

**State of Alaska  
FY2004 Governor's Operating Budget**

**Department of Revenue  
PFC Custody and Management Fees  
BRU/Component Budget Summary**

## **BRU/Component: PFC Custody and Management Fees**

**(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)**

**Contact: Robert D. Storer, Executive Director**

**Tel:** (907) 465-3185 **Fax:** (907) 586-2057 **E-mail:** rstorer@alaskapermfund.com

### **Component Mission**

The mission of the Alaska Permanent Fund Corporation is to maximize the value of the Permanent Fund through prudent long-term investment and protection of principal to produce income to benefit all generations of Alaskans (Differs from CH 124, SLA 2002).

### **Component Services Provided**

Investment of financial assets in equities, fixed income, real estate, and alternative investments. Produce earnings sufficient to meet dual legislative mandate: inflation proofing and dividends. Provide professional investment management, accurate accounting, policy compliance, and asset allocation of all Permanent Fund assets (including Science and Technology, Mental Health Trust and International Trade & Business Endowment Fund). Distribute quarterly and annual financial reports, informational brochures; and increase public awareness and understanding of Permanent Fund goals and objectives.

### **Component Goals and Strategies**

- Apply the Prudent Investor Rule to all investment decisions and maintain an asset allocation to achieve the Board's long-term investment return target of 5% after inflation.
- Protect the purchasing power of the Fund against inflation over the long term.
- Consolidate and keep current all corporate information technology resources, systems and capabilities; and maximize their usefulness to Alaska Permanent Fund Corporation (APFC) staff.
- Ensure strong monitoring and internal control systems are in place for financial reporting and policy / contract compliance.
- Provide reliable and objective information to the Administration, Legislature and the people of Alaska on all matters affecting the Fund.

### **Key Component Issues for FY2003 – 2004**

- Plan for and manage investment risk during times of increasing market volatility, while taking advantage of opportunities to increase returns (including the increased statutory flexibility).
- The balance of the Earnings Reserve Account has decreased significantly over the past two years from distributions, inflation proofing transfers and negative markets. There is an increased chance that volatile markets during FY03 could take the earnings reserve to zero, thus there could be no distribution from the Fund for dividends or other purposes.
- Continue to promote a constitutional amendment of a payout rule based on percentage of market value (POMV) distribution of Fund income.
- Ensure investment policies maintain the delicate balance between the Fund's competing mandates of protecting the Fund to benefit future generations and producing income to benefit current generations.

## Major Component Accomplishments in 2002

- Even though the Fund earned a negative 2.2 percent total return for FY02, we out-performed our benchmark target return by 1.4%.
- Fully inflation-proofed the Fund principal for the 20th consecutive year, maintaining it's long-term purchasing power.
- The Board has become increasingly engaged in corporate governance by: establishing a corporate governance committee (chaired by the Attorney General), joined the Council of Institutional Investors and adopted new policies on proxy voting and class action litigation.

## Statutory and Regulatory Authority

AS 37.13

## Key Performance Measures for FY2004

### Measure:

**The corporation's investment expenses compared to the investment expenses of other large institutional funds.**

Sec 131 (b) (1) Ch 124 SLA 2002(HB 515)

### Background and Strategies:

Survey which provided comparison information is no longer available. APFC wishes to delete this performance measure. The Corporation would like to work with the Legislature to develop a more suitable measure.

### Measure:

**The total return by asset type compared to other institutional funds.**

Sec 131 (b) (2) Ch 124 SLA 2002(HB 515)

### Alaska's Target & Progress:

- The Alaska Permanent Fund has five asset classes that can be evaluated for 1-year and 5-year periods as of June 30, 2002. The Permanent Fund Corporation's return will be listed first then the median return for other institutional funds.

1) Domestic equities:	One year, -15.4% / -14.8%;	Five years, 3.8% / 3.9%
2) Non-domestic equities:	One year, -8.6% / -7.4%;	Five years, .5% / .9%
3) Domestic fixed-income:	One year, 8.0% / 7.5%;	Five years, 7.2% / 7.3%
4) Non-domestic fixed-income:	One year, 10.2% / 15.7%;	Five years, 5.7% / 3.5%
5) Real estate:	One year, 10.3% / 5.6%,	Five years, 12.1% / 10.8%

### Benchmark Comparisons:

- Asset allocation adjusted rankings from the Callan Associates, Inc. Investment Measurement Service.

### Background and Strategies:

- Comparing returns among similar large investment funds is a standard process.

### Measure:

**The inflation-adjusted rate of return over time.**

Sec 131 (b) (3) Ch 124 SLA 2002(HB 515)

### Alaska's Target & Progress:

- The board has quantified this goal to achieve a real rate of 5% over time.
- The Fund's total return for fiscal year 2002 was -2.2% with an inflation rate of 2.8%. The real (inflation adjusted) rate of return was -5.0%. The annualized total return for the past five year is 5.6% with a 5-year annualized CPI rate of 2.5%. The real (inflation adjusted) rate of return is 3.1% average for the past 5 years.

### Benchmark Comparisons:

- Total Fund return less national CPI.

**PFC Custody and Management Fees**  
**Component Financial Summary**

*All dollars in thousands*

	<b>FY2002 Actuals</b>	<b>FY2003 Authorized</b>	<b>FY2004 Governor</b>
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Contractual	32,464.6	43,585.8	43,139.0
74000 Supplies	0.0	0.0	0.0
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>32,464.6</b>	<b>43,585.8</b>	<b>43,139.0</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	32,464.6	43,585.8	43,139.0
<b>Funding Totals</b>	<b>32,464.6</b>	<b>43,585.8</b>	<b>43,139.0</b>

**PFC Custody and Management Fees  
Proposed Changes in Levels of Service for FY2004**

No service changes.

**Summary of Component Budget Changes  
From FY2003 Authorized to FY2004 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2003 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>43,585.8</b>	<b>43,585.8</b>
<b>Proposed budget decreases:</b>				
-Adjustment to reflect FY2004 projected fees	0.0	0.0	-446.8	-446.8
<b>FY2004 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>43,139.0</b>	<b>43,139.0</b>