

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 227
 (S) Publish Date: 4/1/08

Identifier (file name): SB227-REV-APFC-04-01-08 Dept. Affected: Revenue
 Title: Divest Investments in Sudan RDU: Alaska Permanent Fund Corp
 Component: Alaska Permanent Fund Corp
 Sponsor: Senator French
 Requester: Senate State Affairs Committee Component Number: 109

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	33.8		11.6	11.6	11.6	11.6	11.6	11.6
Travel	4.8							
Contractual	5,062.0		574.6	612.8	653.5	697.2	743.9	
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	5,100.6	0.0	586.2	624.4	665.1	708.8	755.5	

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
1105 APFC Receipts	5,100.6	0.0	586.2	624.4	665.1	708.8	755.5	
TOTAL	5,100.6	0.0	586.2	624.4	665.1	708.8	755.5	

Estimate of any current year (FY2008) cost: _____

POSITIONS

Full-time								
Part-time	1.0		1	1	1	1	1	1
Temporary								

ANALYSIS: (Attach a separate page if necessary)
 SB 227 would require that the Alaska Permanent Fund Corporation develop a list of companies doing business in Sudan that support the Sudanese government, excluding humanitarian efforts and other activities listed in the legislation. Once identified, APFC would write to the companies in question to ask them to cease operations in Sudan. If they do not cease operations, APFC would divest these holdings from the Alaska Permanent Fund's portfolios over 15 months. APFC estimates that it will take a part-time Equities Analyst to perform the initial analysis, undertake the engagement with the listed companies and notify APFC external managers to divest of any holdings if necessary. Estimated costs include purchasing external contractors' information on companies doing business in Sudan, increased manager fees due to mandate customization, and costs necessary to search for new managers when mandates can not be customized.

Prepared by: Michael J. Burns, Chief Executive Officer Phone 907-796-1520
 Division: Alaska Permanent Fund Corporation Date/Time 3/28/08 12:00 AM
 Approved by: _____ Date _____



Alaska Permanent Fund Corporation

Analysis of HB 287 Divest Investments in Sudan

Estimated first year costs of implementing a divestiture plan **\$5.1 - \$8.9 million**

Estimated ongoing costs of implementing a divestiture plan - **\$600,000 - \$800,000**
Excludes impact of divestiture on performance of fund assets

Breakdown of initial costs of implementing a divestiture plan

Equities portfolio restructuring **Estimated cost**

Some managers will not be able to customize their account mandates. APFC will need to search for replacement managers.

Manager search

Callan Associates (consultant) fee for three manager searches; \$26,000/search	\$78,000
Staff due diligence travel for manager searches	\$4,800

Transaction costs to transfer holdings to new managers

Transaction costs range from 0.25%-0.5% of portfolio value	
Tukman - manages \$523.6mm large-cap value portfolio	\$1.3 - \$2.6 mm
GEAM - manages \$494.7mm large-cap growth portfolio	\$1.2 - \$2.5 mm
GEAM - manages \$468.3mm EAFE fund	\$1.2 - \$2.3 mm

Transition Manager to facilitate holdings transfers **\$745,000**

Legal

Review of contracts for 3 replacement managers, estimated at 2 days per manager; All remaining equities and fixed income contracts would need to be amended, estimated at a half-day per contract. We believe that in-house counsel will be able to absorb this workload.	\$0
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Internal costs to implement legislation

	<u>FY09</u>	<u>Ongoing</u>
Additional staff costs to perform tasks in HB 287: Review public information, contact fund managers and other institutional investors to identify companies engaged in restricted activities; Contact identified companies to determine nature of business; If activities are deemed restricted, notify company to encourage divestiture; 90 day follow up to determine if company has complied with divestiture; Ongoing monitoring.	\$33,775	\$11,580

Purchase of externally generated lists

IW Financial	\$13,000	\$13,000
RiskMetrics Group	\$12,000	\$12,000
KLD Research	\$5,000	\$5,000



Alaska Permanent Fund Corporation

Analysis of HB 287 Divest Investments in
Sudan

Breakdown of annual costs of implementing a divestiture plan

Note: Annual costs will be incurred in the first year as well as in subsequent years

Existing managers that need to customize their strategy or replacement managers may charge higher annual fees:

Estimated cost

Passive equity index manager - assume manager increases fee by 1 basis point. **\$509,000**
Since the APFC has \$5.1 billion in passive index assets, this would increase manager fees by \$509,000 per year.

Note: Manager fees are based on the volume of assets under management. All budget projections for fees are based on APFC's midcase assumption of an annual growth in assets of 7% each year. Accordingly, we expect that this fee increase will adjust upwards at 7% each year.

General Consultant Costs

The general consultant may increase its fee to reflect its higher costs associated with monitoring the impact of divestiture. For example, for each manager running a customized strategy, that manager's performance would need to be compared to the non-customized strategy. The consultant would have to prepare analysis and report to the APFC board on a periodic basis.

Unknown

Operational Considerations that could affect the APFC Finance, IT, Training and Travel budgets

To be determined

Higher compliance costs - need to monitor manager holdings

May need to add staff

May need to develop or buy special software