

SUBJECT: Strategic Plan Update

ACTION:

DATE: September 28, 2023

INFORMATION: X

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BACKGROUND:

Staff has been working with Board volunteers to create a goals-oriented plan for the Corporation to follow. The initial approach and goals are summarized below.

**Theme has been identified as Being the Best endowment style sovereign wealth fund in the world**

**Three draft business-related goals are:**

- 1. Increase AUM to \$100 billion by DATE TBD**
  - a. Strategy to achieve increased return above 5% plus CPI currently target.**
    - i. Consider offices located out of state or international**
    - ii. Consider greater use of leverage – statute change to provide flexibility**
  - b. Inflow/outflow is 5% too high a POMV should the Board advocate for reducing the POMV outflow or increasing the state oil revenue inflows at all, in every year or only in strong state revenue years**
  - c. Reduce reliance on third party advisors**
    - i. Initial focus on private equity asset class**
- 2. Pursue Change to improve Corporate Functionality – Initial subjects include:**
  - a. Budget flexibility from State Legislature**
  - b. Statutory exemption from State Open Meeting Act**
  - c. Statutory exemption from State Procurement Code**
  - d. Statute change to improve personnel records privacy issues**
  - e. Statute change to allow for use of balance sheet debt issues (irrevocably (potentially on a subject to appropriation basis) pledging revenues of the fund to securitizations)**
- 3. Build on Communications Plan**
  - a. In state mission of education**
  - b. Nationwide focus on investment performance, competence and strategy**

**One overarching structural goal is:**

**Fix two account fund structure issues with ERA vs Principal**

- c. Statutory/constitutional fixes**
- d. Less focus as this matter will be addressed by Trustee Paper Number 10**

RECOMMENDATION:

Board members provide their feedback on the goals that have been identified.

Staff and volunteer board members will continue refining and building out strategy for realization of the goals. This process will culminate in an October 30 Board meeting to consider and approve an updated plan.

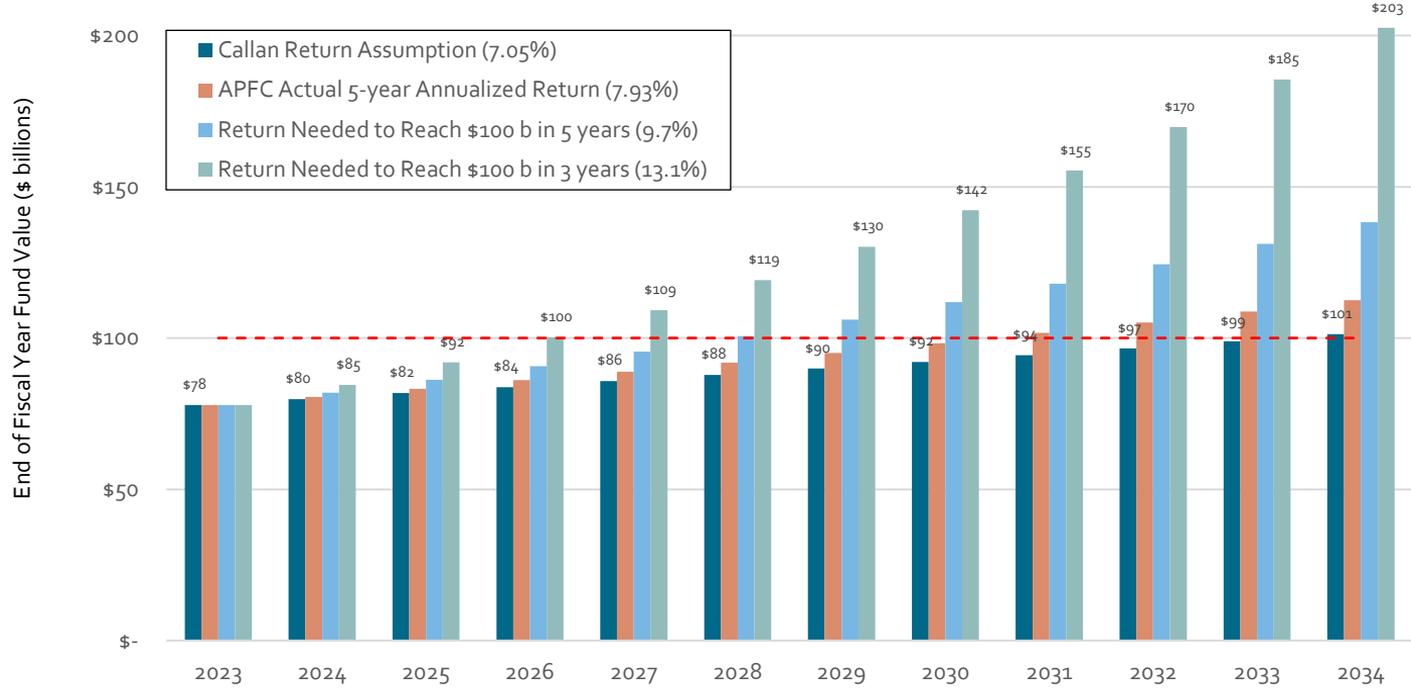


ALASKA PERMANENT  
FUND CORPORATION

# APFC Path to \$100 Billion Total Fund Value

*September 2023*

# Return Needed to Reach \$100 billion Total Fund Value



- **11 years** (FYE 2034) needed to reach \$100 billion at Callan’s annual return assumption of **7.05%**.
- **8 years** (FYE 2031) needed to reach \$100 billion at APFC’s 5-year annual return of **7.93%**.
- To reach \$100 billion NAV in **5 years** (FYE 2028), APFC would need an annual return of at least **9.7%**.
- To reach \$100 billion NAV in **3 years** (FYE 2026), APFC would need an annual return of at least **13.1%**.

Sources: APFC June 30, 2023 History and Projections; APFC June 30, 2023 Monthly Performance Report  
 (1) Year 2023 is actual; 2024 and beyond are projections  
 (2) APFC Actual 5-Year Annualized Return is as of June 30, 2023  
 (3) Fund value is shown as of fiscal year end and less POMV Transfer

# Effect of Leverage on Returns

## Total Fund Levered Return Sensitivity <sup>(1)</sup>

		Unlevered Return %										
		0%	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
% Total Fund Leverage	0%	0.00%	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
	10%	-0.56%	0.56%	1.67%	2.78%	3.89%	5.00%	6.11%	7.22%	8.33%	9.44%	10.56%
	20%	-1.25%	0.00%	1.25%	2.50%	3.75%	5.00%	6.25%	7.50%	8.75%	10.00%	11.25%
	30%	-2.14%	-0.71%	0.71%	2.14%	3.57%	5.00%	6.43%	7.86%	9.29%	10.71%	12.14%
	40%	-3.33%	-1.67%	0.00%	1.67%	3.33%	5.00%	6.67%	8.33%	10.00%	11.67%	13.33%
	50%	-5.00%	-3.00%	-1.00%	1.00%	3.00%	5.00%	7.00%	9.00%	11.00%	13.00%	15.00%
	60%	-7.50%	-5.00%	-2.50%	0.00%	2.50%	5.00%	7.50%	10.00%	12.50%	15.00%	17.50%
	70%	-11.67%	-8.33%	-5.00%	-1.67%	1.67%	5.00%	8.33%	11.67%	15.00%	18.33%	21.67%
	80%	-20.00%	-15.00%	-10.00%	-5.00%	0.00%	5.00%	10.00%	15.00%	20.00%	25.00%	30.00%
	90%	-45.00%	-35.00%	-25.00%	-15.00%	-5.00%	5.00%	15.00%	25.00%	35.00%	45.00%	55.00%

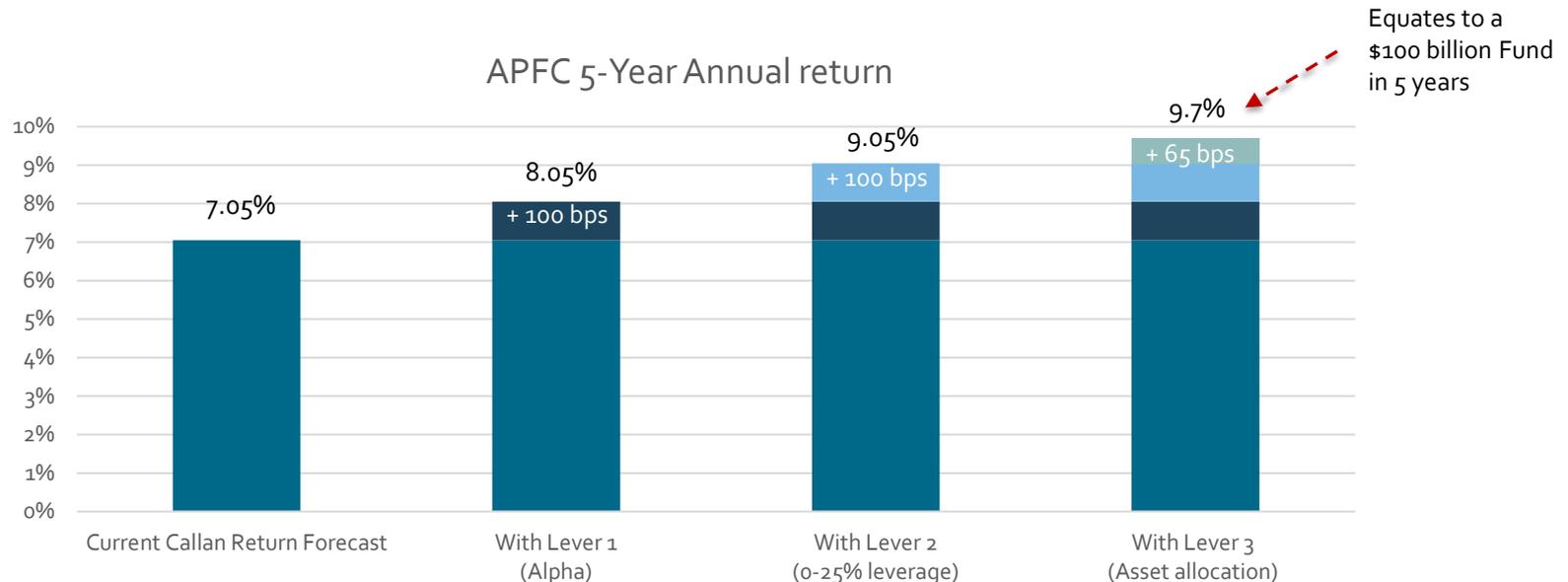
Red = Levered return is less than unlevered return

Green = Levered return is greater than or equal to unlevered return

(1) Assumes a 5% cost of debt based on borrowing at ~100 bps spread to US 10-Year Treasury yield

# Levers to Achieve Higher Expected Returns

- **Level 1:** 100 basis points outperformance from creating a high-performance driven investment office.
- **Level 2:** Modest Fund leverage in line with peers.
- **Level 3:** Asset allocation adjustment.



# Risks Associated with the Levers

	<u>Lever 1</u> Alpha	<u>Lever 2</u> Leverage	<u>Lever 3</u> Asset Allocation Adj.
Risks	<ul style="list-style-type: none"> <li>• Ability to attract and retain high performers</li> <li>• Lack of long-term commitment by stakeholders to strategy and budgets</li> <li>• Disparity within organization in terms of culture, compensation, legacy processes</li> <li>• Increased operational risk</li> </ul>	<ul style="list-style-type: none"> <li>• Increased volatility (expected loss) of returns</li> <li>• Increased liquidity risk</li> <li>• Structuring, managing and administering debt program and related operational risks</li> <li>• Increased legal risks</li> </ul>	<ul style="list-style-type: none"> <li>• Increased volatility (expected loss) of returns: redefining risk appetite</li> <li>• Increased liquidity risk</li> <li>• Potentially lower benefits of diversification across asset classes</li> <li>• Potential adverse impacts of increasing scale in certain scale sensitive assets</li> </ul>
Pre-Requisite	<ul style="list-style-type: none"> <li>• Approval of strategy, budgets and operating model by all stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Approval from relevant stakeholders on the ability to have structural leverage with recourse to the Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Revise BOT approved risk appetite and asset allocation</li> </ul>

