

1/12/01

OVERVIEW

AK PERM.

FUND

CORP.

SFIN

FILE

DRAFT

_____ **JOINT RESOLUTION NO.** _____

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY

Introduced:

Referred:

A RESOLUTION

Proposing amendments to the Constitution of the State of Alaska relating to inflation-proofing the permanent fund.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

Section 15. Alaska Permanent Fund. (a) At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the permanent [GENERAL] fund [UNLESS OTHERWISE PROVIDED BY LAW].

(b) For any fiscal year, the legislature may appropriate from the permanent fund to the general fund up to five percent of the average of the year-end market values of the permanent fund for the last five fiscal years, including the fiscal year just ended. No other appropriations from the permanent fund may be made.

* **Sec. 2.** The amendments proposed by this resolution shall be placed before the voters of the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the State of Alaska, and the election laws of the state.

Permanent Fund Overview

Revisiting the fundamentals

Clark S. Gruening, Chair, Board of Trustees
Robert D. Storer, Executive Director,
Jim Kelly, Director of Communications
Alaska Permanent Fund Corporation

Senate Finance Committee
January 12, 2001

www.apfc.org

Alaska Permanent Fund Corporation



Topics to be covered

- Mechanics of how the Fund works
- Investment principles
- Permanent Fund performance
- Board of Trustees unanimously supports a constitutional amendment to inflation-proof the Permanent Fund

Alaska Permanent Fund Corporation

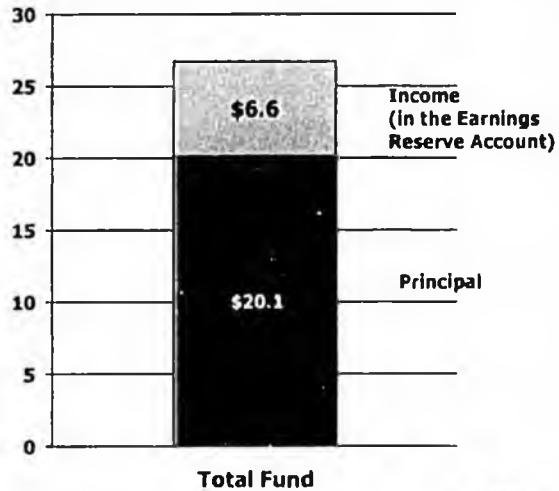


How the Fund works

Permanent Fund market value

The market value of the Permanent Fund is currently \$26.7 billion

It consists of two parts: principal and income



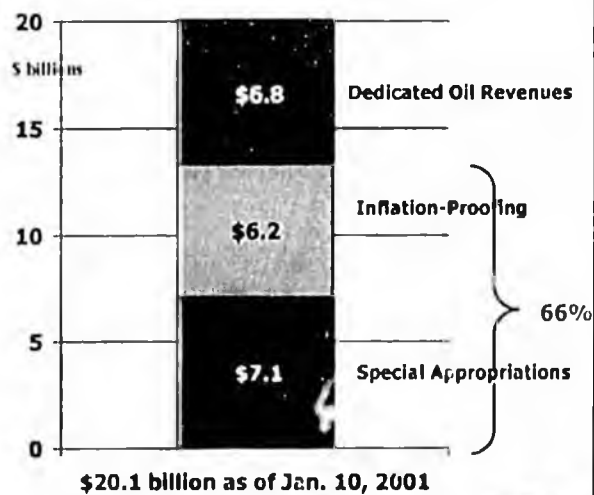
Alaska Permanent Fund Corporation



How the Fund works

Permanent Fund principal

- The Alaska Permanent Fund principal is protected by the Alaska Constitution
- The Legislature may not spend it



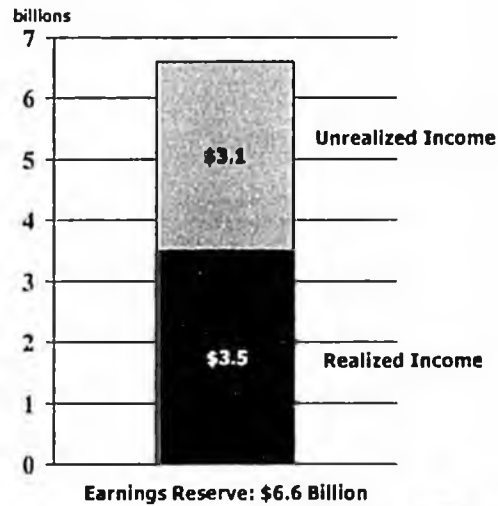
Alaska Permanent Fund Corporation



How the Fund works

Permanent Fund income

- As provided by law, all income from the Permanent Fund's investments is deposited into the Earnings Reserve Account in the Permanent Fund
- It is retained there until appropriated by the legislature



Alaska Permanent Fund Corporation

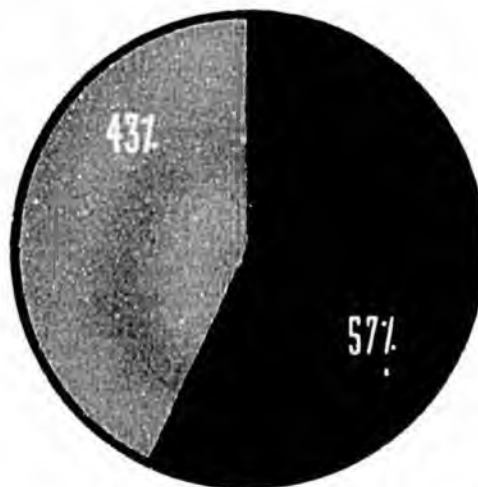


Uses of Fund income

(\$23.5 billion since inception)

Saved for future generations
\$13.4 billion (57%)

Paid out to current generation
\$10.1 billion (43%)



Alaska Permanent Fund Corporation



How the Fund works

Statutory use of Fund income

- **Alaska Statutes (AS 37.13.140 and 145) provide the following priority for the payment of dividends and inflation-proofing:**
- **First, dividends are calculated and paid; then**
- **Second, an amount of income sufficient to offset the effect of inflation is transferred to principal.**

Alaska Permanent Fund Corporation

How the Fund works

Formula for PFD calculation

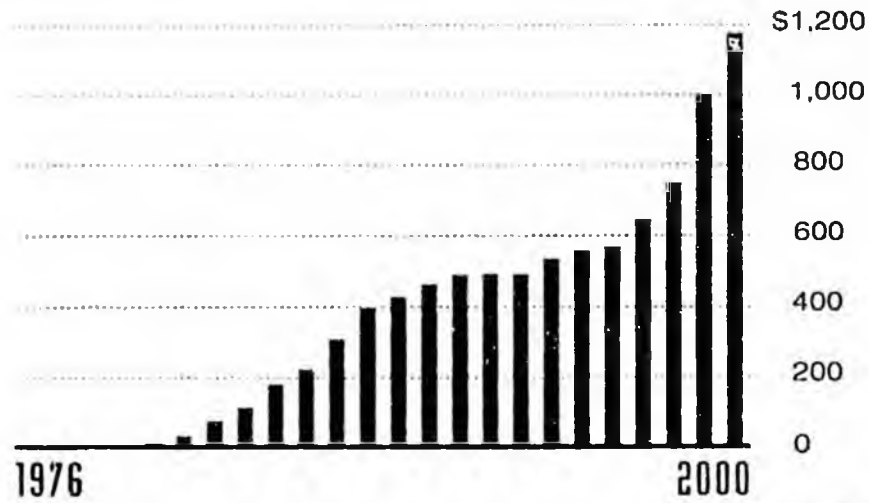
The dividend appropriation is the lesser of:

- **One-half of 21% of the sum of the last 5 years' realized earnings;**
- or
- **One-half of the earnings reserve account at the end of the current fiscal year.**
- **PFD equaled \$1.172 billion in 2000**

Alaska Permanent Fund Corporation

Income paid out for dividends

(Dollars in millions)



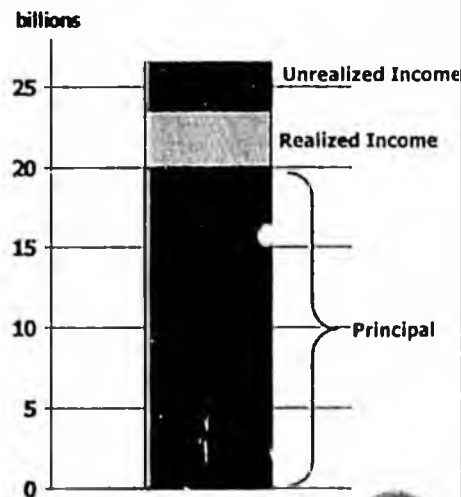
Alaska Permanent Fund Corporation



How the Fund works

Formula for inflation-proofing

- Only the principal is inflation-proofed
- June 30 balance of the principal is multiplied by the CPI to determine inflation-proofing amount; that is transferred from the ERA to principal

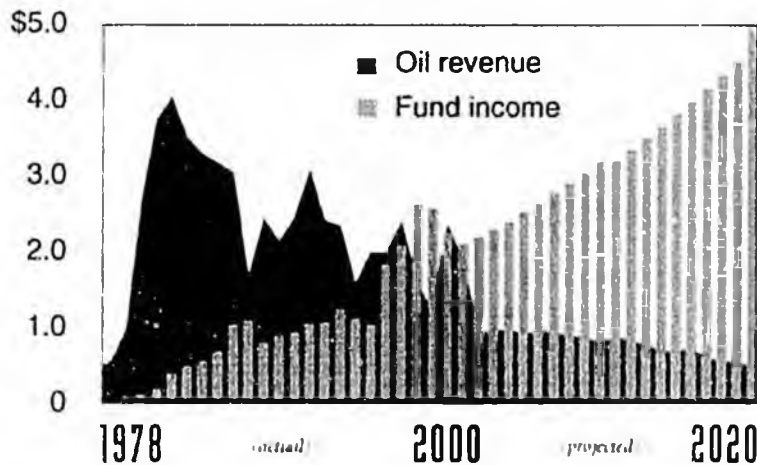


Alaska Permanent Fund Corporation



Fund statutory net income vs. state oil revenue

(Dollars in billions)



Alaska Permanent Fund Corporation



Permanent Fund projections

as of November 30, 2000

PRINCIPAL					INCOME										TOTAL	
FY	Beg	Dedicated			FY End	Statutory	Distributions of Statutory Income					Earnings Reserve				FY End
		Admin	State	Int'l			Statutory	General	Reserve	Unallocated	Statutory	Reserve	Unallocated	Balance		
77-80	0	4,888	5,442	4,217	13,547	12,338	12,385	5,388	4,917	225	1,382	1,282	36	53	77-80	14,887
80	12,878	1,884	284	487	14,200	1,814	1,768	648	487	(1,888)	184	2,848	2,848	88	80	14,389
81	16,265	628	388	488	17,800	1,548	2,858	707	488	1	3	1,887	1,887	148	87	17,138
82	17,888	38	238	473	18,400	1,435	2,884	882	473	1	1,278	1,382	882	2,871	88	18,479
83	18,594	41	198	388	19,201	2,148	2,544	1,848	388	3	1,387	2,848	1,438	2,541	88	19,132
84	18,891	381	318	482	19,915	2,848	3,227	1,172	482	3	382	3,971	(1,2)	3,239	88	19,914
81	18,815	17	342	674	21,888	83	1,788	1,488	674	(182)	2,888	(1,888)	1,888	81	21,783	
82	21,848	23	381	884	23,886	2,888	2,888	1,188	884	172	1,842	38	1,882	82	27,882	
83	23,857	34	371	728	25,977	2,188	2,131	1,131	728	384	1,328	41	1,842	83	26,541	
84	23,977	33	348	728	24,111	2,428	2,227	1,088	728	388	1,718	43	1,888	84	26,813	
85	24,111	27	278	782	25,198	2,428	2,382	1,188	782	488	1,174	43	2,331	85	25,271	
86	25,198	38	215	128	26,238	2,884	2,474	1,178	828	478	1,842	47	2,378	86	22,227	
87	26,238	31	388	888	27,354	2,881	2,888	1,228	888	381	1,144	38	2,138	87	24,884	
88	27,354	35	198	888	28,481	2,878	2,278	1,381	888	382	1,677	38	2,198	88	26,217	
89	28,481	38	184	923	29,614	2,988	2,384	1,382	923	388	1,341	38	2,234	89	28,888	
90	28,814	41	172	888	30,798	3,141	2,381	1,421	888	388	1,848	37	2,288	90	28,827	
91	32,811	81	71	1,188	34,088	3,888	1,718	2,388	1,188	1,888	1,872	38	1,838	91	32,881	
Continuation of Data																
Projected for 2001-2003																

Current year

Alaska Permanent Fund Corporation



One caveat about the future

- Alaskans, through their elected officials, will decide what to do with all the income the Fund earns in the future – some \$63 billion projected just over the next 20 years
- But perhaps it will not be quite that much... sometimes markets go down, sometimes for long periods...

Alaska Permanent Fund Corporation



Board's basic investment principles

- Diversify to protect principal
- Do the utmost due diligence, apply best judgment and accept the consequences
- Invest for the long-term, be patient, but be prepared for periods of short-term volatility
- Balance income benefits between current and future generations

Alaska Permanent Fund Corporation



Risk tolerance

Bold

Years with a loss since 12/31/25: 19



Somewhat bold

Loss years: 16



Somewhat timid

Loss years: 13



Timid

Loss years: 13



Source: Ibbotson Associates

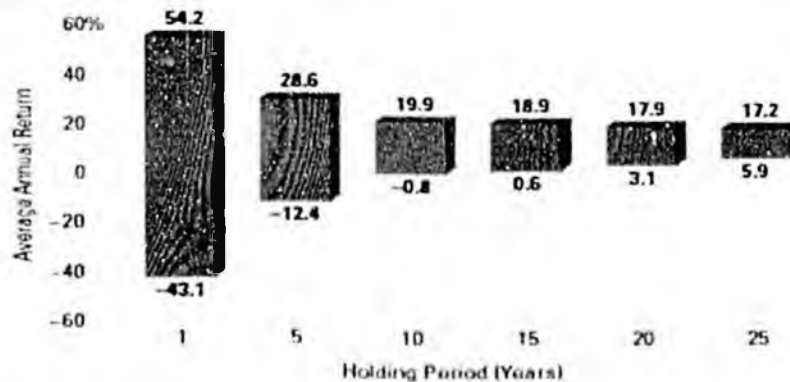
Alaska Permanent Fund Corporation



Time greatly reduces — but does not eliminate — the volatility in returns from stocks. Returns from common stocks have fluctuated within narrower bands as the holding period for stocks increased.

Range of Returns on Common Stocks

1926-1993



Source: Ibbotson Associates

Alaska Permanent Fund Corporation



Year 2000 capital market assumptions

Asset Class	Expected Return	Standard Deviation
CPI	3.25%	1.0%
Cash Equivalents	5.00%	.7%
Domestic Bonds	6.70%	5.5%
Large-cap Domestic Equity	8.90%	15.0%
Small-cap Domestic Equity	10.40%	25.0%
International Equity	9.75%	21.5%
Real Estate	8.30%	16.5%
International Bonds	6.50%	10.0%

Source: Callan Associates

Alaska Permanent Fund Corporation



The Board of Trustees' asset allocation

- The Board's asset allocation has been designed to balance the risks of negative returns in the short-term against the rewards of higher positive returns over the long term
- We ask for your continuing support for that policy to ensure that Alaskans never abandon the Fund's commitment to long-term investment goals

Alaska Permanent Fund Corporation



APFC'S 2000-2003 ASSET ALLOCATION

Domestic Equities	37%	+/-7%
International Equities	16%	+/-5%*
Total Equities	53%	+/-5%
Domestic Bonds	35%	+/-7%**
Non-Dollar Bonds	2%	+/-2%
Total Bonds	37%	+/-5%
Total Real Estate	10%	+/-2%

*Includes an allocation of 3% of the total Fund to Emerging Markets.

**Includes an allocation of \$300,000,000 for Alaska Financial Institutions' Certificates of Deposit.

Alaska Permanent Fund Corporation



Daily unaudited position

as of January 10, 2001

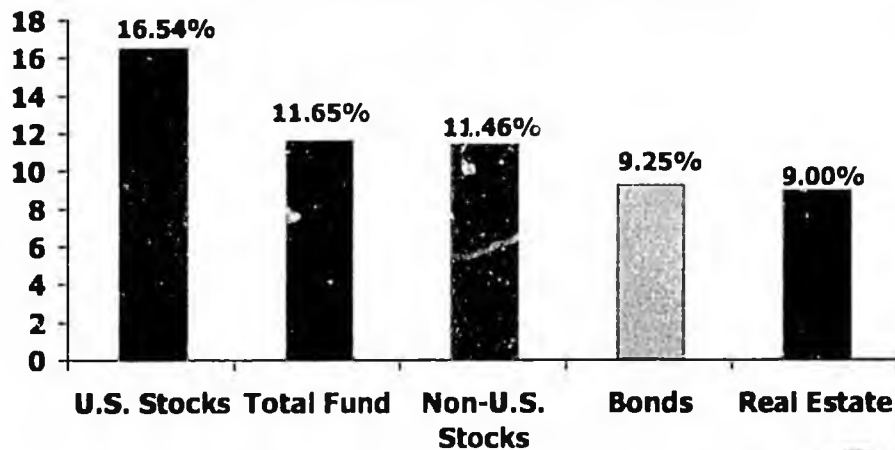
<u>U.S. Fixed Income</u>	38%	\$10,255,800,000
<u>Non-U.S Fixed Income</u>	2%	\$623,900,000
<u>U.S. Equities</u>	33%	\$8,683,800,000
<u>Non-U.S. Equities</u>	16%	\$4,293,500,000
<u>Real Estate</u>	10%	\$2,681,400,000
<u>Alaska CDs</u>	1%	\$146,200,000
TOTAL	100%	\$26,689,600,000

Alaska Permanent Fund Corporation



Fund's long-term average annual total returns

(16 3/4 years as of Sept. 30, 2000)

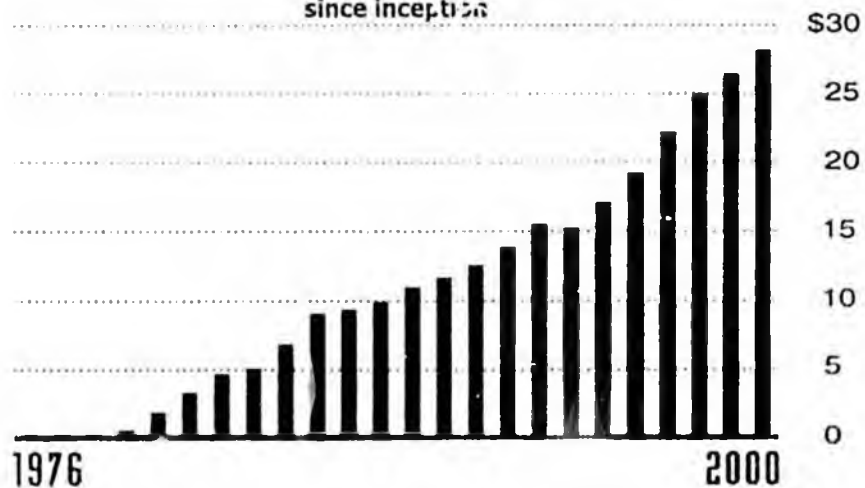


Alaska Permanent Fund Corporation



Changes in the Fund's annual market value

since inception

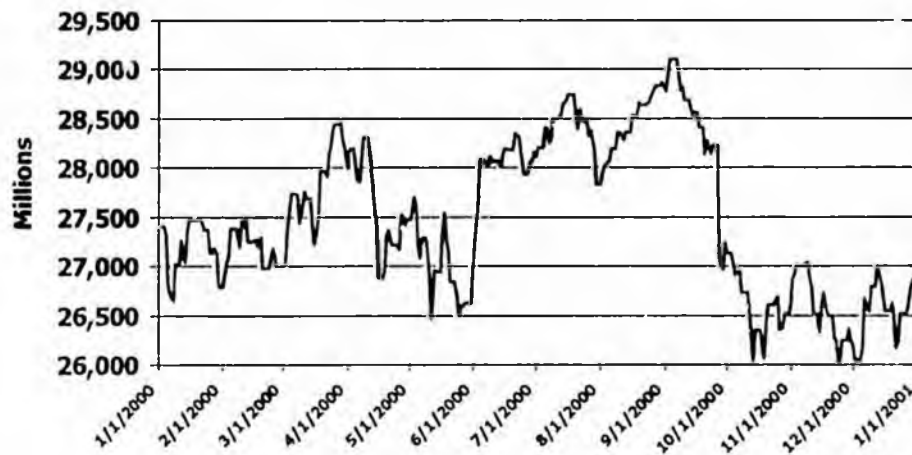


Alaska Permanent Fund Corporation



Changes in the Fund's daily market value

calendar year 2000

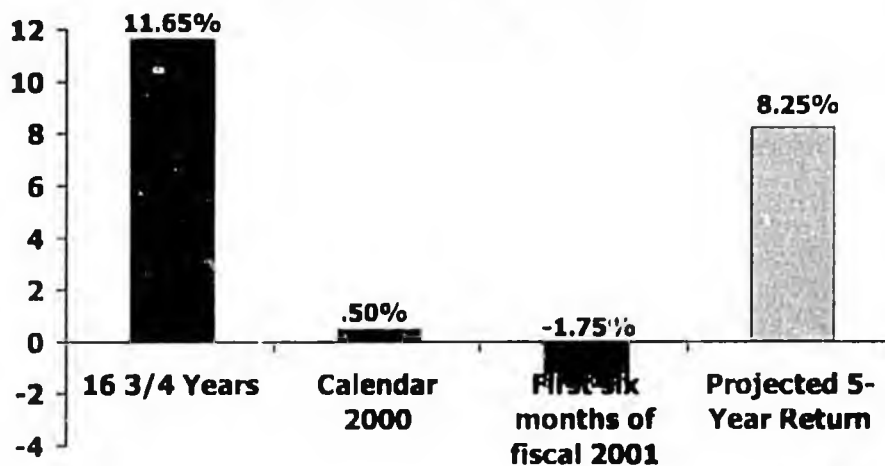


Alaska Permanent Fund Corporation



Permanent Fund's total return

(actual and projected)



Alaska Permanent Fund Corporation



**The job of the APFC is
to harmonize three objectives**

- Preserve the Fund's purchasing power
- Maximize distributions over the long-term
- Minimize fluctuations in annual payouts

Alaska Permanent Fund Corporation



**"Inflation is like a thief in the night.
It steals from you silently and
nobody knows what's being done."**



Alaska Permanent Fund Corporation



ALASKA PERMANENT FUND CORPORATION

RESOLUTION OF THE BOARD OF TRUSTEES OF THE
ALASKA PERMANENT FUND CORPORATION
RELATING TO A CONSTITUTIONAL AMENDMENT TO
INFLATION-PROOF
THE ALASKA PERMANENT FUND

RESOLUTION 00-13

Protecting the Alaska Permanent Fund ("Fund") against inflation has been the highest public policy priority of the Board of Trustees ("Board") since the original Board was appointed 20 years ago. At that time, the Board testified to the legislature that the greatest threat to the permanence of the Fund is inflation. In response, the legislature adopted statutory inflation-proofing in 1982.

Note: See attachment
for full version.

Alaska Permanent Fund Corporation



Dividend remains unaffected

How does the proposal affect the dividend program?

It doesn't. The Board has modeled this proposal and come to two fundamental conclusions:

1) the constitutional amendment will have no impact on the dividend program vis-a-vis the status quo; and

Alaska Permanent Fund Corporation
September 01, 2000
Pay to the order of State of Alaska \$1,194,198,000.00
2000 Permanent Fund Dividend
Robert D. Steyer

2) volatility in the financial markets may impact the dividend program, but the impact will be the same under either the status quo or the proposal.

All questions and answers about the constitution and amendments of reference found the Permanent Fund Dividend 10, 2000

Alaska Permanent Fund Corporation



Alaska public will decide

Proposal for fund is important step

ALASKA'S PUBLIC WILL DECIDE whether to create a permanent fund to provide for the needs of future generations, a proposal that has been approved by the Alaska Statehood Commission.

The commission's report, released last week, calls for the creation of a permanent fund to provide for the needs of future generations. The fund would be financed by a portion of the state's oil and gas revenues.

The commission also recommended that the fund be managed by a board of trustees, which would be responsible for investing the fund's assets and distributing the proceeds to the state's residents.

The proposal is a significant step in the process of creating a permanent fund, which is a key component of the state's long-term economic strategy.

ALASKA STATEHOOD COMMISSION

The Alaska Statehood Commission has approved a proposal to create a permanent fund to provide for the needs of future generations. The fund would be financed by a portion of the state's oil and gas revenues.

The commission also recommended that the fund be managed by a board of trustees, which would be responsible for investing the fund's assets and distributing the proceeds to the state's residents.

The proposal is a significant step in the process of creating a permanent fund, which is a key component of the state's long-term economic strategy.

The Alaska Statehood Commission has approved a proposal to create a permanent fund to provide for the needs of future generations. The fund would be financed by a portion of the state's oil and gas revenues.

The commission also recommended that the fund be managed by a board of trustees, which would be responsible for investing the fund's assets and distributing the proceeds to the state's residents.

The proposal is a significant step in the process of creating a permanent fund, which is a key component of the state's long-term economic strategy.

Alaska Permanent Fund Corporation



www.apfc.org



ALASKA PERMANENT FUND CORPORATION

Top stories

- March Board of Trustees Meeting**
FEBRUARY 29 - The Alaska Permanent Fund Corporation Board of Trustees meeting concluded its two days in Fairbanks on Wednesday, March 29 and Thursday, March 30. Following a 7 p.m. tea, the public is invited to attend the final meeting, and the agency will provide an opportunity for public comment and participation.
- APFC Seeks Director of Administration**
FEBRUARY 25 - The Alaska Permanent Fund Corporation is currently accepting applications for the position of Director of Administration. The position holder will manage the day-to-day operations of the Corporation, including all administrative functions. Salary range: \$60,000 - \$70,000 depending on qualifications.
- Student Investment Fund and Gap Funds**
FEBRUARY 17 - Jason Gravel, Vice President of Public Programs for the University of Alaska, Fairbanks, and Student Investment Fund, visited the Alaska Permanent Fund Corporation on February 17 in addition to observing the fund's early morning trading activity and meeting in room 2001. He will give a Public Fund presentation in the APFC Trading Room on March 14. Contact: jgravel@uaf.edu

Daily unaudited position

as of March 21, 2001

Gold/Silver	10%	\$4,110,000,000
U.S. Equity	10%	\$4,040,000,000
Non-U.S. Equity	10%	\$4,040,000,000
Bonds	10%	\$4,040,000,000
Real Estate	10%	\$4,040,000,000
Cash	10%	\$4,040,000,000
Total	60%	\$24,240,000,000

Non U.S. Equities

Other (1%)	
American (2%)	
United Kingdom (1%)	
Europe ex UK (2%)	
Japan (1%)	
Rest of World (2%)	

APFC real estate



Alaska Permanent Fund Corporation



Subscribe for Permanent Fund news updates

ALASKA PERMANENT FUND CORPORATION

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA
PERMANENT FUND CORPORATION RELATING TO A
CONSTITUTIONAL AMENDMENT TO INFLATION-PROOF
THE ALASKA PERMANENT FUND**

RESOLUTION 00-13

Protecting the Alaska Permanent Fund ("Fund") against inflation has been the highest public policy priority of the Board of Trustees ("Board") since the original Board was appointed 20 years ago. At that time, the Board testified to the legislature that the greatest threat to the permanence of the Fund is inflation. In response, the legislature adopted statutory inflation-proofing in 1982.

In more recent years, the Board has examined the use by various large endowment and public funds of a formula approach to determining the size of payouts from those funds. This formula approach, generally referred to as a "percent of market value" ("POMV") payout, is applied by those funds in a manner that protects them against inflation, thereby assuring the funds' long-term viability. Because a POMV payout provides for consistent and on-going inflation-proofing, the Board believes that its use is in the best interest of the Fund and of the people of the State of Alaska, who are the beneficiaries of the Fund.

The Board further believes that the best way to assure continuing inflation-proofing of the Fund in the years ahead is to provide for use of a POMV payout by amending the constitutional provision that established the Fund (Article IX, section 15 of the Alaska Constitution). Providing for inflation-proofing in this manner would strengthen and extend the existing statutory provision for inflation-proofing the principal of the Fund by putting inflation-proofing into the Constitution and applying it to total Fund assets, including principal.

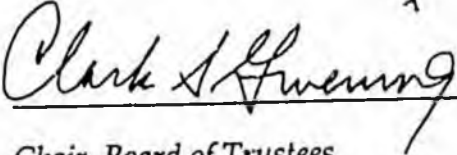
At the Board's request, counsel for the Board has prepared a draft constitutional amendment for further discussion by the Board which, if adopted by the people of the State of Alaska, would provide for an annual payout from the Fund of no more than five percent of the average fiscal year-end market value of the Fund over the immediately preceding five fiscal years. The Board believes that this formula effectively balances the goal of maximizing the availability of income from the Fund with the long-term goal of protecting the value of the Fund by inflation-proofing.

Finally, the Board believes strongly that implementing inflation-proofing of the Fund by constitutional amendment is such an important public policy goal that proposals for incorporating any other amendments to Article IX, section 15 which might in any way either lessen the chances of approval of such an amendment by the voters or undermine the legal status of the Fund should be rejected by the legislature.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees that the legislature of the State of Alaska, in consultation with the governor and the Board, are urged to consider and approve a proposal for a constitutional amendment that would provide for permanent inflation-proofing of the Fund by application of a POMV payout mechanism.

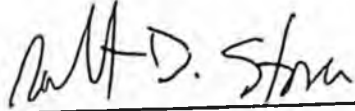
BE IT FURTHER RESOLVED by the Board of Trustees that the proposal for such an amendment be limited solely to implementation of the foregoing goal.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 8th day of December 2000.



Chair, Board of Trustees

ATTEST:



Robert D. Storer, Corporate Secretary



10 QUESTIONS AND ANSWERS ABOUT THE CONSTITUTIONAL AMENDMENT TO INFLATION-PROOF THE PERMANENT FUND

December 18, 2000

#1. What is the purpose of the proposed constitutional amendment?

The Board is supporting an amendment to the Alaska Constitution to provide constitutional – not just statutory – assurance that a portion of Fund income will always be retained each year to offset the effects of inflation. As Board Chair Clark Gruening points out, this proposal puts emphasis on the word ‘permanent.’ The amendment would accomplish this by providing that annual payouts from the Fund can be up to but no more than 5 percent of the five-year average market value of the Fund.

#2. How does a payout of no more than 5 percent inflation-proof the Fund?

The Board’s best estimate is that, over the long term, the Fund will earn an inflation-adjusted, “real” rate of return of 5 percent. For example, the Board’s current 5-year target asset allocation is designed to earn an average, annual rate of return of 8.25 percent with an expected inflation rate of 3.25 percent. This proposal sets the maximum payout at 5 percent – the difference between what the Fund earns and what it loses to inflation – to ensure that the Fund’s growth will at least keep up with inflation.

#3. Why is the Board taking this action now?

After four years of study, the Board is convinced that a constitutional amendment is the best way to protect the Fund against the effects of inflation. By recommending the proposal now, almost two years before the 2002 general election, Alaskans will have plenty of time to become familiar (and, hopefully, comfortable) with this major public policy proposal. All Alaskans are encouraged to carefully study the proposal, debate its merits and express their views. It is also fitting that this debate should take place during the time while Alaskans will be celebrating the 25th anniversary of the Alaska Permanent Fund’s creation in 1976.

#4. Does the legislature have to approve this?

Yes. Before any constitutional amendment can be voted on by the people, it first has to win the support of a super majority, that is, two-thirds of the legislature.

#5. Do the people get to vote on this issue?

Yes. Once the legislature gives its two-thirds approval, the proposed constitutional amendment would be placed before the voters at the next general election, November 5, 2002. If a simple majority of the voters approve it, it will go into effect 90 days later.

#6. Why 5 percent?

The Board has been studying percent of market value (POMV) payout limits diligently since 1996 and has found that the majority of large foundations and endowments set payouts of no more than 5 percent of their funds' market value. The Board also reached two important and related conclusions. First, 5 percent is roughly the maximum that a fund can pay out and still maximize its long-term distributions; and second, 5 percent is the maximum sustainable payout rate, beyond which the real value of the Fund would begin to erode.

#7. Why five-year averaging?

Applying the 5 percent payout to the Fund's market value averaged over five years, rather than just the value at the most recent year-end, dampens volatility (that is, the ups and downs) of annual income available for distribution. Five-year averaging also corresponds with the existing statutory formula for dividends which is based on a five-year average of realized earnings.

#8. How does the proposal differ from the status quo?

The major difference is that this amendment provides constitutional inflation protection for the entire Fund whereas the status quo provides statutory inflation protection only for the principal. It also limits withdrawals from the Fund by the legislature – currently all of the earnings reserve is available for appropriation. (Note: as of September 30, 2000, the Fund equaled \$27 billion – \$20 billion in principal and \$7 billion in earnings reserve.)

#9. How does the proposal affect the dividend program?

It doesn't. The Board has modeled this proposal and come to two fundamental conclusions: (1) the constitutional amendment will have no impact on the dividend program vis-à-vis the status quo; and (2) volatility in the financial markets may impact the dividend program, but the impact will be the same under either the status quo or the proposal.

#10. Is the Board sure that 5 percent is the right number?

The Board's best estimate is that, over the long term, the Fund will earn an inflation-adjusted, "real" rate of return of 5 percent – which can be safely paid out without the Fund losing ground to inflation. There will be short-term periods when earnings are too low and inflation too high and the Fund will not be protected against inflation. However, over the long term, such periods should be offset by periods of strong asset growth.