

Performance & Market Overview

Draft Notes Prepared for the APFC Board Meeting

24-25 May 2016

With roughly six weeks remaining in APFC's fiscal year ending June 30, the return performance for the fiscal year of the Alaska Permanent Fund as well as its performance and strategic benchmarks are essentially flat. This performance generally reflects a weak second half calendar performance for global equity in 2015 followed by a commensurately modest recovery this current calendar year.

Importantly, international investments during the fiscal year (and for the past two years) have generally suffered from a strong US\$ which in turn reflected weakness in foreign currencies. For reference, the value of the Euro stood at \$1.39 as recently as two years ago in May 2014. Today, the value of the Euro stands at \$1.13 (or a 19% decline over two years). That said, we (and the markets in general) anticipate a general reversal of US\$ strength as international economies (particularly those in the Emerging Markets) are increasingly poised for recovery. As reference points, long-term futures contracts anticipate the Euro in 10-years to be roughly \$1.33, in 20-years to be \$1.49, and in 30 years to be \$1.71. Although we have benefitted by generally being underweighted international markets during this period of \$US strength, we intend to tilt the portfolio back towards international markets in anticipation of renewed strength internationally. Importantly, during this period of protracted low-interest rates and retrenchment in the capital markets and foreign currencies, the Alaska Permanent Fund has fully maintained its value. However, in order to meet the Fund's long-term return objectives going forward, it will need to succeed meaningfully in both its growth and income mandates despite prevailing low prevailing interest rates in the United States and Europe.

The contribution from the Fund's private market investments in real estate, private equity, and infrastructure remain positive, and we believe will become increasingly important as sources of both growth and regularized income especially during this low-interest rate environment. Although Special Opportunities did drag on this year's performance (after an exceptional contribution last fiscal year), we anticipate that over time the Fund will continue to benefit greatly from its concentrated exposure to compelling investment themes and specific opportunities. Going forward, these themes are likely to include exportable American-born technologies, the rise of the consumer across the Emerging Markets, and the infrastructure associated with urbanization around the globe.

Investment staff at the Fund expects a particularly busy summer season both with respect to benefitting from the markets and also positioning the Fund for increasing effectiveness in its investment programs overall. By the time we meet at the September Board meeting, we anticipate presenting a combination of action and informational items relating to (1) the overall streamlining, reconciliation, and enhancement of the Fund's investment policies and procedures, (2) the broadening of the Fund's current fixed-income program to include "tradable income" generally (in order to access the most compelling income-generating securities worldwide), (3) a refocusing of our Hedge Fund program away from Fund-of-Funds and towards direct investments in hedge funds, (4) an upgrading of our currency management capabilities as part of the Fund's value-added Smart Beta strategy, and (5) a general enhancement of the Fund's infrastructure deal flow and program scale as it seeks more compelling project income opportunities.