

# THE ALASKA PERMANENT FUND IN OUR FISCAL FUTURE

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# The Alaska Permanent Fund

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# Constitutional Amendment

## **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.

1976 HJR 29, approved Nov. 02, 1976, eff. Feb. 21, 1977.



## Past Legislative Efforts to Use the Fund

- Four major conference or initiatives – 1995, 1999, 2001, 2004.
- In 2002 following a conference with a convening group consisting of a majority of the House, the House passed proposals to bring back the income tax and use a portion of Permanent Fund income.
- In 2004, the House again passed a bill providing for limited use of the Permanent Fund income for government purposes.



# 2007 Commonwealth North Report

## 2007 Report Reviewed:

1. **Statutory changes and adoption of prudent investor rule**
2. **Beginning of alternative investments**
3. **Growth of earnings reserve to \$4.1 billion**
4. **Need to adopt POMV formula**



# 2007 Commonwealth North Report

## 2007 Report Recommendations:

1. A more rigorous Trustee selection process
2. Satellite offices in Anchorage and elsewhere
3. Endowment-style payout
4. Larger investments in alternative assets
5. Better employee compensation
6. Expansion of Education Program

Which were adopted?



## Current Issues

**Spendable Assets – the Earnings Reserve:**

**Only in 1998 did the legislature stop adding income to the principal.**

**Attorney General changes his mind in 2009 on treatment of unrealized gain in 2009.**

**Growth and Uneven Change in Size:**

<b>2012 – June 30, 2010</b>	<b>\$2.080 Billion</b>
<b>2014 – December 31, 2014</b>	<b>\$7.9 Billion</b>



# Current Issues

**POMV:**

**What is it?**

**Why do we need it?**

**How can we attain it?**

**What would it do?**





# Current Issues

**Risk Level:**

**Professor Rogoff's Anchorage Dispatch column**

**What is our risk level compared to other large funds?**

**Our Target Asset Allocation:**

<b>Stocks</b>	<b>30%</b>
<b>Bonds</b>	<b>20%</b>
<b>Real Estate</b>	<b>12%</b>
<b>Other</b>	<b>12%</b>
<b>Absolute Return, Equity, and Infrastructure</b>	<b>16%</b>

# Risk Level

What is it?

## 1. 37.13.120 – Prudent Investor Rule

Preserve purchasing power while maximizing total return.

## 2. How interpreted

- Board philosophy – primary object safety of principal
- A preservation of capital vehicle – *Moran 1/10*  
Dividend formula makes fund very risk sensitive – *Callan 2/15*
- Diversified portfolio to dampen volatility with slightly better risk adjusted returns.

## Risk Level (continued)

### 3. Returns

<b>APFC</b>	<b>June 30, 2014</b>	<b>15.52%</b>
<b>832 Colleges</b>	<b>June 30, 2014</b>	<b>15.50%</b>
<b>Yale</b>	<b>June 30, 2014</b>	<b>20.5%</b>
<b>CALPERS</b>	<b>June 30, 2014</b>	<b>18.4%</b>

**Table 5**

**State of Alaska Unrestricted General Fund and Budget Reserve Scenario  
FYs 2015 through 2024<sup>(1)</sup>**

FY	General Purpose Unrestricted Revenues (\$mil)	Recurring & Discretionary General Fund Expenditures (\$mil) <sup>(1)</sup>	Unrestricted Revenue Surplus/ (Deficit) (\$mil)	Ending CBRF Reserves Available Balance (\$mil)	Permanent Fund Earnings Reserve Balance (\$mil) <sup>(4)</sup>	Oil Price Forecasts (\$/barrel)	ANS Oil Production Forecasts (thousand barrels per day)
2015	\$2,573.0 <sup>(2)</sup>	\$6,105.7	\$(3,532.7)	\$9,589.9 <sup>(3)</sup>	\$6,597.0	\$76.31	509.5
2016	2,196.7	5,834.5	(3,637.8)	6,042.4	7,023.0	66.03	524.1
2017	3,657.3	5,600.0	(1,942.7)	4,370.9	7,420.0	93.18	534.1
2018	4,292.1	5,600.0	(1,307.9)	3,262.5	7,918.0	102.81	503.5
2019	4,808.1	5,600.0	(791.9)	2,632.9	8,574.0	112.00	473.2
2020	4,852.9	5,600.0	(747.1)	1,959.7	9,285.0	117.36	435.8
2021	4,627.6	5,600.0	(972.4)	1,046.8	10,052.0	121.14	400.4
2022	4,555.7	5,600.0	(1,044.3)	37.6	10,878.0	123.87	368.5
2023	4,547.8	5,600.0	(1,052.2)	0.0	10,768.4	129.04	342.9
2024	4,473.2	5,600.0	(1,126.8)	0.0	10,608.6	134.39	314.7

- (1) This table represents one possible scenario taken from the revenue and expenditure projections as of the Fall 2014 Revenue Sources Book release. Projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2015, FY2016 or any future year. The 10-year forecast shows that unanticipated budget shortfalls during the 10-year period could be filled primarily through use of reserve funds; however, other fiscal tools including spending reductions would likely be used in addition to, or in lieu of, reserve funds.
- (2) FY 2015 number includes \$2,551.5 General Fund Unrestricted Revenue forecast plus \$21.5 of funds reappropriated and/or carried forward from FY 2014 for total of \$2,573.0.
- (3) The ending CBRF balance includes a transfer in the amount of \$3 billion occurring in FY 2015 from the CBRF to PERS/TRS. This includes a contribution of \$1.0 billion to PERS and \$2.0 billion to TRS.
- (4) FY 2015 through 2024 Permanent Fund Earnings Reserve Balance uses mid-case projections as of Alaska Permanent Fund Corporation June 30, 2014 Monthly Financial Report, and forecasts available at that time. The anticipated deficit for fiscal years 2023 and 2024 reflect a projected appropriation from the Permanent Fund Earnings Reserve to balance the State budget.

Sources: State of Alaska Department of Revenue, Tax Division and State of Alaska Office of Management and Budget. Forecasts from the Fall 2014 Revenue Sources Book for the CBRF. Alaska Permanent Fund Corporation forecasts are based on the Monthly Financial Report for June 30, 2014.

## Board of Trustees Monthly Performance Report - June 30, 2015

Returns are unaudited, preliminary, and include some estimates

Consolidated Assets - APF assets equal 99% of total assets. Slight differences are due to rounding.  
Market values shown are unaudited, and returns for periods greater than one year are annualized.  
Returns for accounts with delayed reporting are shown quarterly and are calculated based on most recent Callan data.  
All returns are provided by Callan Associates, Inc. and are shown gross of fees (before fees) except as noted.



6/30/2015		Returns as of 6/30/2015						
	Market Value (\$ in millions)	Latest Month	Last 3 Months	Calendar Y-T-D	Fiscal Y-T-D	Last 12 months	Last 3 Years	Last 5 Years
<b>RETURNS BY ASSET CLASS</b>								
Domestic Fixed Income	11,297.2	-1.03%	-1.33%	0.25%	1.15%	1.15%	2.08%	3.83%
Non-Domestic Fixed Income	987.6	-1.70%	-2.55%	-1.68%	-2.37%	-2.37%	2.68%	3.29%
Mezzanine Debt	249.4	0.33%	1.08%	4.31%	9.64%	9.64%	11.39%	5.83%
Domestic Equities	6,226.7	-1.05%	0.50%	3.01%	7.18%	7.18%	18.53%	17.84%
Non-Domestic Equities	9,251.0	-2.44%	1.15%	4.03%	-5.20%	-5.20%	8.59%	7.08%
Global Equities	6,074.8	-1.93%	0.07%	3.43%	1.23%	1.23%	14.84%	13.67%
Multi-Asset Emerging Markets	682.8	-2.98%	-0.40%	0.12%	-7.40%	-7.40%	1.85%	
Real Estate	6,546.0	0.49%	2.75%	5.32%	9.80%	9.80%		
Private Equity <sup>1</sup>	3,207.5	N/A	N/A	8.14%	16.46%	16.46%	18.60%	17.27%
Absolute Return <sup>1</sup>	4,282.5	N/A	0.50%	1.81%	1.71%	1.71%	5.91%	5.19%
Infrastructure <sup>1</sup>	1,518.1	N/A	0.82%	1.76%	4.73%	4.73%	9.74%	7.41%
External CIO/Real Return Mandate	2,208.9	N/A	-1.64%	3.00%	3.43%	3.43%	6.43%	8.30%
Private CIOs/Real Return Mandate <sup>1</sup>	160.4	N/A	-1.12%	-0.14%	-5.62%	-5.62%		
True Special Opportunity <sup>1</sup>	1,925.2	N/A	-9.22%	4.50%	259.92%	259.92%		
	<b>\$ 54,618.3</b>							
<b>RETURNS BY RISK CLASS</b>								
Company Exposure	32,692.6	-1.35%	0.64%	3.28%	1.85%	1.85%	12.09%	11.74%
Interest Rates and Cash	2,882.0	-0.71%	-1.18%	-0.18%	1.71%	1.71%		
Real Assets	9,133.0	0.17%	2.01%	4.19%	7.41%	7.41%	8.88%	9.79%
Opportunity Pool	9,910.7	-0.98%	-2.29%	1.85%	15.28%	15.28%	9.89%	8.58%
<b>Total Fund</b>	<b>\$ 54,618.3</b>	<b>-1.00%</b>	<b>0.21%</b>	<b>2.97%</b>	<b>4.91%</b>	<b>4.91%</b>	<b>10.35%</b>	<b>10.13%</b>
<i>Total Fund Return Objective</i>		0.74%	2.26%	4.06%	5.13%	5.13%	6.32%	6.83%
<i>Strategic Risk Benchmark</i>		-2.05%	-1.28%	0.85%	1.35%	1.35%	9.24%	9.55%
<i>Performance Benchmark</i>		-1.69%	-0.56%	0.70%	-1.38%	-1.38%	8.33%	9.00%
<i>Board Asset Class Benchmark</i>		-1.97%	-1.11%	0.95%	0.80%	0.80%		
<b>COMPANY EXPOSURE</b>								
<i>Passive Large-Cap Domestic Equity Managers</i>								
Mellon S&P 500	\$ 530.5	-1.93%	0.28%	1.24%	7.45%	7.45%	17.30%	17.34%
S&P 500 Index		-1.94%	0.28%	1.23%	7.42%	7.42%	17.31%	17.34%
Mellon FTSE RAFI US Large Cap	\$ 1,470.5	-2.17%	-0.18%	0.15%	4.76%	4.76%	18.51%	
FTSE RAFI US 1000 Index		-2.17%	-0.13%	0.19%	4.81%	4.81%	18.53%	
<i>Large-Cap Growth Domestic Equity Managers</i>								
AGI - Large Cap	\$ 1,142.8	-0.90%	0.84%	6.16%	11.17%	11.17%	19.30%	17.71%
GE Asset Mgmt	\$ 345.0	-1.16%	0.85%	3.29%	13.37%	13.37%	20.47%	19.77%
Russell 1000 Index		-1.88%	0.11%	1.71%	7.37%	7.37%	17.73%	17.58%
DSM - Large Cap	\$ 150.1	-0.42%	2.08%	6.96%	16.83%	16.83%		
CastleArk - Large Cap	\$ 363.4	-0.30%	2.72%	6.73%	11.04%	11.04%		
Russell 1000 Growth Index		-1.76%	0.12%	3.96%	10.56%	10.56%		

<sup>1</sup> Time-Weighted Returns (TWR) are shown for commitment based assets as they are used to calculate the Total Fund return. Internal Rate of Return (IRR) calculations are more meaningful for such investments. Shorter time periods (< 3 months) and periods of new investment (first 3 - 5 years) are not meaningful.