

State of Alaska

Department of Revenue

Commissioner Bryan Butcher



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The Honorable Bert Stedman
The Honorable Lyman Hoffman
Co-Chairs, Senate Finance Committee
Alaska State Senate
Juneau, AK 99801

January 30, 2012

Dear Senators Stedman and Hoffman:

On January 25, 2012 we sent you our response to questions raised during the January 18th hearing. The pro forma forecast of interest earnings assumed the fund would stay under Alaska Housing Capital Corporation and remain in GeFONSI. As of January 25th, the asset allocation for GeFONSI is 58.98% in the Short-term pool and 41.02% in the Intermediate Fixed Income pool. If the funds were moved to its own endowment fund as contemplated under HB 104 and we assumed the same asset allocation as currently utilized by the Constitutional Budget Reserve Fund – Special Subaccount, we would project the following result:

AK Performance Scholarship Fund

(\$ Thousands)

	2012	2013	2014	2015	2016	2017	2018
Principal Assets							
Beginning Assets	-	401,736.0	413,744.6	422,237.2	427,052.0	429,999.0	431,833.9
Total Investment Return	1,736.0	27,005.3	27,684.2	28,124.9	28,381.9	28,540.3	28,563.2
Transferred as Grants	-	(6,996.2)	(7,625.1)	(8,310.8)	(8,726.3)	(9,162.4)	(9,619.0)
Transferred as Scholarships	-	(8,000.5)	(11,566.5)	(14,999.2)	(16,708.7)	(17,542.9)	(20,087.6)
Net contribution/withdrawals	400,000.0	-	-	-	-	-	-
Ending Assets	401,736.0	413,744.6	422,237.2	427,052.0	429,999.0	431,833.9	430,690.5
Annual Growth %	N/A	2.99%	2.05%	1.14%	0.69%	0.43%	-0.27%

This asset allocation is comprised of 41% Broad Market Fixed Income, 27% Domestic Equities and 32% International Equities and is projected to earn an annual rate of return of 6.85%. We have also calculated the probability of a negative return over 1 year to be 24.95% for this asset allocation.


We believe both of the scenarios provided give the Committee both a conservative estimation along with a prudent investment strategy that while assumes more risk, provides for greater return. Investment returns for GeFONSI and the CBRF Special Subaccount are reviewed

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quarterly with the Commissioner, myself and the Chief Investment Officer and any needed adjustments are made.

Please contact me if you would like more detail or any additional information. We appreciate the opportunity to provide this to the Committee.

Sincerely,



Angela Rodell
Deputy Commissioner

cc: Darwin Peterson, Senate Finance Committee Aide