



Board of Trustees

Audit Committee Meeting

September 5, 2024

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 - b. Proposed Amendments to Audit Charter
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Board of Trustees Audit Committee Meeting

September 5, 2024

1:00 p.m. – 4:00 p.m.

Michael J. Burns Building

David Rose Board Room

(3rd Floor)

801 W 10th Street, Juneau, AK 99801

Teams Webinar Access:

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

Event Password: 2otH9H

Teleconference Option

Phone: 323-792-6284

Meeting ID: 275 783 508 016

Phone Conference ID: 590 791 099#

**Written comments can be sent to Trustees anytime at
boardpubliccomment@apfc.org**

AGENDA

THURSDAY, SEPTEMBER 5, 2024

- 1:00 p.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- APPROVAL OF MINUTES (Action)
- Audit Committee Minutes – June 6, 2024
- OPPORTUNITY FOR PUBLIC PARTICIPATION
- 1:15 p.m. KPMG AUDIT REPORT (Information)
- Beth Stuart, Lead Audit Partner, KPMG
- Melissa Beedle, Audit Managing Director, KPMG
- 1:45 p.m. EXECUTIVE SESSION – KPMG (Information)
- Discuss integrity of financial statements/controls
- 2:15 p.m. DETAILED REVIEW OF FY24 YEAR-END FINANCIAL STATEMENTS (Information)
- Valerie Mertz, Chief Financial Officer
- Jacki Mallinger, Senior Portfolio Accountant II
- FY24 Management’s Discussion & Analysis
- FY24 Financial Statements
- FY24 Financial Statements Notes

- 2:45 p.m. BREAK
- 3:00 p.m. UPDATE ON LEGAL MATTERS (Information)
Chris Poag, General Counsel
- 3:10 p.m. REVISED AUDIT COMMITTEE CHARTER UPDATE (Information)
Chris Poag, General Counsel
Val Mertz, Chief Financial Officer
- 3:45 p.m. ADDITIONAL OPPORTUNITY FOR PUBLIC PARTICIPATION

OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 4:00 p.m. ADJOURNMENT

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



SUBJECT: Approval of Minutes

ACTION: X

DATE: September 5, 2024

INFORMATION:

BACKGROUND:

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

- June 6, 2024 Audit Committee Meeting

RECOMMENDATION:

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

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

June 6, 2024
1:00 pm.

Originating at:
Alaska Permanent Fund Corporation
801 West 10th Street
Juneau, Alaska 99801

Trustees Present:

Adam Crum
Ryan Anderson

Ethan Schutt
Jason Brune

APFC Staff Present:

Deven Mitchell
Val Mertz
Jennifer Loesch
Sebastian Vadakumcherry
Alexander Smith
Brittney Ortega
Ardian Balazhi
Tara Mendoza

Marcus Frampton
Jackie Mallinger
Juliette Alldredge
Larissa Murray
Norix Mangual
Christopher Poag
Scott Balovich

KPMG:

Beth Stuart
Melissa Beedle

Public:

Ann Rittgers
Gina Romero
Larry Smith

ACTION ITEMS

CALL TO ORDER

TRUSTEE RUBENSTEIN called the meeting to order.

ROLL CALL

JENNIFER LOESCH conducted the roll, confirming the presence of Trustees Anderson, Schutt, and Committee Chair Crum.

APPROVAL OF AGENDA

TRUSTEE SCHUTT moved to approve the agenda.

TRUSTEE ANDERSON seconded the motion.

APPROVAL OF MINUTES

TRUSTEE ANDERSON moved to approve the minutes of the September 7, 2023, meeting.

TRUSTEE SCHUTT seconded the motion.

PUBLIC PARTICIPATION

No members of the public were present or online.

FY24 KPMG AUDIT PLAN AND RISK ASSESSMENT (Information)

Presentation by M. BEEDLE and B. STUART from KPMG. The discussion included the engagement team composition, scope of the audit, risk assessment and materiality determination, audit timeline and significant risks, valuation of alternative and real estate investments, and the responsibilities of management and KPMG.

KPMG to continue with the audit plan as presented. KPMG to involve specialists for valuation of real estate and alternative investments. Trustees to reach out to KPMG with any questions or concerns regarding the audit plan.

FY24 YEAR-TO-DATE FINANCIAL STATEMENT REVIEW (Information)

Presentation by J. MALLINGER and V. MERTZ. The key points discussed were the financial position as of March 31st, showing a fund balance of \$79.6 billion, an increase of \$1.6 billion fiscal year-to-date. Details on asset categories, revenues, and expenditures. Transfers and fund structure, including \$2.7 billion of the \$3.5 billion POMV draw already transferred to the general fund. Calculation of the POMV draw based on the average market value of the fund over the first five of the preceding six fiscal years.

JACKIE MALLINGER to request a breakdown of mineral revenues from DNR. Financial team to include a slide on the appropriated amount for inflation proofing in future reports.

INTERNAL CONTROLS REVIEW (Information)

Presentation by S. VADAKUMCHERRY and V. MERTZ. Discussion about the overview of the Enterprise Risk Framework, which consolidates investment and operational risks. Investment risk assessment and mitigation strategies. Operational risks including IT, accounting, finance, human capital, and third-party risks. Regulatory, legal, and reputational risks. Governance and strategy risk. Suggested next steps for external assessment and gap analysis.

Develop a plan and timeline for employee training on risk management and internal controls. Continue to review and flesh out the operational risk framework over the next 12 months. Consider engaging an external consultant for an assessment of the enterprise risk framework.

AUDIT COMMITTEE SELF-ASSESSMENT (Information)

The discussion was led by VALERIE MERTZ. Reviewed the self-assessment results and identified areas for improvement, including the need for additional committee training and succession planning within the finance team and organization. Action items include identifying and pursuing relevant training opportunities for committee members and enhancing succession planning processes within the finance team and organization.

OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS

No additional matters discussed.

ADJOURNMENT

CHAIR CRUM adjourned the meeting at 2:42 p.m.



SUBJECT: Report of Annual Audit

ACTION: _____

DATE: September 5, 2024

INFORMATION: _____ X _____

BACKGROUND:

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

STATUS:

The financial audit for fiscal year 2024 will be completed by KPMG with a report date of September 5th following the committee’s review. Beth Stuart, Lead Audit Partner, and Melissa Beedle, Audit Managing Director, will present a summary of the audit results. A copy of the presentation is included here.



Alaska Permanent Fund Corporation Discussion with those charged with governance

Audit results and strategy for the year ending June 30, 2024



Audit results required communications and other matters

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

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

✓ = Matters to report X = No matters to report

Audit results required communications and other matters

Matters to communicate

Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud resulted in a material misstatement in the financial statements were identified during the audit.
Written communications	Management representation letter, including summary of uncorrected misstatements, to be distributed under separate covers.
Independence	We hereby affirm that as of September 5, 2024, the engagement team and others in the firm as appropriate, the firm and its affiliated firms, have complied with relevant ethical requirements regarding independence.
Inquiries	See page 8

Significant accounting estimates

Description of significant accounting estimates

- Valuation of directly owned real estate investments

Audit findings

Management's process used to develop the estimates

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

Significant assumptions used that have a high degree of subjectivity

- Assumptions used in the determination of the valuation that have a degree of subjectivity include management estimates related to vacancy, renewal probability, rent growth, and expense growth. None of these assumptions are presumed to include a significant risk for our audit.

Indicators of possible management bias

- There were no indicators of possible management bias identified during our audit of this estimate.

Conclusions

- We determined that the methods used by management and the valuations recorded by management are reasonable and not affected by indicators of management bias.

Significant accounting estimates

Description of significant accounting estimates

- Valuation of private investments

Audit findings

Management's process used to develop the estimates

- Management receives periodic capital statements from external fund managers. These capital statements are the starting point to estimate fair value of each private investment and are adjusted for any contributions or distributions made during the period and any other factors management believes impact fair value.

Significant assumptions used that have a high degree of subjectivity

- None

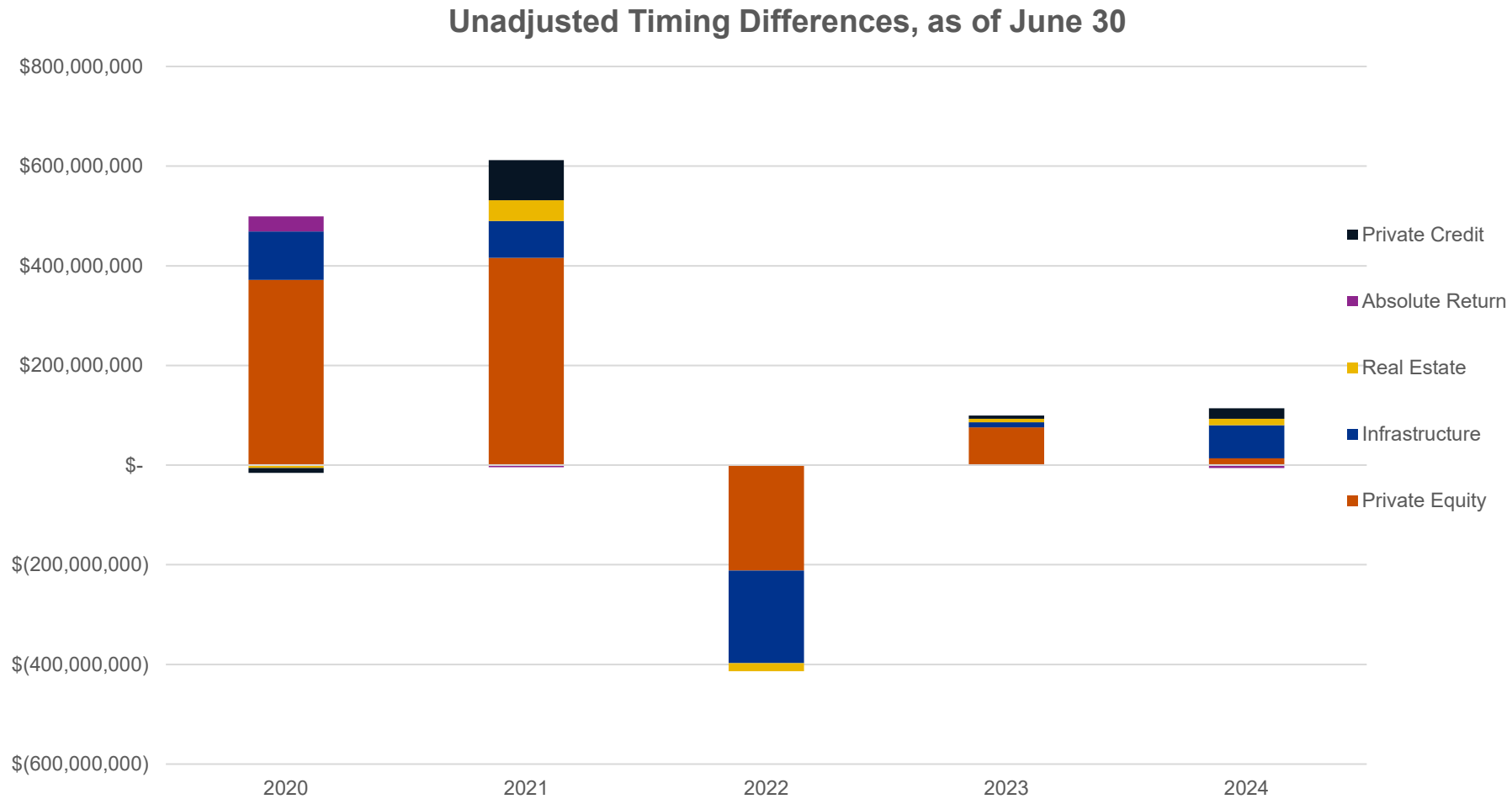
Indicators of possible management bias

- There were no indicators of possible management bias identified during our audit of this estimate.

Conclusions

- We determined that the methods used by management and the valuations recorded by management are reasonable and not affected by indicators of management bias.

Uncorrected audit misstatements



Revised 14 of 79



Other information

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

Inquiries

Are those charged with governance aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?
 - If so, have the instances been appropriately addressed and how have they been addressed?

US Audit Quality, Transparency, and Impact reports



- Interactive dashboard highlights key quality metrics
- Details KPMG's investment in our audit approach, people, technology, quality management system and the future of audit

Audit Quality Report



- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's structure, governance and approach to audit quality
- Discusses how the firm aligns with the requirements and intent of applicable professional standards

Transparency Report



- Provides annual update on our progress on meeting goals aligned to People, Planet, Prosperity, and Governance
- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

KPMG Impact Plan

In addition to this report, we are providing you with our [Transparency Report Supplement: Assisting audit committees in meeting NYSE rules on auditor communications Reports and supplements available at: \[audit.kpmg.us/auditquality\]\(https://audit.kpmg.us/auditquality\)](#)



Questions?

Beth Stuart
Audit Partner
emstuart@kpmg.com

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

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

DATE: September 5, 2024 INFORMATION: _____ X _____

BACKGROUND:

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

STATUS:

The financial audit for fiscal year 2024 will be completed by KPMG with a report date of September 5th. The reports were still being finalized at the packet deadline. A draft of management’s discussion and analysis, the financial statements and the footnotes are included here. Significant changes, if any, will be highlighted during the presentation of FY2024 year-end results.



ALASKA PERMANENT
FUND CORPORATION

FY24 Year End Financial Statement Review

September 5, 2024

Key Takeaways

as of June 30th

- Accounting net income: \$5.5b
- Statutory net income: \$4.2b
- Mineral revenues deposited to corpus: \$533m
- POMV transfers to General Fund: \$3.5b
- Total return 7.90%



Total Assets (millions)

	FY24 as of 6/30	FY23 as of 6/30
Cash	\$3,204.3	\$3,247.7
Receivables	461.7	766.7
Investments	<u>77,768.5</u>	<u>75,276.0</u>
Total assets	\$81,434.5	\$79,290.4

Investments (millions)

Fair value	FY24 as of 6/30	FY23 as of 6/30
Marketable debt securities	\$14,075.9	\$13,204.0
Preferred and common stock	27,285.7	26,769.5
Real estate	9,344.1	8,263.3
Absolute return	5,591.3	5,334.4
Private credit	2,774.9	2,690.3
Private equity	14,761.6	15,321.2
Infrastructure	3,935.0	3,693.3
Total investments	\$77,768.5	\$75,276.0

Unrealized Gains (Losses) (millions)

Asset Class	FY24 as of 6/30	FY23 as of 6/30	FY22 as of 6/30
Marketable debt securities	\$(619.3)	\$(847.8)	\$(1,186.1)
Preferred and common stock	4,945.4	3,098.6	855.5
Real estate	1,512.1	2,170.3	2,511.1
Absolute return	1,718.6	1,338.3	1,273.4
Private credit	372.8	333.7	346.2
Private equity	4,941.9	5,687.8	6,324.6
Infrastructure	1,184.0	1,047.7	868.3
Derivatives & Currency	18.4	(3.4)	41.9
Total unrealized gains	\$14,073.9	\$12,825.2	\$11,034.9

Liabilities (millions)

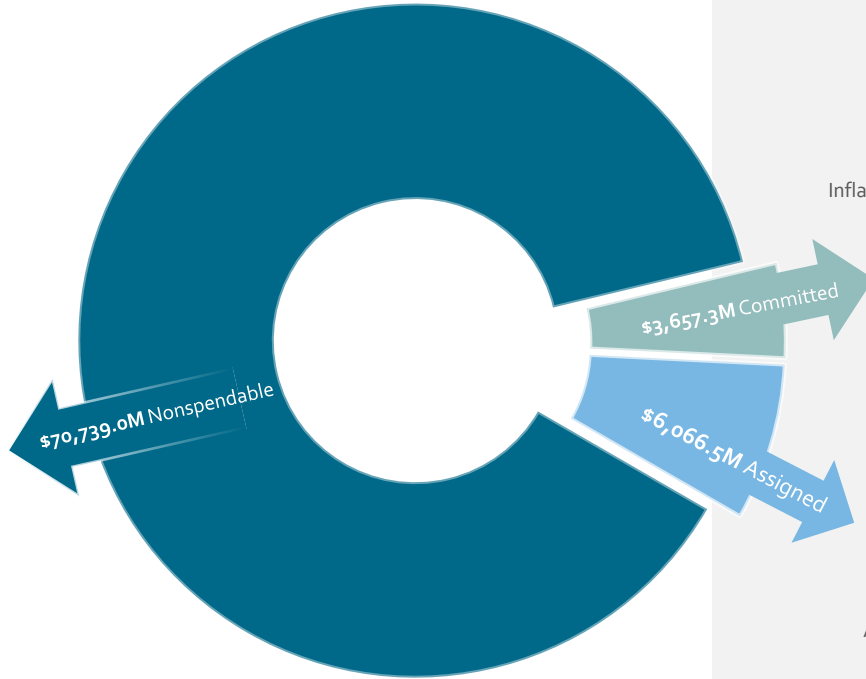
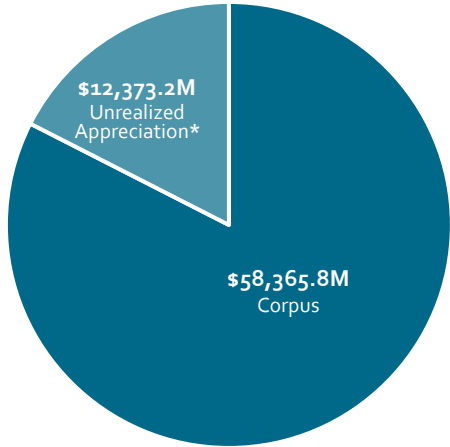
	FY24 as of 6/30	FY23 as of 6/30
Accounts payable	\$948.1	\$1,264.2
Income distributable	<u>23.6</u>	<u>14.3</u>
Total liabilities	\$971.7	\$1,278.5

Fund Balances (millions)

	FY24 as of 6/30	FY23 as of 6/30	FY22 as of 6/30
Nonspendable	\$70,739.0	\$67,520.7	\$60,187.6
Committed	3,657.3	3,526.1	3,360.6
Assigned	<u>6,066.5</u>	<u>6,965.1</u>	<u>12,789.0</u>
Total fund balances	<u>\$80,462.8</u>	<u>\$78,011.9</u>	<u>\$76,337.2</u>
Total liabilities and fund balances	\$81,434.5	\$79,290.4	\$77,677.3

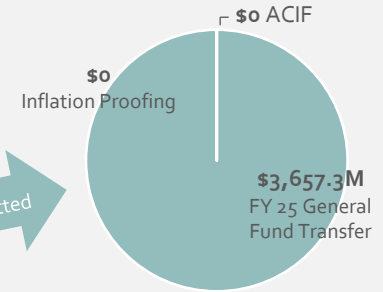
Alaska Permanent Fund STRUCTURE

Principal Nonspendable

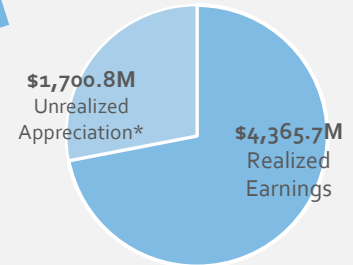


Earnings Reserve Account (ERA)

ERA Committed



ERA Assigned (Uncommitted)

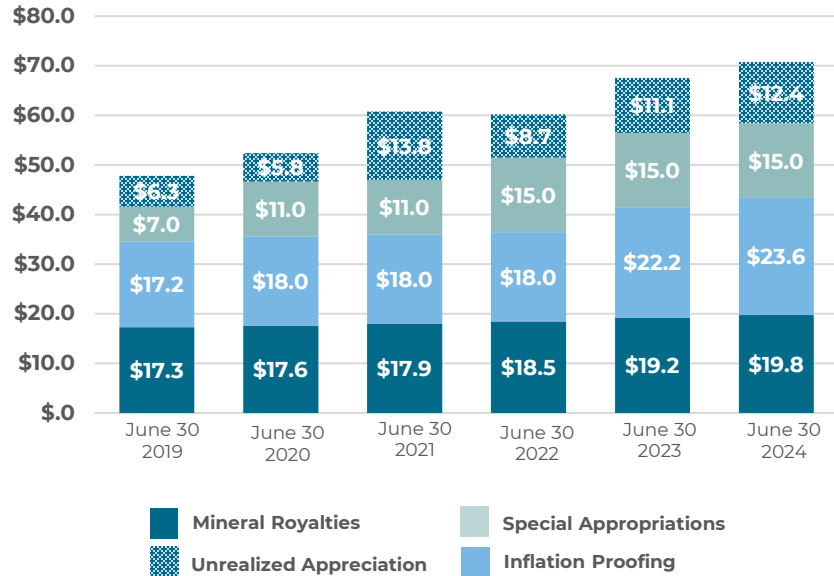


* Unrealized appreciation on invested assets is allocated proportionately between Principal and ERA

Alaska Permanent Fund Principal and ERA

FY19-FY24 To Date (IN BILLIONS)

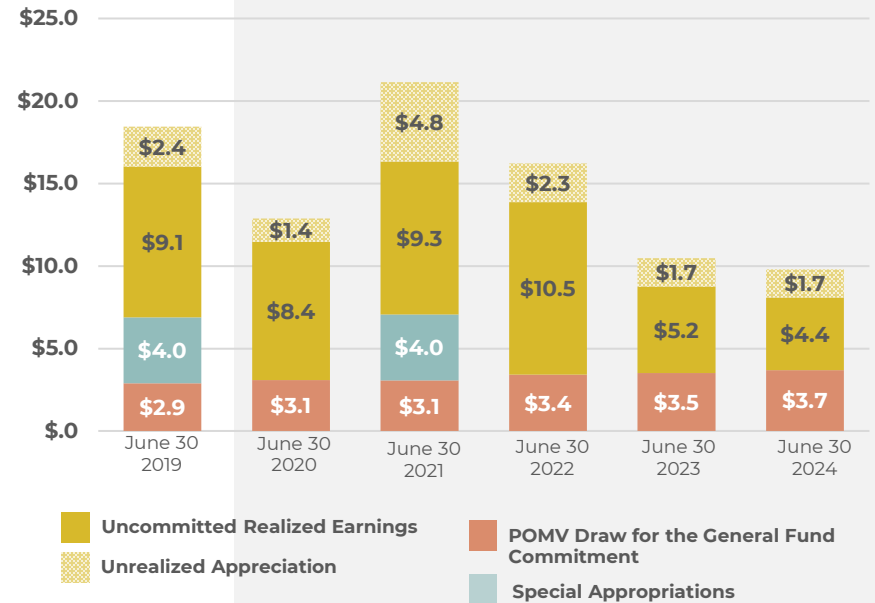
PRINCIPAL



Inflation Proofing is transferred at the end of the fiscal year.

Inflation Proofing transfers as appropriated for FY19 \$989.5M, FY20 \$757.7M, FY23 \$4.2B, and FY24 \$1.4B are included in the Principal.

EARNINGS RESERVE ACCOUNT (ERA)



Inflation Proofing FY16 – FY25 (millions)

Fiscal Year	Per Statute	Amount Appropriated	Surplus/ (Deficit)
2016	\$47.3	\$-	(\$47.3)
2017	501.6	-	(501.6)
2018	855.6	-	(855.6)
2019	989.5	989.5	-
2020	757.7	4,757.7	4,000
2021	577.3	-	(577.3)
2022	2,419.5	-	(2,419.5)
2023	4,179.3	4,179.3	-
2024	2,346.6	1,413.0	(933.6)
2025	1,470.9	1,000.0	(470.9)
Total	\$14,145.4	\$12,339.4	(\$1,805.8)

- FY20 follows intent language from appropriation
- Special appropriation of \$4B in FY22
- FY25 statutory calculation is estimated

Revenues (millions)

	FY24	FY23
Interest	\$585.2	\$502.7
Dividends	612.0	671.6
Real estate and other income	<u>462.0</u>	<u>462.9</u>
Total interest, dividends & other income	\$1,659.2	\$1,637.2
Total increase (decrease) in fair value of investments	<u>3,965.4</u>	<u>2,830.1</u>
Total revenues	\$5,624.6	\$4,467.3

Net Change in Investments Value

(millions)

Asset Class	FY24	FY23
Marketable debt securities	\$124.8	\$(229.6)
Preferred and common stock	3,808.0	3,049.1
Real estate	(603.3)	(278.9)
Absolute return	543.1	144.3
Private credit	62.1	47.2
Private equity	35.4	(4.8)
Infrastructure	193.8	272.2
Derivatives & currency	<u>(198.5)</u>	<u>(169.4)</u>
Total net increase (decrease)	\$3,965.4	\$2,830.1

Expenditures (millions)

	FY24	FY23
Operating expenditures	\$(146.9)	\$(161.7)
Other legislative appropriations	<u>(9.8)</u>	<u>(9.7)</u>
Total expenditures	<u>\$(156.7)</u>	<u>\$(171.4)</u>
Excess (deficiency) of revenues over expenditures	\$5,467.9	\$4,295.9

Statutory Net Income (millions)

	FY24	FY23
Accounting (GAAP) net income	\$5,467.9	\$4,295.9
Unrealized (gains) losses	(1,248.8)	(1,790.5)
ACIF realized income	<u>(23.6)</u>	<u>(14.3)</u>
Statutory net income	\$4,195.5	\$2,491.1

Realized Earnings by Asset Class (millions)

Asset Class	FY24	FY23
Marketable debt securities	\$486.2	\$(64.5)
Preferred and common stock	2,661.3	1,404.8
Real estate	285.9	234.9
Absolute return	166.0	79.3
Private credit	123.1	159.5
Private equity	766.2	863.2
Infrastructure	83.3	102.4
Derivatives & currency	(220.1)	(128.3)
Other	<u>24.1</u>	<u>25.6</u>
Total	\$4,376.0	\$2,676.9

Changes in Fund Balances

(millions)

Other financing sources (uses)	FY24	FY23
Transfers in	\$532.6	\$753.6
Transfers out	<u>(3,549.6)</u>	<u>(3,374.8)</u>
Net change in fund balances	\$2,450.9	\$1,674.7
Beginning of period	\$78,011.9	\$76,337.2
End of period	\$80,462.8	\$78,011.9

Components of Change (millions)

↑	Accounting Net Income	\$5.47 billion
↑	Mineral Deposits	\$0.53 billion
↓	POMV Transfer	\$3.55 billion
↑	Net Change	\$2.45 billion

Adjustments for hard close

Adjustment	Impact
Lagged valuations on private assets →	\$134m net increase in fair value of investments
Revised estimate of royalty deposits from DNR →	\$5m decrease to corpus

FY24 Fun Facts

3300+ Capital Account statements

Daily Valuation

1 baby and 1 grandbaby

T + 1

Enhanced performance reporting

\$4.4B from public equities

PCE reporting

17,000+ unique investments

Clean audit

41 currencies

3200+ cash flows

Internal Intl Equities

1 UAS & 1 CPA

51 new BNYM accounts

700+ audited financial statements

1 internal promotion

Weekly team meetings



Questions?

Alaska Permanent Fund

Balance sheets

	<i>June 30,</i>	
	2024	2023
Assets		
Cash and temporary investments	\$ 3,204,263,000	3,247,712,000
Receivables and other assets	461,655,000	766,653,000
Investments:		
Marketable debt securities	14,075,900,000	13,204,001,000
Preferred and common stock	27,285,737,000	26,769,518,000
Real estate	9,344,139,000	8,263,284,000
Absolute return	5,591,284,000	5,334,364,000
Private credit	2,774,938,000	2,690,337,000
Private equity	14,761,564,000	15,321,168,000
Infrastructure	3,934,960,000	3,693,301,000
Total investments	77,768,522,000	75,275,973,000
Securities lending collateral	3,648,891,000	1,791,238,000
Total assets	\$ 85,083,331,000	81,081,576,000
Liabilities		
Accounts payable	948,118,000	1,264,176,000
Income distributable to the State of Alaska	23,553,000	14,265,000
Securities lending collateral	3,648,891,000	1,791,238,000
Total liabilities	\$ 4,620,562,000	3,069,679,000
Fund balances		
Nonspendable:		
Permanent Fund corpus - contributions and appropriations	58,365,794,000	56,420,233,000
Unrealized appreciation on invested assets	12,373,182,000	11,100,466,000
Total nonspendable	70,738,976,000	67,520,699,000
Committed:		
General Fund appropriation	3,657,263,000	3,526,088,000
Total committed	3,657,263,000	3,526,088,000
Assigned for future appropriations:		
Realized earnings	4,365,710,000	5,240,347,000
Unrealized appreciation on invested assets	1,700,820,000	1,724,763,000
Total assigned	6,066,530,000	6,965,110,000
Total fund balances	\$ 80,462,769,000	78,011,897,000
Total liabilities and fund balances	\$ 85,083,331,000	81,081,576,000

See accompanying notes to the financial statements.

Alaska Permanent Fund

Statements of revenues, expenditures and changes in fund balances

	<i>Years Ended June 30,</i>	
	2024	2023
Revenues		
Interest	\$ 585,237,000	502,731,000
Dividends	612,028,000	671,564,000
Real estate and other income	462,011,000	462,917,000
Total interest, dividends, real estate and other income	1,659,276,000	1,637,212,000
Net increase (decrease) in the fair value of investments:		
Marketable debt securities	124,804,000	(229,610,000)
Preferred and common stock	3,807,980,000	3,049,111,000
Real estate	(603,277,000)	(278,850,000)
Absolute return	543,123,000	144,325,000
Private credit	62,142,000	47,152,000
Private equity	35,362,000	(4,815,000)
Infrastructure	193,820,000	272,249,000
Foreign currency forward exchange contracts and futures	183,223,000	103,260,000
Currency	(381,720,000)	(272,714,000)
Total net increase in the fair value of investments	3,965,457,000	2,830,108,000
Total revenues	\$ 5,624,733,000	4,467,320,000
Expenditures		
Operating expenditures	(146,946,000)	(161,647,000)
Other legislative appropriations	(9,835,000)	(9,725,000)
Total expenditures	(156,781,000)	(171,372,000)
Excess of revenues over expenditures	5,467,952,000	4,295,948,000
Other financing sources (uses)		
Transfers in - dedicated State revenues	532,561,000	753,610,000
Transfers out - appropriations	(3,549,641,000)	(3,374,832,000)
Net change in fund balances	2,450,872,000	1,674,726,000
Fund balances		
Beginning of period	78,011,897,000	76,337,171,000
End of period	\$ 80,462,769,000	78,011,897,000

See accompanying notes to the financial statements.

Management's Discussion and Analysis

The Alaska Permanent Fund Corporation ("APFC") management is pleased to provide this Management's Discussion and Analysis ("MD&A") of the financial activities of the Alaska Permanent Fund ("Fund" or "Permanent Fund") for the fiscal years ended June 30, 2024 and June 30, 2023. This narrative is intended to provide management's insight into the results of operations from the past two fiscal years and highlight specific factors that contributed to those results. The MD&A is comprised of three sections: financial highlights, discussion regarding use of the financial statements, and analysis of the financial statements; the sections should be reviewed together with the financial statements and related notes that follow it.

Financial Highlights

The volatility in public markets experienced in the prior two fiscal years continued through June 30, 2024. The Fund ended the fiscal year ("FY") at a total return of 7.90 percent. This represents a significant increase from the total return for FY2023 of 5.18 percent and is just ahead of the median projection of 7.40 percent. The fund underperformed the performance benchmark by 159 basis points in FY2024 and 56 basis points in FY2023.

FY2024's excess of revenues over expenditures (net income) was \$5.5 billion. As with total return, this is a significant increase from the net income of \$4.3 billion experienced in FY2023 and is a notable recovery from the loss in FY2022 of \$3.0 billion.

During FY2018, legislation was passed which, subject to appropriation, provides for a transfer from the Earnings Reserve Account to the General Fund to help balance the State's budget. The amount of the transfer is based upon a percentage of the average market value of the Fund at the end of the first five of the preceding six fiscal years. The funding for the Alaska Permanent Fund dividend is then transferred from the General Fund. The June 30, 2024 balance sheet reflects a \$3.7 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2025. The June 30, 2023 balance sheet reflects a \$3.5 billion commitment of fund balance for the appropriation to be transferred to the General Fund in FY2024.

The portion of dedicated State of Alaska revenues deposited into the principal (or "corpus") of the Fund is based on mineral prices and production. In FY2024, this amount came in at \$533 million. Deposits recorded in FY2023 were \$754 million, which included \$198 million in payments from prior years that were not appropriated at the time.

Inflation proofing of the Fund's corpus is outlined in Alaska Statute and, like the transfer to the General Fund, is subject to appropriation. In FY2024, the statutory inflation rate was 4.1 percent, which resulted in a statutory transfer amount of \$2.3 billion; however, the appropriation capped the actual transfer at \$1.4 billion. In FY2023, the statutory inflation rate was 8.00 percent, which resulted in a transfer of \$4.2 billion. There was no appropriation for inflation proofing for FY2016-FY2018, FY2021, and FY2022. If appropriated, the transfers for all five years would have totaled \$4.4 billion.

Using the Financial Statements

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

Balance Sheets

The Balance Sheets present all assets, liabilities, and fund balances of the Fund as of June 30, 2024, as well as the prior fiscal year's ending balances at June 30, 2023.

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

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

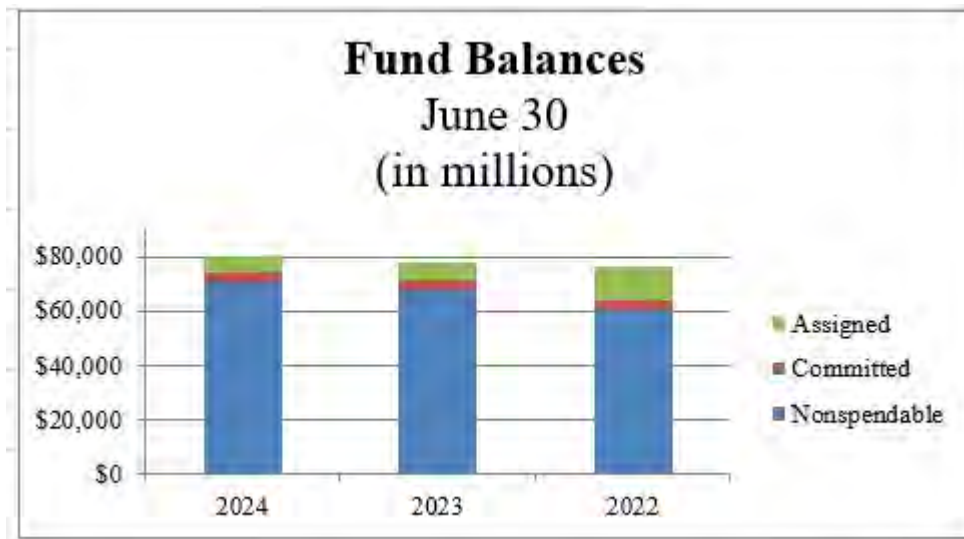
In the graph set forth below, fund balances are shown in three categories: nonspendable, committed, and assigned.

The largest category is nonspendable (88 percent as of June 30, 2024) which is not available for government appropriation by the State of Alaska.

Committed fund balance (5 percent as of June 30, 2024) represents amounts that have been signed into law before the end of the fiscal year for transfer to another account or for another purpose during the subsequent fiscal year. In both years, this includes the legislation, which took effect at the beginning of FY2019, provides for a Percent of Market Value transfer from the Earnings Reserve Account to the General Fund.

The remaining balance (the assigned fund balance) is available for government appropriation. The assigned fund balance decreased by 13 percent from FY2023 to FY2024, from \$7.0 billion to \$6.1 billion. Generally, five factors contribute significantly to changes in the assigned fund balance: investment cash flow income including transactional realized gains and losses (statutory net income); the State of Alaska General Fund transfer; inflation proofing (a transfer of assets from the assigned to the nonspendable fund balance); special appropriations out of the Earnings Reserve Account; and the change in unrealized gains and losses allocated to the assigned fund balance. During FY2024, the amounts contributing to the net decrease of approximately \$899 million in the assigned fund balance were:

- (i) realized income of \$4.2 billion
- (ii) the commitment of \$3.7 billion for transfer to the General Fund
- (iii) inflation proofing of \$1.4 billion and
- (iv) the liability to the Alaska Capital Income Fund of \$24 million
- (v) the allocation of a portion of unrealized gains and losses, which decreased from FY2023 to FY2024 by \$24 million, to a balance of \$1.7 billion.



Statements of Revenues, Expenditures and Changes in Fund Balances

The Statements of Revenues, Expenditures and Changes in Fund Balances present the financial activity of the Fund over the 12 months in FY2024 and FY2023.

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

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

Dedicated State revenues transferred into the principal are based on a percentage of mineral revenues that the State receives. Transfers out of the Fund are the Percent of Market Value transfers to the General Fund and the annual deposit to the ACIF.

Notes to the Financial Statements

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

Financial Statement Analysis

This section of the MD&A is intended to provide an analysis of past fiscal years' activities and specific contributors to changes in the net assets of the Fund. The fund balance serves to provide a gauge of the financial strength of the Fund. While assets of the Fund exceeded liabilities each year by double digit ratios, the nonspendable fund balance is unavailable for appropriation. The table set forth below was derived from the Balance Sheets of the Fund and provides a comparison of the change between balances at June 30, 2024 and 2023.

Balance Sheets	June 30,		Net change	Percent
	2024	2023		
Assets				
Cash and temporary investments	\$ 3,204,263,000	3,247,712,000	(43,449,000)	(1)%
Receivables and other assets	461,655,000	766,653,000	(304,998,000)	(40)%
Investments	77,768,522,000	75,275,973,000	2,492,549,000	3%
Securities lending collateral	3,648,891,000	1,791,238,000	1,857,653,000	104%
Total assets	\$ 85,083,331,000	81,081,576,000	4,001,755,000	5%
Liabilities				
Accounts payable	948,118,000	1,264,176,000	(316,058,000)	(25)%
Income distributable to the State of Alaska	23,553,000	14,265,000	9,288,000	65%
Securities lending collateral	3,648,891,000	1,791,238,000	1,857,653,000	104%
Total liabilities	\$ 4,620,562,000	3,069,679,000	1,550,883,000	51%
Fund balances				
Nonspendable:				
Permanent Fund corpus - contributions and appropriations	58,365,794,000	56,420,233,000	1,945,561,000	3%
Unrealized appreciation on invested assets	12,373,182,000	11,100,466,000	1,272,716,000	11%
Total nonspendable	70,738,976,000	67,520,699,000	3,218,277,000	5%
Committed:				
General Fund appropriation	3,657,263,000	3,526,088,000	131,175,000	4%
Total committed	3,657,263,000	3,526,088,000	131,175,000	4%
Assigned for future appropriations:				
Realized earnings	4,365,710,000	5,240,347,000	(874,637,000)	(17)%
Unrealized appreciation on invested assets	1,700,820,000	1,724,763,000	(23,943,000)	(1)%
Total assigned	6,066,530,000	6,965,110,000	(898,580,000)	(13)%
Total fund balances	\$ 80,462,769,000	78,011,897,000	2,450,872,000	3%
Total liabilities and fund balances	85,083,331,000	81,081,576,000	4,001,755,000	5%

The value of the Fund's assets, excluding securities lending collateral, increased slightly between June 30, 2024 and June 30, 2023. The value of the Fund's assets is most significantly impacted by investment performance. Comparative performance for each asset class is shown below:

	FY2024	FY2023
Public equities	16.06%	14.16%
Fixed income	4.93%	1.63%
Private equity	2.51%	-2.08%
Real estate	-3.28%	-2.47%
Private income	6.55%	4.20%
Absolute return	9.74%	3.84%
Tactical opportunities	30.97%	not available
Cash	5.15%	9.36%
TOTAL FUND	7.90%	5.18%

The ending values of securities lending collateral invested, and the related liability are dependent upon the amount of securities out on loan on any particular day. The counterparty lending the security has the option of pledging cash or noncash collateral. The cash collateral amount is presented on the Balance Sheets. The average value of assets on loan during FY2024 was \$8.8 billion, with a low of \$8.0 billion and a high of \$9.9 billion. The Fund had earnings from securities lending of \$22 million during FY2024, a slight decrease from \$24 million received in FY2023.

In the liability section of the Balance Sheets, accounts payable primarily consist of obligations due but not yet settled on securities purchased. The open transactions can vary widely from day to day and are usually the largest portion of Fund payables, representing approximately 98 percent in both FY2024 and FY2023.

The sole amount due to the State of Alaska at the end of FY2024 and FY2023 is the transfer to the ACIF. This amount is calculated based on realized earnings and was \$24 million for FY2024 and \$14 million for FY2023. The \$10 million dollar increase from the prior year is caused by healthier realized returns in FY2024 versus FY2023.

Total fund balance increased by 3 percent, or \$2.5 billion, from FY2023 to FY2024, which is consistent with the 7.90 percent total return for the year and the net transfers out of the Fund. Components of this increase were bond interest, stock dividends, and cash flow income from other investments totaling \$1.7 billion, a net increase in the fair value of investments of \$4.0 billion, and dedicated mineral deposits of \$533 million offset by operating expenses and other appropriations of \$157 million, the General Fund transfer of \$3.5 billion, and the ACIF transfer of \$24 million.

In comparison, total fund balance increased by 2 percent, or \$1.7 billion, from FY2022 to FY2023 due to net income of \$4.3 billion and transfers in (State dedicated mineral revenues of \$754 million) offset by transfers out (General Fund of \$3.4 billion and ACIF of \$14 million).

The table below is derived from the Statements of Revenues, Expenditures and Changes in Fund Balances, and shows the annual activity of the Fund. The differences in activity in FY2024 as compared to FY2023 are shown in both dollars and percentages.

Statements of Revenues, Expenditures and Changes in Fund Balances	Year Ended June 30,		Net change	Percent
	2024	2023		
Revenues				
Total interest, dividends, real estate and other income	\$ 1,659,276,000	1,637,212,000	22,064,000	1%
Total net increase in the fair value of investments	3,965,457,000	2,830,108,000	1,135,349,000	40%
Total revenues	\$ 5,624,733,000	4,467,320,000	1,157,413,000	26%
Expenditures				
Operating expenditures	(146,946,000)	(161,647,000)	14,701,000	(9)%
Other legislative appropriations	(9,835,000)	(9,725,000)	(110,000)	1%
Total expenditures	\$ (156,781,000)	(171,372,000)	14,591,000	(9)%
Excess of revenues over expenditures	5,467,952,000	4,295,948,000	1,172,004,000	27%
Other financing sources (uses)				
Transfers in – dedicated State revenues	532,561,000	753,610,000	(221,049,000)	(29)%
Transfers out – appropriations	(3,549,641,000)	(3,374,832,000)	(174,809,000)	5%
Net change in fund balances	\$ 2,450,872,000	1,674,726,000	776,146,000	46%
Fund balances				
Beginning of period	78,011,897,000	76,337,171,000	1,674,726,000	2%
End of period	\$ 80,462,769,000	78,011,897,000	2,450,872,000	3%

During FY2024, cash flow revenue from interest, dividends, real estate, and other sources was slightly higher than FY2023 levels at \$138 million per month on average, up from \$136 million per month on average in FY2023. Cash flow income for both FY2024 and FY2023 was lower than the average in FY2022 of \$140 million per month.

The change in the fair value of investments increased by 40 percent from \$2.8 billion in FY2023 to \$4.0 billion in FY2024. FY2023's change in fair value of investments was a 162 percent increase from the \$4.5 billion loss in FY2022, reflective of the market recovery in FY2023.

Operating expenditures decreased from FY2023 to FY2024 by 9 percent. This decrease is in contrast with the increase experienced between FY2022 and FY2023 of 14 percent. The volatility between years is mainly caused by fluctuations in amounts paid in investment management fees. Investment management fees depend upon the value of assets under management by external managers and their performance relative to their benchmarks. Market volatility and changes to asset allocation cause fees to fluctuate.

Transfers in of dedicated State revenues decreased significantly from FY2023 to FY2024 by 29 percent (\$221 million), totaling \$533 million in FY2024 compared to \$754 million in FY2023. These transfers totaled \$549 million in FY2022. Included in the FY2023 deposits are \$198 million in payments from prior years that were not appropriated at the time. The Alaska Constitution requires that at least 25% of mineral royalties and related payments received by the State be transferred to the Permanent Fund. State statutes mandate an additional 25% on select leases be deposited. Transfers in of dedicated State revenues under these statutes are subject to legislative appropriation.

Transfers out of the Fund are for two purposes: 1) an appropriation to the General Fund and 2) an appropriation to the ACIF. The General Fund and ACIF transfers are subject to legislative appropriation. The total transfer amount is shown as committed fund balance at the end of the year in which the appropriation is made, and the commitment is released when the transfers are made. The ACIF transfer is based on realized earnings for only one year; it is not averaged over multiple years. ACIF realized earnings of \$24 million in FY2024 and \$14 million in FY2023. The earnings for FY2022 were \$24 million.

Economic, Investment, and Political Factors

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

Additional Information

This financial report provides an overview of the Alaska Permanent Fund's ending net asset balances and fiscal year financial activities. The report does not include any other funds owned or managed by the State of Alaska or the Alaska Permanent Fund Corporation (APFC). Given the inherent volatility of financial markets, Fund values and income may vary significantly from period to period. For current and historical information on the Fund, please visit www.apfc.org or send specific information requests to contact@apfc.org, or by mail to the Alaska Permanent Fund Corporation at 801 West 10th Street, Suite 302, Juneau, Alaska 99801.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2024 and 2023

1. ENTITY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Cash and temporary investments

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

General Fund appropriations

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

Inflation proofing

Alaska statutes require that the contributions and appropriations of the Fund be adjusted annually to offset the effect of inflation on the principal during the fiscal year. Based on advice from the Alaska Department of Law, an annual intra-fund inflation proofing transfer (from the assigned to the nonspendable fund balance) should occur only by legislative appropriation. The APFC measures inflation by (i) computing the percentage change in the averages of the monthly United States Consumer Price Index for all urban consumers for the two previous calendar years and (ii) applying that percentage to the total nonspendable fund balance, excluding unrealized gains and losses, at the end of the fiscal year. Using this formula, the inflation proofing rates for the years ended June 30, 2024 and 2023 were 4.1 percent and 8.0 percent, respectively. The transfer was \$4.2 billion for FY2023. The statutory amount for FY2024 would have been \$2.3 billion; however, the transfer was capped at the amount appropriated, \$1.4 billion.

Fund balance

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

Forward exchange contracts

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

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

Futures

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

Income taxes

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

Investments and related policies

Carrying value of investments

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

State investment regulations

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

Investment policy – Asset allocation

The Trustees have established a long-term goal of achieving a five percent real rate of return over time on the Fund's investment portfolio. To help achieve this goal, the Trustees allocate the Fund's investments among various asset classes. At June 30, 2024, the APFC's strategic asset allocation targets were as follows:

<u>Asset Class</u>	<u>Asset Class Target</u>
Public equities	34%
Fixed income	20%
Private equity	16%
Real estate	10%
Private income	9%
Absolute return	7%
Tactical opportunities	2%
Cash	2%

To allow for market fluctuations and to minimize transaction costs, the Trustees have adopted ranges that permit percentage deviations from the strategic asset allocation targets in accordance with specified reporting requirements and other procedures. Generally, for each asset class, the APFC's Chief Investment Officer has discretionary authority to permit target deviations within one specified range (referred to as the "green zone" in the APFC investment policy), the APFC's Executive Director can approve target deviations for up to 90 days within a broader range (the "yellow zone"), and the Board can approve operating for longer than 30 days within a third range (the "red zone"). For example, the target dollar allocation for the public equities class is 34 percent, with the green zone range set at plus or minus five percent, the yellow zone range set at zero to five percent beyond the green zone, and red zone range set at greater than five percent beyond the green zone. In a similar manner, the APFC investment policy also requires the APFC to monitor relative risk (the expected investment portfolio's risk and return relative to the risk benchmark using standard industry risk measures), active budget risk (risk due to active management decisions made by managers), and limits on private investments and future commitments.

Concentration of credit risk

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

Credit risk

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

Custodial credit risk

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

Foreign currency risk

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

Interest rate risk

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

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

The Fund held fixed income investments with floating, variable, step, and zero interest rates valued at \$989 million at June 30, 2024 and \$817 million at June 30, 2023. The current annual interest rates range from 0 to 9.6 percent.

Transfers in

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

Transfers out

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

Reclassifications

The APFC made certain reclassifications to the FY2023 balances in the accompanying statements to make them consistent with the FY2024 presentation.

3. CASH AND TEMPORARY INVESTMENTS

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

	2024	2023
Cash	\$ 165,015,000	187,170,000
Pooled funds	1,196,168,000	1,077,259,000
Commercial paper	-	19,593,000
U.S. Treasury bills	1,815,476,000	1,960,759,000
FX forward exchange contracts	27,604,000	2,931,000
Total cash and temporary investments	\$ 3,204,263,000	3,247,712,000

Uninvested cash was held at the custodian, sub-custodian, or derivatives broker banks, primarily in interest bearing accounts. All pooled funds were invested in a money market fund. U.S. Treasury bills are explicitly guaranteed by the U.S. government. Late deposits of cash which miss the money market sweep deadline and foreign currency are deposited in an interest-bearing account at the custodian. Deposit amounts that exceeded the FDIC insurance limit were \$120 million on June 30, 2024 and \$117 million on June 30, 2023.

4. RECEIVABLES AND OTHER ASSETS

Receivables and other assets at June 30 are as follows:

	2024	2023
Interest receivable	\$ 127,857,000	109,110,000
Dividends receivable	70,436,000	82,258,000
Sales receivable	184,344,000	502,663,000
Dedicated State revenues receivable	79,018,000	72,622,000
Total receivables and other assets	\$ 461,655,000	766,653,000

5. MARKETABLE DEBT SECURITIES

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

	Cost	Fair value	Unrealized gains (losses)
2024			
Mortgage-backed securities	\$ 2,467,283,000	2,333,307,000	(133,976,000)
U.S. Treasury and government notes/bonds	2,069,231,000	2,045,059,000	(24,172,000)
U.S. corporate bonds	6,067,903,000	5,732,003,000	(335,900,000)
U.S. commercial mortgage and asset-backed securities	747,369,000	723,501,000	(23,868,000)
U.S. exchange traded funds	100,512,000	104,093,000	3,581,000
Non-U.S. government bonds	2,141,734,000	2,047,532,000	(94,202,000)
Non-U.S. corporate bonds	1,041,146,000	1,023,970,000	(17,176,000)
Non-U.S. commercial mortgage and asset-backed securities	42,562,000	41,730,000	(832,000)
Non-U.S. exchange traded funds	24,394,000	24,705,000	311,000
Total marketable debt securities	\$ 14,702,134,000	14,075,900,000	(626,234,000)
2023			
Mortgage-backed securities	\$ 2,389,469,000	2,280,689,000	(108,780,000)
U.S. Treasury and government notes/bonds	1,876,966,000	1,831,296,000	(45,670,000)
U.S. corporate bonds	6,005,204,000	5,494,218,000	(510,986,000)
U.S. commercial mortgage and asset-backed securities	538,821,000	500,515,000	(38,306,000)
U.S. exchange traded funds	127,210,000	129,026,000	1,816,000
Non-U.S. government bonds	2,130,200,000	2,018,929,000	(111,271,000)
Non-U.S. corporate bonds	941,371,000	894,551,000	(46,820,000)
Non-U.S. commercial mortgage and asset-backed securities	32,102,000	30,366,000	(1,736,000)
Non-U.S. exchange traded funds	24,745,000	24,411,000	(334,000)
Total marketable debt securities	\$ 14,066,088,000	13,204,001,000	(862,087,000)

6. MARKETABLE DEBT CREDIT RATINGS

To manage credit risk for marketable debt securities, the APFC monitors fair values of all securities daily and routinely reviews its investment holdings' credit ratings. For accounts with an investment grade mandate, issues falling below the minimum standards are required to be sold within seven months of the downgrade date. Minimum standards are a Standard & Poor's Corporation rating of BBB or better, or Moody's Investors Service, Inc. rating of Baa or better, or a comparable rating by another Nationally Recognized Statistical Rating Organization (NRSRO) or by a recognized rating service in the jurisdiction of the issuer. Accounts with high yield mandates are allowed to hold positions in assets with below investment grade ratings (high yield bonds). For purposes of this note, if credit ratings differ among the NRSROs used, the rating with the highest degree of risk (the lowest rating) is reported. At June 30, 2024, the Fund's credit ratings for its marketable debt securities are as follows:

NRSRO quality ratings	Domestic	Non-domestic	Total fair value	Percentage of holdings
AAA	\$ 522,520,000	235,545,000	758,065,000	5.39%
AA	373,740,000	526,243,000	899,983,000	6.39%
A	1,785,153,000	399,108,000	2,184,261,000	15.52%
BBB	2,654,111,000	645,848,000	3,299,959,000	23.44%
BB	864,505,000	208,569,000	1,073,074,000	7.62%
B	253,444,000	81,949,000	335,393,000	2.38%
CCC	—	—	—	0.00%
CC	—	—	—	0.00%
C	—	—	—	0.00%
D	—	143,262,000	143,262,000	1.02%
Total fair value rated debt securities	\$ 6,453,473,000	2,240,524,000	8,693,997,000	61.77%
Exchange traded funds	104,093,000	24,705,000	128,798,000	0.92%
Not rated	19,781,000	872,708,000	892,489,000	6.34%
U.S. government explicitly backed by the U.S. government	2,583,274,000	—	2,583,274,000	18.35%
U.S. government implicitly backed by the U.S. government	1,777,342,000	—	1,777,342,000	12.63%
Total fair value debt securities	\$ 10,937,963,000	3,137,937,000	14,075,900,000	100.00%

7. MARKETABLE DEBT DURATION

To manage its interest rate risk on marketable debt securities, the APFC monitors fair values daily and routinely reviews portfolio duration in comparison to established benchmarks. At June 30, 2024, the effective duration by investment type, based on fair value, is as follows:

	Percentage of holdings	Duration
Domestic bonds		
Mortgage-backed securities	21.33%	6.15
Treasury and government notes/bonds	18.70%	6.16
Corporate bonds	52.40%	6.48
Commercial mortgage and asset-backed securities	6.61%	1.32
Exchange traded funds	0.95%	—
Total domestic bonds	100.00%	5.95
Non-domestic bonds		
Treasury and government notes/bonds	65.25%	7.62
Corporate bonds	32.63%	6.92
Commercial mortgage and asset-backed securities	1.33%	1.27
Exchange traded funds	0.79%	—
Total non-domestic bonds	100.00%	7.24

8. PREFERRED AND COMMON STOCK

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

Preferred and common stocks and commingled stock funds at June 30 are summarized as follows, which include the net fair value of equity index futures of \$(732,000) at June 30, 2024 and \$7 million as of June 30, 2023:

	Cost	Fair value	Unrealized gains (losses)
2024			
Direct investments			
Domestic stock	\$ 11,551,820,000	15,128,535,000	3,576,715,000
Non-domestic stock	10,611,936,000	11,946,089,000	1,334,153,000
Commingled funds	177,294,000	211,113,000	33,819,000
Total preferred and common stock	\$ 22,341,050,000	27,285,737,000	4,944,687,000
2023			
Direct investments			
Domestic stock	\$ 11,481,670,000	13,998,864,000	2,517,194,000
Non-domestic stock	11,969,717,000	12,566,345,000	596,628,000
Commingled funds	212,824,000	204,309,000	(8,515,000)
Total preferred and common stock	\$ 23,664,211,000	26,769,518,000	3,105,307,000

9. FOREIGN CURRENCY EXPOSURE

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

At June 30, 2024, the Fund's cash holdings, foreign currency forward exchange contracts, non-domestic public and private equity, and debt securities had exposure to foreign currency risk as follows (shown in U.S. dollar equivalent at fair value and based on the currency in which the securities are held and traded):

Foreign currency	Cash and cash equivalents	Foreign exchange forward contracts	Equity, private debt, real estate, infrastructure	Marketable debt	Total foreign currency exposure
Australian Dollar	\$ 2,245,000	(59,197,000)	326,556,000	37,888,000	307,492,000
Brazil Real	1,028,000	331,000	118,888,000	-	120,247,000
Canadian Dollar	1,445,000	(57,990,000)	569,539,000	50,282,000	563,276,000
Chilean Peso	267,000	-	6,424,000	-	6,691,000
Chinese Yuan Renminbi	1,931,000	(263,185,000)	306,874,000	256,097,000	301,717,000
Colombian Peso	48,000	-	2,048,000	-	2,096,000
Czech Koruna	59,000	(5,747,000)	1,020,000	5,500,000	832,000
Danish Krone	354,000	-	175,101,000	-	175,455,000
Egyptian Pound	101,000	(6,000)	1,332,000	-	1,427,000
Euro Currency	59,073,000	(808,946,000)	3,623,213,000	681,990,000	3,555,330,000
Hong Kong Dollar	4,030,000	(12,604,000)	726,344,000	-	717,770,000
Hungarian Forint	205,000	-	9,941,000	-	10,146,000
Indian Rupee	1,473,000	(219,000)	439,530,000	-	440,784,000
Indonesian Rupiah	478,000	(23,001,000)	63,922,000	22,427,000	63,826,000
Israeli Shekel	1,390,000	(15,916,000)	28,330,000	15,699,000	29,503,000
Japanese Yen	7,545,000	(480,727,000)	1,242,697,000	479,220,000	1,248,735,000
Kuwaiti Dinar	23,000	16,000	5,918,000	-	5,957,000
Malaysian Ringgit	516,000	(20,988,000)	36,737,000	20,670,000	36,935,000
Mexican Peso	1,226,000	(18,415,000)	63,952,000	17,944,000	64,707,000
New Taiwan Dollar	1,359,000	(657,000)	550,671,000	-	551,373,000
New Zealand Dollar	171,000	(7,298,000)	7,727,000	7,241,000	7,841,000
Norwegian Krone	232,000	(13,344,000)	78,222,000	13,307,000	78,417,000
Pakistan Rupee	3,000	-	2,548,000	-	2,551,000
Peruvian Sol	28,000	(12,577,000)	-	12,153,000	(396,000)
Philippines Peso	78,000	-	7,939,000	-	8,017,000
Polish Zloty	(171,000)	(6,388,000)	64,843,000	6,857,000	65,141,000
Pound Sterling	17,764,000	(237,520,000)	1,238,479,000	157,579,000	1,176,302,000
Qatari Riyal	321,000	-	14,770,000	-	15,091,000
Romanian Leu	26,000	(5,610,000)	-	5,343,000	(241,000)
Russian Ruble	-	-	134,000	-	134,000
Saudi Arabia Riyal	1,033,000	-	97,732,000	-	98,765,000
Singapore Dollar	637,000	(9,800,000)	107,441,000	9,513,000	107,791,000
South African Rand	196,000	(10,000)	70,943,000	-	71,129,000
South Korean Won	1,781,000	(55,687,000)	412,503,000	55,052,000	413,649,000
Swedish Krona	259,000	(168,000)	146,608,000	-	146,699,000
Swiss Franc	1,086,000	(22,041,000)	341,728,000	8,654,000	329,427,000
Thailand Baht	27,000	(15,680,000)	33,310,000	15,662,000	33,319,000
Turkish Lira	1,099,000	-	34,003,000	-	35,102,000
UAE Dirham	132,000	-	28,960,000	-	29,092,000
Total foreign currency exposure	\$ 109,498,000	(2,153,374,000)	10,986,927,000	1,879,078,000	10,822,129,000

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

10. REAL ESTATE

The Fund holds a variety of real estate interests, including directly owned real estate, real estate investment trusts, private real estate funds, and other entities in which the assets consist primarily of real property. The Fund also holds a portfolio of real estate loans collateralized by income-producing, institutional real estate in the United States that are administered by an external institutional real estate management firm. In recent years, the Fund expanded its real estate portfolio strategy with a “Build-to-Core” investment program, creating high-quality properties.

The Fund’s directly owned real estate is through ownership of interests in corporations, limited liability companies, and partnerships that hold title to the real estate. External institutional real estate management firms administer the majority of the Fund’s directly owned real estate investments. An internal real estate management program was initiated during FY2021, and two existing direct holdings were moved into this program.

The APFC periodically reviews real estate investments for other than temporary impairment. During FY2024 and FY2023, no real estate holdings were determined to be impaired.

Real estate investments at June 30 are summarized as follows:

	Cost	Fair value	Unrealized gains (losses)
2024			
Real estate investment trusts	\$ 680,067,000	740,233,000	60,166,000
Real estate funds and notes	2,973,831,000	3,191,339,000	217,508,000
American Homes 4 Rent II	79,606,000	115,959,000	36,353,000
Directly owned real estate			
Retail	\$ 903,867,000	1,527,761,000	623,894,000
Office	1,867,890,000	1,733,529,000	(134,361,000)
Hotel	58,576,000	63,982,000	5,406,000
Industrial	361,606,000	929,763,000	568,157,000
Multifamily	340,357,000	459,749,000	119,392,000
Development	566,232,000	581,824,000	15,592,000
Total directly owned real estate	\$ 4,098,528,000	5,296,608,000	1,198,080,000
Total real estate	\$ 7,832,032,000	9,344,139,000	1,512,107,000
2023			
Real estate investment trusts	\$ 826,820,000	890,984,000	64,164,000
Real estate funds and notes	2,015,032,000	2,291,346,000	276,314,000
American Homes 4 Rent II	88,660,000	123,910,000	35,250,000
Directly owned real estate			
Retail	\$ 778,026,000	1,533,849,000	755,823,000
Office	1,597,195,000	1,744,301,000	147,106,000
Hotel	59,409,000	66,121,000	6,712,000
Industrial	186,723,000	844,681,000	657,958,000
Multifamily	131,102,000	293,749,000	162,647,000
Development	410,020,000	474,343,000	64,323,000
Total directly owned real estate	\$ 3,162,475,000	4,957,044,000	1,794,569,000
Total real estate	\$ 6,092,987,000	8,263,284,000	2,170,297,000

As of June 30, 2024, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$373 million for real estate fund investments.

11. ALTERNATIVE INVESTMENTS

Alternative investments include the Fund's investments in absolute return strategies, private credit, private equity, and infrastructure.

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

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

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

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

Alternative investments at June 30 are summarized as follows:

2024	Cost	Fair value	Unrealized gains
Absolute return	\$ 3,872,661,000	5,591,284,000	1,718,623,000
Private credit	2,402,186,000	2,774,938,000	372,752,000
Private equity	9,819,615,000	14,761,564,000	4,941,949,000
Infrastructure	2,750,941,000	3,934,960,000	1,184,019,000
Total alternative investments	\$ 18,845,403,000	27,062,746,000	8,217,343,000
2023			
Absolute return	\$ 3,996,041,000	5,334,364,000	1,338,323,000
Private credit	2,356,648,000	2,690,337,000	333,689,000
Private equity	9,633,323,000	15,321,168,000	5,687,845,000
Infrastructure	2,645,590,000	3,693,301,000	1,047,711,000
Total alternative investments	\$ 18,631,602,000	27,039,170,000	8,407,568,000

The APFC periodically reviews alternative investments for other than temporary impairment. During FY2024, it was determined that four private credit funds, 26 private equity funds, and two infrastructure funds were impaired because it was more likely than not that the Fund would not recover the carrying cost over the remaining estimated holding period of the assets. In order to reflect the impairment in statutory net income and fund balance classifications, \$147 million of unrealized losses were realized through a write down of cost to fair value. In FY2023, 19 private equity funds were determined to be impaired. These impairments have no impact on the carrying value of investments or on the net increase in the fair value of private credit investments.

As of June 30, 2024, the APFC, on behalf of the Fund, had outstanding future funding commitments of \$44 million for absolute return, \$1.4 billion for private credit, \$4.2 billion for private equity, and \$1.3 billion for infrastructure investments. Many alternative investments have liquidity constraints and may not be available for cash withdrawal until a specified period of time has elapsed.

12. SECURITIES LENDING

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

Cash collateral received for loaned securities is reported on the Fund's balance sheets and invested by the Bank on behalf of the Fund. As of June 30, 2024, such investments were in overnight repurchase agreements that had a weighted average maturity of one day. The average term of the loans was also one day. At June 30, the value of securities on loan and collateral invested are as follows:

	2024	2023
Fair value of securities on loan, secured by cash collateral	\$ 3,563,578,000	1,755,665,000
Cash collateral	3,648,891,000	1,791,238,000
Fair value of securities on loan, secured by noncash collateral	5,857,278,000	6,227,202,000
Noncash collateral	6,459,800,000	6,847,010,000

The Fund receives 80 percent of earnings derived from securities lending transactions and the Bank retains 20 percent. During the years ended June 30, 2024 and 2023, the Fund incurred no losses from securities lending transactions. The Fund received income of \$22 million and \$24 million from securities lending for the years ended June 30, 2024 and 2023, respectively, which is included in the real estate and other income line on the Statements of Revenues, Expenditures and Changes in Fund Balances.

13. ACCOUNTS PAYABLE

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

	2024	2023
Accrued liabilities	\$ 26,279,000	24,716,000
Securities purchased	921,839,000	1,239,460,000
Total accounts payable	\$ 948,118,000	1,264,176,000

14. STATUTORY AND LEGISLATIVE APPROPRIATIONS

Beginning in FY2019, legislation requires that, upon appropriation, a portion of the realized earnings be transferred to the State's General Fund instead of the Dividend Fund, based upon a Percent of Market Value calculation. The amount transferred to the General Fund was \$3.5 billion in FY2024. For FY2025, the amount appropriated to the General Fund is \$3.7 billion. This amount is shown as committed at June 30, 2024.

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

	<u>2024</u>	<u>2023</u>
Income distributed during the year:		
General Fund	\$ 3,526,088,000	1,680,284,000
Dividend Fund	-	1,680,283,000
Income distributable at year end:		
Alaska Capital Income Fund	<u>23,553,000</u>	<u>14,265,000</u>
Total statutory and legislative appropriations \$	<u>3,549,641,000</u>	<u>3,374,832,000</u>

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

15. FUND BALANCES

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

	2024	2023
Nonspendable		
Balance, beginning of year	\$ 67,520,699,000	60,187,655,000
Dedicated State revenues	532,561,000	753,610,000
Inflation proofing transfer from assigned	1,413,000,000	4,179,276,000
Change in unrealized appreciation on invested assets	1,272,716,000	2,400,158,000
Balance, end of year	\$ 70,738,976,000	67,520,699,000
Committed		
Balance, beginning of year	\$ 3,526,088,000	3,360,567,000
General Fund transfer to liability	(3,526,088,000)	(3,360,567,000)
General Fund commitment	3,657,263,000	3,526,088,000
Balance, end of year	\$ 3,657,263,000	3,526,088,000
Assigned		
Balance, beginning of year	\$ 6,965,110,000	12,788,949,000
Inflation proofing transfer to nonspendable	(1,413,000,000)	(4,179,276,000)
General Fund commitment	(3,657,263,000)	(3,526,088,000)
Settlement earnings payable to the ACIF	(23,553,000)	(14,265,000)
Realized earnings, net of operating expenditures	4,219,179,000	2,505,488,000
Change in unrealized appreciation on invested assets	(23,943,000)	(609,698,000)
Balance, end of year	\$ 6,066,530,000	6,965,110,000
Total		
Balance, beginning of year	\$ 78,011,897,000	76,337,171,000
Dedicated State revenues	532,561,000	753,610,000
General Fund transfer	(3,526,088,000)	(3,360,567,000)
Settlement earnings payable to the ACIF	(23,553,000)	(14,265,000)
Excess of investment revenues over expenditures	5,467,952,000	4,295,948,000
Balance, end of year	\$ 80,462,769,000	78,011,897,000

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

	2024	2023
Dedicated State revenues	\$ 19,751,260,000	19,218,699,000
Special appropriations	14,885,906,000	14,885,906,000
Inflation proofing	23,575,717,000	22,162,717,000
Settlement earnings	152,911,000	152,911,000
Total contributions and appropriations	\$ 58,365,794,000	56,420,233,000

On June 16, 2009, the Alaska Attorney General issued a legal opinion clarifying the accounting treatment of unrealized gains and losses. Based on the opinion, proportionate values of the unrealized appreciation or depreciation of invested assets should be allocated to the nonspendable and assigned fund balances. As of June 30, 2024, the Fund's net unrealized gain was \$14.1 billion, of which \$12.4 billion was allocated to the nonspendable fund balance and \$1.7 billion was allocated to the assigned fund balance. As of June 30, 2023, the Fund's net unrealized gain was \$12.8 billion, of which \$11.1 billion was allocated to the nonspendable fund balance and \$1.7 billion was allocated to the assigned fund balance.

During the fiscal years 1990 through 1999, the Fund received dedicated State revenues from North Slope royalty case settlements (*State v. Amerada Hess, et al.*). Accumulated settlement related activity, included in the contributions and appropriations balance of the Fund at June 30, is \$424 million. By statute, realized earnings from these settlement payments are to be treated in the same manner as other Fund income, except that these settlement earnings are excluded from the calculation of the transfer to the General Fund and are not subject to inflation proofing. Since 2005, the Legislature has appropriated these settlement earnings to the Alaska Capital Income Fund (ACIF). Prior to 2005, the statute required such earnings to be appropriated to the principal. The Fund realized earnings on settlement principal of \$24 million during FY2024 and \$14 million during FY2023.

16. FAIR VALUE MEASUREMENT

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

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

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

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

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

2024	Measured using input levels			Measured using	
	Level 1	Level 2	Level 3	NAV	Total
Marketable debt securities					
Mortgage-backed securities	\$ -	2,333,307,000	-	-	2,333,307,000
U.S. Treasury and government notes/bonds	2,036,112,000	8,947,000	-	-	2,045,059,000
U.S. corporate bonds	2,951,000	5,729,052,000	-	-	5,732,003,000
U.S. commercial mortgage and asset-backed securities	-	723,501,000	-	-	723,501,000
U.S. exchange traded funds	104,093,000	-	-	-	104,093,000
Non-U.S. government bonds	-	2,047,532,000	-	-	2,047,532,000
Non-U.S. corporate bonds	4,000	1,023,496,000	470,000	-	1,023,970,000
Non-U.S. commercial mortgage and asset-backed securities	-	41,730,000	-	-	41,730,000
Non-U.S. exchange traded funds	24,705,000	-	-	-	24,705,000
Total marketable debt securities	\$ 2,167,865,000	11,907,565,000	470,000	-	14,075,900,000
Preferred and common stock					
Domestic stock	15,127,488,000	1,047,000	-	-	15,128,535,000
Non-domestic stock	11,946,048,000	-	41,000	-	11,946,089,000
Commingled funds	81,593,000	-	-	129,520,000	211,113,000
Total preferred and common stock	\$ 27,155,129,000	1,047,000	41,000	129,520,000	27,285,737,000
Real estate					
Real estate investment trusts	740,233,000	-	-	-	740,233,000
Real estate funds and notes	-	-	-	3,191,339,000	3,191,339,000
American Homes 4 Rent II	-	-	-	115,959,000	115,959,000
Directly owned real estate	-	-	-	5,296,608,000	5,296,608,000
Total real estate	\$ 740,233,000	-	-	8,603,906,000	9,344,139,000
Absolute return	-	-	-	5,591,284,000	5,591,284,000
Private credit	-	-	-	2,774,938,000	2,774,938,000
Private equity	-	-	-	14,761,564,000	14,761,564,000
Infrastructure	-	-	-	3,934,960,000	3,934,960,000
Total investments	\$ 30,063,227,000	11,908,612,000	511,000	35,796,172,000	77,768,522,000

2023	Measured using input levels			Measured using	
	Level 1	Level 2	Level 3	NAV	Total
Marketable debt securities					
Mortgage-backed securities	\$ -	2,280,689,000	-	-	2,280,689,000
U.S. Treasury and government notes/bonds	1,817,802,000	13,494,000	-	-	1,831,296,000
U.S. corporate bonds	-	5,494,218,000	-	-	5,494,218,000
U.S. commercial mortgage and asset-backed securities	-	500,515,000	-	-	500,515,000
U.S. exchange traded funds	129,026,000	-	-	-	129,026,000
Non-U.S. government bonds	-	2,018,929,000	-	-	2,018,929,000
Non-U.S. corporate bonds	4,000	894,128,000	419,000	-	894,551,000
Non-U.S. commercial mortgage and asset-backed securities	-	30,366,000	-	-	30,366,000
Non-U.S. exchange traded funds	24,411,000	-	-	-	24,411,000
Total marketable debt securities	\$ 1,971,243,000	11,232,339,000	419,000	-	13,204,001,000
Preferred and common stock					
Domestic stock	13,981,943,000	16,921,000	-	-	13,998,864,000
Non-domestic stock	12,566,336,000	-	9,000	-	12,566,345,000
Commingled funds	103,125,000	-	-	101,184,000	204,309,000
Total preferred and common stock	\$ 26,651,404,000	16,921,000	9,000	101,184,000	26,769,518,000
Real estate					
Real estate investment trusts	890,984,000	-	-	-	890,984,000
Real estate funds and notes	-	-	-	2,291,346,000	2,291,346,000
American Homes 4 Rent II	-	-	-	123,910,000	123,910,000
Directly owned real estate	-	-	-	4,957,044,000	4,957,044,000
Total real estate	\$ 890,984,000	-	-	7,372,300,000	8,263,284,000
Absolute return	-	-	-	5,334,364,000	5,334,364,000
Private credit	-	-	-	2,690,337,000	2,690,337,000
Private equity	-	-	-	15,321,168,000	15,321,168,000
Infrastructure	-	-	-	3,693,301,000	3,693,301,000
Total investments	\$ 29,513,631,000	11,249,260,000	428,000	34,512,654,000	75,275,973,000

Marketable debt securities and preferred and common stock classified as level 1 are valued using prices quoted in active markets for those securities. Marketable debt securities classified as level 2 are valued using matrix pricing and those classified at level 3 are term loans. Commingled funds reported at NAV use the capital account balance nearest to the balance sheet date, adjusted for subsequent contributions and distributions made prior to the balance sheet date.

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

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

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

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

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

17. STATUTORY NET INCOME

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

The APFC periodically reviews investments for other than temporary impairment of value. Investments with fair values significantly less than cost over multiple reporting periods may be considered impaired if the cost basis will not be recovered over the investment's remaining estimated holding period. If an other than temporary impairment is determined to exist for an investment, a realized loss will be recorded, which will replace the previously recorded unrealized loss. Carrying value will not be affected but the reclassification of the loss from unrealized to realized will affect the statutory net income of the Fund. During FY2024 and FY2023, approximately \$147 million and \$99 million, respectively, of impairments were recorded.

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

	2024	2023
Excess of revenues over expenditures	\$ 5,467,952,000	4,295,948,000
Unrealized gains	(1,248,773,000)	(1,790,460,000)
Settlement earnings	(23,553,000)	(14,265,000)
Statutory net income	\$ 4,195,626,000	2,491,223,000

18. INVESTMENT INCOME BY SOURCE

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

	2024	2023
Interest		
Short-term	\$ 100,193,000	74,445,000
Marketable debt securities	485,044,000	428,286,000
Total interest	\$ 585,237,000	502,731,000
Total dividends	\$ 612,028,000	671,564,000
Real estate and other income		
Real estate investment trusts	29,565,000	37,777,000
Real estate - funds, notes, direct	212,069,000	140,909,000
Absolute return	152,000	93,000
Private credit	99,945,000	99,977,000
Private equity	70,076,000	154,074,000
Infrastructure	25,415,000	4,008,000
Other - class action, security lending	24,789,000	26,079,000
Total real estate and other income	\$ 462,011,000	462,917,000

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

Certain APFC external investment managers enter into foreign currency forward exchange contracts (FX forward contracts) to buy and sell specified amounts of foreign currencies for the Fund at specified rates and future dates for the purpose of managing or optimizing foreign currency exposure. The maturity periods for outstanding contracts at June 30, 2024 ranged between two and 101 days.

The counterparties to the FX forward contracts consist of a diversified group of financial institutions. The Fund is exposed to credit risk to the extent of nonperformance by these counterparties. The Fund's market risk as of June 30, 2024 is limited to the difference between contractual rates and forward market rates determined at the end of the fiscal year.

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

	2024	2023
Fair value of FX forward contracts, beginning of year	\$ 2,931,000	42,662,000
Net change in fair value of FX forward contracts	24,672,000	(39,731,000)
Fair value of FX forward contracts, end of year	\$ 27,603,000	2,931,000
	\$ 6,056,170,000	5,909,068,000

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

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

	2024	2023
Fair value of equity index futures, beginning of year	\$ 6,754,000	(1,366,000)
Net change in fair value of equity index futures	(7,486,000)	8,120,000
Fair value of equity index futures, end of year	\$ (732,000)	6,754,000
	\$ (23,037,000)	87,593,000

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

	2024	2023
Fair value of U.S. Treasury index futures, beginning of year	\$ (7,663,000)	3,556,000
Net change in fair value of U.S. Treasury index futures	7,798,000	(11,219,000)
Fair value of U.S. Treasury index futures, end of year	\$ 135,000	(7,663,000)
	\$ 115,932,000	29,843,000

20. EXPENDITURES

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

	2024	2023
Corporate expenditures		
Salaries and benefits	\$ 17,185,000	15,046,000
Communications and subscriptions	7,802,000	6,945,000
Consulting	3,050,000	3,455,000
Training, supplies and other	1,486,000	1,086,000
Rent	545,000	520,000
Travel	611,000	591,000
Legal and audit	1,012,000	1,017,000
Property and equipment	779,000	551,000
Subtotal corporate expenditures	\$ 32,470,000	29,211,000
Investment management and custody fees		
Investment management	\$ 113,153,000	131,188,000
Custody and safekeeping	1,323,000	1,248,000
Subtotal investment management and custody fees	\$ 114,476,000	132,436,000
Total operating expenditures	\$ 146,946,000	161,647,000
Other legislative appropriations from corporate receipts		
Department of Natural Resources	\$ 6,708,000	6,611,000
Department of Law	2,936,000	2,923,000
Department of Revenue	191,000	191,000
Total other legislative appropriations	\$ 9,835,000	9,725,000
Total expenditures	\$ 156,781,000	171,372,000

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

21. PENSION PLANS

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

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

As an integrated cost sharing plan, the PERS system requires employers to pay a uniform contribution rate of 22 percent of eligible employee salaries for the benefit of PERS members. Total salaries subject to PERS for the years ended June 30, 2024 and 2023 amounted to \$12.3 million and \$10.7 million, respectively.

In addition to the pension plan discussed above, all APFC employees and Trustees participate in the Alaska Supplemental Benefits System Supplemental Annuity Plan (SBS-AP). The SBS-AP is a multiple-employer defined contribution plan created pursuant to Internal Revenue Code section 401(a) to provide benefits in lieu of those provided by the Federal Social Security System. Each year, APFC employees and Trustees contribute 6.13 percent of salaries or honoraria, up to a specified maximum, to SBS-AP. The APFC contributes a matching 6.13 percent. Participants are eligible to withdraw from SBS-AP 60 days after termination of employment or service as a Trustee. Total salaries and honoraria for individuals subject to SBS-AP for the years ended June 30, 2024 and 2023 amounted to \$7.2 million and \$7.3 million, respectively.

SUBJECT: Proposed Edits to Audit Charter

ACTION:

DATE: September 5, 2024

INFORMATION: X

Attached for discussion purposes are proposed changes to the current Audit Committee Charter to reflect the Board's discussion at the July 24th Board Meeting to modify this charter to include additional advisory responsibilities regarding state law ethics issues and cybersecurity protocols and systems.

The plan is to gather input from this Committee that will be shared with the full Board at the annual meeting in Anchorage on September 25-26, 2024.

ALASKA PERMANENT FUND CORPORATION

Charter of the Ethics, Audit & Cybersecurity
Committee ~~of the Board~~

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INTRODUCTION

1. The Board has established an Ethics, Audit & Cybersecurity Committee (“the Committee”) to assist the Board in the ~~financial~~ oversight of the APFC related to compliance with state ethics requirements, state and federal audit requirements, and to ensure the integrity of the Information Technology (IT) systems and protocols used by APFC.
2. The Board has established this Charter which sets out the duties and responsibilities of the Committee.

ROLE

3. The role of the ~~Audit~~ Committee will be to:
 - (a) Monitor and keep the Board apprised regarding compliance with the state ethics requirements set forth in AS 39.52;
 - ~~(a)~~(b) Monitor the integrity of the financial reporting process and the system of internal controls and procedures regarding finance, accounting, and legal compliance;
 - (c) Review the performance and independence of the APFC’s external auditors;
 - ~~(b)~~(d) Review the sufficiency and integrity of the cybersecurity systems and protocols in place at APFC; and
 - ~~(c)~~(e) Provide an avenue of communication among the external auditors, management, the Chief Financial Officer, Chief Technology Officer and the Board.

AUTHORITIES

4. The Committee will have the authority to conduct any investigation appropriate to fulfill its responsibilities.
5. The Committee will have direct access to the external auditors, as well as all APFC management and staff, legal counsel, as well as all advisors, consultants and investment managers of the Fund.

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Charter of the Audit Committee of the Board**

6. The Committee may retain, at the expense of the APFC and consistent with applicable procurement requirements, consultants or experts it considers necessary in the performance of its duties.

OPERATING PROCEDURES

7. The Committee will consist of at least three Trustees, each of whom must have a basic understanding of finance and accounting and be able to read and understand financial statements.
8. The Committee will meet at least two times annually, or more frequently as circumstances dictate. The Committee Chair will approve an agenda in advance of each meeting.
9. The Committee will invite members of management, auditors, or other professionals as deemed necessary, to attend meetings and provide pertinent information. The Committee may meet in executive sessions as necessary within the requirements of the Alaska Open Meetings Act [AS 44.62.310].
10. The Committee will maintain minutes or digital recordings of Committee meetings and periodically report to the board of Trustees on significant results of the Committee's activities.
11. The Committee will annually perform a self-assessment of the Committee's performance.

Duties and Responsibilities

State Law Ethics Requirements

12. The Committee will review each quarterly report of ethics disclosures made to the attorney general under AS 37.52.260. Because these reports are confidential under AS 39.52.260, the reports will be discussed by the Committee in Executive Session.
13. The Committee may also discuss with an APFC designated ethics supervisor, any declaration of a potential violation of AS 39.52 received from a member of the Board or a member of the APFC staff.
14. The Committee will bring to the attention of the Board at a regularly scheduled meeting, any report of a potential violation of AS 39.52 that involves a member of the Board or the Executive Director.

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Financial Reporting and Internal Controls

- ~~12-15.~~ The Committee will carry out the following responsibilities with respect to financial reporting and internal controls:

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Charter of the Audit Committee of the Board**

- (a) Review the annual audited financial statements prior to filing or distribution of the final report. This review should include discussion with management and external auditors of significant issues regarding accounting principles, practices, and judgments;
- (b) In consultation with management, the external auditors, and the Chief Financial Officer, consider the integrity of the financial reporting processes and controls; discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures; and review significant findings prepared by the external auditors and the Chief Financial Officer together with management's responses;
- (c) Discuss any significant changes to applicable accounting principles and any items required to be communicated by the independent auditors;
- (d) At least annually, review with the APFC's counsel any legal matters that could have a material impact on the Fund's financial statements, the APFC's compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies; and

External Audit

~~13-16.~~ 16. The Committee will have the following responsibilities with respect to the APFC's external auditors:

- (a) Review the external auditors' audit plan - discuss scope, staffing, locations, reliance upon management, and general audit approach;
- (b) Consider the external auditors' judgments about the quality and appropriateness of the APFC's accounting principles as applied in its financial reporting;
- (c) Discuss with management and the external auditors the quality of the accounting principles and underlying estimates used in the preparation of the Fund's financial statements;
- (d) Discuss with the external auditors the clarity of the financial disclosure practices used or proposed by the APFC;
- (e) Review the performance and independence of the auditors and periodically recommend to the Board the appointment of the external auditors or approve any discharge of auditors when circumstances warrant; and
- (f) On an annual basis, review and discuss with the external auditors all significant relationships the auditors have with the APFC that could impair the auditors' independence.

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CYBERSECURITY SYSTEMS AND PROTOCOLS REVIEW

17. Every two years, the Committee, in consultation with a cybersecurity consultant hired by the Committee, shall:

- (a) review the cybersecurity systems and protocols that are documented in the APFC Cybersecurity Policy (Cybersecurity Policy) and recommend any amendments to the Cybersecurity Policy as necessary to ensure that it remains adequate and appropriate, and
- (b) review results of the bi-annual third-party cybersecurity audit that is required in the Cybersecurity Policy and consider the adoption of any recommend changes that are included in the results of this third-party audit.

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REVIEW AND AMENDMENT OF THE CHARTER

~~14.18.~~ The Governance Committee, in consultation with the Ethics, Audit & Cybersecurity Committee, and staff will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.

~~15.19.~~ The Board of Trustees adopted this Charter on September 24~~5~~th, 2020~~4~~.

**Alaska Permanent Fund Corporation
Charter of the Audit Committee of the Board**

Cybersecurity Policy

1. Purpose

The purpose of this Cybersecurity Policy is to establish the framework for safeguarding APFC's information systems against cybersecurity threats. This policy aims to protect the confidentiality, integrity, and availability of proprietary information, financial data, and other sensitive information.

2. Scope

This policy applies to all employees, contractors, consultants, temporary staff, and other workers at the APFC, including all personnel affiliated with third parties. It encompasses all equipment, software, and systems owned, leased, or used by APFC.

3. Policy Statement

The APFC is committed to implementing and maintaining an effective cybersecurity program (The Information Security Management System or ISMS) that includes preventive, detective, and corrective controls to mitigate cybersecurity risks.

4. Roles and Responsibilities

- **Ethics, Audit & Cybersecurity Committee:** Oversee the overall cybersecurity strategy and ensure adequate resources are allocated.
- **Director of Information Technology:** Develop, implement, and maintain the cybersecurity program. Report cybersecurity matters to the Ethics, Audit & Cybersecurity Committee and to the Board of Directors at least annually.
- **IT Department:** Implement technical controls and manage the day-to-day operations of cybersecurity measures.
- **All APFC Employees:** Adhere to cybersecurity policies and procedures, report suspicious activities, and participate in mandatory training programs.

5. Risk Management

- **Risk Assessment:** Conduct weekly risk assessments to identify and evaluate cybersecurity threats and vulnerabilities.
- **Risk Mitigation:** Implement measures to mitigate identified risks, including technical controls, administrative controls, and physical security.

6. Access Control

- **User Authentication:** Implement multi-factor authentication (MFA) for accessing sensitive systems and data.
- **Access Rights:** Grant access based on the principle of least privilege. Regularly review and adjust access rights as necessary.

- **Password Management:** Enforce strong password policies, including complexity requirements and regular password changes.

7. Data Protection

- **Data Encryption:** Use encryption to protect sensitive data at rest and in transit.
- **Data Classification:** Classify data based on sensitivity and apply appropriate protection measures.
- **Data Backup:** Regularly create backups of critical data and store backups securely with immutable backups for 6 months.

8. Network Security

- **Firewall Management:** Deploy and maintain firewalls to protect the internal network from external threats.
- **Intrusion Detection and Prevention:** Implement systems to detect and prevent unauthorized access and other malicious activities.
- **Secure Remote Access:** Ensure secure remote access through VPNs and other secure channels.

9. Incident Response

- **Incident Response Plan:** Develop and maintain an incident response plan outlining the procedures for detecting, responding to, and recovering from cybersecurity incidents.
- **Incident Reporting:** Establish procedures for reporting and escalating cybersecurity incidents.
- **Post-Incident Analysis:** Conduct post-incident reviews to identify lessons learned and improve future response efforts.

10. Training and Awareness

- **APFC Employee Training:** Provide regular cybersecurity training for all employees, covering topics such as phishing, social engineering, and secure practices.
- **Awareness Campaigns:** Conduct ongoing awareness campaigns to keep cybersecurity top of mind.

11. Compliance and Audit

- **Regulatory Compliance:** Ensure compliance with all applicable laws, regulations, and industry standards related to cybersecurity.
- **Internal Audits:** Conduct Bi-Annual, 3rd party internal audits to assess the effectiveness of the adopted cybersecurity controls (CIS) and identify areas for improvement.

12. Policy Review

- **Regular Review:** Review and update this policy at least annually or when significant changes occur in the threat landscape or business operations.
- **Board Approval:** Obtain Board of Directors' approval for any significant changes to this policy.

13. Enforcement

- **Non-Compliance:** Non-compliance with this policy may result in disciplinary action, up to and including termination of employment.
- **Reporting Violations:** Encourage reporting of any violations of this policy to the Director of Information Technology or designated authority.