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**State of Alaska  
Department of Revenue  
HB86 PCE Endowment Fund Investment**

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February 18, 2015

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Treasury Division**



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# H86 PCE Endowment Fund Investment

## ***Purpose:***

- To fund the Power Cost Equalization & Rural Electric Capitalization Fund and to reimburse the costs associated with managing the fund.
- 7% of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated.

## ***Fund History:***

- 2000-Power Cost Equalization Endowment Fund established from Constitutional Budget Reserve Appropriation of \$100 million
- 2002-PCE receives \$89.6 million from proceeds of the sale of the four dam pool hydroelectric project.
- 2007-Additional appropriation of \$182.7 million
- 2012-Additional appropriation of \$400 million
- Current balance at January 31, 2015: \$950.7 million

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# HB86 PCE Endowment Fund Investment

## *HB86*

- **Removes the stated nominal return target of at least 7% from the statute.**
- **Allows the commissioner of revenue to invest the fund in a manner that can meet the objectives of the fund.**
- **Why? It allows the commissioner of revenue to invest in less risky investments, when appropriate, that will still meet the financial needs of the program.**
- **Zero Fiscal Note**

# 2015 Capital Market Expectations—Return and Risk

## Summary of Callan's Long-Term Capital Market Projections (2015 – 2024)

Asset Class	Index	PROJECTED RETURN			PROJECTED RISK		Projected Yield	2014 - 2023		Geometric* Delta
		1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation	Sharpe Ratio		10-Year Geometric*	Standard Deviation	
<b>Equities</b>										
Broad Domestic Equity	Russell 3000	9.15%	7.60%	5.35%	19.00%	0.363	2.00%	7.60%	19.00%	0.00%
Large Cap	S&P 500	8.90%	7.50%	5.25%	18.30%	0.363	2.20%	7.50%	18.30%	0.00%
Small/Mid Cap	Russell 2500	10.15%	7.85%	5.60%	22.95%	0.344	1.40%	7.85%	22.95%	0.00%
International Equity	MSCI World ex USA	9.25%	7.50%	5.25%	20.20%	0.347	3.00%	7.50%	20.20%	0.00%
Emerging Markets Equity	MSCI Emerging Markets	11.45%	7.90%	5.65%	27.95%	0.329	2.50%	7.90%	27.95%	0.00%
Global ex-US Equity	MSCI ACWI ex USA	9.80%	7.80%	5.55%	21.45%	0.352	2.90%	7.80%	21.45%	0.00%
<b>Fixed Income</b>										
Short Duration	Barclays G/C 1-3	2.40%	2.40%	0.15%	2.25%	0.067	2.80%	2.75%	2.25%	-0.35%
Domestic Fixed	Barclays Aggregate	3.05%	3.00%	0.75%	3.75%	0.213	4.00%	3.00%	3.75%	0.00%
Long Duration	Barclays Long G/C	4.10%	3.50%	1.25%	11.40%	0.162	5.50%	4.10%	11.40%	-0.60%
TIPS	Barclays TIPS	3.10%	3.00%	0.75%	5.30%	0.160	4.00%	3.00%	5.30%	0.00%
High Yield	Barclays High Yield	5.50%	5.00%	2.75%	11.10%	0.293	7.00%	5.05%	11.45%	-0.05%
Non-US Fixed	Barclays Global Aggregate ex US	2.70%	2.30%	0.05%	9.40%	0.048	3.80%	2.75%	9.40%	-0.45%
Emerging Market Debt	EMBI Global Diversified	5.10%	4.70%	2.45%	10.00%	0.285	6.40%	4.90%	10.65%	-0.20%
<b>Other</b>										
Real Estate	Callan Real Estate	7.35%	6.15%	3.90%	16.50%	0.309	5.00%	6.15%	16.50%	0.00%
Private Equity	TR Post Venture Cap	13.55%	8.50%	6.25%	33.05%	0.342	0.00%	8.50%	33.05%	0.00%
Hedge Funds	Callan Hedge FoF Database	5.55%	5.25%	3.00%	9.30%	0.355	0.00%	5.10%	8.85%	0.15%
Commodities	Bloomberg Commodity	4.40%	2.75%	0.50%	18.50%	0.116	2.00%	3.05%	18.25%	-0.30%
Cash Equivalents	90-Day T-Bill	2.25%	2.25%	0.00%	0.90%	0.000	2.00%	2.00%	0.90%	0.25%
<b>Inflation</b>	<b>CPI-U</b>		<b>2.25%</b>		<b>1.50%</b>			<b>2.25%</b>	<b>1.50%</b>	<b>0.00%</b>

\* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

Source: Callan Associates



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## Power Cost Equalization Endowment Fund

The Alaska Legislature created the Power Cost Equalization (PCE) Endowment Fund under AS 42.45.070. The PCE Endowment Fund is established as a separate fund of the Alaska Energy Authority, a component unit of the State of Alaska. The purpose of the PCE Endowment Fund is to provide for a long-term, stable financing source for power cost equalization which provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.

### Current Fiscal Year

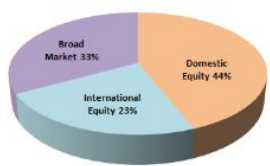
- This list contains the following report types:
- Cash Flow Information: Cash Flow Information
  - Interim Financial Schedules: Shows investment value and earnings by asset class at month end and fiscal year to date

See our Power Cost Equalization Fund Archives page for more documents.

- Financial Schedule July 2014
- Financial Schedule August 2014
- Financial Schedule September 2014
- Financial Schedule October 2014
- Financial Schedule November 2014
- Financial Schedule December 2014
- Financial Schedule January 2015

**PCE Market Value**  
 \$950.69M at 1/31/2015

### Target Asset Allocation



**For more information, visit our website:**  
<http://treasury.dor.alaska.gov/Investments/PowerCostEqualizationFund.aspx>

# THANK YOU

Please find our contact information below:

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