

**State of Alaska
FY2008 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 and issues

End Results	Strategies to Achieve Results
<p>A: Maximize the value of the Fund</p> <p><u>Target #1:</u> A long-term 5% real rate of return <u>Measure #1:</u> Real rate of return over time</p>	<p>A1: Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return</p> <p><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</p> <p>A2: Control operation and investment management expenses</p> <p><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</p>

End Results	Strategies to Achieve Results
<p>B: Provide Alaskans with complete and timely information on Fund activities and issues</p> <p><u>Target #1:</u> Meet 100% of statutory and communication plan guidelines for disseminating information <u>Measure #1:</u> Percent of communication target objectives completed</p>	<p>B1: Develop and implement an annual communications plan</p> <p><u>Target #1:</u> Complete 100% of the tasks in the communications plan <u>Measure #1:</u> Percent of communications plan tasks completed</p>

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 • Renegotiate fees on an ongoing basis • Prepare reports, newspaper inserts and other 	<ul style="list-style-type: none"> • Maintain web site and keep content up-to-date • Research evolving alternative investment strategies • Respond to media and public inquiries • Seek out other opportunities for public education • Provide a report on alternative investments

Major Activities to Advance Strategies

publications

FY2008 Resources Allocated to Achieve Results

FY2008 Component Budget: \$9,634,400

Personnel:

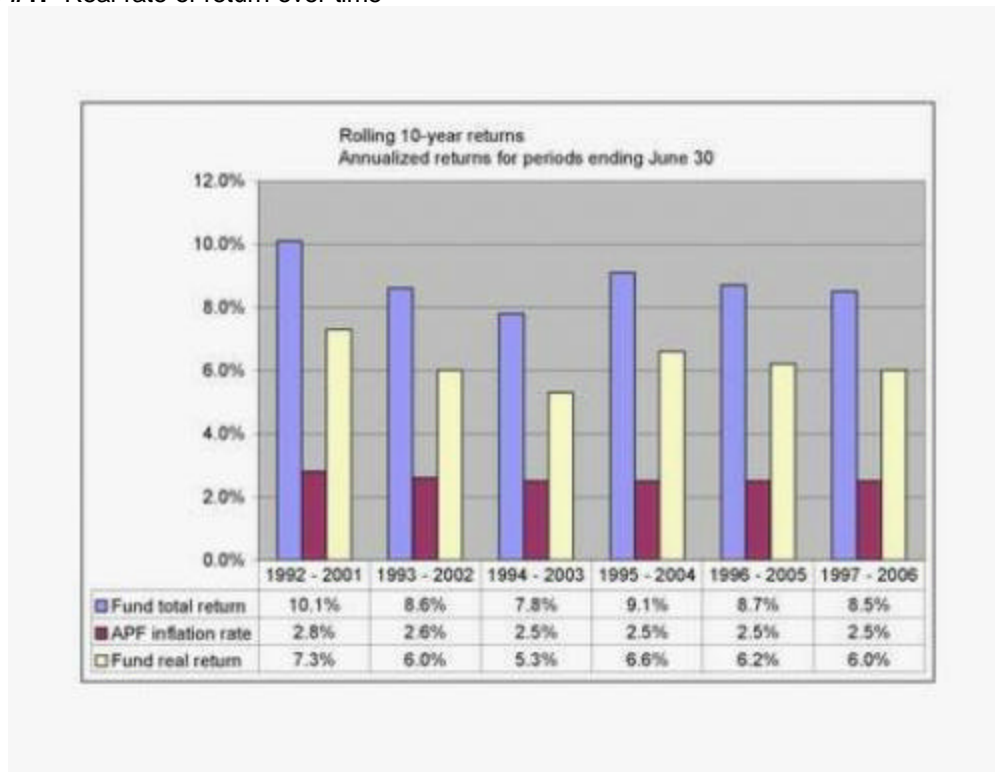
Full time	34
Part time	0
Total	34

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



Analysis of results and challenges: The Fund's market value was to \$32.9 billion on 6/30/2006 (after \$689 million dividend payout), up \$2.9 billion from 6/30/2005 ending market value. The long term real rate of return for the period FY1997 - FY2006 was 6.0% and the Fund's total return for FY2006 was 11.0%.

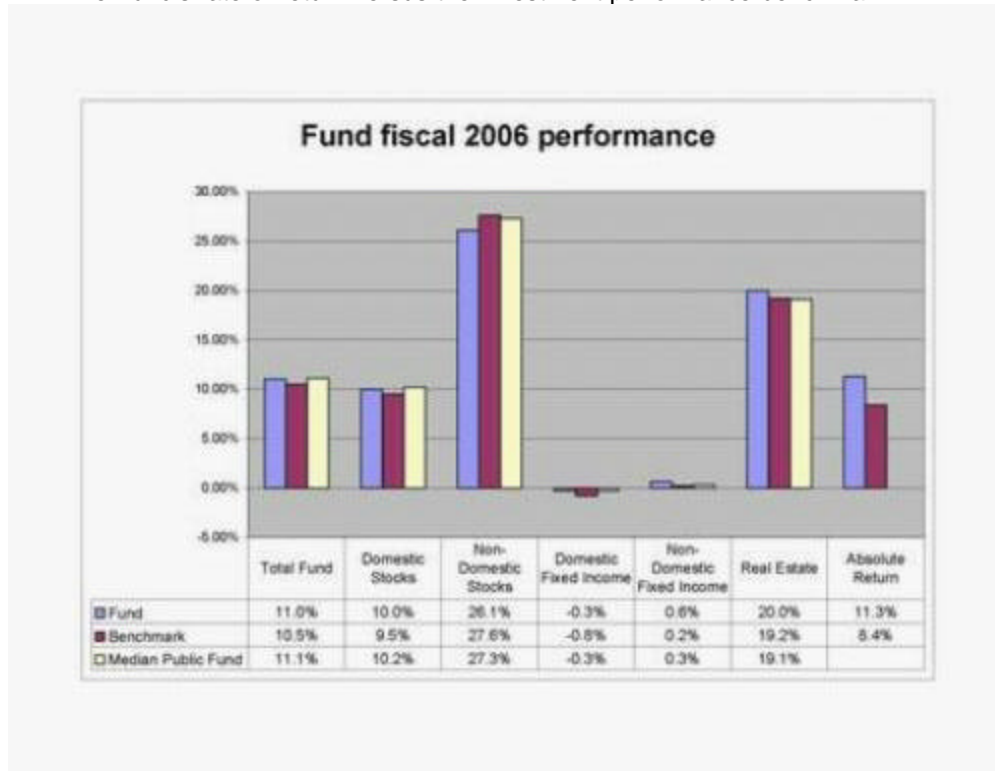
To achieve a target total rate of return, the Board of Trustees manages risk by strategically allocating the Fund among stocks, bonds, real estate, and recently, alternative investments. Different types of assets are influenced differently by factors such as the economic cycle, interest rates, inflation and fiscal policy. A mix of asset types whose returns move out of sync with one another moderates the total Fund's volatility.

Each year the Board fine-tunes its asset allocation to adjust to changes in the market environment. Its current goal is to earn about 5 percent over the rate of inflation in the long run. That means, in any 10-year period, the average real return (the return after inflation) should be around 5 percent.

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

Fiscal Year	APFC Return	Benchmark
FY 2001	-3.26%	-4.46%
FY 2002	-2.24%	-3.65%
FY 2003	4.46%	4.80%
FY 2004	14.2%	14.1%
FY 2005	10.4%	10.5%
FY 2006	11.0%	10.5%

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

Fiscal Year		APFC	Median
FY 2006	Equities-Domestic	.23%	.34%
FY 2006	Equities-Non Domestic	.23%	.45%
FY 2006	Fixed Income-Domestic	.02%	.17%
FY 2006	Fixed Income-Non Domestic	.18%	.26%

Analysis of results and challenges: Survey data as of 12/31/2001 for other funds greater than \$10 billion. 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.

APFC FY06 total fund cost was approximately .17%. That equates to 17 cents for every \$100 of fund value. Other large institutional fund expenses were approximately 28.2 cents for every \$100 dollars of fund value in 2001.

Expenses and operational efficiencies have a direct effect 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 100% of statutory and communication plan guidelines for disseminating information

Measure #1: Percent of communication target objectives completed

Fiscal Year	% of tasks completed
FY 2002	NA
FY 2003	NA
FY 2004	100%
FY 2005	100%
FY 2006	100%

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.

B1: Strategy - Develop and implement an annual communications plan

Target #1: Complete 100% of the tasks in the communications plan

Measure #1: Percent of communications plan tasks completed

Fiscal Year	% of tasks completed
FY 2004	100 %
FY 2005	100 %
FY 2006	100 %

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 provides information for 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.
- Implementation of the Corporation's new investment authority.
- Educate the general public on the Fund's complex structure and investments.

Significant Changes in Results to be Delivered in FY2008

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 2006

- The Fund had a 11.0% total return and 7.6% real return for FY2006.
- The Fund increased by \$2.9 to \$32.9 billion after accounting for the Alaska Permanent Fund Dividend distribution and other appropriations.

Statutory and Regulatory Authority

AS 37.13 Alaska Permanent Fund and Corporation
 15 AAC 137.410 - 15 AAC 137.990
 15 AAC 137.610

Contact Information

Contact: Michael Burns, Executive Director
Phone: (907) 465-2047
Fax: (907) 586-2057
E-mail: mburns@alaskapermfund.com

**APFC Operations
Component Financial Summary**

All dollars shown in thousands

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,791.0	4,419.3	5,306.3
72000 Travel	183.8	294.5	313.8
73000 Services	2,634.0	3,502.5	3,803.6
74000 Commodities	142.2	125.7	125.7
75000 Capital Outlay	82.9	85.0	85.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	6,833.9	8,427.0	9,634.4
Funding Sources:			
1105 Alaska Permanent Fund Corporation Receipts	6,833.9	8,427.0	9,634.4
Funding Totals	6,833.9	8,427.0	9,634.4

Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Permanent Fund Earnings Reserve Account	51373	6,833.9	8,427.0	9,634.4
Restricted Total		6,833.9	8,427.0	9,634.4
Total Estimated Revenues		6,833.9	8,427.0	9,634.4

**Summary of Component Budget Changes
From FY2007 Management Plan to FY2008 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2007 Management Plan	0.0	0.0	8,427.0	8,427.0
Adjustments which will continue current level of service:				
-Reverse One-time Item for Investment Due Diligence	0.0	0.0	-376.4	-376.4
-FY 08 Health Insurance Increases for Exempt Employees	0.0	0.0	6.1	6.1
Proposed budget decreases:				
-Capital Outlay Reduction	0.0	0.0	-10.0	-10.0
Proposed budget increases:				
-Salary management plan increases	0.0	0.0	239.7	239.7
-Investment travel due diligence	0.0	0.0	19.3	19.3
-Contractual Services increments	0.0	0.0	50.2	50.2
-Financial network investment systems	0.0	0.0	247.3	247.3
-Due Diligence Travel Costs	0.0	0.0	21.9	21.9
-Contractual Services Costs	0.0	0.0	352.0	352.0
-Workstation Equipment Upgrades	0.0	0.0	12.5	12.5
-Retirement and Non-covered Employee Health Insurance Increases for Division of Personnel	0.0	0.0	3.6	3.6
-FY 08 Retirement Systems Rate Increases	0.0	0.0	641.2	641.2
FY2008 Governor	0.0	0.0	9,634.4	9,634.4

APFC Operations Personal Services Information				
Authorized Positions			Personal Services Costs	
	FY2007 Management Plan	FY2008 Governor		
Full-time	34	34	Annual Salaries	3,384,283
Part-time	0	0	Premium Pay	2,688
Nonpermanent	2	2	Annual Benefits	2,171,295
			Less 5.03% Vacancy Factor	(279,471)
			Lump Sum Premium Pay	0
			Board Honoraria	27,540
Totals	36	36	Total Personal Services	5,306,336

Position Classification Summary					
Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant	0	0	5	0	5
Admin Assistant	0	0	1	0	1
Administrative Assistant	0	0	1	0	1
Administrative Officer	0	0	2	0	2
Administrative Specialist	0	0	4	0	4
Chief Financial Officer	0	0	1	0	1
Chief Investment Officer	0	0	1	0	1
Chief Operating Officer-PFC	0	0	1	0	1
Controller	0	0	1	0	1
Dir of Information Technology	0	0	1	0	1
Director of Communications-PFC	0	0	1	0	1
Executive Director, PFC	0	0	1	0	1
Executive Secretary	0	0	1	0	1
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	8	0	8
Secretary	0	0	1	0	1
Sr Information Technology Spec	0	0	1	0	1
Totals	0	0	36	0	36

Component Board Summary					
Board Description	Member Count	Pay Per Day	Budgeted Days	Additional Pay	Total Cost
Permanent Fund Corporation	4	400.00	16	0.00	27,540.48
Total					27,540.48