



# Board of Trustees

Budget & Legislative Initiatives Work Session

September 3, 2020

# **Budget and Legislative Initiatives Work Session**

**September 3, 2020**

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## Budget & Legislative Initiative Work Session September 3, 2020

**Due to health and public safety precautions  
APFC Board of Trustees meetings are closed to in-person public attendance.  
We invite the public to join via WebEx or by phone.**

### **Webinar Access (click link to join webinar)**

*Join via WebEx and enjoy the ability to listen on your computer and follow presentations:*  
<https://apfc.webex.com/apfc/onstage/g.php?MTID=e4d03125529c12c5cab55efa63181a37d>  
Event Password: APFC0903

### **Teleconference Option**

*If you are unable to join via webinar, please contact us at  
(907) 796-1519 to receive a teleconference number*

## AGENDA

THURSDAY, SEPTEMBER 3, 2020

- 8:00 a.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION
- 8:15 a.m. FY22 BUDGET OVERVIEW (Information)  
Sara Race, Administrative Operations Manager
- 10:00 a.m. BREAK
- 10:15 a.m. LEGISLATIVE INITIATIVES  
Angela Rodell, Chief Executive Officer  
Pauly Swanson, Communications Manager
- 11:15 a.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 11:30 a.m. ADJOURNMENT

**NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS  
(Please telephone Jennifer Thorsteinson at 907.796.1519 with agenda questions.)**



APFC

ALASKA PERMANENT  
FUND CORPORATION

# FY2022 Proposed Budget

September 3, 2020

## Two Allocations -

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- Corporate Operations
- Investment Management Fees

## Capital Budget

# Total Corporate Operations

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Corporate Operations	Authorized	Proposed	Variance
	FY2021	FY2022	From FY2021
	\$ 17,680,700	\$ 17,911,610	\$ 230,910

- Personal Services
- Travel
- Contractual Services
- Commodities
- Equipment

# Personal Services

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Personal Services	Authorized	Proposed w/out Incentive Comp	Variance
	FY2021	FY2022	From FY2021
	\$ 12,839,400	\$ 13,146,935	\$ 307,535

- Salaries
- Benefits
- Trustee Honorarium

# Travel

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Travel	Authorized	Proposed	Variance
	FY2021	FY2022	From FY2021
	\$ 700,000	\$ 800,000	\$ 100,000

- Staff
- Trustee
- Moving/Non-employee

# Contractual Services

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Contractual Services	Authorized	Proposed	Variance
	FY2021	FY20212	From FY2021
<b>TOTAL</b>	<b>\$ 3,404,400</b>	<b>\$ 3,213,575</b>	<b>\$ (190,825)</b>
Audit, Legal, Consulting	\$ 445,945	\$ 625,475	\$ 179,530
Public Communications	\$ 146,500	\$ 283,125	\$ 136,625
Board Support & Meetings	\$ 76,000	\$ 71,800	\$ (4,200)
Information Technology	\$ 1,725,500	\$ 1,147,500	\$ (578,000)
HR and Recruitment	\$ 77,436	\$ 63,710	\$ (13,726)
Training/Education	\$ 185,925	\$ 199,600	\$ 13,675
Office Support	\$ 747,094	\$ 822,365	\$ 75,271

# Commodities & Equipment

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	Authorized	Proposed	Variance
	FY2021	FY2022	From FY2021
Commodities	\$ 336,900	\$ 201,100	\$ (135,800)
Equipment	\$ 400,000	\$ 550,000	\$ 150,000

- Office/IT Supplies
- Subscriptions
- IT Equipment < \$5,000
  
- IT Equipment > \$5,000

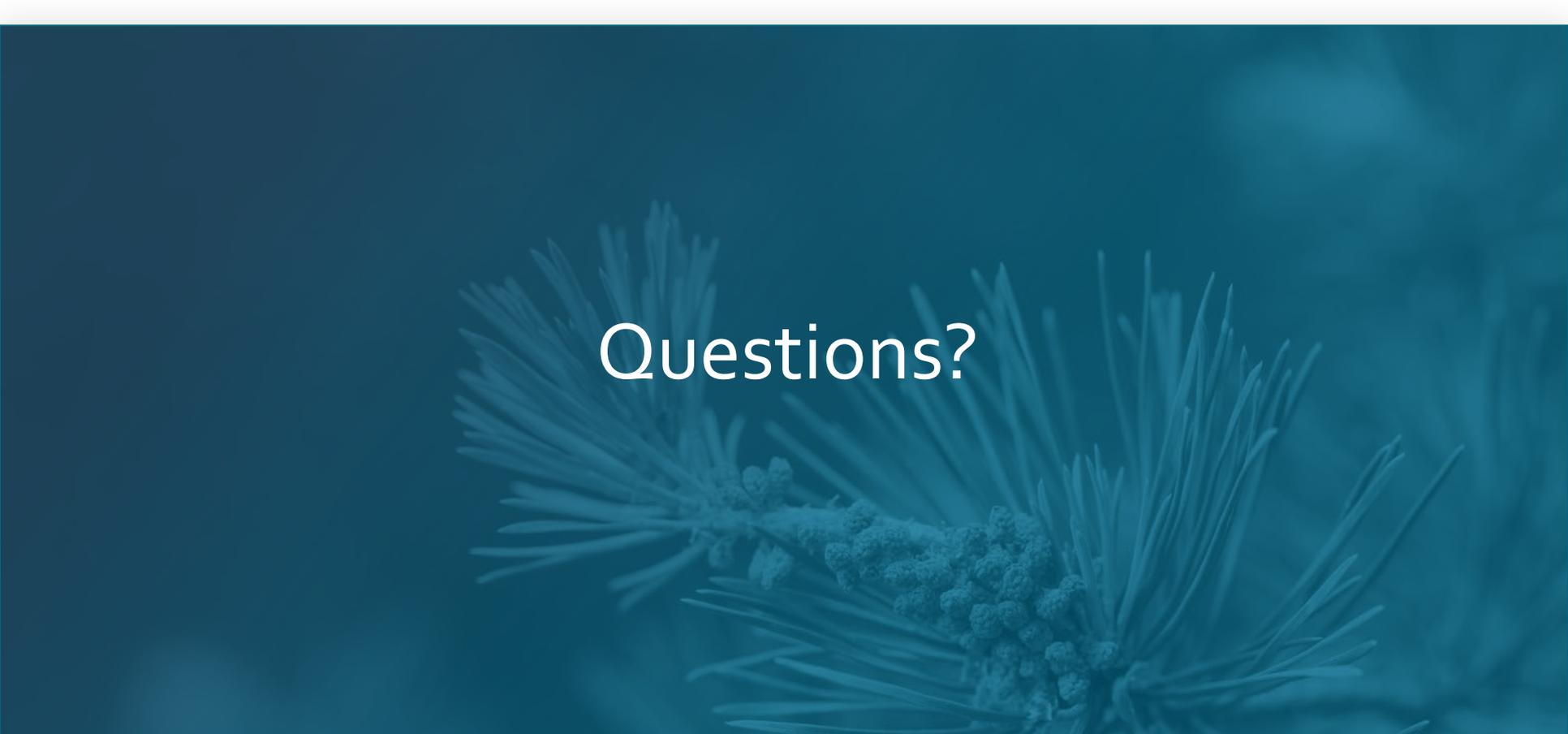
# Investment Management Allocation

Investment Management	Authorized	Proposed	Variance
	FY2021	FY2022	From FY2021
<b>TOTAL INVESTMENT MANAGEMENT FEES</b>	\$ 114,297,200	\$ 117,221,500	\$ 2,924,300
Public Equity	\$ 77,861,110	\$ 75,895,672	\$ (1,965,438)
Fixed Income Plus	\$ 12,986,190	\$ 7,755,847	\$ (5,230,343)
Real Estate	\$ -	\$ 1,114,387	\$ 1,114,387
Alternative Investments	\$ 23,449,900	\$ 32,455,594	\$ 9,005,694
Investment Due Diligence	\$ 6,587,000	\$ 6,136,700	\$ (450,300)
Investment Systems	\$ 6,716,400	\$ 8,080,900	\$ 1,364,500
Custody Fees	\$ 1,800,000	\$ 1,600,000	\$ (200,000)
<b>TOTAL INVESTMENT MNGMNT ALLOCATION</b>	\$ 129,400,600	\$ 133,039,100	\$ 3,638,500

# Additional Budgetary Considerations

- Incentive Compensation
  - In accordance with the policy, personal services will increase by \$2,530,400 if implemented.
- Anchorage Office





# Questions?



**SUBJECT:** FY2022 Proposed Budget

**ACTION:** \_\_\_\_\_

**DATE:** September 3, 2020

**INFORMATION:** \_\_\_\_\_ **X** \_\_\_\_\_

This budget was prepared to acknowledge the importance of continuing to operate in a lean manner following the State’s overall need to reign in expenses. Directors and managers throughout the Corporation conducted thorough reviews of their workflows to capitalize on potential efficiencies.

The timeline for the budget approval process begins with this work session. With the Board’s review of the proposed budget, any direction, additional analysis, or modifications requested will be incorporated. Staff will then bring a final proposal before the Board for approval at the Annual Meeting on September 23<sup>rd</sup> and 24<sup>th</sup>. The Office of Management and Budget will proceed to review the Board’s request for inclusion in the Governor’s proposed budget for all public agencies. The proposed budget is transmitted to the Legislature by December 15<sup>th</sup> for consideration during the upcoming Legislative session. Traditionally, staff returns to the Board at the May Quarterly Meeting with the final budget approved by the Legislature to be implemented on July 1<sup>st</sup>. However, delays may occur due to extended Legislative sessions.

The Alaska Permanent Fund Corporation’s operating budget appropriation is divided into two allocations: 1) Operations of the Corporation and 2) Investment Management. A detailed breakdown of these two allocations can be found in the appendix to this memo.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
Operating Allocation	\$ 17,680,700	\$ 17,911,610	\$ 230,910
Investment Management Allocation	\$ 129,400,600	\$ 133,039,100	\$ 3,638,500
<b>Total Appropriation</b>	<b>\$ 147,081,300</b>	<b>\$ 150,950,710</b>	<b>\$ 3,869,410</b>

- Proposed Incentive Compensation, in accordance with the policy passed by the Board, will increase personal services by \$2,530,400.
- Proposed Anchorage office opening, based on guidance from the Board, will increase the Operating Allocation somewhere between \$614,103 - \$713,829. The range is dependent on space. Of the proposed locations for lease, the annual costs start at \$70,003 to upwards of \$169,729, see slide 22 of the Anchorage Office proposal. Initial Costs are estimated to be \$544,100, see slide 14 of Anchorage Office proposal.

**OPERATING ALLOCATION**

The Operating Allocation is separated into five objects of expenditure, each of which is discussed below.

**Personal Services –**

	<b>Authorized</b>	<b>Proposed w/out Incentive Comp</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Personal Services</b>	<b>\$ 12,839,400</b>	<b>\$ 13,146,935</b>	<b>\$ 307,535</b>

**New Position Requests**

APFC has a total of 57 full-time, two part-time, year-round positions, plus two summer interns. There are currently eight full-time positions that are vacant, including the Chief Operations Officer, two Investment Associates, two Investment Officers, a Business Analyst, Operations Analyst, and an Accountant. To satisfy the mandatory vacancy requirement, a minimum of 3% and a maximum of 7%, positions will be periodically held vacant. Filling vacancies will continue to be a priority as staff already operate at a lean capacity, and vacancies exponentially add to workloads.

As stewards of the Permanent Fund, APFC is continually evaluating the need for every position within our organization and adjusting our staffing to maximize the positive impact on the Fund. Over the past year, a few positions have remained vacant for two reasons; 1) to satisfy the required vacancy factor, and 2) because filling every position must be done so with the right person, in line with our strategic priority to “enhance talent and staff.” When talent is identified, having these positions open and available allows us to move quickly, which adds tremendous value to the organization and, consequently, the Fund.

The breakdown of filled and vacant FTEs, by department, can be found in the table below.

<b>CURRENT COUNT BY DEPARTMENT</b>	<b>FILLED FTEs</b>	<b>VACANT FTEs</b>
Executive	6	1
Investments	21	4
Finance	8	2
Operations	13	3*
Risk & Compliance	2	0
Intern	0	2
<b>Total</b>	<b>49</b>	<b>12</b>

\* Includes two vacant part-time positions.

The FY22 budget proposal includes one new position. Fixed Income, currently a team of six, is requesting one new position. The position, a Global Rates Analyst, will bring value to the Corporation by maximizing the evaluation process of new opportunities and minimizing potential problems with exposures to a specific country through in-depth research. The position will provide data, analytics, and reporting on economic developments, relative value across markets and for sovereign debt, FX carry, FX hedges, and maintain a country scorecard. Additionally, the

incumbent will assist with all operational implementations and maintenance to ensure transactional requirements are satisfied, and coordination occurs with other functional areas within the organization.

Issues we plan to address through the addition of this position would encompass underperformance and losses due to large interest rate moves, large moves in FX forwards, changes in credit ratings, changes in policy related to flows of foreign capital, and settlement issues related to complexities of operating in certain markets.

The current, in-house, global rates portfolio is approximately \$1 billion, and the new analyst would have a direct impact on its performance. If an analyst is able to add just 0.01% of outperformance over our benchmark because of their analysis, they would add \$100,000 notional dollars to the portfolio.

Within a typical asset management firm, a global PM would be assisted in their decision making by multiple country analysts who specialize in various regions, a rates and FX strategist, and a trader who manages the execution of trades.

The FY2022 personal services request represents the total cost of the new position being requested, full staffing of existing positions, funding of retention adjustments for all staff, and an anticipated vacancy factor of 3%.

**Travel –**

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Travel</b>	<b>\$ 700,000</b>	<b>\$ 800,000</b>	<b>\$ 100,000</b>

In years past, travel has been an essential part of conducting business nationally and internationally. With the expectation that the portfolio continues to grow in its global exposure, investment staff travel to investigate new investment opportunities, participate in due diligence meetings, and attend industry-standard conferences and trainings. In the budget planning session for the FY2021 budget, the staff proposed a travel budget that the Board reduced by \$229,000.

As the world continues to try to navigate a global pandemic, with no foreseeable answers in the near future, projecting travel is difficult. The baseline for preparing the travel budget started with FY2020 actuals. Upon that, department heads included the anticipated travel expenses for the last three and half months of the fiscal year, had business continued as usual. Requests above that required additional justification.

We fully recognize that business, as usual, may look very different at the end of this. However, until globally, we have a better idea of what that is, this travel budget takes into consideration that we will transition back to a pre-COVID travel schedule—keeping in mind that a significant reduction had already been put into place.

**Contractual Services –**

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Contractual Services</b>	<b>\$ 3,404,400</b>	<b>\$ 3,213,575</b>	<b>\$ (190,825)</b>

Detailed comparisons for the areas discussed below are found in the appendix to this memo.

*Audit, Legal, Consulting* – Professional services, which support the broader needs of the Corporation, are contained within this group, such as audit, legal, and consultants not directly related to Fund investments. This line contains an increment for the annual audit in accordance with our KPMG contract, additional legal assistance that will be provided by the Department of Law through a Reimbursable Service Agreement (RSA), and minimal increment to general consulting. Combined, the total increase over FY2021 is \$179,530.

*Public Communications* – This encompasses all of the layout, design, printing, and web hosting services, which support the communications program, including the Annual Report, newspaper insert, election guide, social media, website maintenance, educational outreach, photography and brand enhancement. In May, a replacement contractor, MSI, was signed on to assist with communication efforts. With fresh eyes come new ideas and perspectives. With that in mind, MSI will continue to assist with annual projects, and will also work with our team on content development and strategic campaigns to enhance Alaskans’ understanding of the Fund and APFC’s role. The new contract terms and expenses related to advertising and printing resulted in an increase of approximately \$136,625.

*Board Meetings* – Items related to board support and board meetings, including room and equipment rentals, refreshments, transcription services, and advisory fees, are included in this group. The FY2022 request contains a small decrement to expenses related to catering.

*Information Technology*- All of the IT contractual based services related to the general support of the Corporation are in this group, including consulting services, software licensing and maintenance, and equipment repairs. The goal for FY2021 is to complete the third phase of the Business Continuity Disaster Recovery (BCDR) plan. With the (planned) completion of this phase, the Fairbanks recovery site implementation will be online and tested quarterly.

The need for implementing a turn-key operation or contracting consulting services will plateau as APFC completes a modernization initiative, which started in 2017. This moves the organization’s technology services into a diligent maintenance phase with occasional evolutionary technology and security upgrades requiring consulting services. As a result, the overall reduction of IT contractual services will be \$578,000.

*HR & Recruitment* – APFC continues to see normal levels of turnover. Although, concern amongst staff continues to loom around the fact that compensation lags the market standard, which has proven to be a challenge in recruiting efforts. HR partnered with the Communications Manager to better leverage our social media platforms, expanding our reach by encouraging staff with large professional followings to share our postings with their peers. This effort allowed us to make a decrement of \$13,726 in our Recruitment Notices line of expenditure. We continue to maximize our video capabilities to ensure we keep costs associated with interview travel to a minimum. As stewards of the Fund, the HR Team will continue to look for opportunities to leverage low cost, but effective, options when it comes to recruitment notices.

*Training* – Training, professional certifications, and industry-standard conferences for staff are essential to ensure that APFC can continue to compete in global investment markets to effectively manage and grow the portfolio. With the addition of several new employees and internal advancements, continued educational opportunities will be crucial to their success and the value-added to the Corporation. With more organizations transition to virtual training platforms, an increase of \$13,675 is anticipated. Although virtual training environments reduce networking opportunities, they are often more accommodating to staff members with limited schedules.

*Office Support* – All of the contractual services necessary to support the shared administrative needs of the Corporation are contained within this group, including office lease costs, copier rentals, and pass-through costs from the Department of Revenue. The increase to this line of expenditure is directly related to moving expenses associated with leasing server rack space for the Fairbanks Disaster Recovery site out of Investment Network Access Fees. Previously, the lease costs were incorporated with monthly network fees. Separating the expense

provides a clear distinction between the expenditures. All other office support expenses are anticipated to remain relatively consistent.

**Commodities and Equipment –**

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Commodities</b>	<b>\$ 336,900</b>	<b>\$ 201,100</b>	<b>\$ (135,800)</b>
<b>Equipment</b>	<b>\$ 400,000</b>	<b>\$ 550,000</b>	<b>\$ 150,000</b>

Commodities and Equipment are the final two objects of expenditure within the operating allocation, and due to their similarity are presented together. These budgets include goods that are purchased to support the needs of the Corporation, such as workstations, servers, furniture, and office supplies. The two lines are differentiated by cost – items that are less than \$5,000 fall under the Commodities line, while those greater than \$5,000 fall in the Equipment line. As with Contractual Services, these two lines are presented by the program in the appendix.

Information Technology Commodities- In FY2020, more than half of the Corporation’s workstation laptops were replaced in accordance with the three-year-end-of- life cycle schedule. In FY2021, IT will continue to monitor the needs of staff as more than 70% of employees work remotely. A proactive approach to supporting staff will ensure that workstation equipment is procured timely, allowing a \$148,500 reduction in the FY2022 request.

*Office Support* – The Commodities budget includes subscriptions to industry publications, office supplies, and paper. The FY2022 request includes a slight increase to accommodate an industry-standard price increase for subscriptions and potential requests from new staff. Combined with IT commodities, the overall reduction is \$135,800.

Information Technology Equipment- Although many critical pieces of the Data Center, including server equipment and disk and storage equipment in Juneau, will be replaced in FY2021 as the older but still viable equipment moves to Fairbanks in its new role, upgrades, and increased capabilities will still be needed in FY2022.

The impact of the increases and reductions among IT commodities and equipment results is a total requested increase of \$14,200.

**INVESTMENT MANAGEMENT ALLOCATION**

The Investment Management Allocation falls within a single object of expenditure that is divided into four types of service. Each is discussed below.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Investment Manager Fees</b>	<b>\$ 114,297,200</b>	<b>\$ 117,221,500</b>	<b>\$ 2,924,300</b>

Investment Manager Fees – This budget includes all of the costs that are paid directly to firms that manage the Fund’s external portfolios, but does not include fees paid through net-of-fee arrangements. Fees were forecasted

using similar assumptions to what was used to generate the FY2021 budget request. The fees associated with managing external REIT and listed infrastructure portfolios were moved to the Real Estate and Alternative lines, respectively, to mirror the changes to the asset allocation that took effect on July 1st with the revised investment policy. The amount being requested is about \$3 million higher than the FY2021 authorization. This is primarily due to anticipated increases to assets under oversight by Pathway in the Alternatives line offset by some savings achieved in downsizing the externally managed REIT and listed infrastructure portfolios as part of the year-end rebalancing. Also incorporated is modest growth in the public equity and fixed income portfolios based upon Callan's capital markets assumptions.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Investment Due Diligence</b>	<b>\$ 6,587,000</b>	<b>\$ 6,136,700</b>	<b>(\$ 450,300)</b>

*Investment Due Diligence* – This program includes funding for fiduciary advisors, Callan's general consulting contract, manager searches, and APFC's membership in peer groups such as the International Forum of Sovereign Wealth Funds (IFSWF). Based on FY2020 actuals and the five-year strategic plan created in August of 2019, the funding level is expected to decrease by \$450,300. Reductions were taken in all areas, except general subject matter experts and performance measurements.

	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>
	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2021</b>
<b>Investment Systems</b>	<b>\$ 6,716,400</b>	<b>\$ 8,080,900</b>	<b>\$ 1,364,500</b>

*Investment Systems* – All of the financial network systems, data feeds, and research portals used by APFC staff to make investment decisions; trade, confirm and account for investments, manage external accounts, and manage investment risk at various levels of the portfolio are included in this group. Examples of these vendors are Bloomberg, BlackRock, Tradeweb, Moody's, S&P, and Fitch. The FY2022 request includes natural growth in existing subscription costs, which is roughly between 3% and 10%, as well as the anticipated funds needed to implement a Public and Private Equity portfolio risk model and a Private Assets analytics system. The BlackRock Aladdin system is APFC's Trade Order Management system and Risk & Analytics system, for most of our public market assets. However, it has limitations for certain types of public asset analytics and virtually no analytical capabilities, in its current state, for private assets. Currently, Public Equities utilizes data from the BlackRock Aladdin system and Bloomberg, but data from these resources are limited to trading. Similarly, due to the limited portfolio analytical capabilities of the BlackRock Aladdin system, Private Equities will benefit greatly from an analytical tool, especially as the private asset portfolio continues to grow.

Over the past year, APFC has been researching possible solutions. Including, but not limited to, working with the BlackRock team to expand the capabilities of the Aladdin system by importing ETF data from external sources. As research and product development continues, the request for funds in this line of expenditure may be reevaluated before the Annual Meeting.

	Authorized	Proposed	Variance
	FY2021	FY2022	From FY2021
<b>Custody Fees</b>	<b>\$ 1,800,000</b>	<b>\$ 1,600,000</b>	<b>(\$ 200,000)</b>

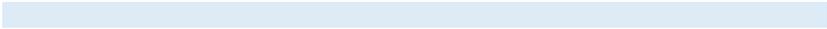
*Custody Fees* – Bank of New York Mellon is the custodian of the Fund’s assets. In FY2022, contract terms have been reduced to a \$1 million yearly flat fee. The additional \$600,00 will be used for collateral management, tax advisory services, and fee increases to unforeseen changes to the portfolio.

**Appendix  
FY2022 Budget Proposal**

<u>Corporate Operations Allocation</u>	Actual	Authorized	Proposed	Variance	
	FY2020	FY2021	FY2022	From FY2020	From 2021
<b>Personal Services</b>	\$10,375,740	\$12,839,400	\$13,146,935	\$2,771,195	\$307,535
Staff	10,366,048	12,811,860	13,126,281	2,760,234	314,421
Board: Honorarium	9,692	27,540	20,654	10,962	(6,886)
<b>Travel</b>	\$429,269	\$700,000	\$800,000	\$370,731	\$100,000
Staff	362,965	483,000	602,000	239,035	119,000
Trustees	18,342	22,000	18,000	(342)	(4,000)
Moving/Non-Employee	47,962	195,000	180,000	132,038	(15,000)
<b>Contractual Services</b>	\$2,975,769	\$3,404,400	\$3,213,575	\$237,806	\$(190,825)
Audit, Legal, Consulting	421,619	445,945	625,475	203,856	179,530
Public Communications	146,500	146,500	283,125	136,625	136,625
Board Support and Meetings	49,917	76,000	71,800	21,883	(4,200)
Information Technology	1,581,703	1,725,500	1,147,500	(434,203)	(578,000)
HR and Recruitment	57,192	77,436	63,710	6,518	(13,726)
Training/Education	61,294	185,925	199,600	138,306	13,675
Office Support	657,544	747,094	822,365	164,821	75,271
<b>Commodities</b>	\$305,393	\$336,900	\$201,100	\$(104,293)	\$(135,800)
Information Technology	257,034	275,000	126,500	(130,534)	(148,500)
Office Support	48,359	61,900	74,600	26,241	12,700
<b>Equipment</b>	\$368,316	\$400,000	\$550,000	\$181,684	\$150,000
Information Technology	368,316	400,000	550,000	181,684	150,000
<b>Total</b>	<b>\$14,454,487</b>	<b>\$17,680,700</b>	<b>\$17,911,610</b>	<b>\$3,457,124</b>	<b>\$230,910</b>
<b><u>Investment Management Fee Allocation</u></b>	<b>Actual</b>	<b>Authorized</b>	<b>Proposed</b>	<b>Variance</b>	
	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>From FY2020</b>	<b>From 2021</b>
Investment Systems	\$4,843,721	\$6,716,400	\$8,080,900	\$3,237,179	\$1,364,500
Investment Due Diligence	\$3,643,443	\$6,587,000	\$6,136,700	\$2,493,257	\$(450,300)
Custody Fees	\$1,342,971	\$1,800,000	\$1,600,000	\$257,029	\$(200,000)
<b>Investment Manager Fees</b>	<b>\$95,345,258</b>	<b>\$114,297,200</b>	<b>\$117,221,500</b>	<b>\$21,876,242</b>	<b>\$2,924,300</b>
Public Equities	61,935,758	77,861,110	75,895,672	13,959,914	(1,965,438)
Fixed Income	12,368,882	12,986,190	7,755,847	(4,613,035)	(5,230,343)
Real Estate	-	-	1,114,387	1,114,387	1,114,387
Alternative Assets	21,040,618	23,449,900	32,455,594	11,414,976	9,005,694
<b>Total</b>	<b>\$ 105,175,393</b>	<b>\$ 129,400,600</b>	<b>\$ 133,039,100</b>	<b>\$ 27,863,707</b>	<b>\$ 3,638,500</b>
<b>Total appropriation</b>	<b>\$ 119,629,880</b>	<b>\$ 147,081,300</b>	<b>\$ 150,950,710</b>	<b>\$ 31,320,830</b>	<b>\$ 3,869,410</b>









APFC

ALASKA PERMANENT  
FUND CORPORATION

# Anchorage Office Proposal

2020 - 2021

# Intent

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- At the Request of The Board of Trustees, APFC Staff have been asked to build out a plan for an office in Anchorage, Alaska in an effort to address recruitment and retention challenges.
- Throughout the 2019 Strategic Plan staff & the Board identified recruitment and retention success as critical to grow the Fund and move the Corporation forward.

# Short Term Goal

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- Opening an office in Anchorage provides APFC with the opportunity to evaluate benefits and costs of additional physical office space in a way that is palatable to our stakeholders
- Additionally we can determine how additional physical office space moves the needle on Fund performance

# Long Term Goal

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- Success of an Anchorage office could potentially open the door to additional offices in regions that would significantly benefit the Fund
- According to the Strategic Plan adopted by the Board of Trustees, APFC staff is to present each year at the Annual Meeting of the Board of Trustees on the possibility of new office location options throughout the world

# Size of Office

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- We targeted an office of approximately 5 staff for 2 key reasons.
  1. Technology: additional staff above 5 will require a more significant investment in technology
  2. Office culture: in discussing opening a satellite office several staff who took part in the initial discussions indicated the challenges in opening a new office and with less than 5 people it does not have the benefit vs. working remotely as there is no real sense of office culture

# Office Composition

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With the goal of enhanced recruitment and retention we have identified a few notable items regarding the components of the office

1. Based on current staff interest and forecasted recruitment a second office will likely be a cross-section of staff from all departments – front, middle and back office. This cross section will require more complex systems and data integration to maintain fluid functionality.
2. IT Support will be required on a regular basis, either current staff onsite regularly or outsourcing of some IT functions
3. It is likely there will be no administrative support in an Anchorage office

Please note the data provided throughout the proposal reflects our attempt to replicate the office configuration, including similar furnishings, technology and security found in our Juneau headquarters.

# Timing - Summary



If the Board decides to move forward with an Anchorage office, at that time we can analyze whether there are sufficient funds in the existing budget along with additional funding would need to be included in the next budget. Decision would need to be made and action taken at the September 23-24 meeting in order to include ongoing expenses in the FY 22 budget.

# Procurement & Acquisition

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- AS 30.360.850 provides that all contracts not deemed an investment contract go through the state procurement process. APFC does not have an exemption to the procurement code and as such all leasing is done on our behalf by the Department of Administration, Shared Services.
- Timing can be as quick as approximately 2 weeks + build out time to 3 months + build out depending on using currently available space or if an RFP is needed\*
- If using available space APFC would likely assume the space size and lease terms previously negotiated.
  - A RFP process allows Shared Services to customize the search



\*Per Department of Administration Shared Services Leasing Team

# Relocation & Implementation

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- Approximately 30-60 days once space is available
- APFC partners with State of Alaska's Finance Team to ensure all relocation related expenses are documented and taxed correctly.



# Proposed Relocation

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\$8,000  
Per Person

Shipment of Personal  
Goods

\$3,000  
Per Person

Moving – Transportation &  
Per Diem

2 Years

Relocation Claw back

Note - As of 2017 relocation expenses are taxable and are included in a person's w-4 as income. When relocation is paid, the taxes are collected through a pay/tax recover process over the remainder of the calendar year

# Overview - Anchorage Office Space

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- The initial evaluation sent to the Board for review on July 1, 2020 included a differentiation between Class A office space procured through an RFP and existing State Office Leases. For this iteration we focused on the options of existing leases.
- Both Class A & Class B offices with current leases were included
- Locations are throughout downtown and midtown Anchorage



# State Leased Space – Benefits & Challenges

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- Benefits
  - Similar structure to other independent state agencies
  - Maintain independence of APFC from other State functions
- Challenges
  - Possibly higher cost
  - Political concerns



# State Owned Space – Benefits & Challenges

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- Benefits
  - Potentially less expensive in the long run
  - Using current state resources
- Challenges
  - IT Technical issues allowing stand alone network in a state building
  - Perception of independence



# Initial Costs

Expense	Low	High	Original Estimate	Updated Estimate
Relocation	\$11,000	\$55,000	\$33,000	\$33,000
Buildout	\$100,000	\$300,000	\$225,000*	\$172,000*
IT Expenses	\$100,000	\$200,000	\$150,000	\$130,000
Office Equipment	\$35,000	\$50,000	\$40,000	\$28,640
Furniture	\$100,000	\$150,000	\$125,000	\$80,460
AV	\$40,000	\$50,000	\$50,000	\$50,000
Miscellaneous	\$25,000	\$100,000	\$50,000	\$50,000
<b>Total</b>	<b>\$411,000</b>	<b>\$905,000</b>	<b>\$673,000</b>	<b>\$544,100</b>

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\*Difference in estimated sq ft based on availability – see slide 16 for details

# Initial Costs - Relocation

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Expense	Low	High	Original Estimate	Updated Estimate
Relcoation	\$11,000	\$55,000	\$33,000	\$33,000

Low – One APFC employee has indicated high interest moving to Anchorage if we open an office

High – Office capacity targeted at 5 employees, with relocation of 11k per person

Estimated – We estimate 3 current/future staff will select Anchorage as their primary work location once office details are finalized.

# Initial Costs - Buildout

Expense	Low	High	Original Estimate	Updated Estimate
Buildout	\$100,000	\$300,000	\$225,000	\$172,500

Shared services quoted \$40 to \$75 per sq foot for buildout costs, estimated costs are based on:

Low – 2,300 sq ft @ \$40 per sq ft

High 4,000 sq ft @ \$75 per sq ft

Original Estimate – 3000 sq ft @ \$75 per sq ft (based on provided available space in Frontier Building - *likelihood of getting exactly 2,300 sq ft is low.*)

Updated Estimate – 2,300 sq ft @ \$75 per sq ft (based on target sq ft)

Buildout expenses vary widely depending on the building and current amenities. APFC has heavy security needs to ensure the physical (and cyber integrity) of the \$68+B of AUM. Physical security needs include; keycard scanner entry doors with secondary PIN identification, multiple cameras, remotely entry access & emergency call buttons, secure reception area. It is prudent to budget enough capital to ensure these risks are fully addressed.

# Initial Costs – IT Expenses

Expense	Low	High	Original Estimate	Updated Estimate
IT Expenses	\$100,000	\$200,000	\$150,000	\$130,000

## MDF/IDF equipment (Connectivity)- \$41,954.99

Cisco 4431 ISR router - \$13,150.08 (quote date May 31, 2019)

Palo Alto PA-850 Firewall \$12,918.25 (quote May 31, 2021)

Cisco Nexus 3K-C1108PC-V switch \$11,525.27 (quote date May 31, 2019)

Cisco Wireless Controller \$4361.28 (quote date May 31, 2020)

## Rack Mounted Servers - \$38,000.00

Cisco UCS C-240 M5 Servers + licensing \$38K (estimation based upon quote dated July 16, 2020)

## Storage System- \$50,000

NetApp Storage system with disk to mirror JNU- \$50K (estimate for system needed for the workload)

Build for autonomous satellite office includes: Standard levels of security *required by APFC* for Office activity, Secure Connectivity to Juneau Headquarters, Active Directory Site components with Distributed File System, VMware vCenter accelerated VDI capabilities.

# Initial Costs – Office Equipment

Expense	Low	High	Original Estimate	Updated Estimate
Office Equipment	\$25,000	\$50,000	\$40,000	\$28,640

The estimation includes:

- multifunction scanner-printer-copier (\$12,000),
- telecommunications (\$4,400),
- postage (\$440),
- repairs/maintenance for copiers/furniture (\$4,905),
- commodities- subscriptions and office supplies (\$3,725)
- miscellaneous expenses, such as shredding and office upkeep (\$3,170)

# Initial Costs - Furniture

Expense Type	Low	High	Original Estimate	Updated Estimate
Furniture	\$75,000	\$100,000	\$125,000	\$80,460

Based on actuals from our recent remodel outfitting a workstation costs roughly \$7,700 per station and offices are \$13,400.

- 3 Private offices- \$40,200
- 2 Workstations- \$15,400
- Conference room- \$4,800 (6 chairs), \$1,200 (table)= \$6,000
- Breakroom- \$1,700 (refrigerator), \$320 (microwave), \$840 (dishwasher), \$1,000 (furnishing) = \$3,860
- Workstation Technology – Monitors, Keyboards etc. \$10,000
- Miscellaneous: Desk Lamps, Monitor Stands, Reception area seating – \$5,000

\*Costs are based on 2016/17 prices, and only 5 workspaces, if we end up getting space larger it would require additional costs. All fixtures are procured on our behalf through the State procurement process.

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# Initial Costs – A/V

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Expense Type	Low	High	Original Estimated	Updated Estimate
A/V	\$40,000	\$50,000	\$50,000	\$50,000

Estimate based on 2017 quote for Cisco Room Kit Pro cost of 48k. The cost of video technology could be higher as demand continues to increase due to the COVID-19 outbreak.

# Initial Costs - Miscellaneous

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Expense Type	Low	High	Estimated
Miscellaneous	\$25,000	\$100,000	\$50,000

While organizations always plan for the best, it is prudent to include a reserve for any cost overruns or unexpected expenses. We've estimated 50k as a reserve for that purpose.

# Available Space & Pricing\*

Building	Class	Price Per Sq Ft	Available Size	Annual Cost
GMC Building	B	Unavailable	4,962	\$107,179
University Center	B	\$2.10	Available 2/2021	Unknown
Flashcube	A	\$2.39	5,918	\$169,729
Frontier	A	\$2.79	3,012	\$100,842
Whale	A	\$2.93	1,991	\$70,003
Atwood	A	No Space Available		

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\* Information provided by SoA Shared Service Leasing Team - 6/20/2020 and updated 8/14/2020

# Ongoing Costs

Expense Type	Low	High	Estimated**
Lease	\$55,000	\$83,000	\$100,000
Internet	\$6,000	\$12,000	\$10,000
Office Technology	\$4,500	\$10,000	\$8,000
Office Supplies*	\$5,000	\$12,000	\$9,000
Miscellaneous	\$3,500	\$10,000	\$5,000
<b>Total</b>	<b>\$74,000</b>	<b>\$127,000</b>	<b>\$132,000</b>

- Includes Services & Commodities
- Estimated assumes we are required to take space as presented on Slide 22 rather than our request of 2300 sq ft.

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SUBJECT: Legislative Initiatives

ACTION:

DATE: 9/03/2020

INFORMATION: X

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The 32<sup>nd</sup> Alaska State Legislature will convene their first regular session on Tuesday, January 19, 2021.

In addition to any budget initiatives that the Board of Trustees approves for FY22, APFC will pursue legislative initiatives as directed by the Board.

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APFC in providing sound stewardship and prudent investment of the Fund based on constitutional and statutory mandates is an essential participant in the dialogue on the structure of the Fund.

The following are fundamentals that the Board may want to consider in the development of APFC's Legislative Initiatives.

#### Education

- Educate stakeholders on the structure of the Fund to set the foundation for informed policy decisions.
- Affirm the role of APFC as a profit center and a source of renewable income for the State of Alaska.
- Reaffirm the importance of a rules-based structure for deposits to the Principal and withdrawals from the Earnings Reserve Account.
- Continued Education
  - Inflation Proofing - AS 37.13.145 (c). The importance of inflation proofing the Principal to maintain its purchasing power for future generations.
  - Two Account Fund - the Principal and the Earnings Reserve Account (ERA). Provide continuing education on the Fund's mechanics, including specifics on how the Principal and the ERA grow in value, and the constitutional and statutory rules that govern their use.
  - Percent of Market Value – POMV. How the POMV is calculated, the importance of adhering to a rules-based structure for ERA draws, and the differences between a value-based calculation and an income-based calculation for distributions.

#### Resources

- Continued Success - APFC recognizes the evolution in the Fund's role to generate revenue to support state services and programs. As such, the Corporation looks to the State to ensure that resources are available to support APFC's investment and management needs for ongoing success in generating long-term returns.
- Talent - Attracting and retaining qualified staff is critical to the responsible management of the Fund.
- Optimize - Attain resources to ensure that APFC has the necessary support to optimize our ability to manage and invest the Fund.

### Recent Board of Trustees Contributions to the Policy Discussion

- Resolution 18-04 - Passed at a special meeting on October 17, 2018, this Resolution outlines four fundamental policy provisions to ensure the long-term sustainability of the Fund:
  - Adherence to rules increases the likelihood that systematic draws from the Fund will be sustainable over time and will allow for the more prudent investment of the Fund due to the predictability of liquidity needs.
  - Sustainability requires that annual formulaic withdrawals from the ERA allow the Fund to grow annually by at least the rate of inflation.
  - Inflation Proofing - AS 37.13.145 (c) preserves the purchasing power of the Principal and is the mechanism by which the Principal retains some value generated from the income-producing assets.
  - Real Growth is necessary to preserve intergenerational wealth as Alaska continues the extraction of its finite natural resources. Recognizing and executing on opportunities to grow the real value of the Fund will result in more income and thus higher sustainable draws in the future.
  
- Trustees Paper #9, 2020 - The Board of Trustees reaffirms the need to strengthen the rules-based system around the Fund and has brought forth valuable lessons and practices from other sovereign wealth funds and applied them to the Alaskan context in this paper.
  - Mission clarity – success requires clarity around the Fund's mandate.
  - The importance of rules – the adherence to a system of well-designed rules promotes sustainability and stability across volatile commodity cycle and enables management to implement appropriate investment policies.
  - Successful enforcement of saving rules – adherence to Alaska's existing Constitutional and statutory savings rules is necessary, as are additional considerations on ways in which the real value of the Fund can be grown.
  - Designing a POMV spending rule – the statutory spending policy adopted in 2018 aligns with the best practices of peer institutions. It establishes a moving-average of past fund values to smooth out annual market value fluctuations.
  - Reforming the ERA - the Fund's emphasis on long-term growth and the existence of separate account available for appropriation (the ERA) are such that the possibility exists that in times of low portfolio income and unrealized capital losses that there would be insufficient funds for a POMV draw.
  
- Resolution 20-01 was adopted by the Board of Trustees during a special meeting on March 5, 2020, to further recommendations on the Earnings Reserve Account.
  - Informs the debate on the structure and use of the Alaska Permanent Fund for all generations of Alaskans. It includes the following for consideration: a constitutional or statutory change to combine the ERA and the Principal, or an adjustment to the existing structure, including a periodic review of Fund return assumptions and modification to transfers from the ERA to the Principal.