

# PERSPECTIVES

FY23 MID-FISCAL YEAR REVIEW

APFC

ALASKA PERMANENT FUND CORPORATION

## VALUE GENERATED FOR ALASKA

As of December 31, 2022

ANNUALIZED RETURN SINCE INCEPTION

**8.73%**

TOTAL FUND VALUE

**\$74,455,800,000**

FY23 MID-FISCAL YEAR RETURN

**0.55%**

**PRINCIPAL** Royalties & Other Appropriations



**EARNINGS RESERVE ACCOUNT (ERA)**



## PERFORMANCE

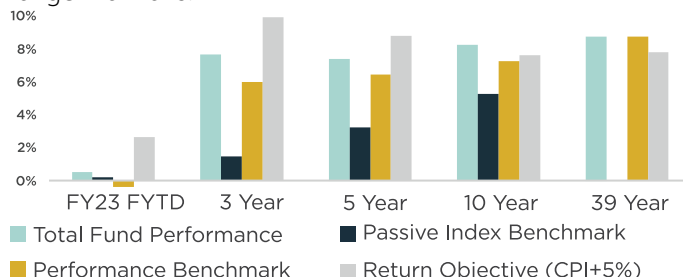
Global volatility and record rates of inflation have resulted in continued economic retraction throughout fiscal year 2023 (FY23). In this challenging investment environment, Alaska Permanent Fund Corporation remains focused on maintaining the value of the Principal and identifying opportunities to generate the maximum risk-adjusted returns for Alaskans.

The Alaska Permanent Fund Corporation measures returns against strategic performance benchmarks established by the Board of Trustees. For the first half of FY23, the Alaska Permanent Fund returned 0.55%. Fiscal year-to-date performance of the Fund was ahead of its Performance benchmark by .93% and its Passive Index benchmark by 0.32%, though it came in 2.1% below the Total Return Objective of CPI+5%.

“While the first six months of FY23 resulted in a modest 0.55% return for the Fund, there were two very different regimes in this period. Global stock markets declined in the first three months as investors’ concerns about inflation and rate hikes resulted in a prevailing pessimistic mood.

The following three months, by contrast, saw a rally in global stocks as hopes emerged for subsiding inflation and Central Banks pivoting to loosen. APFC staff expect that these types of volatile swings may continue, and we believe that our balanced and diversified portfolio is well positioned to protect capital during market drawdowns and capitalize on opportunities that likely will emerge,” said Marcus Frampton, APFC’s Chief Investment Officer.

Considering the long-term perspective of the Fund, returns have consistently outperformed the Passive Index and Performance benchmarks over the 3, 5, and 10-year periods, and the Target Return Objective over longer horizons.



## STRONGER WITH VALUES

In 2022, for the second year in a row, APFC was recognized as Best Places to Work in Money Management by Pensions & Investments.

United by the shared values of integrity, stewardship, and passion, the Board and staff of the Alaska Permanent Fund Corporation are committed to safeguarding, prudently managing and investing the assets of the Permanent Fund in service to Alaska and partners worldwide. Staff are empowered to focus on achieving their best as individuals, while contributing to building a strong and collaborative culture in support of APFC’s mission-driven work.

# MESSAGE FROM THE EXECUTIVE DIRECTOR



A handwritten signature in black ink, appearing to read 'Deven Mitchell', written in a cursive style.

**DEVEN MITCHELL**  
EXECUTIVE DIRECTOR

Since establishing the Alaska Permanent Fund in 1976, Alaskans have demonstrated their longstanding support for setting aside a portion of the State's mineral wealth to benefit future generations. That intergenerational foresight for saving and investing has helped Alaskans in the past, continues to support Alaskans today, and is being managed sustainably to provide for Alaskans in the future.

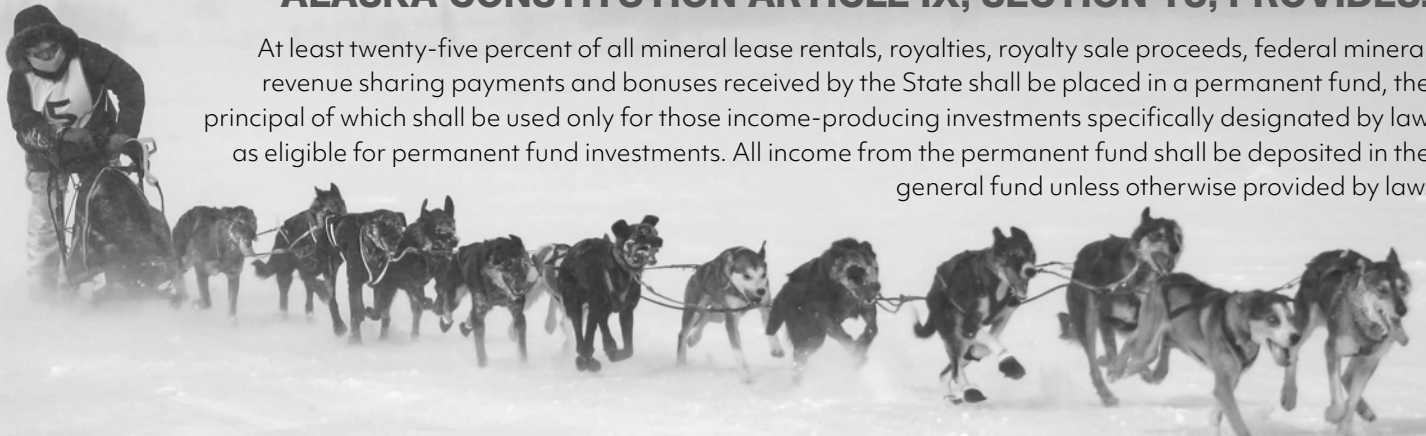
From inception, investment of the Permanent Fund's assets has generated \$82.1 billion in total statutory earnings. These realized earnings have been deposited in the Earnings Reserve Account (ERA), which is used to inflation-proof the Principal, pay dividends, and contribute to State revenue.

To ensure the enduring success of the Fund in producing vital revenues for the people of Alaska, consideration of structural improvement is essential. The Fund's current two-account structure, comprised of the Principal and ERA, is vulnerable to the potential of the balance of the ERA being less than the annual draw, or to draws out of the ERA that exceed sustainable amounts. Constitutionally combining the ERA and Principal accounts, while maintaining a limited annual draw, would ensure that sufficient resources were always available to support the needs of the residents of Alaska.

As a lifelong Alaskan who first learned about the Fund directly from Governor Hammond as a 3rd grader and built a career of service in public finance, I fully understand and appreciate the importance of protecting this vital resource for the benefit of both the current and future generations of Alaskans. I am excited to have this opportunity to take the helm, leading the APFC in stewardship of the Fund, a valuable resource that means so much to Alaskans.

## ALASKA CONSTITUTION ARTICLE IX, SECTION 15, PROVIDES:

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.



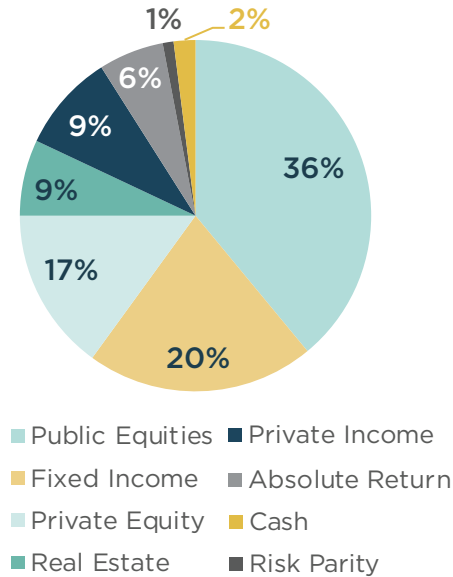
## PURPOSE

To serve its three primary functions of saving, producing income, and providing stability for Alaska, the Fund is managed and invested to generate maximum risk-adjusted returns over time. As established in the Alaska Constitution, the savings component reflects the mandate that at least 25% of royalties be deposited in the Principal of the Fund. The Constitution states that the Principal can only be used for income-producing investments. Stability for Alaska is achieved through the Percent of Market Value (POMV) distribution to State revenue.

APFC's Board of Trustees continues to reinforce its support for adherence to the rules-based mechanism for deposits into, and withdrawals out of, the Fund ensuring that a genuinely renewable financial resource continues to be available to support all generations of Alaskans.

# INVESTMENT STRATEGY

## FY23 ASSET ALLOCATION



As fiduciaries of the Permanent Fund, APFC upholds the mission to prudently invest and manage Alaska’s most valuable financial resource to benefit all generations of Alaskans. With a strategic long-term approach and a well-defined risk threshold, APFC’s Board of Trustees has engineered a dynamic Investment Policy and diverse asset allocation to maximize risk-adjusted returns.

This strategy maintains a diversified portfolio that is compatible with the Prudent Investor Rule set forth in Alaska Statute 37.13.120. Leveraging the Fund’s knowledgeable staff, structural flexibility, and considerable value ensures that the Fund will be an enduring financial resource for Alaska.

Total Fund objectives, as established in APFC’s Investment Policy:

**Investment Performance:** Ability to generate an annualized return of inflation (CPI) +5% over a 10-year period (long-term target).

**Investment Risk:** Ability of the Fund to achieve long-term targets while conforming to the Board of Trustees’ approved risk appetite metric.

## LONG HORIZON

Entrusted as stewards and fiduciaries of the Fund, APFC’s vision and diverse investment strategies complement the long-term investment horizon for the Fund.

As volatile global market conditions continue to affect the Fund’s unrealized earnings, the advantage of a long-term perspective helps to ensure that the decreased values reflected in the financial statements are not realized. By maintaining consistent investment management and strategies over a long horizon, the Fund has the ability to ride out shorter-term dips and recover from these diminished positions.

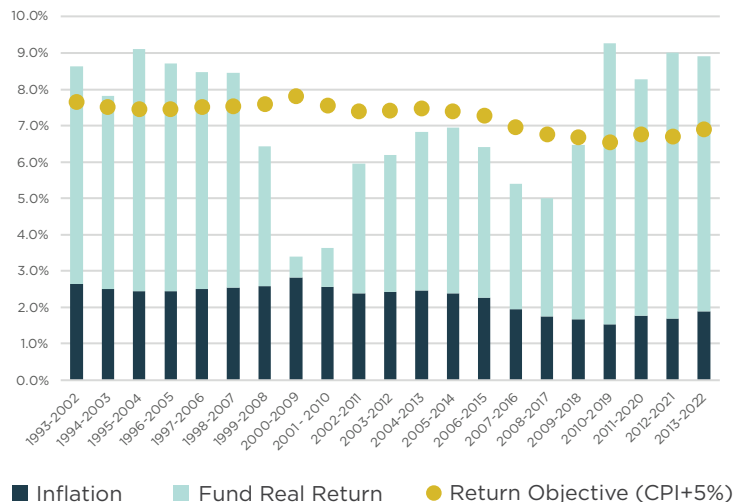


## RETURN

It is recognized that the Fund will achieve its return targets in some years, and not in others. With prudent investment and risk management over a long-term horizon, the Fund is positioned for enduring success.

**Real Rate of Return:** Investment performance after subtracting the rate of inflation for the period.

**Total Fund Return Objective:** The long-term investment goal is to achieve an average real rate of return of 5% per year (Inflation + 5%) at risk levels consistent with large public and private funds.



# STRUCTURE

The Alaska Permanent Fund functions as a single fund consisting of two separate accounts, the Principal and the Earnings Reserve Account (ERA).

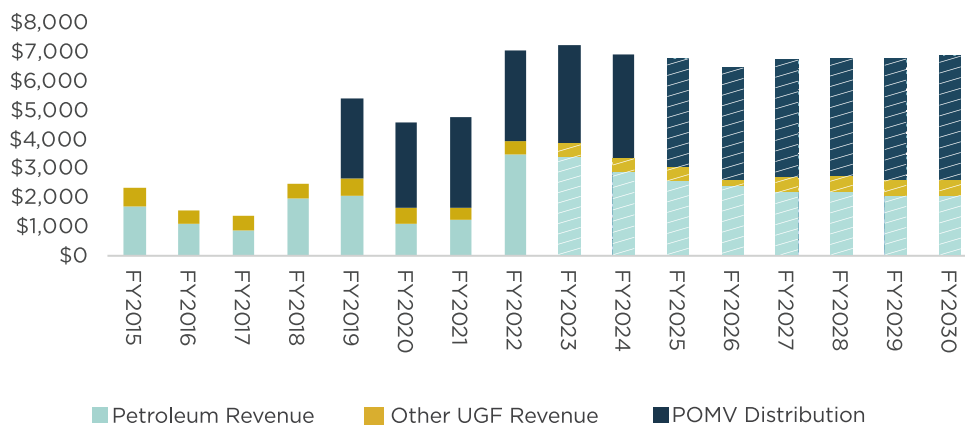
**PRINCIPAL:** Established in the Alaska State Constitution as the permanently protected, non-spendable part of the Fund that can only be used for income-producing investments. The Principal grows through royalty contributions, inflation proofing, and Legislative special appropriations.

**EARNINGS RESERVE ACCOUNT (ERA):** Annual net realized income generated by the Fund's investments flows into the ERA. Funds in the ERA are available for use by the Legislature through its power of appropriation. The ERA is used to inflation proof the Principal and support annual revenue draws.



# SUSTAINABLE FOR GENERATIONS

Now, more than ever, the State is dependent upon APFC's effective management and investment of the Fund, one of Alaska's primary sources of renewable revenue.



## FY24 POMV Calculation AS 37.13.140 (b)

FY22	\$75,912,100,000
FY21	\$81,472,100,000
FY20	\$64,877,100,000
FY19	\$65,876,400,000
FY18	\$64,469,500,000

Average

**5 yr AVG \$70,521,500,000**

**5% Draw \$3,526,100,000**

# INFLATION PROOFING

With the Fund's current two-account structure, rising inflation has always presented a serious threat to the Fund's future purchasing power. Essential to protecting the long-term value of the Principal, the Board maintains the importance of consistent annual inflation proofing appropriations from the ERA to the Principal of the Fund sufficient to offset the effects of inflation. The statutory inflation proofing mechanism as provided in AS 37.13.145 (c) is calculated based on the change in the average monthly inflation rate from one year to the next and only on the deposits/contributions to the Fund's Principal, not on the balance of the ERA or unrealized gains.

- The current calculated rate for FY23 inflation proofing is 8.0%; the highest experienced by the Fund since 1984.
- To protect the intergenerational value of the Principal, inflation proofing for FY23 was estimated to be \$1.0 B based on projected rates at the time of Legislative appropriation. Based on the actual inflation rate, it is now calculated at \$4.2 B.

## MISSION

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

## VISION

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.



Visit [apfc.org](http://apfc.org) for more information.