

**State of Alaska  
FY2003 Governor's Operating Budget**

**Department of Revenue  
Permanent Fund Corporation  
BRU/Component Budget Summary**

## **BRU/Component: Permanent Fund Corporation**

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

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### **Component Mission**

The mission of the Alaska Permanent Fund Corporation is 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 funds 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 information technology 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 FY2002 – 2003**

- 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 in 2001**

- Each Permanent Fund portfolio - stocks, bonds and real estate - beat its respective benchmark.
- Consolidated and simplified board investment specific resolutions for each asset class.
- Reviewed all benchmarks within context of asset allocation goals.
- Implemented a management plan for the corporation outlining the goals and tasks to be accomplished each fiscal year.

## Statutory and Regulatory Authority

AS 37.13

### Key Performance Measures for FY2003

#### Measure:

The corporation's investment expenses compared to the investment expenses of other large institutional funds.  
Sec 131 (b) (1) Ch 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

- The Permanent Fund has four asset classes that can be evaluated: 1) domestic equities management fees; 2) non-domestic equities management fees; 3) domestic fixed-income management fees; and 4) non-domestic fixed-income management fees.

- As of June 30, 2001 the asset classes compared as follows: 1) domestic equities fees were lower than 63% of the funds surveyed; 2) non-domestic equities fees were lower than 67% of funds surveyed; domestic fixed-income fees were lower than 90% of funds surveyed; and 4) non-domestic fixed-income management fees were lower than 59% of funds surveyed.

#### Benchmark Comparisons:

- Callan Associates Inc. 1999 Fund Sponsor Cost of Doing Business Survey.

#### Background and Strategies:

- All Alaska Permanent Fund Corporation equities, non-domestic fixed-income securities and a portion of domestic fixed-income securities are managed by external professionals (both active and passive styles). The remainder of domestic fixed-income securities are managed internally. Real estate assets are also managed externally, but investment expenses are netted against income.

#### Measure:

The total return by asset type compared to other institutional funds.  
Sec 131 (b) (2) Ch 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

- The Alaska Permanent Fund has five asset classes that can be evaluated for one-year and five-year periods as of June 30, 2001. Total return by asset type compared to other institutional funds. The Permanent Fund Corporation's return will be listed first, then the median return for other institutional funds.

- 1) Domestic equities: One year, -13.1% / -5.3%; Five years, 13.1% / 14.9%
- 2) Non-domestic equities: One year, -22.9% / -23.4%; Five years, 6.0% / 6.0%
- 3) Domestic fixed-income: One year, 11.4% / 11.0%; Five years, 7.1% / 7.4%
- 4) Non-domestic fixed-income: One year, 0.8% / -6.5%; Five years, no data available
- 5) Real estate: One year, 14.3% / 10.2%, Five years, 11.9% / 10.3%

#### 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 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

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

- The Fund's total return for fiscal year 2001 was -3.3% with an inflation rate of 3.4%. The real (inflation-adjusted) rate of return was -6.7%. The annualized total return for the past five years is 9.5% with a 5-year annualized CPI rate of 2.5%. The real (inflation-adjusted) rate of return is 7.0% average for the past 5 years.

**Benchmark Comparisons:**

- Total Fund return less national CPI.

**Permanent Fund Corporation  
Component Financial Summary**

*All dollars in thousands*

	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	2,731.3	2,903.1	2,997.7
72000 Travel	235.2	352.9	329.3
73000 Contractual	2,820.4	4,155.0	3,761.1
74000 Supplies	30.0	49.3	49.3
75000 Equipment	178.8	242.7	227.4
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>5,995.7</b>	<b>7,703.0</b>	<b>7,364.8</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	5,995.7	7,703.0	7,364.8
<b>Funding Totals</b>	<b>5,995.7</b>	<b>7,703.0</b>	<b>7,364.8</b>

**Permanent Fund Corporation  
Proposed Changes in Levels of Service for FY2003**

No anticipated service changes

**Summary of Component Budget Changes  
From FY2002 Authorized to FY2003 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2002 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>7,703.0</b>	<b>7,703.0</b>
<b>Adjustments which will continue current level of service:</b>				
-Year 3 Labor Costs - Net Change from FY2002	0.0	0.0	94.6	94.6
<b>Proposed budget decreases:</b>				
-Operations Decrement due to cost saving measures	0.0	0.0	-432.8	-432.8
<b>FY2003 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>7,364.8</b>	<b>7,364.8</b>

## Permanent Fund Corporation

## Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2002</u> <u>Authorized</u>	<u>FY2003</u> <u>Governor</u>		
Full-time	32	32	Annual Salaries	2,416,382
Part-time	0	0	COLA	83,072
Nonpermanent	3	3	Premium Pay	0
			Annual Benefits	651,028
			<i>Less 4.85% Vacancy Factor</i>	<i>(152,782)</i>
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>35</b>	<b>35</b>	<b>Total Personal Services</b>	<b>2,997,700</b>

## 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 Clerk I	0	0	1	0	1
Administrative Officer	0	0	1	0	1
Administrative Specialist	0	0	2	0	2
Chief Financial Officer	0	0	1	0	1
Chief Investment Officer	0	0	1	0	1
Computer Info. Systems Spec.	0	0	2	0	2
Controller	0	0	1	0	1
Director of Administration-PFC	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
Executive Secretary I	0	0	2	0	2
Information Systems Manager	0	0	1	0	1
Intern	0	0	2	0	2
Investment Associate	0	0	2	0	2
Investment Officer	0	0	7	0	7
Secretary	0	0	1	0	1
Senior Comp. Info. Sys. Spec.	0	0	1	0	1
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>0</b>	<b>35</b>