



APFC

ALASKA PERMANENT
FUND CORPORATION

Institute of the North

November 2020

1969 The Debate Begins



Alaska receives \$900 million in Prudhoe lease sale bonuses.

FY70 state budget: \$173 million.



The Alaska Constitution

In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15

Section 15. Alaska Permanent Fund

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

APFC – Revenue Generation

APFC manages the Alaska Permanent Fund, one of Alaska's primary sources of renewable revenue.

Now, more than ever, the economic health of the State is dependent upon APFC's effective management and investment of the Alaska Permanent Fund. The POMV draw from the Earnings Reserve Account now supports ~70% of Alaska's undesignated general fund budget.

APFC's prudent investment and management of the Fund fulfills dual roles –

- Protecting the Principal of the Fund for the benefit of all current and future Alaskans
- Providing a revenue source to help balance the State's budget.



Renewable Resource



Contributions

- Royalties
- Special Appropriations
- Inflation Proofing



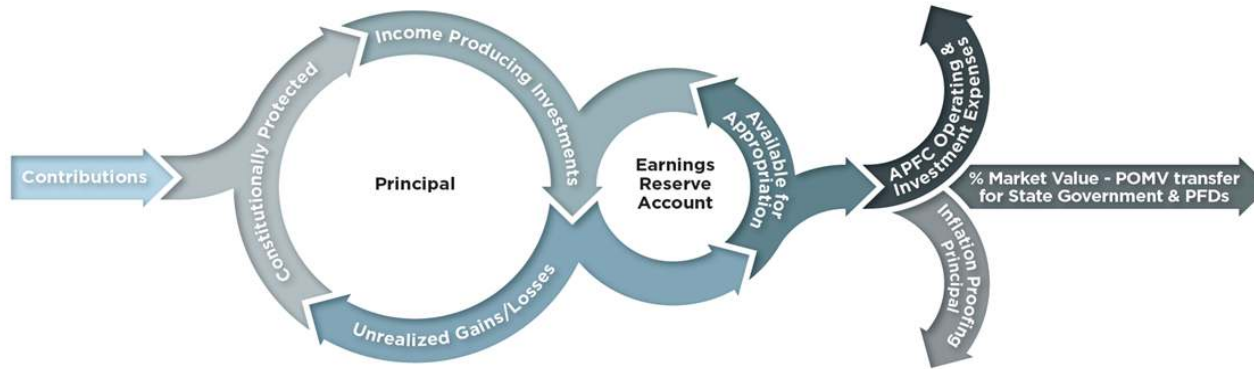
Principal

- Alaska Constitution, Article IX, Section 15



Income Producing Investments

- Alaska Permanent Fund Corporation
- Management and Investment of the Fund
- Single Asset Allocation (pro-rata shares)
- Stocks, Bonds, Real Estate, Alternatives



Sale and Distribution of Assets

- Statutory Net Income AS 37.13.140
- Cash Flow Income
- Realized gains/losses



Earnings Reserve Account

- Alaska Statutes AS 37.13.145(a)
- Realized gains/losses from sale of assets
- Pro-Rata share of investments and net unrealized gains

Historically, the Alaska Permanent Fund has been used as a savings device to generate revenues and pay dividends to eligible Alaskans.

Today, the Fund is used to support the State's General Fund through the POMV Draw for statewide services and programs, including the dividend.

Projections FY21

excerpt from APFC's History & Projections as of September 30, 2020

Assumptions	Total Return	Inflation	Total Real Return	Statutory Return
Lo FY20	-0.17%	2.25%	-2.42%	4.27%
Mid FY20	6.48%	2.25%	4.23%	5.45%
Hi FY20	13.89%	2.25%	11.64%	6.83%
Mid FY20-FY28	6.75%	2.25%	4.50%	6.40%

Based on 2020 Callan Capital Market Assumptions.
Actual Results will vary.

Principal inception through FY20

The Principal is constitutionally established and permanently protected; it can only be used for income-producing investments.

The Principal is comprised of:

\$17.6 B in Royalty Deposits

\$18.0 B of Inflation Proofing

\$11.0 B of Special Appropriations

Royalty Deposits – AS 37.13.010 (a) (1) and (a) (2)

The constitutionally minimum required 25% of royalty proceeds, and the statutorily mandated deposits of 50% for leases after 1979.

Inflation Proofing – AS 37.13.145 (c)

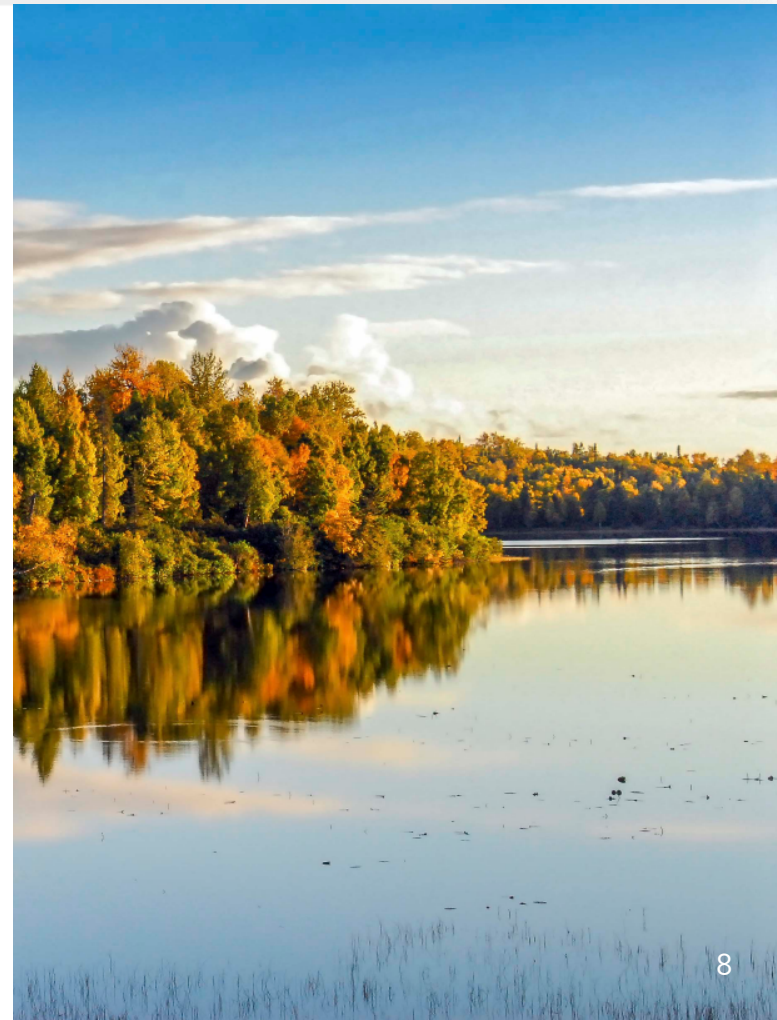
The inflation proofing calculation is based on deposits into the Principal of the Fund and the inflation rate as calculated per statute.

Special Appropriations – AS 37.13.010 (a) (3)

Legislative Deposits from both the General Fund and the ERA.

Earnings Reserve Account

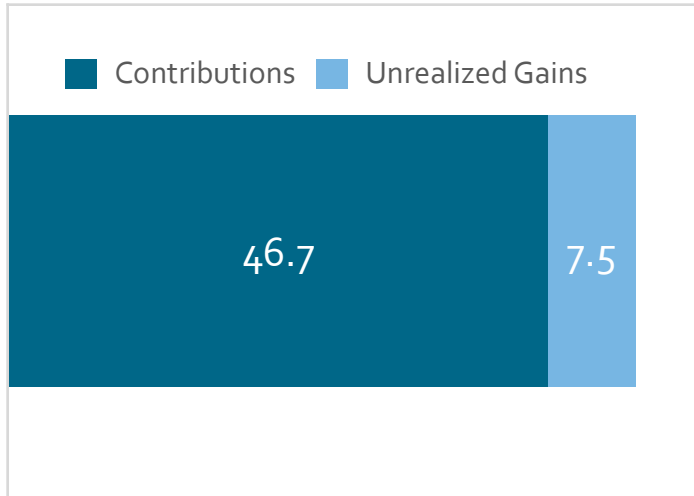
- Established in AS 37.13.145 (a) as a separate account to hold the realized earnings from the Fund's investment portfolio
- Grows through the receipt of statutory net income – monthly cash inflows from investments and net income from sale of holdings
- Invested under the same asset allocation as the Principal
- Is available for legislative appropriation



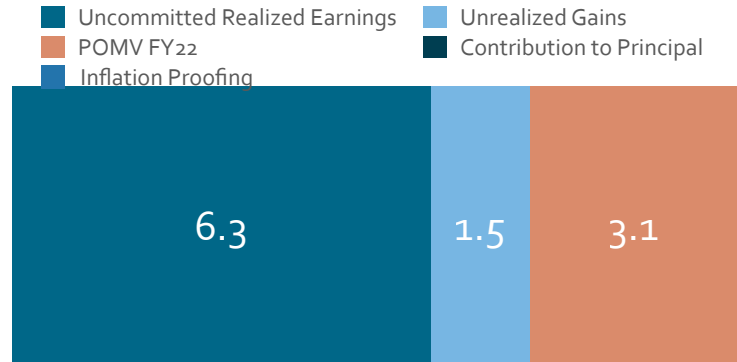
Values in billions - as of September 30, 2020

Principal \$54.2 b

FY21 SEP 30



ERA \$10.9 B



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Note: FY21 Inflation Proofing Not Enacted

Percent of Market Value - AS 37.13.140 (b)

POMV

- Based on market value, rather than realized income
- Stable draw = average market value of the Fund for the first five of the preceding six fiscal years
- Subject to annual appropriation by the Legislature

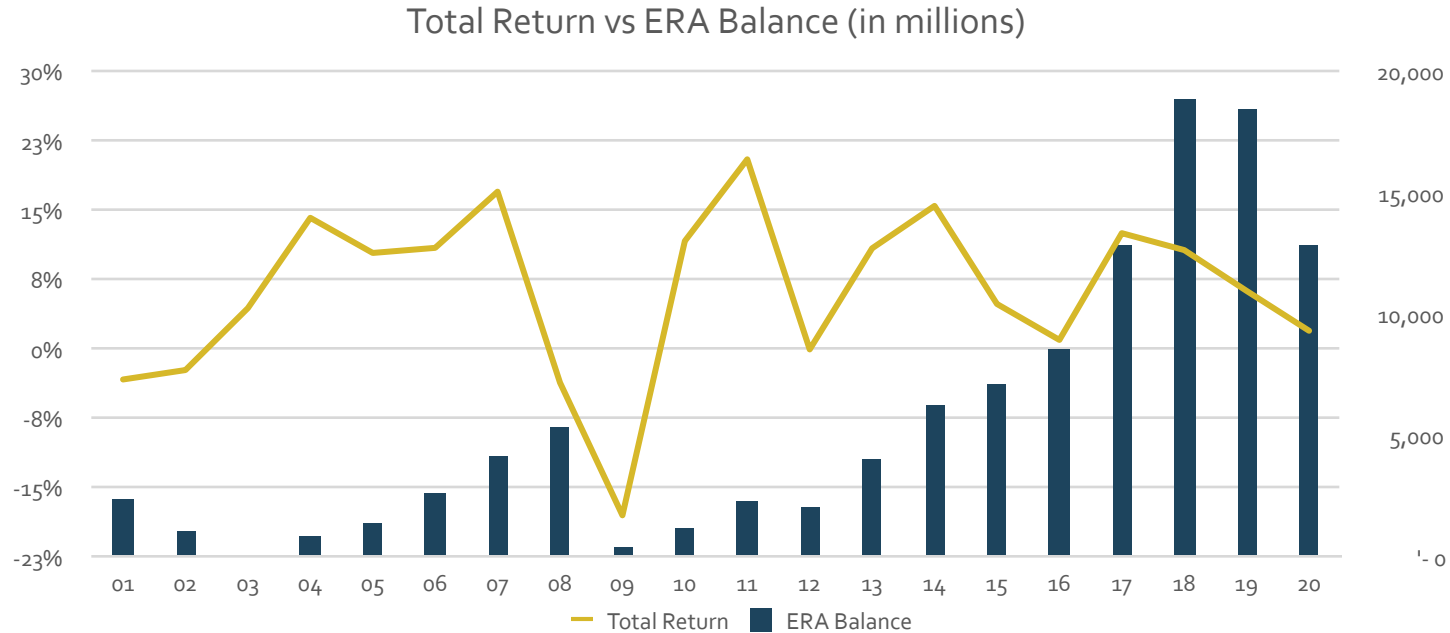
5.25% - Effective July 1, 2018 (FY19)

- FY19 POMV = \$2.72 billion
- FY20 POMV = \$2.93 billion
- FY21 POMV = \$3.09 billion

5.0% - Effective July 1, 2021 (FY22)

- FY22 POMV = \$3.07 billion
- FY23 POMV = ~\$3.21 billion
- FY24 POMV = ~\$3.29 billion

20 Year Look Back



Resolutions 03-05 , 04-09

POMV

- Supporting a constitutional amendment to limit the annual Fund payout to not more than a 5% POMV averaged over a period of 5 years.
- Implementation of a constitutional POMV spending limit for the Fund, has the accompanying benefit of assuring permanent inflation proofing of the Fund.

Resolution 18-04

Sustainable Rules- Based Legal Framework For Fund Transfers

- In providing guidance on rules-based withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.
- This resolution affirms the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund, by identifying four key principles:

Adherence - Sustainability - Inflation Proofing - Real Growth

Resolution 20-01

Alternate Proposals to Support POMV

- With the enactment of SB 26, Chapter 16 SLA 18 on July 1, 2018, an essential step was taken to codify a set of rules to establish a sustainable annual draw from the realized earnings of the Alaska Permanent Fund (Fund). The Board of Trustees believes additional measures would enhance the sustainable use of Fund earnings for the benefit of all generations of Alaskans that warrant consideration by the Alaska Legislature and the Administration, including:
 - Transform, by constitutional or statutory amendment, the Alaska Permanent Fund and Earnings Reserve Account into a single fund and limit the annual draw to the fund's long-term real return
 - Adjustments to the existing rules-based system governing fund transfers into and out of the Principal and ERA, if the ERA and Principal are not combined: Periodic Review of Fund Return Assumptions and ERA Balance Buffer (4x the annual draw)

Excerpt – BOT Special Meeting March 2019

POMV Shortfall Analysis

Base Case – Principal Allocated the Same as ERA

- Baseline POMV / ERA combination is not particularly stable with 7 out of 11 historical capital markets scenarios failing to fulfill POMV payments to General Fund over twenty year horizon

(\$ in millions)

	Base Case						
	Shortfall Year	Initial Shortfall	Cum. Shortfall	Worst % Shortfall	# Shortfall Years	Cum. Infl. SF	Ending Fund Value
1 = "1900-1919 - 70/30"	FY 2036	(\$2,345)	(\$5,189)	58%	2.00	\$41,980	\$114,731
2 = "1910-1929 - 70/30"	FY 2026	(\$1,774)	(\$5,140)	66%	4.00	\$21,334	\$160,712
3 = "1920-1939 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$106,995
4 = "1930-1949 - 70/30"	FY 2024	(\$820)	(\$8,346)	96%	5.00	\$8,529	\$84,731
5 = "1940-1959 - 70/30"	FY 2024	(\$992)	(\$992)	32%	1.00	\$15,106	\$253,550
6 = "1950-1969 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$232,331
7 = "1960-1979 - 70/30"	FY 2035	(\$495)	(\$6,249)	100%	3.00	\$44,264	\$104,141
8 = "1970-1989 - 70/30"	FY 2026	(\$3,667)	(\$4,188)	100%	2.00	\$37,902	\$270,694
9 = "1980-1999 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$614,268
10 = "1990-2009 - 70/30"	N/A	\$0	\$0	0%	0.00	\$0	\$141,518
11 = "2000-2019 - 70/30"	FY 2024	(\$686)	(\$8,005)	90%	8.00	\$12,829	\$110,352
12 = "Flat 7.00% & 2.25%"	N/A	\$0	\$0	0%	0.00	\$0	\$111,981
Average (Cases 1-11)		(\$980)	(\$3,464)	49%	2.27	\$16,540	\$199,457

Evolving Role of the Fund

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income-generation functions. In Alaska, the latter function has come into sharper focus, as the Fund income supports the State budget in an era of lower oil revenues.

This paper proposes a number of reforms that will strengthen the stability and sustainability of Alaska's Permanent Fund:

LESSON # 1: MISSION CLARITY

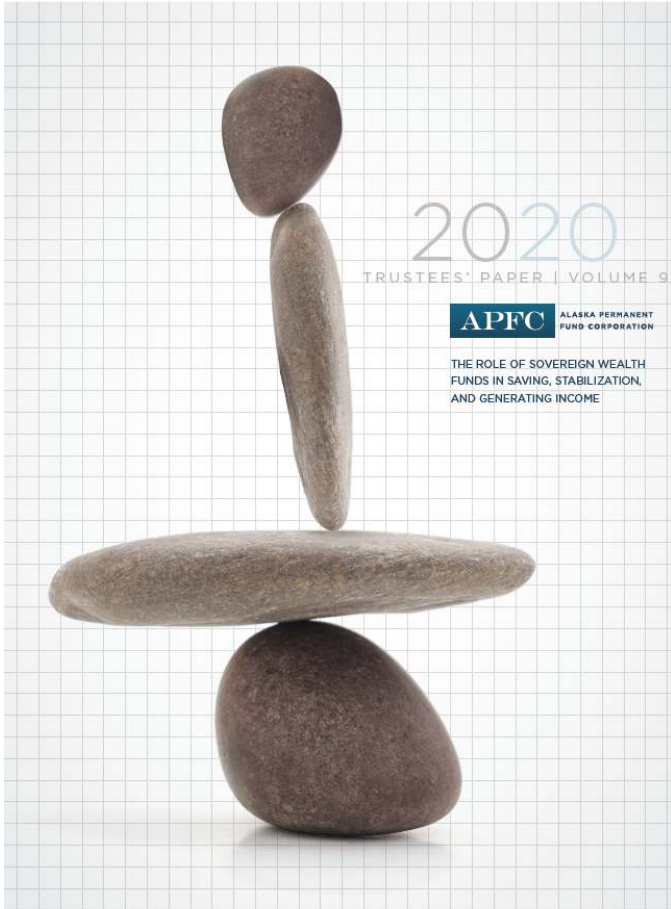
LESSON #2: THE IMPORTANCE OF RULES

LESSON #3: SUCCESSFUL ENFORCEMENT OF SAVING RULES

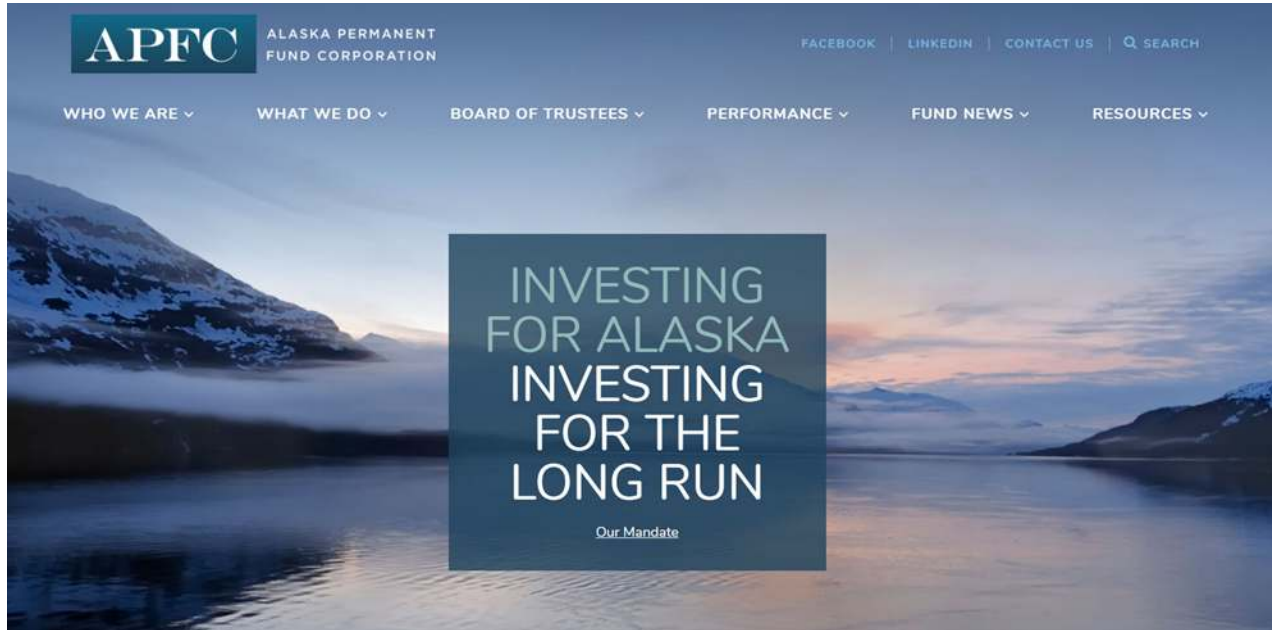
LESSON #4: DESIGNING A POMV SPENDING RULE

LESSON #5: REFORMING THE ERA

<https://apfc.org/report-archive/#14-33-trustees-papers>



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