

**ALASKA PERMANENT FUND CORPORATION  
QUARTERLY MEETING OF THE BOARD OF TRUSTEES  
WEBEX/TELECONFERENCE  
December 7 & 8, 2022  
8:30 a.m.**

Originating at:  
Michael J. Burns Building  
David Rose Board Room (3<sup>rd</sup> Floor)  
801 West 10<sup>th</sup> Street  
Juneau, Alaska 99801

**Trustees Present:**

Ethan Schutt, Chair  
Gabrielle Ellie Rubenstein  
Jason Brune

Steve Rieger, Vice Chair  
Craig Richards  
Adam Crum

**APFC Staff Present:**

Deven Mitchell, CEO  
Marcus Frampton, CIO  
Sebastian Vadakumcherry  
Pauly Swanson  
Jim Parise  
Steve Adams  
Shawn Calhoon  
Rachel Zepp  
James Wilkey  
Sang Won Song  
Valeria Buschfort  
Cody Graves  
Christopher Cummins  
Matthew Olmsted  
Lacey Sanders  
Fawad Razzaque  
Sarah Clark  
Ross Alexander  
Catherine Hatch  
Chirag Shah  
Rafa Ramirez  
Brittney Ortega

Val Mertz, CFO  
Chad Brown  
Chris Poag, General Counsel  
Jennifer Loesch  
Logan Rahn  
Tim Andreyka  
Scott Balovich  
Jacki Mallinger  
Tom O'Day  
Maria Skuratovskaya  
Nellie Metcalfe  
Larissa Murray  
Rachel Price  
Julia Mesdag  
Jordyn Ellie  
Joe Shinn  
Adam Kane  
Lara Pollock  
Norix Mangual  
Allen Waldrop  
Lacey Sanders

**Investment Advisors:**

John Skjervem

Ken Frier (virtual)

**Callan:**

Greg Allen

Steve Center

**Presenters:**

Jack Howell, Stonepeak Partners  
Charles Bauer, EnCap  
Tim Reborn, EnCap  
Michael Oak, McLagan

Brenden Woods, Stonepeak Partners  
Morriss Hurt, EnCap  
Maureen Reilly, McLagan

**Others Present:**

Vince O'Shea  
James Simard  
John Hudson  
Seanna O'Sullivan  
Joe Ebisa  
Suzanne Cunningham  
Michael Bloom  
John Springsteen  
Steve Moseley  
John Mancuso  
Lauren Albanese  
Gregg Gethard  
Sterling Gallagher  
Lyndsey Brollini  
Ken Alper  
Karol Raszkievicz  
Pam Leary

James Brooks  
Elaine Schroeder  
Richard Farnell  
Charla Brown  
Cecilia Galliani  
Matthew Benson  
Justin Mitchell  
Jessica Walton  
Conor Bell  
Brian Fechter  
Ben Hofmeister  
Kenisha Paliwal  
Deborah Brollini  
Sara Race  
Carol Howarth  
Kenisah Paliwal  
Bill Milks

## PROCEEDINGS

### CALL TO ORDER

CHAIR SCHUTT called the meeting to order and asked for a roll call.

MS. LOESCH called the roll and stated that there was a quorum.

CHAIR SCHUTT stated that, due to work commitments, he would not be there in person until tomorrow. He asked Vice Chair Rieger to chair the balance of the meeting for today. He turned the meeting over to Vice Chair Rieger and added that he would be present online.

### APPROVAL OF AGENDA

CHAIR RIEGER stated that the first item of business was the approval of the agenda for the quarterly meeting of the Board of Trustees. He asked if there was any objection to the agenda, as presented.

*There being no objection, the agenda was APPROVED.*

### APPROVAL OF MINUTES

CHAIR RIEGER moved to the minutes of the budget work session of September 1, 2022; the annual meetings, September 21-22, 2022; and the special meeting on October 3, 2022. He asked for a motion.

**MOTION:** A motion to approve the minutes of the budget work session, September 1, 2022; annual meetings, September 21-22, 2022; and the special meeting on October 3, 2022, was made by TRUSTEE RUBENSTEIN; seconded by TRUSTEE BRUNE.

*There being no objection, the MOTION was APPROVED.*

### SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

CHAIR RIEGER moved to scheduled appearances and public participation and stated that there were at least four people who signed up to give public testimony. He asked the members of the public and the presenters to please limit their comments to three minutes, and he recognized Elaine Schroeder.

MS. SCHROEDER thanked the Board for providing the time for public testimony, and state that she was glad to be there. She noted that she has lived in Juneau for 40 years. She addressed the presentation given on September 22 at a previous meeting by Advisor Skjervem. On November 14, a response to his presentation was submitted to all the trustees. She, with three board members of 350Juneau, summarized their response to Mr. Skjervem's biased view of fossil fuel divestment that minimized the Board's fiduciary duty to the Fund and beneficiaries. There were two overriding concerns: the first was the economic and social cost of not transitioning rapidly to renewable energy sources, which were discussed as reasons not to divest; second was that the science is clear that the majority of known fossil fuel reserves should be left in the ground to avoid the worst impacts of global warming. She added that her colleagues' testimonies would address the primary conclusions of Mr. Skjervem's presentation. She thanked the Board for all the work they do to protect the Permanent Fund for all Alaskans now and into the future.

CHAIR RIEGER thanked Ms. Schroeder and recognized Richard Farnell.

MR. FARNELL stated that he is a resident of Juneau and a board member of 350Juneau Climate Action for Alaska. He commented further on Mr. Skjervem's presentation where he cited the CalSTRS' study which implied that divestment from fossil fuel investments would lose money. He continued that published analysis by BlackRock found that divestment was prudent; divestment was practical to implement; failure to divest means significant potential peril. He supported the divestment, and pointed out Mr. Skjervem's errors in his presentation.

CHAIR RIEGER thanked Mr. Farnell and recognized James Simard.

MR. SIMARD stated that he lives in Juneau and is a retired librarian from the State of Alaska. He is a member of 350Juneau, and is a concerned grandfather. He continued that the fossil fuel industry faced an uncertain future this poses as a significant risk to investors for such an important player of the global economy. He added that it was not clear whether the APFC had acknowledged or acted on this risk; but to ignore the risk would be a breach of fiduciary responsibility as found in the legal precedent of Chow vs. Moreno. Once a fiduciary is aware of a risk, action must be taken. It was expected that the APFC would address the risk of continued investment in the traditional energy sector in light of the economic and societal upheaval that is forecasted to be the reality of climate chaos for the younger and future generations. He thanked them for their service to the Permanent Fund, and for their attention to these critically important issues.

CHAIR RIEGER thanked Mr. Simard and recognized John Hudson.

MR. HUDSON thanked all for the opportunity to testify and stated that he is a member of 350Juneau Climate Action for Alaska. He continued that over 1500 institutions pledged to divest more than \$10 trillion from fossil fuels; a 75,000 percent increase in committed assets since 2014. He stated that 350Juneau would appreciate a response to their letter and the points that were raised today. Specifically, they would like to know if and how a climate risk assessment to protect the Fund for now and in the future would be conducted.

CHAIR RIEGER thanked Mr. Hudson and stated that was all that he had on his list. He asked if there was anyone else that wished to testify. He thanked all for their testimony, and moved to the next item on the agenda, committee reports.

## **COMMITTEE REPORTS GOVERNANCE COMMITTEE**

CHAIR RIEGER stated that the Governance Committee met and took up two matters. One was consideration of whether to do a complete review of the charters of the corporation and the various operating rules that were adopted. The decision was to issue an RFP, and that process was in the incipient stages of getting launched. He added that an outside consultant with familiarity with the charters and rules that other similarly situated funds were using was being looked for. He moved to the second item, which was part of the annual executive director review process. There are some stages of that process that involve the Governance Committee: primarily reviewing and compiling the survey results of feedback as part of the executive director's performance review, and making sure that feedback gets to the executive director. This will be taken up later this meeting as part of the annual performance review.

TRUSTEE BRUNE asked if it would be necessary for the Full Board to take action on that.

MR. POAG stated that the governance charter required a Governance Committee to institute every three years a global review of the governance policies. In the initial instance, they hired a consultant. He believed that the Governance Committee had the authority to direct staff to procure a general consultant in that area. Since that meeting, he added that he left a message with a law firm and Callan inquiring about consultants in this space. He continued that they were working on trying to find that category of consultants that have expertise in governance. From there, he asked if the members of the Governance Committee wished to participate in the scoring. If not, staff will conduct the procurement in the \$25,000 category.

TRUSTEE RICHARDS stated that the real critical thing is to figure out a way to be able to do these reviews in a confidential manner.

CHAIR RIEGER noted that and recognized Chris Poag.

MR. POAG stated that Trustee Richards was referring to the personnel files of the executive director and the evaluation process by the Board. He continued that he agreed 100 percent and believed that change is a legislative change and not within our control.

A discussion ensued.

CHAIR RIEGER moved to the Chief Executive Officer's Reports.

### **CHIEF EXECUTIVE OFFICER'S REPORTS**

CEO MITCHELL stated that he had been there for just under a month and was grateful to have Ms. Mertz with him. He reemphasized the importance of Ms. Mertz to the organization and her ability to carry the organization through a very difficult time over the past year. He was thankful from outside the organization and, now, within the organization. He moved to the outstanding board matters. Two were being addressed at this meeting; the other was the government shutdown critical employee issue. He stated that Mr. Vadakumcherry's team would be working on establishing the criteria within the organization in the event that a delayed or failed budget happens again in the future, and that there would not be a risk of not having essential staff coming in and performing their duties. The target for that undertaking is May 2023. He continued to a number of transitions within the organization and talked about the new hires; the new procurement specialist, Jedediah Smith; and the director of private equity, Allen Waldrop. He added that Director Lacey Sanders was returning to the Department of Education in her former role as deputy commissioner, and we are considering alternatives to just refilling that job as it exists at this point. He stated that there was some flexibility to shuffle the responsibilities and duties of that position. It is an opportunity for someone who is a hard charger and wanted to be challenged. They would try to restructure things. This will be discussed at a meeting on Friday. He then talked about the financial reports on page 60. He explained that the State has an obligation under the Constitution to provide 25 percent of certain mineral royalties.

TRUSTEE BRUNE noted that the Governor specifically instructed that if there were positions vacant for over a certain amount of time, the public gets the impression that they were not needed. He stated that hiring challenges are one thing. As executive director, there is a need to

evaluate whether or not those positions were needed and whether they needed to be changed. He talked about seven new positions being created when there were 14 vacancies, and only two of those seven were hired. He added that it was a bad look for funders in the Legislature when a case for seven positions were made but immediate hires were not made.

CEO MITCHELL stated that that would be part of the dialogue, and they would be prepared to respond to the Board on that.

CHAIR RIEGER thanked CEO Mitchell and moved to the CIO report.

### **CHIEF INVESTMENT OFFICER'S REPORT**

CIO FRAMPTON began with personnel and stated that things were working well with CEO Mitchell, and he felt that they had a good working relationship. He added that it was nice to have the stability of that position filled, and to have a boss. He introduced members of his staff that had new or different roles and stated appreciation for all of them. He stated that, even though there are some vacancies, the investment team is as stable as what it had been in 10 years. He had no key-man risks. He commented on private-market pacing and then talked about the investment actions taken in the quarter. He stated that it seemed that the stock market factored in the higher cost of capital, a higher discount rate of future earnings, but had not factored in a recession. That is likely one of the reasons why the market was off this week with some comments from bank CEOs on that topic. In the 10-year look forward, stocks and bonds probably are pricing in similar returns with much less risk and more yield than fixed income. He also liked absolute return right now. He stated that private income was fairly neutral, and he then talked about private equity.

TRUSTEE RUBENSTEIN stated that it was interesting and surprising to see that the real estate was more active than the private equity team.

CIO FRAMPTON explained that the private equity portfolio was over its long-term allocation. The real estate portfolio was significantly under it. He shared his views on private equity and the different interest rate environment.

MR. VADAKUMCHERRY stated, going forward, public markets have corrected, private valuations had not. We should take a pause to see what might happen.

MR. FRIER talked about the research regarding the outcomes of private equity funds by vintage year. He agreed that there would be markdowns in the private portfolio, and they were vulnerable to having lower marks on the private holdings as the impact of the downturn flows through in reporting. He added that, historically, recession years have been really good vintage years for investing in private equity.

MR. SKJERVEM stated it was an endowment portfolio relative to the public fund peers because they were trying to defease a set of liabilities. Going forward it would be increasingly challenging to do as plans mature. The maturation of even the well-funded plans is happening very quickly. The Permanent Fund had its own challenges, not around the formula, but its distribution. It is a distribution; an endowment.

CIO FRAMPTON stated that another variable was how fast the market was moving. There are

outstanding returns made in areas that could not be made a year ago. He continued that Callan would come out with their capital market expectations at the end of January. He added that there are certain private equity investments that were labeled special opportunities, and we would just label them private equity.

## **INVESTMENT ADVISOR COMMENTS**

CHAIR RIEGER recognized John Skjervem.

MR. SKJERVEM reiterated how expensive equity markets, both public and private, were. So, while the appeal of an attractive vintage year is strong, it is theoretical that by the time we get there, there would be so much pain that the feelings about it would be different. He added that public equity markets were still trading above their historical P/E ratio, despite the challenges of 2022. The only other things to add would be at the margin and trying to add a bit more inflation exposure. He also commented in the context of the work that Callan would be doing from a long-term framework, how to position it for the next decade. He added a little more inflation sensitivity for two reasons: first, he did not think that there would be deglobalization, which is inflationary; second, the energy transition will be inflationary. He explained how that would manifest, and concluded his comments.

CHAIR RIEGER recognized Ken Frier.

MR. FRIER looked forward to meeting Trustee Crum. He stated that being an advisor was a journey for him. When he started, he was pretty deferential to anyone at the organization. As time went on, he watched how portfolio strategy was managed, and he wanted to advocate for some changes. He started getting more direct in his comments. He was told to “call it as he saw it.” He continued that the main thing was to own the portfolio strategy which are the choices about asset allocation and risk. He stated that he thought that the main reason not being better prepared for the downturn this year was because of the way the top-level portfolio strategy was managed. He continued, at this fund, the portfolio strategy is an annual exercise that is outsourced to a consultant, and is not seen as an ongoing responsibility for the organization. He believed that managing the investment strategy would result in better investment performance. Strategic management is the most important fund management capability that APFC does not have. He added that the APFC model now meets the fiduciary standards and is a well-accepted model. The model he was suggesting is the prevailing model at the best, elite allocators. The organization owns the strategy, and the organization is continually thinking about how to make it better. He stated that there are sometimes extraordinary circumstances, such as the ones that were just gone through, and that is what he is advocating for -- an ability to react when markets were really dislocated. He continued that he thought the Fund was losing money this year for reasons that were talked about at every board meeting last year, about how the outlook for the stock market looked poor, and about the high and rising inflation may be a problem. He added that these were tough issues and were never dug into with a developed a strategy for what to do. He stated that this is a big topic, and he was scheduled to talk to the Board and give an advisory presentation probably at the May meeting. If the Board was interested in pursuing this further, that could be an opportunity to dig into this.

TRUSTEE RICHARDS replied that in order to do something like this would really have to be thought about on how to do it successfully when the team is changing, and the team is small. He stated that there was no consistency in the Board because it is constantly changing.

TRUSTEE RUBENSTEIN stated appreciation for his comments and added that since she was on the Board, she was surprised that there was not an Investment Committee at the board level, and was also surprised that the Investment Committee was just two people.

TRUSTEE RICHARDS agreed and stated that the strategic planning exercise will be neat and a wonderful opportunity to have some of the big-picture conversations.

CHAIR RIEGER called a break.

(Break.)

CHAIR RIEGER called all back from break and moved to a risk overview from Mr. Vadakumcherry.

### **RISK OVERVIEW**

MR. VADAKUMCHERRY stated that the presentation had two parts; the second part was the nominal risk metrics. He began with the first part, a refresher of some of the basic risk concepts; a high-level overview of some of the key concepts. He continued that APFC was in the business of taking risks, with the objective to take risks to generate returns, and to be risk-aware. He added that it was super important that principal preservation was paramount. In statute, the first objective was to protect the principal, and then generate returns. The most important aspect was volatility; then drawdown; third was liquidity; and fourth was concentration. He noted that APFC was not in the business of taking operational risks; we take investment risks. He continued his presentation, explaining as he went through. He added that the objective was to achieve the target return at the minimum level of risk, or to maximize the return for a given level of risk. He highlighted one of the adjustments that was done for computation of the portfolio risk or the risk tolerance portfolio. He explained that private equity risk was 1.6 times public equity risk in computation, which was felt to be too high, and it was discounted by 25 percent. He then touched on operational risk and stated that asset allocation generated returns, entails risks, and requires resources. There should always be awareness of having different resource requirements for different asset classes. He moved on to the update of risk metrics as of September 30<sup>th</sup>, and concluded his presentation.

### **ASSET CLASS OVERVIEW, PRIVATE INCOME**

CHAIR RIEGER moved to the asset class overview.

CIO FRAMPTON stated that at every board meeting there was a 30-minute presentation on an asset class. During the summer, it was infrastructure. He continued that Ross Alexander joined the Fund in 2018 and was a portfolio manager reporting to Steve Moseley, and he is now back to reporting to him. He is the person responsible for the private income portfolio and does a really good job.

MR. ALEXANDER stated that Stonepeak and EnCap will be heard from after lunch. EnCap is an oil and gas manager by trade, which has been their whole existence for the past 30-plus years. Because of that experience, they took a pragmatic view of the energy transition market. He moved to infrastructure, which is part of the private income; private credit was infrastructure; and then a third sub-portfolio was income opportunities. The objective of the overarching

portfolio was to generate a return between the expected returns of fixed income and public equity. The idea was to try to preserve capital, minimize downside risk and still generate an attractive return. That was a credo to the portfolio. On the infrastructure, the objectives were to build on the private income objectives. He added that infrastructure could mean a lot of different things to different people. It is a very common term that is not well-defined across all investors. In its basic form, it is the tangible things that enable society to exist and flourish. There was energy infrastructure which was power generation and also natural-gas-fired power plants. It could be renewables or transportation assets. He stated that one of the core tenets of infrastructure was stable, predictable cash flows. For the most part, there were assets that kick off cash on a regular basis. He continued that they say no to a lot of good opportunities partially because of the resource constraint. He added that the current model was a relatively efficient way to approach the market. They chose to focus more on the core-plus and value-add where an asset was actively repositioned or improving rather than looking to exit.

MR. VADAKUMCHERRY stated that it was more private equity than the typical infrastructure, and modeling private infrastructure correlations and morbidities was hugely challenging. He added that there was not a whole lot of data out there.

CHAIR RIEGER called a break.

(Break.)

CHAIR RIEGER called the meeting back to order and asked Mr. Alexander to make the introduction.

### **PRIVATE INCOME INFRASTRUCTURE PRESENTATION – STONEPEAK PARTNERS**

MR. ALEXANDER stated that the first manager presentation for the infrastructure portfolio was Stonepeak Partners. He introduced Brenden Woods who was present in person, and Jack Howell who was present online. He continued that APFC backed Stonepeak for their fourth flagship fund last year, and it was a global diversified manager. He added that they look across all parts of the infrastructure market; mainly, OECD countries, and a lot in North America.

MR. WOODS stated that he was the head of the investor relations team. He continued that Jack Howell was the head of the business in the Americas. He explained that they were a North America -focused manager, and had been around a little over a decade. He added that they manage a little over \$50 billion, and most of that capital comes from U.S. public pension funds. Globally, they have about 235 investors, a good group of partners.

MR. HOWELL apologized for not being present and that they were thrilled to have the APFC as the fourth flagship fund, and we are excited to continue the partnership from there. He stated that the goal was to give a macro-overview in terms of what was seen in the infrastructure market and some of the changing dynamics. He noted that, from an infrastructure perspective, they are a value-add manager. They take an active management approach of the businesses and the assets purchased. He explained that it was a time of flux with the potential to create even greater disruption than what had been seen to date. He stated that, at Stonepeak, they like the Shiller P/E metric, which is a simple price/earnings ratio. In this case, they take a 10-year average which takes some of the cyclicity out of the ratio. He continued that the key was that

the artificially low interest rates and fiscal stimulus over the last decade drove valuations to where they were during the dot-com boom. His second point was that when the markets did correct, they tended to overcorrect to the downside, which may be an oversimplification. Risk is more complicated than simply looking at the volatility and the stream of cash flows. He talked about the U.S. consumer being an important part of the overall global economy, and the effects on them declining their consumption, which is felt across the spectrum. He moved to investing in the energy transition. He explained that it was something they focused on and probably did not call it energy transition. It was not just getting in the car and driving to work, but it was also about plastic, about steel and everything that gets used in daily life. He noted that evidence showed that convincing people to go backwards in life satisfaction was impossible. He stated that energy transition was not just about investing in solar, wind and hydro; it was taking parts of the hydrocarbon value chain and cleaning up the businesses; reducing methane emissions if a gas pipeline is owned; reducing leaks; looking at the cost of those expenditures on some complex and unproven technologies. There should be a much broader approach to the energy transition and a more realistic approach to what needs to be done. He then talked about how they view investing at Stonepeak and how the broader infrastructure market is categorized.

#### **PRIVATE INCOME INFRASTRUCTURE PRESENTATION – ENCAP**

MR. ALEXANDER introduced the three gentlemen from EnCap Investments. Chuck Bauer is their IR individual. Morriss Hurt works on the EnCap Flatrock team, their midstream platform, which he leads. Tim Reborn is one of the partners on the energy transition fund. He stated that APFC had been partnering with EnCap in the infrastructure portfolio back in their midstream fund and did a co-investment in their energy transition funds. They are longtime partners, and they have a very thoughtful approach to the market.

MR. BAUER shared a story of his experience on his flight to Juneau through Ketchikan. He sat next to a young woman from Ketchikan who was an air traffic controller who asked him why he was going to Juneau. He told her that he did work on behalf of the Alaska Permanent Fund and would be making a presentation. He continued they talked about the importance to her of the annual check that she receives. It was a fresh reminder on the important role that we all play in providing value to the citizens that live here, for the work at the foundations. He stated his appreciation for the opportunity to invest capital on behalf of the State of Alaska. He gave a brief background on EnCap, which is 34 years old and had always been focused on North American energy opportunities. There were three platforms, and Alaska was invested across all three; upstream, midstream, and energy transition. He continued that he would be talking about midstream. He started with energy transition, a platform established about three years ago to take advantage of the emerging opportunities of decarbonization of the power grid, adding wind, solar, energy storage, biofuels to that. He added that they still remain true to their roots, the oil and gas side, and they see tremendous opportunity there. He stated that EnCap has 35 rigs running across the country, and they are actually the largest oil and gas producer in the U.S. in terms of the number of rigs, primarily in the Lower 48. In going into midstream and then energy transition, they went out and partnered with people who had been in that business, operators their entire careers, and brought them in to manage the capital and build a franchise around that. He then talked about the current state of play in the energy markets. He introduced Tim Reborn, one of the managing partners of the energy transition strategy.

MR. REBHORN thanked all for the opportunity to present and stated that the four managing partners had an existing team with Yorktown Capital. In a short time, they outstripped their

ability to continue funding them. In Fund I, they came along when EnCap stepped in and had a right to participate in a minority stake in all of the Fund I companies, and they elected to do that. He added that, as they moved to Fund II, they would not have that right. He stated that they had 10 investment staff and would be adding another vice president and two additional associates before April 1<sup>st</sup>. He continued that the four of them had known each other since the '90s and had a nexus at one point or another at Enron. He shared the slide used at the AGM which demonstrated, from the time of their fund inception in Fund I, the wild ride it had been, and they continued not just in the renewable space but across some of the broader commodity markets. He added that they had raised their first fund through COVID, through April 2021. He talked about the supply-chain constraints through the shutdowns of factories and also the regulatory uncertainty. In his 39-year career in the energy business, he had never seen anything like this before. He stated that the factors that were driving issues in the U.S. were entirely self-inflicted. It was uncertainty; and where there was certainty, higher prices were created for the market. He went down the list: the impact of the Russia/Ukraine war and the European energy crisis affected U.S. gas prices; mandates from governments and large commercial entities are demanding additional sources of renewable power; suppliers have uncertainty around contracted capacity. He continued that, even with all that, there was still a tremendous demand for renewable energy and renewable fuels. A demand for a 24/7 renewable product is a target. They were in ERCOT and were talking to companies like Google or Meta about a virtual product where a combination of wind, solar, and then having battery storage available that was augmented by gas gives them 24/7 capacity. Agreements were being signed that guarantee essentially 24/7 renewable power. He stated that he had spent much of his career developing power projects internationally. The hardest thing about working internationally was understanding how litigation would work, especially to get financing. He touched on some of the other macro headwinds.

MR. HURT stated he was going to switch to midstream. He continued that the firm started 14 years ago, and he joined just as it was coming together. Basically, midstream transports the hydrocarbons, and then conditions them into a marketable state. Sometimes that meant removing impurities; sometimes making sure that it was methane coming out of the stove and propane out of the barbecue pit and not the other way around, because that was bad. They formed 42 teams and either built, bought or had a role in crude oil pipelines and natural gas. He talked about India and their population growth, which will continue to grow. Their coal consumption will increase by 40 percent. Their energy minister gave some great interviews at the Top 27 Conference. He stated that they were doing a lot of renewable stuff and were investing there; but it will be a lot of coal, too. They think that the U.S. will be critical to meeting the hydrocarbon piece of the global energy demand. That would create investment opportunities and necessitate it on the upstream side and also on the midstream side. He continued that there is tremendous societal and political pressure to decarbonize, which is seen with the publicly traded upstream companies in the U.S. He added that they are pro decarbonization, but it needs to be done in a balanced kind of way.

MR. BAUER stated, from an EnCap global perspective, the lack of leverage used in the investment strategy was key and had been key for the last 34 years because it provided adaptability and flexibility in markets.

CHAIR RIEGER concluded the day's agenda and recessed until 8:30 in the morning.

(Alaska Permanent Fund Corporation Quarterly Full Board meeting recessed at 3:23 p.m.)

**December 8, 2022**

**CALL TO ORDER**

CHAIR SCHUTT called the meeting back on the record and noted that the first item on the agenda was Fund Performance.

**FUND PERFORMANCE**

MR. CENTER congratulated Chair Schutt on taking over the Chair and welcomed Commissioner Crum to the Board. He began his presentation by first talking about the markets as a whole, and continued to the performance and the various asset classes for the Permanent Fund, as of September 30<sup>th</sup>. He talked about the three consecutive quarters of down markets for fixed income; the three worst quarters for the Bloomberg Aggregate Index on record. The worst performing asset class was non-U.S. equity small cap. He added that there were a lot of negative numbers. Forecaster is projecting GDP to remain negative for 2022. The big question is about a recession coming.

MR. FRIER suggested including the inflation-protected securities, as well as the inflation-exposed securities.

MR. CENTER explained the market drawdowns, and then looked at the Fed's inflation framework. He continued through his presentation, and touched on the Fund performance with the Total Fund asset allocation of about \$73.3 billion.

MR. ALLEN explained that because of the lag, any asset class and their performance through September was actually their performance through June.

MR. CENTER noted that performance included the private equity and special opportunities asset classes, as well as all of real estate, infrastructure, and private credit. He talked about attribution and peer-relative performance. For attribution, the portfolio is broken down into its various asset classes, and then what is driving the overall performance for the Fund is determined. Asset allocation effect measures the overall impact to the portfolio of being overweight or underweight to an asset class. He added that the opposite is true. For the Permanent Fund, they typically stay close to the asset allocation targets. The overall impact for the quarter was positive from a manager effect from strong performance from the absolute return portfolio, from the private equity and special opportunities portfolio, and from the fixed income portfolio. He stated that the Fund outperformed its benchmark by about 1.4 percent, which showed a combination of both the manager effect and the asset allocation effect. He then went through the Sharpe ratio which is a measure of implemented risks. He summarized the real estate performance and finished his presentation with the private market charts.

CHAIR SCHUTT thanked Callan and noted that the next topic on the agenda was Incentive Compensation Policy.

**INCENTIVE COMPENSATION POLICY**

CIO FRAMPTON stated that they had been working on a redline update of the incentive comp policy, and it is in the packet. He added that this was an action item as the drafting was

completed. He summarized the plan, as drafted.

CEO MITCHELL explained that he was entirely uncomfortable with the idea of an incentive comp program being proposed for operational staff with his recent addition to the staff. From his perspective, he thought it was important not to have such a large percentage for the executive director relative to the rest of the administrative staff from an optics perspective, as well as a potential-for-success perspective. He continued that if the Board felt strongly that there needs to be a number or a percentage in this policy, that would be fine. It is the Board's discretion either way.

MR. BROWN explained that he has had this conversation with new hires, particularly on the investment side, because there were so many potential hurdles with incentive comp being approved by the Board, then by OMB, then by the Legislature. When there are conversations with the investment staff who currently are the only ones eligible, there are no guarantees. There is a bonus in place, which is communicated to employees.

CIO FRAMPTON noted a correction to the document to say 5 percent was for the majority of the staff, and up to 15 percent for CFO and operations, director-level employees. He continued that the award criteria was unchanged for investments; a blend of asset class performance and Total Fund. There were no subjective or qualitative criteria. He noted that a budget for operations was added. Another item changed was the outperformance thresholds to conform to what was seen at the CalSTRS precedent, which was discussed at some length at the last Board meeting.

MS. MERTZ reminded the Chair that McLagan was online if he wanted them to chime in on any of the changes.

TRUSTEE RICHARDS stated that the piece in combination with the other pieces of compensation were a big change. He asked about the strategy on getting approval of this through the Governor's Office, OMB, and then approval through the legislature.

CEO MITCHELL replied that the plan was to have the Board approve the budget as presented in September, and then provide that to the Governor's Office and OMB. It would be under consideration at this point. Once the Governor's budget is released, there will be an opportunity to regroup and move forward from that point. He stated that if there is no support from the Administration, the plan would ultimately be a Board decision on how to proceed. He continued that there will be opportunities to revisit the corporation's budget proposal with the Governor's Office following that initial release to follow up on and have a dialogue on getting or not getting what is wanted. He stated that he was very supportive of the changes that had been proposed, as drafted, on a prospective basis. He was also 100 percent behind CIO Frampton and his effort to reward his staff for the strong performance they achieve year after year, ensuring there was the highest probability of retaining that talented staff in the future.

TRUSTEE BRUNE stated that money was not made last year, but the benchmarks were beat significantly. He continued that he had a discussion with LB&A Chair Senator Natasha von Imhof and her direct quote was "Pay it." Second, he recommended having conversations with the incoming Legislature members, key members, leadership and say "yes."

TRUSTEE CRUM stated that he would like to take advantage of having McLagan on the phone and hear from the consultants on this. He asked if this new proposed amended policy was within the realm of reason.

MR. OAK replied, yes, the details about the topic discussed were the outperformance hurdles and part of the point was the pay-for-performance philosophy. He stated that everything presented was well aligned with what was seen in the market. He continued that the standards presented were in the realm of what was seen in the endowment foundation clients that have more risk tolerance and smaller portfolios.

MR. ALLEN explained the robustness and the relevance of the benchmarks which had gotten better and better for this purpose over time.

CHAIR SCHUTT summarized the four points that were brought up. First was the executive director's potential bonus incentive compensation; second was a question about what sort of peer trigger to use for the incentive comp; third was what to do in negative years; and fourth is the particular retro issue for the 2022 cycle. Executive Director Mitchell supported the policy that had been drafted by staff.

TRUSTEE BRUNE stated that \$2.3 million is less than 1 basis point for a team that had been exceeding benchmarks by tens of basis points.

**MOTION:** A motion to endorse the policy as proposed by CIO Frampton for future incentive compensation for both the operations and investment staff was made by TRUSTEE BRUNE; seconded by TRUSTEE CRUM.

TRUSTEE RICHARDS suggested rationalizing the executive director incentive comp with the rest of the system that would be changed.

CHAIR SCHUTT suggested that the language allow that without changing the policy.

TRUSTEE BRUNE endorsed the suggestions. He noted that staff should understand that the executive director's bonus does not impact their bonuses.

TRUSTEE CRUM stated, for the public, that the staff salaries that are paid out at APFC is not appropriated from the General Fund. These salaries are appropriated from the earnings.

TRUSTEE BRUNE called the question.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Brune, yes; Trustee Rubenstein, yes; Trustee Richards, yes; Trustee Rieger, yes; Trustee Crum, yes; Chair Schutt, yes.)*

**MOTION:** A motion to have this policy apply retrospectively to fiscal year 2022, contingent on the executive director having conversations with key members of leadership of the Legislature, was made by TRUSTEE BRUNE; seconded by TRUSTEE RUBENSTEIN.

TRUSTEE BRUNE stated that during the previous year benchmarks were exceeded fantastically. Staff did a yeoman's work in a down year, and they were above water until June. It ended being a bad June, and subsequently a loss for the year. He continued, that did not diminish the efforts they made for the previous 11 months. Staff deserves this, and the amount of money that we are talking about is less than one basis point. He added that staff is being lost to competitors, and this will send a strong message that staff and their efforts are being supported.

TRUSTEE RUBENSTEIN asked for clarification in making the motion dependent on the Legislature. This was already discussed.

**MOTION: TRUSTEE BRUNE clarified on the motion that it would not require a vote of the Legislature and would not require a vote of any of the committees. It would require open conversation with the incoming leadership to let them know that this was the will of the Board.**

TRUSTEE RUBENSTEIN agreed.

TRUSTEE RICHARDS stated that this was a populous motion, and he did not support it.

CHAIR SCHUTT remained a bit skeptical, but he was willing to trust Executive Director Mitchell's judgment on this, recognizing that the answer would probably not be clean.

TRUSTEE RIEGER stated that he was leaning against it because it was an element of uncertainty, and he was not satisfied that taking an action retroactively would be based on subjective conversations.

TRUSTEE BRUNE stated that this is not a populous motion, but it is a fair motion. The team outperformed their peers by leaps and bounds. It is wrong to not reward that fantastic performance of Marcus' staff.

TRUSTEE RUBENSTEIN added that they did that without an executive director and with a bunch of attention on them, which was a distraction. They could have left. Trying to recruit new people today will be harder and more expensive than the small amount that was allocated.

MR. POAG wanted to make sure the motion was clear on whether the executive director was given the authority to issue the incentive comp payment. It was unclear whether or not this was authorizing him to pay the performance payment.

CHAIR SCHUTT stated that his interpretation was that if the motion was passed, it would authorize the executive director to do that subject to his discretion after having conversations with legislative leadership. He could do this without coming back to the Board.

MR. POAG stated that what he understood the motion to be was that the executive director was authorized to pay the incentive comp award. Prior to doing that, a consultation requirement with the Legislature and with the bodies that were identified.

CHAIR SCHUTT asked for a roll-call vote.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Brune, yes; Trustee Richards, no; Trustee Crum, yes; Trustee Rieger, no; Trustee Rubenstein, yes; Chair Schutt, yes.)*

CHAIR SCHUTT called a break.

(Break.)

CHAIR SCHUTT called the meeting back on record. He recognized Chad Brown for the next item on the agenda, the compensation benchmark.

### **COMPENSATION BENCHMARK**

MR. BROWN thanked the working group, as well as the Board, for taking on these challenging topics. He commended the Board for all their efforts. He stated that the Board asked to have the compensation benchmarked and hired McLagan, a subdivision of AON. He introduced Michael Oak and Maureen Reilly who were on the phone. He walked through the process and the analysis.

MS. REILLY stated that they did a broad overview of the current peer group and then proposed alternatives for the peer group. She continued that they really looked at the review to see how the competitive market should be defined, the benchmarks, going forward. She added that there were various discussions with trustees, senior management, and functional heads about the current peer group, and thoughts for the future peer group. She stated that the current peer group was structured as U.S. and Canadian public funds; primarily with internal direct asset management capability. She moved to the proposed alternatives for the current landscape. The first alternative looked at U.S. public funds with assets under management of \$50 to \$150 billion. The Canadian public funds were not included. The proposed alternative fee would use leading institutional investors. That would be U.S. public funds with assets under management greater than \$40 billion, with at least 20 percent of assets managed internally, and corporate plan sponsors with assets under management greater than \$2 billion. That would be investment staff. The noninvestment staff would encompass the total investment industry. The operations staff would be everyone combined, because that would be the total landscape that we are competing with. The recommendation would be to look at Alternative A, which looks at similar-sized public funds with a blend of private sector organizations under \$150 billion in AUM. This group would expand the peer group size, have a lot more data, and all employees would have the same comparative group. This also looks at the intense labor market. If this approach was continued, it would be consistent with what had been used for the past five years. It would provide a consistency going forward for pay using the same comparative group. She moved to Alternative B, an alternative to have separate groups for the investment staff and noninvestment staff. One of the pros with the investment staff would be having a robust sample size with other asset owners. There would also be a robust sample size for noninvestment staff because many of the positions within asset owners may be limited in size. This would add complexity with two separate peer groups for investments and ops staff. She showed a rough look at where the market data currently was. She noted that the recommendation was for Alternative A, and the total compensation should be targeted at the competitive 50<sup>th</sup> percentile; that would be salary and earned incentives. She added that the base salaries may need to be positioned above the median so that they could provide fully competitive total compensation to each individual.

MR. BROWN stated that the data would allow setting the midpoints and building the ranges on either side, above or below. It would allow evaluation of each candidate, their experience, and to bring them in at a level that was appropriate.

CEO MITCHELL stated that this was a long process, and he had only been at APFC for a short time. This was the majority's preferred alternative for moving forward as far as establishing peer group and compensation levels, expectations for various positions within the firm. From his perspective, he would not see a way of amending it at this point to make it better. He referred to the majority of the Board in moving forward in the process that resulted in being established.

TRUSTEE CRUM asked for clarification on how this applied to current staff in reading the resolution.

MS. MERTZ replied that was Phase 1. The next step, once the peer group was identified, would allow McLagan to update the data according to whatever peer group the Board chose. This would allow Mr. Brown to work with McLagan to adjust the compensation structure according to the new data and a potential new peer group. Then the analysis of current salaries would be made.

TRUSTEE RICHARDS shared a comparison of Permanent Fund staff against a selected peer group of State employees, which were AHFC, AGDC, Law, Mental Health Trust and AIDEA. Those were the highest-paid State employees. Then he moved to what the Permanent Fund pays against the benchmark of the other highest-paid State employees on a historical basis. He continued that this was factually accurate with the data currently available on what people were getting paid.

MR. BROWN clarified that the data was exported directly from the 2023 enacted budgets. The numbers used included all of the increase, the cost of living, as well as the merit increases for 2023.

TRUSTEE RICHARDS continued that a system of not knowing how the salaries would look was being adopted. His challenge with this was that no one had made the empirical case to him that the operations staff should all be compensated based upon a standard that was not Alaska-based. He added that this had not be looked at enough to make a decision. He had concerns for the long term.

MR. BROWN stated that he was hoping for a data set that can be agreed to for consistent use year over year for the next five to ten years and that will show whether progress was being made or not.

TRUSTEE RICHARDS stated that he could not get on board without knowing the impact.

TRUSTEE RIEGER asked about the two peer groups that were blended to get this recommended course.

MR. OAK explained in great detail.

TRUSTEE RIEGER asked what the differential in salary between those two groups was.

MR. OAK replied that the base salaries would not be too different, but the incentive compensation would be different depending on which group. He added that the private sector, in general, would be higher.

TRUSTEE RICHARDS stated that, if this gets adopted, the money that gets appropriated through the cycle will be used to establish who gets raises. He asked that this article be handed out “New CalPERS Compensation Plan to Focus on Incentive Pay Over Salary,” which was from last week. What CalPERS was doing was more empirically rational than what we are doing.

TRUSTEE CRUM stated that he liked the framework and the proposed alternative around that. He continued that it made sense and had a good rationale to it. He added that he struggled with the analytics’ overall cost.

TRUSTEE RIEGER asked for clarification.

MS. MERTZ explained that the 75<sup>th</sup> percentile referred to the target for the base pay, not including the incentive compensation. That was based on the recommendation from McLagan. The reason for the 75<sup>th</sup> percentile target was to recognize that the incentive compensation plan compared to peers was a much smaller scale, in most cases. In order to bring the total cash compensation in line with peers, a higher percentage on the base pay spectrum was targeted.

CHAIR SCHUTT asked to put in an additional clause that articulates that. He stated that the materials state 50<sup>th</sup> percentile of total compensation, which included the two components. It is being translated in the resolution as “75 percent” and should state “75 percentile” instead.

TRUSTEE RICHARDS suggested sending it back for a redrafting, and to take it up after lunch.

TRUSTEE BRUNE asked to add Trustee Crum’s request, and he believed that there were actual dollar estimates that staff had put together as to what this proposed change would mean financially.

MR. BROWN believed that he had calculated those numbers based on the data from the current peer group. He did not have the data from the new peer group.

CHAIR SCHUTT broke for lunch.

(Lunch break.)

CHAIR SCHUTT called the meeting back on record and continued with the compensation study and Resolution 22-1 that had been redrafted by staff.

**MOTION: TRUSTEE BRUNE moved the redrafted motion for discussion purposes; seconded by TRUSTEE RIEGER.**

TRUSTEE BRUNE asked that Mr. Poag describe the redrafted resolution for the public’s sake.

MR. POAG stated that the redraft followed Chairman Schutt's recommendation for clarity about what was being targeted. He continued that the 50<sup>th</sup> percentile was being targeted for total compensation, which included the base salary, as well as the incentive compensation. It had indicated 75 percent of base salary plus incentive compensation. It now reads that the 50<sup>th</sup> percentile was targeted which included base compensation and incentive compensation. That was targeted at the peer group which was incorporated in Item No. 1. He added that, if the Board liked the redraft and decided to adopt it, a copy would need to be provided to Mr. Mitchell.

TRUSTEE RIEGER stated that it had been clarified on the record adequately but reiterated that targeting at 50<sup>th</sup> percentile might be a reference point. He continued that his main concern was being within the range. He added that he had confidence that staff would be cost effective in their personnel and hiring decisions.

MR. POAG stated that a lawyer was not needed to recite this for the record, but the governance policies and manuals require the adoption of the salary and benefits schedule that would be used and implemented by the executive director. The discretion rests with the executive director in how to implement the salaries for each individual position. This was just an identification of the new peer equivalent. The next phase would be to review the PMP with the new ranges that would meet with this peer equivalent. He added that once those ranges were approved, implementation would take place by the executive director for each of the current positions, as well as any new positions. The discretion rests with the executive director in how to implement the salaries for each individual position. If approved, and a resolution to adopt a modified personnel management plan, it would come back before the Board.

**MOTION: TRUSTEE BRUNE made a motion for an amendment to move listed on No. 2, "50<sup>th</sup> percentile of the peer equivalent," to "60<sup>th</sup> percentile"; seconded by TRUSTEE RUBENSTEIN.**

TRUSTEE RICHARDS stated that the solution was basically what we already had except with less information about what was being adopted. When Mr. Frampton presented on incentive comp, all the little pieces were thought out and the Board understood the mathematical consequences of the action. Here, the practical outcome of this new benchmark is not known on the salaries. He stated that he was against this amendment at least until that data was brought forth. He was against amending it to raise from 50 to 60 percent when the 50 percent was unknown.

TRUSTEE BRUNE stated that he understood that the math could not be done until they were given direction.

MS. MERTZ explained that part of the purpose of the resolution was to document the defined peer group under which they were operating.

CHAIR SCHUTT asked Mr. Poag if the motion to adopt the peer groups as recommended and then to proceed to get the numbers would be sufficient guidance and authorization, or if the resolution was needed.

MR. POAG replied that, in his legal opinion, the resolution is not needed today. What is needed is a commitment by the Board as to the salary schedules to adopt, and what the executive director

would use. The Board did need to understand that there would be another fee to get access to the data to build out the PMP consistent with the peer equivalent. He added that if the Board was comfortable with that, that was the direction to follow.

TRUSTEE BRUNE withdrew both his amendment and his motion. TRUSTEE RIEGER had no objection from the second.

**MOTION:** A motion to authorize and direct staff to utilize the peer groups that were identified in the first paragraph of 22-1, and to authorize and direct staff to proceed with the salary survey mechanics to get it was made by TRUSTEE RICHARDS; seconded by TRUSTEE CRUM.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Rieger, yes; Trustee Crum, yes; Trustee Brune, yes; Trustee Rubenstein, yes; Trustee Richards, yes; Chair Schutt, yes.)*

CHAIR SCHUTT stated that a point of clarity that needed to be put on the record around a prior motion that was on the floor about the retroactive component of the incentive compensation was identified. He continued that he would propose the clarification for everyone, and if any of the trustees disagreed, to let him know. This would be the record of that clarification. He stated that that there was a little bit of ambiguity about whether in authorizing and directing the retroactive component, they were authorizing and directing the retroactive component to be applied under the new policy that was just adopted. He continued that his understanding was no. They were authorizing, looking at, and potentially paying under the prior policy that would have been in effect prior to today, because today's policy that was adopted expanded the pool of employees who were eligible, changed the thresholds for performance, and potentially upped the top end of some of the bonus potential for individual employees. He stated that he did not believe any of those new things were intended in that retroactive motion. The retroactive motion, to be clear, would authorize looking at and potentially paying, with the one qualifier that it would have paid under the prior plan, and that the prior plan had the disqualifier of a negative performance, which would get zero. He added, that was all that they were changing retroactively.

TRUSTEE RICHARDS asked if there was a trigger point at which Mr. Mitchell does not pay the bonuses, or do we authorize them to get paid regardless.

MR. MITCHELL stated that, based on Board consensus, he was planning to set up meetings with Chair Schutt to go and meet with leadership in the Legislature in the House and Senate to discuss the proposed payment of the incentive compensation. He continued that if there was significant pushback from key leadership that caused concern about the ability of the budget to be successful in the coming cycle, it would be revisited with the Board.

CHAIR SCHUTT stated that they were back to the agenda, and recognized Pauly Swanson, communications director.

#### **LEGISLATIVE INITIATIVES/COMMUNICATIONS UPDATE**

MS. SWANSON began by recognizing Adam Kane, communications specialist. He has been seen as the photographer, but he has played an important part in the communications program with regard to his creativity, positive energy and skills. She added that it had been great to have

him on the team for the past year and a half. She stated that accountability of APFC to the Alaskan stakeholders as an independent public asset manager of Alaska's Permanent Fund was at the very core of the communications program. Information about the Fund and the work done was conveyed timely, openly, accurately, and, most importantly, as nonpartisan trusted resources. She continued that this was done through the annual report, the website, presentations, media relations and also through some of the publications. In supporting and maintaining that trust, communications add value by providing relevant communications to many different audiences, and we do work to bring together and engage the organization in listening, speaking, and furthering the fiduciary work, fiduciary duty, and accountability. She looked at the past with the timeline that conveyed the transition of APFC from the Fund supporting solely the dividend program to being a significant source of revenue for the State of Alaska. While APFC's mandate to manage and invest the Fund and the assets of the Permanent Fund had not changed over four decades, the State's use of those earnings really shifted in the past six years. The 5 percent market value draw was now a significant source of State revenue to support government services and programs, including the dividend. She talked about the communications program and the five-year communication strategic plan back in 2021. 2022 was a year of reinforcing the ongoing work that has happened at the corporation and being accountable to public inquiry. Moving to 2023, there was a real need for the corporation's messaging to bolster credibility and longevity of the corporation and promote the fundamentals of governance, fiduciary duty, accountability, stewardship, performance and sustainability. She went through the strategic communications goals which align with the corporate organization goals, as well. She talked about the two statutory publications: one was the annual report; the other was the elections pamphlet. APFC's '21 annual report did receive a top award from the Public Relations Society of Alaska. They found it to be a captivating design and quality content. She moved to the Alaska Youth Program where considerable progress was made in working with Alaska Resource Education, a nonprofit organization that works to bring information to schools and teachers about the resource development of the State. They will share the next chapter of that story with the hope of telling the story of the Permanent Fund Corporation. They were working on putting together that curriculum. She stated that APFC Insights goes out to the Legislature and was also available for subscribers. It shares the Fund values on a monthly basis, and also pertinent information about the upcoming Board of Trustees' meetings. She added that the website is a fundamental source of education. One of the overarching communication goals was to bolster and affirm the recognition of APFC, the Fund, and the benchmark-driven performance. She continued that the 33<sup>rd</sup> Legislature will commence on January 17, 2023, and we will be welcoming many new legislators to the Capitol. She brought forward slides that provided background information about some of the standard legislative communications areas and also sheds light on some of the topics that will be relevant to the policy debate this coming session. She highlighted a few Board resolutions.

TRUSTEE BRUNE made a disclosure on Page 9. Prior to his being on the Board, it was decided they were going to be partnering to achieve the educational mandate with Alaska Resource Education. He stated that he was the executive director emeritus of that organization, and he cannot remove his name from that letterhead. He made that disclosure for the record. He fully supports that, but if there were ever future votes or anything about that, he would recuse himself. He added that it was an amazing organization, and he is proud to know that APFC will be achieving part of its educational mandate by partnering with them.

CHAIR SCHUTT thanked Ms. Swanson.

TRUSTEE RICHARDS stated appreciation for the sophistication and the quality of the work on the communication plan in the last few years.

CHAIR SCHUTT stated that the next item on the agenda was the Executive Session for the Acting Executive Director review. He asked for a motion.

**MOTION:** In accordance with Alaska's Open Meetings Act, a motion that the Board of Trustees convene in Executive Session for the purpose of discussing the annual performance evaluation of the acting executive director. As this discussion can be harmful to the acting executive director's reputation or character, under applicable Alaska laws, this discussion should take place in Executive Session, unless the acting executive director requests a public discussion was made by TRUSTEE BRUNE; seconded by TRUSTEE RIEGER.

*After the roll-call vote, the MOTION was APPROVED. (Trustee Richards, yes; Trustee Brune, yes; Trustee Crum, yes; Trustee Rieger, yes; Trustee Rubenstein, yes; Chair Schutt, yes.)*

(Executive Session from 1:39 p.m. until 2:14 p.m.)

CHAIR SCHUTT came back on the record and noted that while in Executive Session, the trustees considered only the matters mentioned in the motion and took no action. He moved to the IT Update and recognized Scott Balovich.

#### **IT UPDATE**

MR. BALOVICH began a high-level update on the projects that the IT team had been working on. The biggest project started in July of '21. It is now winding down from a deliverable standpoint from the contracted vendor. The infrastructure was in place. This is the Cloud First Initiative, and from a Cloud First definition, it was decided about two years ago for the effort to go to the Cloud. Cloud First means anything done from here on out will have to look to the Cloud first and not bringing something in-house. It essentially rolled out of the Microsoft E365 toolset, and will ultimately bring all of the collaboration technologies together to the Azure Cloud. He continued that the initiative was to bring modern capabilities for collaboration, workforce, autonomy, reduce data center reliance, and improve business continuity. He found that this improved the security and was a force multiplier for the security in the organization. Fine-tuning the policies and procedures was a big deal, and we made a concerted effort to make strides in the records management platform. The other heavy lift was moving all of the organization's files to the Cloud. The expected timeframe for the completion of this particular project is Quarter 3 of next year. He stated that within the workforce modernization there would be a pilot in January using Microsoft Teams Voice. Setting up the data center in Fairbanks would be very expensive, and the Microsoft 365 E5 licensing Teams comes with the current licensing that was paid for. A cost savings would be significant to leverage this. He moved to the data project and received a third-party analysis, opinion on what was needed to do this, and he went through the plan.

CHAIR SCHUTT moved to Advisor Comments.

## ADVISOR COMMENTS

MR. FRIER stated that he may have been pretty rough on Mr. Frampton yesterday. He commented that during his relationship with Mr. Frampton for the last two-and-a-half years, he may have been rough on occasion, but Marcus was always gracious, open and candid. He added that he liked talking to him about investments, too. He continued that there was a public/private fund management difference and there will be stories written about this downturn and who did good and who did not. He added that the main point he was trying to make was there was not much of a mechanism to translate investment insights into action. His belief is that if we get into the habit of steering the ship, constantly absorbing information and thinking about how to use that to improve the direction of the portfolio, we would build on the really strong capabilities that are already there. He noted that the average bear market that the U.S. had was a loss of 35 percent, and the average duration of the bear market had been about a year and a half. He raised the topic on how to manage portfolio strategy, and he would be delighted to carry on the conversation, if interested. He stated appreciation for hearing him out with the ideas offered.

TRUSTEE RICHARDS asked Mr. Frampton for his thoughts on Mr. Frier's point of view that the portfolio or the staff could be more strategic.

MR. FRAMPTON replied that we could always do better, and stated that he was not even remotely offended by anything that Mr. Frier or any of the advisors said. They should always say whatever they want.

TRUSTEE RUBENSTEIN shared an article, "Howard Marks' New Remarks," and stated that it should get circulated to the Board. What he said was that the dumbest mistakes investors do is leaning in and changing course. Then all of the strategy that was put in place was ruined. The smartest investors set the strategy, execute, and let it play out.

TRUSTEE RIEGER commented on being leery of placing heavy bets based on what the outlook was. He would like to, as a Board, be open to being more active in supporting staff when needed.

MR. SKJERVEM stated that his experience led him to the place in a public plan where there was an inevitable trade-off between transparency and agility. Most of the time he had been forced to be fully transparent to taxpayers and beneficiaries for all the same reasons here. He commented on incentive compensation and noted that he had a lot of experience with it. He designed incentive cap programs, modified them, initiated them and terminated them in the public sector, private sector, quantitative, qualitative. Tons of experience. He thinks that we are really on the right track. He applauded the Board for their willingness to go through it. It was tedious and difficult. He thought the plan was really good with the ultimate caveat relative to the constraints of the framework and the nomenclature can be changed to fit whatever has to be done. Also, every year it can be updated systematically.

CHAIR SCHUTT noted that one of the Board protocols is to remind trustees to really work through Mr. Mitchell for contacts with staff. Especially if asking for something to be coordinated. The legislative session is coming up, and there are policy matters that were discussed and debated. He reminded trustees to be aware of communicating with staff or legislators because there are consequences to communications. He stated that he had not seen any indication of confidentiality problems with this Board, and reminded all that some of the

things discussed are confidential.

### **TRUSTEE COMMENTS**

TRUSTEE RUBENSTEIN stated that it was a pleasure working with and meeting all of the staff and the executive team and the Board. She continued that she was still the newbie and is excited, and it had been four months. She looked forward to going through a legislative session. She thanked all for the extra time put into answering questions.

TRUSTEE CRUM stated that his goal was to be here in February and really appreciated the orientation that staff put on. It was a very well-run and well-organized event with all the information provided up front. He thanked all for that. It is a testament to the Permanent Fund Corporation and important to Alaskans. They should all know that it was the utmost professionalism across the board. He also appreciated the Board and the vigorous debate. It is an honor to be here.

TRUSTEE RIEGER stated the main thing on his mind is what was talked about in the middle of the Advisor Comments. He stated appreciation for the candor of the staff and the openness of the debate amongst the board members. It was all to the good to talk things out.

TRUSTEE RICHARDS reiterated what Trustee Rieger stated about supporting Mr. Frampton. The smartest thing this board did was to get out of investments and to get out of selection of investment managers. It lets staff that are professional people do the professional work. This board acts like a governance board or an oversight board, and is not in the weeds. The idea is that we are one board. He disagreed with the resolution, but the decision was made, and he will be supportive as we all should do with all these resolutions.

TRUSTEE BRUNE started off that John and Ken are amazing, and he loved the insight that they shared. Their expertise was appreciated. He gave Ms. Mertz a huge shoutout for her efforts and an amazing job over the course of the last year. He thanked Jennifer for taking care of the trustees and wished staff Merry Christmas and Happy Holidays. He looked forward to a great 2023.

CHAIR SCHUTT thanked staff for the tremendous job in the preparation of materials, the timing of the agenda and the thoughtful presentations around the important things. The same to our external advisors for their amazing insight and guidance. He stated that probably all of the trustees get some emails and comments from members of the public, unsolicited. He added that he reads them all. He reminded them that that they do not pick investments and would not pick investments, but we will listen and sympathize. He read a heartfelt email from an ordinary Alaskan, and noted his appreciation for that.

MR. MITCHELL asked the Chair for the trustee committee assignments.

### **COMMITTEE ASSIGNMENTS**

CHAIR SCHUTT stated that: Audit Committee – Trustee Crum, Trustee Brune and himself; Governance Committee – Vice Chair Rieger was chair, Trustee Rubenstein, Trustee Richards and Trustee Brune; Audit Committee - Trustee Crum was chair.

## **FUTURE AGENDA ITEMS**

TRUSTEE RUBENSTEIN asked about talking about in-state investment.

CHAIR SCHUTT replied that one was coming up in the next cycle, and we would probably talk about it in February.

TRUSTEE RICHARDS stated that pending on what the legislative agenda looked like, there may be the need for another meeting to circle around and have that conversation.

CHAIR SCHUTT asked everyone to be prepared for an off-cycle meeting in January.

**MOTION:** A motion was made to adjourn the meeting by TRUSTEE BRUNE; seconded by TRUSTEE CRUM.

*There being no objection, the MOTION was APPROVED.*

(Alaska Permanent Fund Corporation Quarterly Board of Trustees meeting adjourned at 3:29 p.m.)