

# **State of Alaska FY2002 Governor's Operating Budget**

Department of Revenue  
PFC Custody and Management Fees  
BRU/Component

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

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### **Component Mission**

To maximize the value of the permanent fund through prudent long-term investment.

### **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 accurate investment management and accounting of all Permanent Fund assets, including Science and Technology, Mental Health Trust and International Trade & Business Endowment Fund assets. Distribute quarterly and annual financial reports, informational brochures; and increase public awareness and understanding of Permanent Fund goals and objectives.

### **Component Goals and Strategies**

1. Maximize the fund's total return over time in a manner consistent with the long-term objective and risk tolerance.
2. Develop and implement a Board-approved plan to take advantage of the new investment flexibility building upon the framework of the existing investment program.
3. Continue to promote legislative adoption of a payout rule based on a percentage of market value (POMV) distribution of Fund income.
4. Consolidate and keep current all corporate IT resources, systems and capabilities; and maximize their usefulness to APFC staff.
5. Ensure strong monitoring and internal control systems are in place.

### **Key Component Issues for FY2001 – 2002**

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).

Ensure investment policies maintain the delicate balance between the Fund's competing mandates of protecting the principal to benefit future generations and producing income to benefit current generations.

Provide Alaskans with timely and accurate information on the Fund, in support of discussions on the Fund's role in Alaska's fiscal and economic future.

### **Major Component Accomplishments for FY2000**

- The Permanent Fund produced over \$2.2 billion in net income resulting in a Fund valued at \$28.1 billion at fiscal year end.
- The Permanent Fund achieved a real (after inflation) total rate of return of 6.99%, substantially above the 4% long-term target.
- Completed a major transition in senior management. The Executive Director and three other top managers retired or resigned and were replaced with experienced personnel.
- Increased global equity investment allocation from 48% - 53%. Increased investments in U.S. stocks and real estate and in non-U.S. stocks and fixed income.

**Statutory and Regulatory Authority**

AS 37.13

**Key Performance Measures for FY2002**

**Measure: Provide Percentage of Market Value (POMV) analysis in legislative, Board and other public venues, using the consultant's model (MOMA) and other tools as appropriate.**  
*(Not yet addressed by Legislature.)*

**Measure: Upgrade operating systems/software to the current versions and upgrade 1/3 of workstations to current technology: upgrade firewalls and virus scanners to keep current in Internet security/reliability.**  
*(Not yet addressed by Legislature.)*

**Measure: Develop enhanced compliance reports for the three main asset classes and the total fund.**  
*(Not yet addressed by Legislature.)*

**Measure: The corporation's investment expenses compared to the investment expenses of other large institutional funds.**  
*(Developed jointly with Legislature in FY2000.)*

**Measure: The total return by asset type compared to other institutional funds.**  
*(Developed jointly with Legislature in FY2000.)*

**Measure: The inflation-adjusted rate of return over time.**  
*(Developed jointly with Legislature in FY2000.)*

**Current Status:**

The board has quantified this goal to achieve a real rate of 4% over time.

**Measure: Complete a HB 156 implementation plan and a trustee educational program on alternative investments.**  
*(Not yet addressed by Legislature.)*

**Status of FY2001 Performance Measures**

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> <li>Provide Percentage of Market Value (POMV) analysis in legislative, Board and other public venues, using the consultant's model (MOMA) and other tools as appropriate.</li> <li>Upgrade operating systems/software to the current versions and upgrade 1/3 of network, server, workstation, and videoconference equipment.</li> <li>The corporation's investment expenses compared to the investment expenses of other large institutional funds.</li> <li>The total return by asset type compared to other institutional funds.</li> </ul>		X			
		X			
			X		
			X		

Component — PFC Custody and Management Fees

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> <li>The inflation-adjusted rate of return over time (the board has quantified this goal to achieve a real rate of return of 4% over time).</li> <li>Complete a HB 156 implementation plan and a trustee educational program on alternative investments.</li> </ul>			X		
			X		

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

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
<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	37,094.9	47,585.8	47,585.8
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>37,094.9</b>	<b>47,585.8</b>	<b>47,585.8</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	37,094.9	47,585.8	47,585.8
<b>Funding Totals</b>	<b>37,094.9</b>	<b>47,585.8</b>	<b>47,585.8</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
<b>Unrestricted Revenues</b>						
None.		0.0	0.0	0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>						
State Corporate Receipts	51320	37,094.9	47,585.8	47,585.8	47,585.8	52,300.0
<b>Restricted Total</b>		<b>37,094.9</b>	<b>47,585.8</b>	<b>47,585.8</b>	<b>47,585.8</b>	<b>52,300.0</b>
<b>Total Estimated Revenues</b>		<b>37,094.9</b>	<b>47,585.8</b>	<b>47,585.8</b>	<b>47,585.8</b>	<b>52,300.0</b>

**PFC Custody and Management Fees**

**Proposed Changes in Levels of Service for FY2002**

No anticipated service change

**Summary of Component Budget Changes**

**From FY2001 Authorized to FY2002 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2001 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>47,585.8</b>	<b>47,585.8</b>
<b>FY2002 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>47,585.8</b>	<b>47,585.8</b>