

ALASKA PERMANENT FUND CORPORATION

FY20 - FY25 STRATEGIC PLAN

PURPOSE/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.

VALUES

- **Integrity:** *We act in an honorable, respectful, professional manner that continually earns and justifies the trust and confidence of each other and those we serve.*
- **Stewardship:** *We are committed to wisely investing and protecting the assets, resources, and information with which we have been entrusted for the benefit of current and future generations of Alaskans.*
- **Passion:** *We are driven to excellence through self-improvement, innovative solutions, and an open, creative culture. We are energized by the challenges and rewards of serving Alaskans.*

CORPORATE STAKEHOLDERS

(ordered according to the degree to which APFC is obligated to serve and directly impact key APFC decisions and policies)

- All Alaskans
- Alaska Permanent Fund
- Executive and Legislative Branches
- Mental Health Trust Authority
- Investment Partners

EXPECTATIONS

- The inflation-adjusted principal of the Permanent Fund will always be protected
- The fund will outperform the CPI +5% long-term return objective with adequate liquidity
- We will professionally and prudently manage the assets and resources with which we are entrusted
- We are fully accountable for our decisions and strive to ensure appropriate information is readily available and shared
- We will fulfill all commitments and obligations
- We attract and retain top talent throughout APFC
- We will invest in attractive Alaskan opportunities

FUND STAKEHOLDERS

(ordered according to the degree to which fund stakeholders are impacted by or vested in APFC's success or failure)

- All Alaskans (including future generations)
- State Government
- Investment Managers

EXPECTATIONS

- The inflation-adjusted principal of the Permanent Fund will always be protected
- Net earnings of the Permanent Fund are available for appropriation
- We will fulfill all commitments and obligations
- We will do our jobs professionally

STRENGTHS

(ordered according to the degree to which each is projected to be a significant strength during the period covered by this plan)

- Passionate, talented, and diverse staff
- A long-term investment horizon
- Proclivity to be nimble and flexible
- Size of the fund
- Proven record of sustained success
- Trustees' confidence and trust in the organization
- Knowledgeable, engaged Trustees
- Public purpose
- Location (Alaska)

WEAKNESSES

(ordered according to the degree to which each is projected to be a significant weakness during the period covered by this plan)

- Uncertainty regarding the implementation of the ongoing POMV draw (potential shift to liability manager model?)
- Lack of trust, confidence, communication between stove-piped groups
- Vulnerabilities of being a government cost center
- Lack of an incentive compensation plan
- Lack of effective means to ensure continuity of proven strategies and practices to overcome gaps
- Impact of location (Alaska) on recruiting, accessing market opportunities
- Systems and integration lag behind the organization's needs

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OPPORTUNITIES

(ordered according to their potential emergence and impact on APFC goals during the period covered by this plan)

- Potential to add greater value through increased internally managed investments
- Market demand for large scale and long-term investors
- Changing political directions, expectations, and requirements
- The value of established brand equity (of APFC)
- Increasing unique access to growing global investment opportunities and partnerships

THREATS

(ordered according to their potential emergence and impact on APFC goals during the period covered by this plan)

- Lack of political clarity regarding the purpose and structure of the fund (expectations for future performance; impact of the POMV)
- Uncertain, uneven support for resources and budget for operations
- Lower expected returns and higher risks (market cycles)
- Increased threat of digital disruption and cyberattacks
- Limited pool of qualified applicants and challenge of retaining experienced employees
- External consequences resulting from negative reactions to APFC decisions and actions

STRATEGIC PRIORITIES

1. Position the organization and fund for implementation of annual POMV draw
2. Develop and implement comprehensive risk management for the organization
3. Integrate best-in-class investment management capabilities to maximize investment returns
4. Enhance talent and staff across APFC

KEY ASSUMPTIONS

- Key staff will not turnover in the next 5 years

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Goal	Objectives	Strategies
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<p>1. (P1) Work with the legislative and executive branches to answer questions and give guidance regarding technical issues and best practices for a rules-based framework for APFC fund transfers.</p>	<p>(P1,G1) Obj 1: Create and execute on a comprehensive communication plan.</p>	<p>(P1,G1,O1) S1: Develop a publicly available financial model that can be used to analyze ERA durability and project future fund performance by the start of the 31st Legislature. (POC/Lead: CIO, CFO, Chief Risk & Compliance Officer)</p> <p>(P1,G1,O1) S2: Publish a trustee paper on approaches other sovereign wealth funds have used related to fund transfers by the start of the 31st Legislature. (POC/Lead: CEO, Board)</p> <p>(P1,G1,O1) S3: Develop a comprehensive plan to present and answer legislative and executive questions regarding fund transfer technical issues and best practices for Board approval before the start of the 31st Legislature. (POC/Lead: CEO, CIO, Communications Manager, Board)</p> <p>(P1,G1,O1) S4: Develop and release public focused information and materials to educate/inform the public on the APFC’s position prior to and during the 31st Legislature. (POC/Lead: Communications Manager)</p>
	<p>(P1,G1) Obj 2: Provide clear recommendations on best practices for a rules-based framework for APFC fund transfers by the start of 31st Legislature and so long as topical.</p>	<p>(P1,G1,O2) S1: Develop and present recommendations regarding sustainable draw levels from the ERA and Corpus. (POC/Lead: CEO, CIO, CFO, Chief Risk & Compliance Officer, Communications Manager, Board)</p> <p>(P1,G1,O2) S2: Develop and present recommendations regarding ERA durability. (POC/Lead: CEO, CIO, CFO, Chief Risk & Compliance Officer, Communications Manager, Board)</p> <p>(P1,G1,O2) S3: Develop and present recommendations regarding real growth options for the ERA and Corpus. (POC/Lead: CEO, CIO, CFO, Chief Risk & Compliance Officer, Communications Manager, Board)</p>

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<p>2. (P1, P2) Develop and implement a comprehensive risk management plan by start of FY2024.</p>	<p>(P1-2,G2) Obj1: Develop and implement a risk management plan for operational risk by start of FY2021.</p>	<p>(P1-2,G2,O1) S1: Develop a new business continuity plan to address organizational contingencies by the end of FY2020. (POC/Lead: Chief Risk & Compliance Officer, Director of IT)</p> <p>(P1-2,G2,O1) S2: Gain approval for plan and its implementation by the start of FY2021. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O1) S3: Implement the continuity plan by start of FY2021 and assess its effectiveness (ongoing). (POC/Lead: Chief Risk & Compliance Officer, Director of IT)</p>
	<p>(P1-2,G2) Obj2: Develop and implement a risk management plan for financial assets by July 2023.</p>	<p>(P1-2,G2,O2) S1: Develop risk metrics for private assets, building on the results of an assessment of the risks in the current portfolio, by the end of CY2020. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O2) S2: Implement, test, and refine developed risk metrics during Q1CY2021. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O3) S3: Incorporate refined metrics into a comprehensive risk management plan for financial assets, including an assessment of additional budgetary and personnel resources required by the plan, for presentation to the Board in May 2022. (POC/Lead: Chief Risk & Compliance Officer)</p> <p>(P1-2,G2,O2) S4: Refine plan based on Board inputs and implement approved plan with ongoing monitoring and reassessments by July 2023. (POC/Lead: Chief Risk & Compliance Officer)</p>

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<p>3. (P3) Refine and integrate best-in-class asset allocation and asset class investment capabilities to produce target long-term returns of at least CPI+5% through the end of FY2025.</p>	<p>(P3,G3) Obj 1: Integrate best-in-class Asset Allocation strategies versus the benchmark with a total value added of 5bps annually, while managing liquidity through FY2025.</p>	<p>(P3,G3,O1) S1: Create a separate allocation for cash with defined benchmark by May 2020. (POC/Lead: Director of Asset Allocations Investments)</p> <p>(P3,G3,O1) S2: Adjust and modify the Asset Allocation strategies benchmark by May 2020. (POC/Lead: Director of Asset Allocations Investments)</p> <p>(P3,G3,O1) S3: Assess if the asset class would benefit from additional internal management; identify additional resources requirements, by the start of FY2022. (POC/Lead: Director of Asset Allocations Investments)</p>
	<p>(P3,G3) Obj 2: Integrate best-in-class Public Equities program with a total value-added versus the MSCI ACWI IMI benchmark of 50bps annually through FY2025, while remaining in green zone on tracking error.</p>	<p>(P3,G3,O2) S1: Value-Added Manager Selection— Deliver an average of 30-50bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through manager selection through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S2: Value-Added Portfolio Positioning— Deliver an average 10-25bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through sector and country allocations through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S3: Value-Added Internal Management— Deliver an average 5-20bps (net-of-fees) annually relative to the MSCI-ACWI-IMI benchmark through internal management and security selection through 2025. (POC: Director of Public Equities)</p> <p>(P3,G3,O2) S4: Assess if the asset class would benefit from 5-20% internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Public Equities)</p>
	<p>(P3,G3) Obj 3: Integrate best-in-class Fixed Income with a target average value-added of 15bps annually compared with Fixed Income composite benchmark through FY2025, while remaining in green zone on tracking error.</p>	<p>(P3,G3,O3) S1: Adjust and modify the Fixed Income benchmark by May 2020. (POC/Lead: Director of Fixed Income Investments)</p> <p>(P3,G3,O3) S2: Assess if the asset class would benefit from additional internal High Yield management and</p>

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		<p>identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Fixed Income Investments)</p>
	<p>(P3,G3) Obj 4: Integrate best-in-class Private Equity & Special Opportunities program with an average value-added of 100bps annually greater than the applicable Cambridge benchmark through FY2025.</p>	<p>(P3,G3,O4) S1: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Alternative Investments)</p> <p>(P3,G3,O4) S2: Identify and implement robust portfolio management tools that integrate with APFC risk management systems by start of FY2022. (POC/Lead: Director of Alternative Investments)</p> <p>(P3,G3,O4) S3: Identify and implement robust private equity market tools by start of FY2022. (POC/Lead: Director of Alternative Investments)</p>
	<p>(P3,G3) Obj 5: Integrate best-in-class Real Estate program with a target average value-added of 50bps annually greater than the NCREIF Property benchmark through 2025.</p>	<p>(P3,G3,O5) S1: Target REOC's or other investment platforms for multi-family and industrial properties by the start of FY2025. (POC/Lead: Director of Real Estate)</p> <p>(P3,G3,O5) S2: Continue with "build-to-core" investments with two projects completed by end of 2025. (POC/Lead: Director of Real Estate)</p> <p>(P3,G3,O5) S3: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Real Estate)</p>
	<p>(P3,G3) Obj 6: Integrate best-in-class Hedge Funds program with a target long-term return of CPI+5% and a Sharpe Ratio of 0.5 through 2025.</p>	<p>(P3,G3,O6) S1: Maintain and monitor portfolio of 15-25 funds delivering CPI+5% with a correlation to overall fund of less than 0.5 through 2025. (POC/Lead: Director of Alternative Investments)</p> <p>(P3,G3,O6) S2: Implement and maintain a rigorous evaluation process of direct manager relationships by June 2020. (POC/Lead: Director of Alternative Investments)</p>
	<p>(P3,G3) Obj 7: Integrate best-in-class Infrastructure & Private Income program with a total average value-added of 50bps annually greater than the Infrastructure</p>	<p>(P3,G3,O7) S1: Evaluate alternative benchmarks for implementation subject to Board approval in May 2020. (POC/Lead: Director of Alternative Investments)</p>

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	<p>and Private Income Composite benchmark through 2025.</p>	<p>(P3,G3,O7) S2: Assess if the asset class would benefit from additional internal management and identify additional resources requirements by the start of FY2022. (POC/Lead: Director of Alternative Investments)</p>
	<p>(P3,G3) Obj 8: Assess current budgeted resources, capabilities, and manpower and identify any support and staff shortfalls needed to accomplish Objectives 1-7 (above) for Goal 3.</p>	<p>(P3,G3,O8) S1: Assess currently available, approved (budgeted) resources, capabilities, and manpower in light of projected and emerging resource and support requirements of planned strategies to accomplish Goal 3. (POC/Lead: Administrative Operations Manager)</p> <p>(P3,G3,O8) S2: Define and gain approval for acquisition of additional resources and support needed to address identified shortfalls associate with strategic plan's needs through 2025. (POC/Lead: Administrative Operations Manager)</p>

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<p>4. (P4) Enhance staff motivation and talent recruitment/retention across APFC through 2025.</p>	<p>(P4,G4) Obj 1: Gain approval for and implement incentive compensation plan by 1 Jan 2025.</p>	<p>(P4,G4,O1) S1: Work with senior leaders to refine incentive compensation plan in order to be presented to the Board for approval before it is presented to the legislature. (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O1) S2: Identify additional resource requirements, including potential contract support, implementing approved incentive compensation plan by 1 Jan 2025. (POC/Lead: Human Resources Manager)</p>
	<p>(P4,G4) Obj 2: Identify potential additional office location(s) for APFC that would add value to APFC mission and operations to Board.</p>	<p>(P4,G4,O2) S1: Open an Anchorage office for the APFC by Sep 2020. (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O2) S2: Analyze and recommend whether additional office locations for the APFC should be opened at each Sep Board meeting starting in 2021. (POC/Lead: Human Resources Manager)</p> <p>(P4,G4,O2) S3: Timely define resourcing and staffing requirements for selected office locations. (POC/Lead: Human Resources Manager)</p>