1960 for Canada, France, Germany, Italy, Japan, UK, US, and China combined.

Five-year returns are annualized. All data was analyzed annually and in local currencies as of December 31, 2022.

Average Annualized Alpha of EM Countries Following Steep 12-Month Underperformance



Source: MSCI, Pzena analysis

We looked at significant emerging market country declines, defined as 2,000 basis points or more of underperformance versus the MSCI Emerging Markets Index over the prior 12 months, and then looked at how those countries performed over the next one, three, and five years. The data set is from January 1, 1992 through December 31, 2023 and includes 10 different countries (some did not have data for the full period). The 10 countries chosen were the 10 largest weightings held in the MSCI Emerging Markets Index (as of December 31, 2023) that have at least a 10-year MSCI track record.

Data calculated on a monthly rolling basis in US dollars. Past performance is not indicative of future returns.

## Emerging Markets Key Financial Data Cheapest Quintile vs. Market

	Historical Return on Equity	Historical Revenue Growth	Price to		
			Earnings	Sales	Book Value
<b>Cheapest Quintile (Q1)</b>	16%	14%	8.6x	1.3x	1.2x
<i>Q1 China</i>	14%	17%	6.5x	0.9x	0.8x
<i>Q1 ex-China</i>	16%	12%	11.3x	1.9x	2.0x
<b>Market</b>	13%	15%	12.4x	1.4x	1.6x

Source: FactSet, Pzena analysis

Cheapest quintile basket of stocks based on Pzena's price-to-normalized earnings estimates.

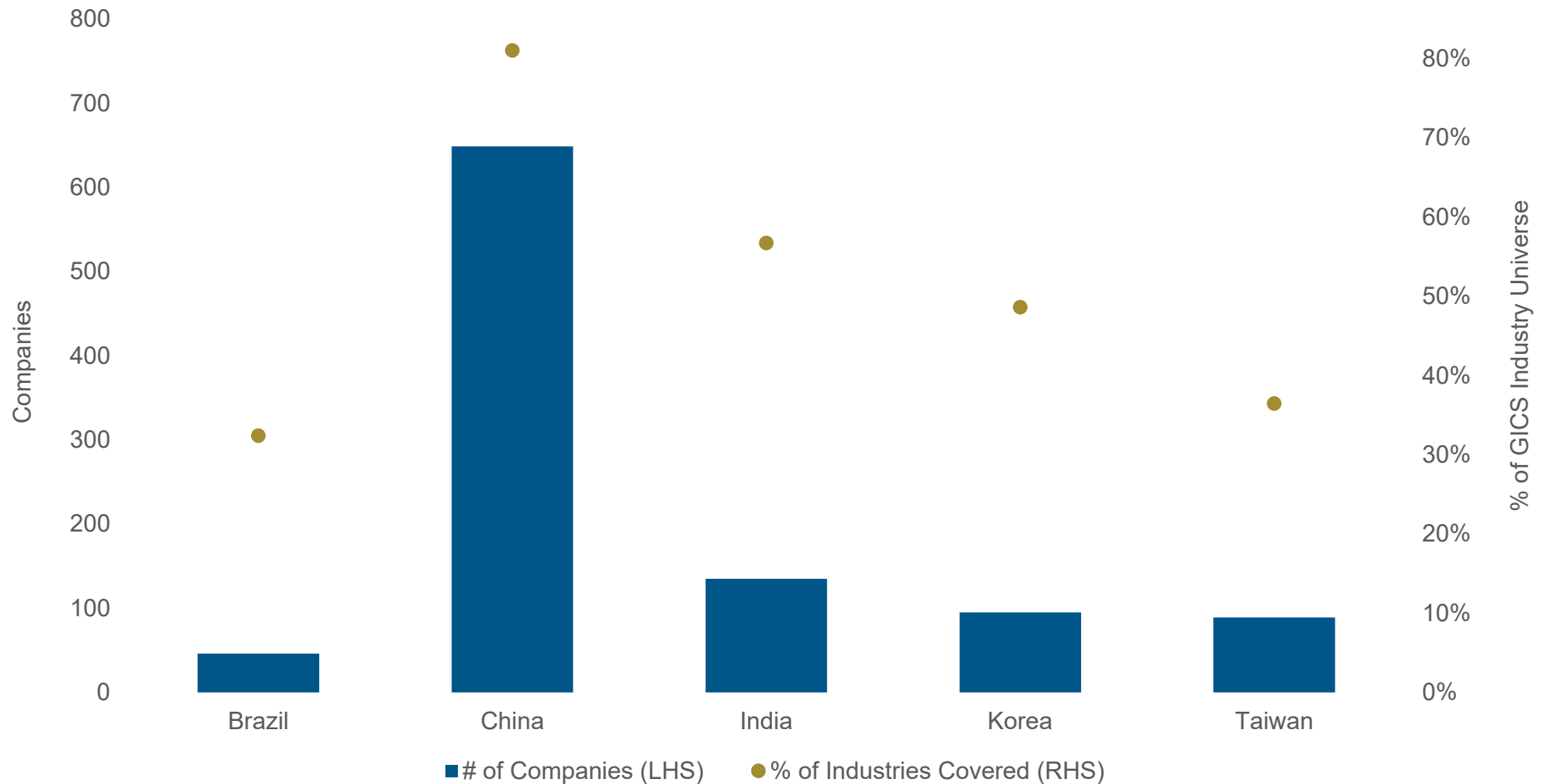
P/E and P/S ratios are calculated using consensus FY1 estimates.

Return on equity and revenue growth average calculated over trailing 10-year period.

Market is the largest ~1,500 stocks in non-developed markets ranked by market capitalization.

Data as of March 31, 2024. Does not represent any specific Pzena product or service.

- The opportunity set in China is significantly larger and more diverse than any other developing country, with more than 600 stocks spanning 60 industries



## China Value Opportunity: Good Businesses at Attractive Valuations

- China has scores of good businesses with massive scale, global operations, and leadership positions within their industries
- We've been methodically increasing our exposure to businesses we believe are materially undervalued such as:
  - Haier Smart Home** is one of the big 3 home appliance manufacturers in China with leading positions in air conditioners, washing machines, and refrigerators, with operations also in North America & Europe
  - Weichai Power Co.** is China's leading diesel engine OEM, with over 30% of the heavy-duty truck market, 2x that of the #2 player
  - China Overseas Land & Investment (COLI)** is a large, partially state-owned homebuilder, which boasts a sizable landbank in Chinese tier 1 and 2 cities and, being state-owned, doesn't face the debt issues and funding squeeze of private sector players
  - WH Group** is the world's largest pork company with leading market share in US and in China, where WH Group is larger than its next ten competitors combined

### Notable Chinese Purchases\* Past 3 Years









Source: FactSet, Pzena analysis

\*Based on total dollar amount in the Pzena Emerging Markets Focused Value strategy. Data as of March 31, 2024. These companies are held in one or more of our strategies as of March 31, 2024. Highlighted holdings are illustrative of our research process. 344 of 378



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SUBJECT: FY2024 Budget Projections

ACTION:

DATE: May 29, 2024

INFORMATION: X

## BACKGROUND

Per Board Resolution 98-4 – Pertaining to The Operating Budget of The Corporation:

*APFC staff shall, prior to the last meeting of the Board of Trustees of each fiscal year, prepare an analysis of expenditures to date and status of programs, identify projected shortfalls and surpluses by the objects of expenditures set out herein, and recommend transfers to the Board of Trustees.*

*The Board of Trustees may, following discussion and due consideration of staff recommendations, authorize the transfer of budgeted funds between the objects of expenditure set out herein pursuant to such recommendations as may be amended by the Board of Trustees.*

## STATUS

The attached report shows the projected fiscal year-end status of the Corporation's two Fiscal Year 2024 budget allocations. The estimates are based on actual expenditures through third quarter (March 31, 2024), and expenditure projections for April through June 2024.

## OPERATIONS ALLOCATION

### TOTAL CORPORATE OPERATIONS

Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
\$ 25,933,797	\$ 22,596,277	\$ 3,337,520

Total projected expenditures for APFC operations are anticipated to be well within the authorized budget. This memo will detail significant expenditure lines and provide highlights and updates for each. We do not anticipate the need to transfer any funds between the objects of expenditure.

All funds not expended will lapse at the close of the fiscal year, remaining in the Earnings Reserve Account (ERA).

**PERSONAL SERVICES**

Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
\$ 20,547,397	\$ 17,707,366	\$ 2,840,031

APFC has seen significant movement with employees this fiscal year. There were three new hires in the first quarter, seven new hires in the second quarter, and four hires in the third quarter. Although we have diligently added these great new staff to our team, we have lost ten employees this fiscal year, seven to other opportunities.

We currently have seven vacancies (and two intern positions that have not yet started) – projected for fourth quarter, we anticipate filling one additional Portfolio Manager, two Investment Analysts, and two interns. That leaves us with four vacancies: a Portfolio Manager, an Investment Operations Analyst, an HR Generalist, and a receptionist. We anticipate expending 86% of the personal services line.

**TRAVEL**

Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
\$ 800,000	\$ 761,390	\$ 38,610

APFC came into this fiscal year with the anticipation of fully expending the travel line noting not only that travel was significantly increasing post-pandemic but that the costs were increasing as well. This fiscal year has continued the trend and has seen travel increase for several reasons including larger team sizes as well as candidate travel as we have worked to fill our vacancies.

Overall, travel frequency is still down from pre-pandemic levels but continues to return to full swing and our teams are catching up on required meetings and asset class visits.

The travel line has been closely monitored during the second half of the fiscal year, given that projections showed an approximate break-even. Some trips were canceled due to potential budget constraints, but as of now, we anticipate a lapse of approximately \$39,000 by fiscal year-end.

Two new employees temporarily relocated to Juneau for training prior to moving up to the Anchorage office. With the current remote work policy, the expectation is that remote workers will spend two consecutive weeks at headquarters each quarter. The language does allow for some flexibility for shorter, non-consecutive time in the office, but due to budget constraints, quarterly visits may not be viable next fiscal year.

## HR AND RECRUITMENT

This is our largest travel line accounting for almost one-quarter of the overall travel budget. The recruitment line (\$180,000) includes candidate travel as well as move/relocation for new employees.

## CONTRACTUAL SERVICES

<u>Corporate Operations</u>	Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
Audit, Legal, Consulting	713,200	466,244	246,956
Public Communications	395,300	395,300	-
Board Support and Meetings	111,400	79,848	31,552
Information Technology	1,490,000	1,473,682	16,318
HR and Recruitment	65,100	74,544	(9,444)
Training and Conferences	159,680	42,417	117,263
Office Support	766,150	750,571	15,579
<b>Contractual Services Total</b>	<b>3,700,830</b>	<b>3,282,606</b>	<b>418,223</b>

Contractual services in the APFC Operating allocation consists of all services provided to APFC by non-employees such as contractors, consultants, auditors, and attorneys. The contractual services that are investment-specific are reflected in the Investment Management allocation.

## AUDIT, LEGAL, CONSULTING

This line of expenditure includes contracting services to perform the annual audit, advisory consulting, and the Reimbursable Service Agreements (RSA) with the Department of Law (DOL). The RSAs include services from a Senior Assistant Attorney General to assist with APFC matters and DOL's assistance with procurement, securities litigation, public records, and compliance.

We anticipate a surplus of close to \$247,000. The largest item contributing to the surplus in this category is from the DOL RSA. While we anticipate spending an additional \$7,500 through year-end, that leaves nearly \$160,000 that will remain in the ERA. We also included an additional estimated amount in the audit for this fiscal year as this was the first year managing the Power Cost Equalization Fund. The surplus also includes the annual \$10,000 that is budgeted to cover special projects that come up regarding new reporting requirements or requests from the Board.

## PUBLIC COMMUNICATIONS

This line accounts for general communications contractual services as well advertising and printing. With the work that our communications team continues to do, we anticipate the communications budget to be fully expended. Communications has had a busy year working to advance outreach and elevate the Corporation as a thought leader in Alaska, nationally, and globally.

## **BOARD SUPPORT & MEETINGS**

This line item covers meeting room and equipment, catering, meeting transcription and other expenses (printing board books, etc.) to hold meetings. Overall, we anticipate expending approximately three-quarters of this budget leaving a projected lapse of about \$30,000.

## **INFORMATION TECHNOLOGY**

This line represents over 44% of the contractual services budget, including IT consulting, MIS system services, network/server software licensing and maintenance, equipment repair, and the datacenter lease.

During FY2024, it became clear that software, licensing, and maintenance costs have significantly increased, including cloud operating expenses and essential hardware costs for the Juneau data center. APFC also renewed a three-year agreement with Microsoft, resulting in predictable higher expenses, while the acquisition of VMware by Broadcom further raised virtualization costs in a much less predictable way. We were able to absorb the increased operating costs with a priority-based decision-making process specifically with software and hardware items.

In the FY2024 budget, IT requested funding to address a critical issue with the data center fire protection system (Clean Agent), and this project is currently underway. New UPS systems have been installed in the Juneau data center which replaced a non-functional unit and an end-of-life unit.

This fiscal year, we will also fulfill our bi-annual security requirements, starting with a penetration test by a trusted third party.

## **HR AND RECRUITMENT**

This line includes both recruitment notices and inter-agency HR expenses (shared services) with the Department of Revenue. This line has been utilized to have APFC presence at both the University of Alaska Anchorage and the University of Alaska Southeast Career Fairs this fiscal year. While we did not receive any applicants or interns from these career fairs, APFC staff made connections with university staff, other employers, and students.

The over expenditure in this line is due to the shared services portion. The FY2023 expense was approximately \$23,000 more than anticipated and the invoice did not come prior to fiscal year end close which left the remainder to be paid out of FY2024. In addition to starting with insufficient budgetary authority in this line, HR costs have increased again this fiscal year. Due to the rising costs, APFC will likely seek an increment during FY2026 budget development to true up to anticipated shared services actuals.

### TRAINING AND CONFERENCES

Although we do have some staff who have taken advantage of training opportunities, we anticipate a significant surplus in this line item.

For most of the conferences that our staff attend, the fees are waived primarily because they are speakers. Due to the travel budget constraints, our operations staff do not typically attend conferences or training outside of Juneau. Some of our operations staff have taken advantage of online and virtual training opportunities.

### OFFICE SUPPORT

The largest portion of this line is for the office lease. It also includes all non-HR inter-agency expenses, cell phones, and record retention storage. This line is projected to be 98% expended leaving less than \$16,000 surplus at year-end.

### COMMODITIES

Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
\$ 435,570	\$ 398,594	\$ 36,976

Over 75% of the commodities line is budgeted for workstation equipment. We anticipate fully expending that this year. This fiscal year was a full computer/endpoint refresh year and all new workstations have been deployed (finished September 2023). The next full endpoint workstation refresh will be FY2028.

The other items accounted for on this line include subscriptions, office supplies, small IT purchases, and A/V conferencing equipment. We anticipate a \$37,000 surplus in this line.

### EQUIPMENT

Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
\$ 450,000	\$ 446,320	\$ 3,680

This budget line covers all network/service equipment exceeding \$5,000. We have expanded capacity in our Juneau virtualization servers to meet the growing software requirements for Bloomberg Terminal and Blackrock/Aladdin. New hardware firewalls were installed in both Juneau and Fairbanks to replace outdated equipment, and additional networking gear was purchased to increase bandwidth for Bloomberg and Blackrock/Aladdin.

## INVESTMENT MANAGEMENT ALLOCATION

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### CONTRACTUAL SERVICES

<u>Investment Management</u>	Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
Investment Systems	\$ 11,649,200	\$ 7,321,754	\$ 4,327,446
Investment Due Diligence	\$ 5,763,400	\$ 3,300,541	\$ 2,462,859
Custody Fees	\$ 2,300,000	\$ 1,320,831	\$ 979,169
Investment Manager Fees	\$ 175,651,000	\$ 116,558,193	\$ 59,092,807

Contractual services that are investment-specific include investment systems, investment due diligence, custody fees, and investment manager fees.

### INVESTMENT SYSTEMS

Nearly 90% of this line is utilized for shared services, analytics, and data. It also covers investment/finance network access fees and consulting/modeling. We anticipate a \$4.3 million surplus. We have seen a significant increase in the costs for renewing most of these contracts, it is important to have this budgeted authority to meet the needs of our growing teams.

APFC is working with the Bank of New York Mellon on the data vault project. While we anticipate some expenses to come out of this fiscal year, we do not have an estimate of how much yet. We have established cadence and are currently working to finalize the contract. Our staff looks forward to discovery sessions to define our business objectives and scope of work.

### INVESTMENT DUE DILIGENCE

This line covers third party fiduciary advice and subject matter experts, manager searches and legal fees that are investment specific. We anticipate a surplus of nearly \$2.5 million though we will request continued funding for this discretionary work to avoid restricting the required due diligence of potential investment opportunities.

All APFC appropriated funds remain in the ERA at the end of the fiscal year. It is important to have budget flexibility to ensure we have adequate funds available as potential opportunities become available.

### CUSTODY & MANAGER FEES

<u>Investment Management</u>	Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget
Custody Fees	\$ 2,300,000	\$ 1,320,831	\$ 979,169
Investment Manager Fees	\$ 175,651,000	\$ 145,551,558	\$ 30,099,442
Public Equities	139,157,000	113,815,306	25,341,694
Real Estate	3,594,000	2,572,870	1,021,130
Alternative Markets	32,900,000	29,163,382	3,736,618

Management fees depend primarily on investment performance which is difficult to predict especially given the timeline of the budget development process. The budget is built on projected growth, Callan's market assumptions per asset class, and the actual fee structures for external management contracts. Because of all these variables, APFC budgets this allocation to ensure that it can honor the terms of the contracts with its investment partners.

The Bank of New York Mellon is the custodian of the Fund's assets. Additional expenditures include collateral management and tax advisory services.

We anticipate lapsing \$979,000 of custody fees this fiscal year and approximately \$30 million of manager fees. It is important that we have funding available to fulfill contractual obligations when benchmarks are met. All funds not expended during the fiscal year will remain in the ERA.

APFC has \$1 million dollars budgeted in this line for potential outsourcing of the middle office. Given recruitment challenges and turnover in this necessary function, APFC recommends to keep this budget authority available if ever it should be needed.

### *Public Equities*

Public equities includes two fee structures: base and incentive. The base fees for the fourth quarter are estimates based on a slight increase in account values from March to June in accordance with capital market assumptions from Callan. The performance of the public equity portfolio in FY24 has been in line with its benchmark with a slight underperformance of -0.15% through March. The projected base fees for FY24 totals \$55.8 million.

The 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 which makes it extremely challenging to forecast. Some managers outperformances in 2023 contributed to a total of \$17.8 million in incentive fees paid out with an additional \$11.2 million projected.

Total fees paid for public equities in FY2024 is forecasted to be \$84.8 million. The surplus for all public equity management fees is forecasted to be \$54.3 million.

### *Real Estate*

Real estate fees for the fiscal year are expected to be just under \$2.6 million. We are projecting a surplus of just over \$1 million.

### *Alternatives*

We anticipate a small lapse of just over 10% of the budget for this line (\$3.7 million). Pathway Capital Management continues to account for the majority of fees paid for Alternative Investments.



ALASKA PERMANENT  
FUND CORPORATION

# FY2024 Budget Projections

May 29, 2024

**Budget-to-Actuals and Projected Expenditures: July 1, 2023 through June 30, 2024**

FY2024 BOY PF Balance		\$78,715,000,000			
<u>Corporate Operations</u>	Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget	% Expended	
Personal Services	\$ 20,547,397	\$ 17,707,366	\$ 2,840,031	86%	
Staff	17,716,097	15,684,740	2,031,357	89%	
Incentive Compensation	2,800,000	2,004,070	795,930	72%	
Board: Honoraria	31,300	18,556	12,744	59%	
Travel	\$ 800,000	\$ 761,390	\$ 38,610	95%	
Staff	602,000	565,385	36,615	94%	
Trustees	18,000	24,162	(6,162)	134%	
Moving and Non-Employee	180,000	171,843	8,157	95%	
Contractual Services	\$ 3,700,830	\$ 3,282,607	\$ 418,223	89%	
Audit, Legal, Consulting	713,200	466,244	246,956	65%	
Public Communications	395,300	395,300	-	100%	
Board Support and Meetings	111,400	79,848	31,552	72%	
Information Technology	1,490,000	1,473,682	16,318	99%	
HR and Recruitment	65,100	74,544	(9,444)	115%	
Training and Conferences	159,680	42,417	117,263	27%	
Office Support	766,150	750,571	15,579	98%	
Commodities	\$ 435,570	\$ 398,594	\$ 36,976	92%	
Equipment	\$ 450,000	\$ 446,320	\$ 3,680	99%	
<b>Corporate Operations Total</b>	<b>\$ 25,933,797</b>	<b>\$ 22,596,277</b>	<b>\$ 3,337,520</b>	<b>87%</b>	
<u>Investment Management</u>	Authorized Budget	Actuals and Projected Expenditures	Projected Remaining Budget	% Expended	
Investment Systems	\$ 11,649,200	\$ 7,321,754	\$ 4,327,446	63%	
Investment Due Diligence	\$ 5,763,400	\$ 3,300,541	\$ 2,462,859	57%	
Custody Fees	\$ 2,300,000	\$ 1,320,831	\$ 979,169	57%	
Investment Manager Fees	\$ 175,651,000	\$ 116,558,193	\$ 59,092,807	66%	
Public Equities	139,157,000	84,821,942	54,335,058	61%	
Real Estate	3,594,000	2,572,870	1,021,130	72%	
Alternative Markets	32,900,000	29,163,382	3,736,618	89%	
<b>Investment Management Total</b>	<b>\$ 195,363,600</b>	<b>\$ 128,501,319</b>	<b>\$ 66,862,281</b>	<b>66%</b>	
<b>Legislative Appropriation</b>	<b>\$ 9,834,500</b>	<b>\$ 9,834,500</b>	<b>\$ -</b>	<b>100%</b>	
<b>Total Appropriation</b>	<b>\$ 231,131,897</b>	<b>\$ 160,932,096</b>	<b>\$ 70,199,801</b>	<b>70%</b>	

# Corporate Operations Allocation

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Personal Services  
Travel  
Contractual Services  
Commodities  
Equipment

FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 25,933,797	\$ 22,596,277	\$ 3,337,520

# Personal Services

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FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 20,547,397	\$ 17,707,366	\$ 2,840,031



# Personal Services Vacancies

Vacancies (as of 5/1/2024)			
Investment			
	Filled	Vacant	Total
Investments (CIO)	1	1	2
Fixed Income	7	1	8
Public Equities	3	0	3
Real Estate	5	1	6
Private Equity	8	0	8
Private Income	3	0	3
Absolute Return	1	0	1
Cash & Risk Parity	1	0	1
<b>Total</b>	<b>29</b>	<b>3</b>	<b>32</b>
<b>Middle Office</b>	<b>2</b>	<b>1</b>	<b>3</b>
Operations			
Executive	6	1	7
Finance	7	0	7
Communications	2	0	2
Risk&Compliance	2	0	2
IT	6	0	6
HR	1	1	2
Admin. Operations	5	1	6
<b>Total</b>	<b>29</b>	<b>3</b>	<b>32</b>
<b>Grand Total</b>	<b>60</b>	<b>7</b>	<b>67</b>

# Travel

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FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 800,000	\$ 761,390	\$ 38,610



# Contractual Services

	FY24 Budget	FY24 Actuals & Projected	Projected Surplus
Audit, Legal, Consulting	713,200	466,244	246,956
Public Communications	395,300	395,300	-
Board Support and Meetings	111,400	79,848	31,552
Information Technology	1,490,000	1,473,682	16,318
HR and Recruitment	65,100	74,544	(9,444)
Training/Education	159,680	42,417	117,263
Office Support	766,150	750,571	15,579
<b>TOTAL</b>	<b>3,700,830</b>	<b>3,282,607</b>	<b>418,223</b>

# Commodities

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FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 435,570	\$ 398,594	\$ 36,976

- 
- Subscriptions
  - IT Supplies and Equipment < \$5,000
  - Office Supplies

# Equipment

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FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 450,000	\$ 446,320	\$ 3,680



# Investment Management Allocation

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FY24 Budget	FY24 Actuals & Projected	Projected Surplus
\$ 195,363,600	\$ 128,501,319	\$ 66,862,281

Investment Manager Fees  
Investment Systems  
Investment Due Diligence  
Custody Fees

# Investment Management Fees

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	FY24 Budget	FY24 Actuals & Projected	Projected Surplus
Public Equity	139,157,000	84,821,942	54,335,085
Real Estate	3,594,000	2,572,870	1,021,130
Alternative Markets	32,900,000	29,163,382	3,736,618
<b>Total</b>	<b>\$ 175,651,000</b>	<b>\$ 116,558,193</b>	<b>\$ 59,092,807</b>

# Investment Management

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	FY24 Budget	FY24 Actuals & Projected	Projected Surplus
Investment Systems	\$ 11,649,200	\$ 7,321,754	\$ 4,327,446
Investment Due Diligence	\$ 5,763,400	\$ 3,300,541	\$ 2,462,859
Custody Fees	\$ 2,300,000	\$ 1,320,831	\$ 979,169
<b>Total</b>	\$ 19,712,600	\$ 11,943,126	\$ 7,769,474

A teal-colored background featuring a close-up, slightly blurred image of a pine branch with needles and a small, textured pine cone or bud. The text "Questions?" is centered in white.

# Questions?

SUBJECT: FY2025 Budget Approval

ACTION: X

DATE: May 28, 2024

INFORMATION:

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### **BACKGROUND:**

Per Board Resolution, 98-6 Authorization to Expend Approved Funds:

*Before the end of the current fiscal year, APFC staff shall present to the Board of Trustees the final operating and capital budgets authorized by the Legislature for the succeeding fiscal year, and identify budget reductions by the Legislature, if any, along with an analysis of resulting corporate or program effect.*

*The Board of Trustees authorizes the Executive Director, following proper notification to the Trustees in accordance with the requirements of Resolution 98-6, to expend from appropriations as authorized by Trustee policy and the Legislature beginning July 1 of the fiscal year.*

### **Summary:**

The Board adopted a proposed budget, at its meeting of September 27, 2023. All increments put forward for the Governor's proposed budget were accepted and put forward to the Legislature. Two items were put forward for the Governor's Amended budget, only one of which was included. The following summarizes the FY2025 increments requested in addition to the FY2024 base budget.

#### Personal Services

##### Incentive Compensation

Noting that we are one team at APFC, incentive compensation was put forward again for both operations and investment staff alike. The total ask for this item was \$915,000.

##### Merit Increase

A merit increase of 6%, which totals \$920,000.

#### Travel

Given the increase in anticipated travel after COVID-19, the board put forward a request of \$100,000.

#### Contractual Services

An increment of \$56,100 - this relatively small adjustment is a result of the accumulated anticipated needs offset by reductions. Part of this request included lease and tech support for the Anchorage office.

#### Commodities

A request for \$50,000 to fund furniture and supplies, primarily for the Anchorage office. This increment offset the initial decrement of \$239,700 that reversed the one-time funding for the three-year workstation replacement cycle. (The board's approved budget included the sum of these for a decrement of \$189,700).

## Equipment

An increment to support the data center relocation of \$150,000 was requested.

## Investment Management Fees Allocation

A request for \$2,800,000 in additional funding to support increasing gatekeeper fees based on anticipated commitments within alternative markets. \$200,000 of this request was to support reconciliation services and increased tax advisory services in certain international markets.

### Items that passed the House and Senate:

#### Personal Services

##### Incentive Compensation

Operations staff incentive compensation ask of \$445,000 was accepted by both bodies noting that we are one team at APFC. This is the first year that APFC has an appropriation for operations staff to receive incentive compensation if the teams they support exceed their established benchmark.

Note that only the ask for operations staff passed both bodies. See Conference Committee below for investment staff increment.

The ask for an additional funded position for the private equities team was not included in the Governor's Amended budget that was put forward to the Legislature.

#### Contractual Services

The original ask was the accumulation of anticipated needs offset by reductions which totaled \$56,100. A total of \$60,000 of items related to the Anchorage office were removed from this resulting in a decrement of \$3,900. (This included \$25,000 for Anchorage office technology support and \$35,000 for unbudgeted Anchorage office lease space).

In support of the Board's strategic initiative, a governor's amendment requesting \$150,000 for national and global financial communications support was brought forward and passed by both bodies.

#### Commodities

A decrement of \$45,000 for expenses intended for the Anchorage office was applied to the original ask of \$50,000 which resulted in an increment of \$5,000 for furniture. The decrement to reverse the one-time funding also lowered this line.

## Equipment

A fully funded ask of \$150,000 passed for the data center relocation.

## Investment Management Fees Allocation

A fully funded ask of \$2,800,000 passed for the increase in gatekeeper fees associated with alternative markets and support for reconciliation and tax advisory services passed both bodies.

## Legislative Intent Language

Intent language passed both bodies:

*It is the intent of the legislature that the Alaska Permanent Fund Corporation will not establish or maintain new office locations without corresponding budget increments for that purpose. It is the further intent of the legislature that the Alaska Permanent Fund Corporation shall provide a report to the Finance Committee Co-chairs and the Legislative Finance Division by December 20, 2024, that details any actual expenditures to date related to the Anchorage office.*

## Conference Committee items:

### Personal Services

#### Incentive Compensation

The initial ask for \$915,000 included \$445,000 for operations staff and an additional \$475,000 for investment staff. Both the House and Senate passed the operations amount, and ultimately, the investment staff portion was flat funded. This is due to the fact that we did not expend all incentive compensation for investment staff last fiscal year and it was noted that if necessary (performance exceeded established benchmarks entirely), a supplemental request would be appropriate. Though this may delay incentive compensation as it goes through the legislative appropriation process for supplemental asks, if all benchmarks are exceeded and a supplementary appropriation is necessary, it is a viable option.

#### Merit Increase

The initial request in the Governor's budget was a 6% increase for a total of \$920,000. The House passed a 3% increase and the Senate passed 2%. Ultimately, a 2% (\$306,700) is what passed in the operating budget bill for FY2025.

#### Board Honorarium

The board honorarium base budget was reduced to \$16,000 after a \$15,300 decrement. FY2024 actuals for board honorarium are forecasted to be about \$18,600. APFC has a statutory obligation to compensate board members for each day spent at a meeting of the board, a meeting of a subcommittee of the board, and at a public meeting as a representative of the board.

### Travel

The travel budget increment did not pass, instead, Conference Committee reduced the base budget by \$100,000. This leaves an FY2025 travel budget of \$700,000.

### Separate Appropriations

Ultimately, Conference Committee passed a structure change for three separate appropriations for APFC:

- Investment Management Fees
- APFC Juneau Office Operations
- APFC Anchorage Office Operations

The Anchorage office appropriation came with zero funding, but a \$100 one-time increment was added to decommission the Anchorage office.

## **RECOMMENDATION:**

### Proposed Board Motion:

"The Board moves to authorize the Chief Executive Officer to expend the APFC budget authorization as appropriated by the Legislature and enacted into law, beginning July 1, 2024."



ALASKA PERMANENT  
FUND CORPORATION

# FY2025 Budget Authorization

May 29, 2024

# FY2025 Proposed Budget

	FY2024 Authorized	FY2025 BOT Proposed	FY2025 Gov Amend
<b>Operating Allocation</b>	<b>25,933,797</b>	<b>27,885,200</b>	<b>28,344,800</b>
Personal Services	20,547,397	22,382,400	22,671,800
Travel	800,000	900,000	900,000
Services	3,700,830	3,756,900	3,927,100
Commodities	435,570	245,900	245,900
Equipment	450,000	600,000	600,000
<b>Investment Mgmt Allocation</b>	<b>195,363,600</b>	<b>198,163,600</b>	<b>198,163,600</b>
Investment Mgmt Fees	175,651,000	178,251,000	178,251,000
Investment Systems	11,649,200	11,649,200	11,649,200
Due Diligence	5,763,400	5,763,400	5,763,400
Custody Fees	2,300,000	2,500,000	2,500,000
<b>Total Appropriation</b>	<b>221,297,397</b>	<b>226,048,800</b>	<b>226,508,400</b>

	FY2025 Conference Committee HB268
<b>Juneau Office Operations Appropriation</b>	<b>26,941,200</b>
Personal Services	21,573,200
Travel	700,000
Services	3,867,100
Commodities	200,900
Equipment	600,000
<b>Investment Mgmt Appropriation</b>	<b>198,163,600</b>
Investment Mgmt Fees	178,251,000
Investment Systems	11,649,200
Due Diligence	5,763,400
Custody Fees	2,500,000
<b>Anchorage Office Operations Appropriation</b>	<b>100 IncOTI</b>



## BOT Budget Items that Passed

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- Incentive compensation
  - Operations: \$445,000 (first time funding)
  - Investment: \$2.8 million (flat funding from FY24)
- Data Center Relocation - \$150,000
- Global Communications Support - \$150,000
- Investment Management & Custody Fees - \$2.8 million
- \$5,000 for furniture (does not include \$45,000 ask for Anchorage)



# Major Changes from BOT Proposed

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- The Legislature changed the budget structure for APFC to have three separate appropriations
  - APFC Juneau Office Operations
  - APFC Anchorage Office Operations
  - Investment Management Fees
- BOT proposed 6% merit increase; the Legislature passed 2%
- BOT proposed \$100,000 travel increment; the Legislature passed \$100,000 decrement
- The Legislature passed decrement of \$15,300 to board honorarium
- Anchorage office funding did not pass
  - Lease for \$35,000
  - IT Support for \$25,000
  - Furniture for \$45,000

# Legislative Intent Language

*“It is the intent of the legislature that the Alaska Permanent Fund Corporation will not establish or maintain new office locations without corresponding budget increments for that purpose. It is the further intent of the legislature that the Alaska Permanent Fund Corporation shall provide a report to the Finance Committee Co-chairs and the Legislative Finance Division by December 20, 2024, that details any actual expenditures to date related to the Anchorage office.”*

# Personal Services Line

	FY2024 Authorized	FY2025 Proposed	Conference Committee
<b>Personal Services</b>	<b>20,547,397</b>	<b>22,382,348</b>	<b>21,573,200</b>
Base Salaries	12,420,561	13,165,796	12,668,961
Base Benefits	5,774,110	6,046,625	6,154,348
Incentive Compensation (Inv. Staff)	2,800,000	3,270,000	2,800,000
Incentive Compensation (Ops. Staff)	-	445,000	445,000
Board Honorarium	31,300	31,300	16,000
Vacancy Factor (3%) + Other	(478,574)	(576,373)	(511,109)

SB 259 passed the Legislature providing a salary adjustment for exempt employees. It includes a 5% adjustment to base salaries and an additional salary increase of 3.38%. This is still pending Enactment.

# APFC Actual Expenditures, FY19-FY24

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 (est)
<b>BOY PF Balance</b>	\$ 65,404,000,000	\$ 66,835,000,000	\$ 65,837,000,000	\$ 82,602,000,000	\$ 77,022,000,000	\$ 78,715,000,000
<b>APFC Corporate Operations</b>						
Personal Services	9,643,200	10,375,700	10,861,700	13,283,000	15,184,200	17,707,366
Travel	577,600	433,500	128,700	530,400	596,800	761,390
Contractual Services	3,257,900	2,938,600	2,743,800	2,857,400	2,897,900	3,282,607
Commodities	217,100	306,200	268,200	183,100	178,600	398,594
Equipment	334,100	368,300	364,600	538,100	447,100	446,320
<b>Total</b>	<b>14,029,900</b>	<b>14,422,300</b>	<b>14,367,000</b>	<b>17,392,000</b>	<b>19,304,600</b>	<b>22,596,277</b>
<b>bps</b>	<b>2.15</b>	<b>2.16</b>	<b>2.18</b>	<b>2.11</b>	<b>2.51</b>	<b>2.87</b>
<b>APFC Investment Management Fees</b>	<b>116,928,300</b>	<b>105,337,400</b>	<b>153,365,200</b>	<b>126,236,700</b>	<b>143,970,000</b>	<b>128,501,319</b>
<b>bps</b>	<b>17.88</b>	<b>15.76</b>	<b>23.29</b>	<b>15.28</b>	<b>18.69</b>	<b>16.32</b>
APFC Appropriation	130,958,200	119,759,700	167,732,200	143,628,700	163,274,600	151,097,596
Legislative Appropriation	8,783,000	7,792,000	8,444,000	9,281,000	9,365,200	9,834,500
AmHess Capital Income	22,329,000	20,492,000	50,116,000	24,002,000	5,700,000	20,000,000
POMV Distribution	2,722,842,518	2,933,084,121	3,091,492,927	3,069,296,016	3,360,567,100	3,526,000,000
<b>Total Appropriation</b>	<b>2,884,912,718</b>	<b>3,081,127,821</b>	<b>3,317,785,127</b>	<b>3,246,207,716</b>	<b>3,538,906,900</b>	<b>3,706,932,096</b>
<b>bps</b>	<b>441.09</b>	<b>461.01</b>	<b>503.94</b>	<b>392.99</b>	<b>459.47</b>	<b>470.93</b>
<b>Lagging 5yr Real Rate of Return</b>	<b>7.30%</b>	<b>5.54%</b>	<b>4.77%</b>	<b>9.94%</b>	<b>5.86%</b>	<b>4.48%</b>



# Motion to Authorize Expenditure