

State of Alaska FY2006 Governor's Operating Budget

Department of Revenue APFC Operations Component Budget Summary

Component: APFC Operations

Contribution to Department's Mission

The mission of the Alaska Permanent Fund Corporation is to maximize the value of the Permanent Fund within return objectives

Core Services

- Investment management for Fund assets
- Provide public information on Fund activities

End Results	Strategies to Achieve Results
A: Maximize the value of the Fund <u>Target #1:</u> A long-term 5% real rate of return <u>Measure #1:</u> Real rate of return over time	A1: Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return <u>Target #1:</u> The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board <u>Measure #1:</u> The Fund's rate of return versus the investment performance benchmark A2: Control operation and investment management expenses <u>Target #1:</u> APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds <u>Measure #1:</u> APFC ratio of cost to assets managed compared to similar funds
End Results	Strategies to Achieve Results
B: Provide Alaskans with complete and timely information on Fund activities and issues <u>Target #1:</u> Meet all statutory and communication plan guidelines for disseminating information <u>Measure #1:</u> Target objectives are completed	B1: Develop and implement an annual communications plan <u>Target #1:</u> Complete tasks in communications plan <u>Measure #1:</u> Communications plan tasks are completed

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Contract with external investment managers for specific expertise for stocks, bonds, and real estate • Internal bond portfolio management • Daily, monthly, quarterly, and annual performance and compliance reports • Annual dividend distribution 	<ul style="list-style-type: none"> • Renegotiate fees on an ongoing basis • Prepare quarterly reports, newspaper inserts and other publications • Maintain web site and keep content up-to-date • Respond to media and public inquiries

FY2006 Resources Allocated to Achieve Results

FY2006 Component Budget: \$7,471,700

Personnel:

Full time	32
Part time	0
Total	32

Performance Measure Detail

A: Result - Maximize the value of the Fund

Target #1: A long-term 5% real rate of return**Measure #1:** Real rate of return over time

Rolling 10-year Returns

Year	FY92-FY01	FY93-FY02	FY94-FY03	FY95-FY04	YTD
0	7.3%	6.0%	5.3%	6.6%	NA

Analysis of results and challenges: The Board of Trustees working within the statutorily allowed investment list has adopted a long-term 5% real rate of return target. The rate is the maximum sustainable payout that maintains the Fund's purchasing power over the long-term.

A1: Strategy - Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return

Target #1: The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board

Measure #1: The Fund's rate of return versus the investment performance benchmark

APFC total return versus Benchmark return

Year	APFC Return	Benchmark	YTD
2001	-3.26%	-4.46%	NA
2002	-2.24%	-3.65%	NA
2003	4.46%	4.80%	NA
2004	14.2%	14.1%	NA

Analysis of results and challenges: Experts agree that over 90% of performance (return) is attributable to the asset allocation decision. We anticipate evaluating expanded asset class opportunities in the future with the goal of increasing total return and further diversifying the funds asset mix.

A2: Strategy - Control operation and investment management expenses

Target #1: APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds

Measure #1: APFC ratio of cost to assets managed compared to similar funds

APFC ratio of cost to assets compared to similar funds

Year		APFC	Median	YTD
2004	Equities-Domestic	.19%	.34%	NA
2004	Equities-Non Domestic	.20%	.45%	NA
2004	Fixed Income-Domestic	.02%	.17%	NA
2004	Fixed Income-Non	.17%	.26%	NA

Domestic

Analysis of results and challenges: Survey data as of 12/31/2001. Survey does not include expenses for managing Real Estate. APFC used Callan Associates Inc. 2002 Fund Sponsor Cost of Doing Business Survey for this comparison. This survey is only produced every few years and is the only one that compares funds that are similar in size.

Expenses and operational efficiencies have a direct affect on returns over time. APFC will continue to control investment expense by negotiating appropriate fee structures and looking for operational efficiencies.

B: Result - Provide Alaskans with complete and timely information on Fund activities and issues

Target #1: Meet all statutory and communication plan guidelines for disseminating information

Measure #1: Target objectives are completed

Year	FY2002	FY2003	FY2004	YTD
0	NA	NA	Yes	

Analysis of results and challenges: The Board and staff believe it is critical to practice good corporate governance by holding ourselves accountable to the people of Alaska. We believe that it is critical to be as clear and open as possible regarding decisions made and the resulting Fund performance.

We do not have existing measurement data.

B1: Strategy - Develop and implement an annual communications plan

Target #1: Complete tasks in communications plan

Measure #1: Communications plan tasks are completed

Analysis of results and challenges: APF is a public fund with high visibility and importance to Alaskans. The Corporation must be accountable and maintain the public trust by communicating to Alaskans effectively and efficiently. We expect that the communication plan will include additional outreach as the Corporation advocates for the constitutional amendment on Percent of Market Value (POMV).

Key Component Challenges

- Plan for and manage investment risk incorporating the capital market assumptions and projected volatility for the Fund.
- Continue to promote a constitutional amendment to adopt a payout rule based on the percentage of market value (POMV).
- Ensure investment policies maintain the balance between the Fund's competing mandates of protecting the Fund to benefit future generations and producing income to benefit current generations.
- To meet the Board's return objectives given the Fund's statutory investment constraints.

Significant Changes in Results to be Delivered in FY2006

Work to adopt a payout method which is directly related to the Fund's 5% real rate of return goal versus an income based payout method.

Major Component Accomplishments in 2004

- The Fund had a 14.2% total return and 11.9% real return for FY2004.
- The Fund increased by \$3.2 billion after accounting for the Alaska Permanent Fund Dividend distribution and other appropriations.
- SB326 Increased Investment Flexibility and SB379 Removal for Cause passed.

- Two new asset classes were added to the asset allocation.

Statutory and Regulatory Authority

AS 37.13

Contact Information
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**APFC Operations
Component Financial Summary**

All dollars shown in thousands

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	2,817.7	3,300.2	3,499.2
72000 Travel	260.1	218.9	272.6
73000 Services	2,801.5	3,274.3	3,491.7
74000 Commodities	26.6	121.2	113.2
75000 Capital Outlay	153.9	95.0	95.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	6,059.8	7,009.6	7,471.7
Funding Sources:			
1105 Alaska Permanent Fund Corporation Receipts	6,059.8	7,009.6	7,471.7
Funding Totals	6,059.8	7,009.6	7,471.7

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2005 Management Plan	0.0	0.0	7,009.6	7,009.6
Adjustments which will continue current level of service:				
-FY06 Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	28.9	28.9
-Adjustments for Personal Services Working Reserve Rates and SBS	0.0	0.0	10.1	10.1
Proposed budget increases:				
-Personal Services Increment	0.0	0.0	160.0	160.0
-Adjustment to reflect spending plan	0.0	0.0	263.1	263.1
FY2006 Governor	0.0	0.0	7,471.7	7,471.7

**APFC Operations
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2005</u> <u>Management</u> <u>Plan</u>	<u>FY2006</u> <u>Governor</u>		
Full-time	32	32	Annual Salaries	2,666,813
Part-time	0	0	Premium Pay	0
Nonpermanent	2	2	Annual Benefits	1,072,404
			<i>Less 3.17% Vacancy Factor</i>	(118,617)
			Lump Sum Premium Pay	0
Totals	34	34	Total Personal Services	3,620,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant	0	0	4	0	4
Administrative Assistant	0	0	2	0	2
Administrative Officer	0	0	2	0	2
Administrative Specialist	0	0	3	0	3
Chief Investment Officer	0	0	1	0	1
Chief of Operations	0	0	1	0	1
Controller	0	0	1	0	1
Director of Finance	0	0	1	0	1
Director, Info Technology	0	0	1	0	1
Executive Director, PFC	0	0	1	0	1
Executive Secretary	0	0	2	0	2
Information Technology Spec	0	0	2	0	2
Intern	0	0	2	0	2
Investment Associate	0	0	1	0	1
Investment Officer	0	0	7	0	7
Research Analyst	0	0	1	0	1
Secretary	0	0	1	0	1
Senior Comp. Info. Sys. Spec.	0	0	1	0	1
Totals	0	0	34	0	34