

SB

220

HFIN

FILE



Alaska Permanent Fund Corporation
P.O. Box 25500 Juneau, AK 99802-5500
Telephone (907) 465-2047
Facsimile (907) 586-2057

MEMORANDUM

DATE: January 23, 1998

TO: Byron I. Mallott
Executive Director

FROM: Peter A. Bushro *PAB*
Chief Financial Officer

SUBJECT: **FY98 Supplemental Budget Request**

At your direction, staff has reviewed the FY98 supplemental budget request for manager fees of \$8,145,000 to determine the current reasonableness of the amount. The request was prepared in September 1997 and the following subsequent events indicate the need for reanalysis:

- The Alaska Permanent Fund Corporation has incurred/expended external equity/fixed-income manager fee charges of \$11,079,800 through December 31, 1997 which represent 54% of the FY98 budget for manager fees.
- The rebalancing of Permanent Fund equity investments has/will reduce manager fees significantly.
- Equity investments have been reduced to the lower limit of the equity allocation range and proceeds have been reinvested in fixed income securities.

FY98 Supplemental Budget Request
January 23, 1998
Page 2

- Actively managed equity investments have been converted to cash/index funds and is being gradually reinvested in actively managed portfolios until year end.
- The growth of the S&P 500 index, the benchmark for most APFC equity investments, for the first half of FY98 is approximately the same as the growth of the S&P 500 index for the first half of FY97.
- The majority of FY97 growth occurred in the last quarter of the fiscal year.

We have prepared the following analysis of estimated manager fees for the remaining two quarters of FY98 for comparison with the budget assuming that equity values continue to appreciate at a rate comparable to FY97.

FY98 Budget for Manager Fees	\$20,692,000
Actual Fees July 1, 1997-December 31, 1997	<u>11,079,800</u>
Balance of FY98 Manager Fee Budget Remaining	9,612,200
Estimated Fees January 1, 1998-June 30, 1998	<u>14,106,200</u>
Projected Shortfall in FY98 Manager Fees	<u>(\$4,494,000)</u>

RECOMMENDATION

Original FY98 Supplemental Budget Request	\$8,145,000
Recommended Reduction of FY98 Supplemental	<u>3,651,000</u>
Revised FY98 Budget Shortfall in Manager Fees	<u>\$4,494,000</u>

**ALASKA PERMANENT FUND
DAILY POSITION
3/11/98**

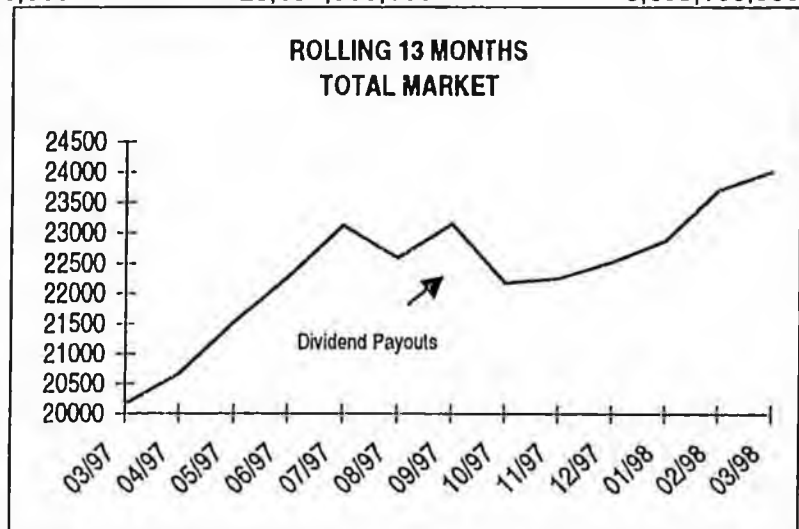
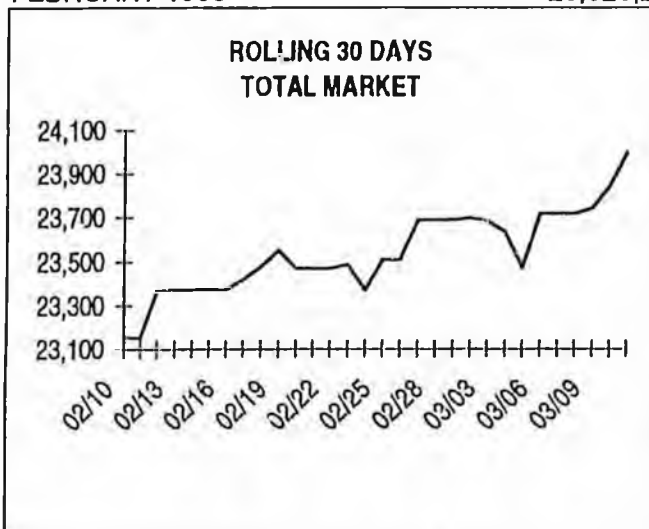
DAILY UNAUDITED* CUSTODIAN POSITION	COST	%	MARKET	%	UNREALIZED GAIN(LOSS)
U.S. & NON - U.S. FIXED INCOME	10,912,800,000	54%	11,146,800,000	46%	234,000,000
U.S. EQUITIES	5,455,800,000	27%	8,515,900,000	35%	3,060,100,000
NON - U.S. EQUITIES	2,181,200,000	11%	2,623,000,000	11%	441,800,000
REAL ESTATE	1,511,500,000	7%	1,580,500,000	7%	69,000,000
ALASKA CD'S	131,000,000	1%	131,000,000	1%	0
TOTAL	20,192,300,000	100%	23,997,200,000	100%	3,804,900,000
PRIOR DAY TOTALS					3,769,400,000

CHANGE FROM PRIOR DAY

35,500,000

* Custodians report trade date positions which are adjusted where possible for pending trades. However, due to occasional lags in transactions reporting, total cost shown may vary from actual cost. This effect is more pronounced when large scale portfolio liquidations and fundings occur.

TOTAL INVESTED FUNDS	COST	MARKET	UNREALIZED GAIN(LOSS)
FEBRUARY 1997	18,153,400,000	20,900,000,000	2,746,600,000
MARCH 1997	18,306,000,000	20,153,800,000	1,847,800,000
APRIL 1997	18,463,000,000	20,658,300,000	2,195,300,000
MAY 1997	18,687,700,000	21,531,200,000	2,843,500,000
JUNE 1997	18,866,790,000	22,117,423,000	3,250,633,000
JULY 1997	19,437,900,000	23,497,700,000	4,059,800,000
AUGUST 1997	19,098,100,000	22,255,800,000	3,157,700,000
SEPTEMBER 1997	19,803,300,000	23,571,600,000	3,768,300,000
OCTOBER 1997	18,699,900,000	22,164,600,000	3,464,700,000
NOVEMBER 1997	18,858,100,000	22,242,800,000	3,384,700,000
DECEMBER 1997	19,556,100,000	22,520,500,000	2,964,400,000
JANUARY 1998	19,784,300,000	22,864,200,000	3,079,900,000
FEBRUARY 1998	20,026,200,000	23,689,300,000	3,663,100,000



3/12/98



Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

February 27, 1998

The Honorable Gene Therriault
State Representative
State Capitol Room 511
Juneau, Alaska 99801-1182

Dear Representative Therriault;

We have identified an FY99 savings in custody fees of \$625.0, part of which has been applied to our FY99 adjusted base. This amount is simply the difference between the FY98 and FY99 requests. The actual savings from consolidation of custody services began to accrue to the Alaska Permanent Fund Corporation on August 1, 1997, and we estimate the amount of FY98 savings to be approximately \$950.0.

We anticipate that we will use from this savings:

- \$25.0 for a preliminary legal counsel review/recommendations with respect to the Permanent Fund's tax-exempt status,
- \$75.0 for a possible expanded review of the Permanent Fund's tax-exempt status,
- \$50.0 for the creation of a financial projection model by our financial consultant, and
- \$65.0 for the expansion of performance measurement reporting from semi-annually to quarterly.

The remainder of these savings would be used for manager fees, if necessary, or lapsed depending upon market valuations (now at all-time highs). The supplemental appropriation request for investment management fees should not be reduced because these savings were taken into consideration when we

Representative Therriault
February 27, 1998
Page 2

submitted the revised FY98 supplemental budget request to the Finance Committees last month. We commit to lapse any surplus from these savings over the requirements listed above.

If you have any questions or concerns please feel free to call me at 465-3172.

Sincerely,



Peter A. Bushre
Chief Financial Officer

Cc: Byron J. Mallott
APFC Board of Trustees
Jim Kelly

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: January 30, 1998

FURTHER REFERRALS:

Date of Committee Action: 3/12/98

The FINANCE Committee considered:

CSSB 220(FIN)(title am)

CS FOR SENATE BILL NO. 220(FIN)(title am)

APPROP: AK PERMANENT FUND CORP.

“An Act making a supplemental appropriation to the Alaska Permanent Fund Corporation for payment of management fees for fiscal year 1998; and providing for an effective date.”

recommends it be replaced with the following committee substitute _____ the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) _____ fiscal note(s) _____

 zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Theriault</i>	Therianaut	X			
<i>Mark Hanley</i>	Hanley	X			
<i>Alan Mulder</i>	Mulder	X			
<i>Terry Martin</i>	Martin	X			
<i>Vic Kohring</i>	Kohring	X			
<i>J. J. Davles</i>	J. Davles	X			
<i>Ben Grussendorf</i>	Grussendorf	X			
<i>W. Moses</i>	Moses	X			
<i>G. Davis</i>	G. Davis	X			
<i>Kelly</i>	Kelly	✓			
<i>Foster</i>	Foster	X			

CHAIR'S SIGNATURE *Gene Theriault* *Mark Hanley*