



Budget Subcommittee

FY2024 Operating Budget

February 2023

FY24 Board of Trustees

Proposed Operating Budget

Backing the high level of investment management services demanded of APFC through strategies to -

- **Support** professional staff and recruit top talent
- **Extract** internal management cost efficiencies driven by performance returns and resource capacity
- **Ensure** cutting-edge infrastructure for data and systems
- **Maintain** quality services: information technology, due diligence, communications, and office support

APFC's budget is developed annually on zero-based budgeting principles.

The Board of Trustees and staff consider the best structure, asset allocation, and budgetary needs of APFC to meet the high expectations and standards in managing and investing the Alaska Permanent Fund.

FY 2024 APFC Operating Budget - Basis Points (bps)

Based on a projected Fund Value of \$80.9 B

Operations = 3 bps

Investment Management = 24 bps

FY2024 APFC Total Operating Budget

Board Request – Governor Proposed & Amended as of 2/15

| | Authorized | Proposed | Variance | Proposed | Variance |
|--|-------------|--------------|-------------------------------|-----------------------------|---|
| | FY2023 | FY2024 Board | Board FY2024 vs. FY2023 | FY2024 Governor Amend | FY2024 Governor Amend to Board |
| APFC Operations Allocation | 22,649,452 | 26,377,515 | 3,728,063 | 24,463,308 | -1,914,207 |
| APFC Investment Management Fees Allocation | 195,868,000 | 192,863,590 | -3,004,410 | 192,863,590 | 0 |
| Total Appropriation | 218,517,452 | 219,241,105 | 723,653 | 217,326,898 | -1,914,207 |

\$s Fund Source: 1105 Permanent Fund Gross Receipts

Budgeted funds not expended remain invested in the Earnings Reserve Account

APFC Operations Allocation

FY24 Operating Budget

- ✓ Board Request included
 - Board Request not included
- } in Governor's Amended Budget as of 2/15

Personal Services – proactive funding in retaining professional staff, recruiting in competitive landscape, and one team ensuring success

Incentive Compensation program – standard of most pension, endowment and sovereign wealth funds

- ✓ **\$1,200,000 increment** to bring full funding of program to \$2,800,000
- **\$500,000 increment** to expand the program to all staff

Annual Merit adjustments – essential to maintain the continuity of our staffing levels

- **\$914,000 increment** (6% annual merit and 2% for targeted adjustments)
- **\$496,520 increment** to benefits associated with salary adjustments

Technology & Contractual Services - to support operations functions across the Corporation.

- ✓ **\$239,670 increment** for one time item - triannual, corporate wide workstation equipment replacement
- ✓ **\$251,006 increment** for consulting & IT improvements, fire suppression system and communications consulting

Board Honorarium

- ✓ **\$6,857 increment** in recognition of additional meetings

Travel

- **\$181,140 increment** rising costs due to inflation

APFC Investment Management Fee Allocation

— FY24 Operating Budget

- ✓ Board Request included in Governor's Amended Budget as of 2/15

Investment Management Fees

- ✓ **\$6,161,910 decrement** in fees due to Fixed Income assets now being managed internally that brought forth a cost savings of \$8.5 million in fees. That savings decrement was somewhat offset by an increase to fees for Alternative Investments of \$2.3 million as this portfolio continues to grow and relies on external advisors.

Investment Systems

- ✓ **\$2,757,500 increment** for analytical software and associated data feeds required to invest and monitor the portfolio. Includes a provision for the normal 5-10% annual increases and \$2 million for the continuation of the data strategy project that was started in FY22. More detail on next slide.

Increases in Custody Fees

- ✓ **\$400,000 increment** as an estimate and placeholder of the amount necessary to fund an outsourced middle office solution – which is under further consideration given recent staff hires. Custody fees are services include collateral management, portfolio accounting and reconciliation, performance reporting and securities lending.

Data System

Developing and implementing a sound data strategy requires resources, including talent and technology:

- An effective data platform will marry all proprietary data with external data in an efficient and seamless manner that will enable easy retrieval and usage
- The data platform is envisaged to be a living, growing system, adapting to APFC's changing needs
- It will require continuous maintenance and upgrade



Previously an advantage, good data has become a requisite for investment management.

The key components of a data platform are:

- Proprietary Data
- Relevant External/Market Data

The logo consists of the letters 'APFC' in a white, serif font, centered within a dark blue rectangular box. The background of the entire slide is a teal-tinted photograph of a coastal scene with mountains and a body of water.

APFC

Working together to manage & invest
Alaska's renewable financial resource