THE STATE of ALASKA
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE
Randall Hoffbeck, Commissioner

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March 15, 2016

The Honorable Kevin Meyer, Senate President
The Honorable Mike Chenault, Speaker of the House
House and Senate Finance Committee Members
Alaska State Capitol
Juneau, AK 99801-1182

Dear State Legislators:

AS 37.10.430(b) requires that:

> By March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.

The required report is attached.

Page 1 sets forth the fund balances for the Constitutional Budget Reserve Fund (CBRF) at January 1 and December 31, 2015.

Page 2 provides comparative annual rates of return for the CBRF, General Fund, and Alaska Permanent Fund. The difference in performance results primarily from the differences in asset allocation among the funds, the relative performance between comparable asset classes, and the differences in cash flow requirements among the funds.

Page 3 provides the comparative target asset allocations at December 31, 2015 of these funds. Since the General Fund has a moderate risk tolerance and high liquidity requirement, it is invested in fixed income securities (e.g., bonds and other debt obligations), with no investment in equities (e.g., stocks).

I would be happy to answer any questions you have on the attached report or the investment of the CBRF.

Sincerely,

Randall Hoffbeck
Commissioner, Department of Revenue

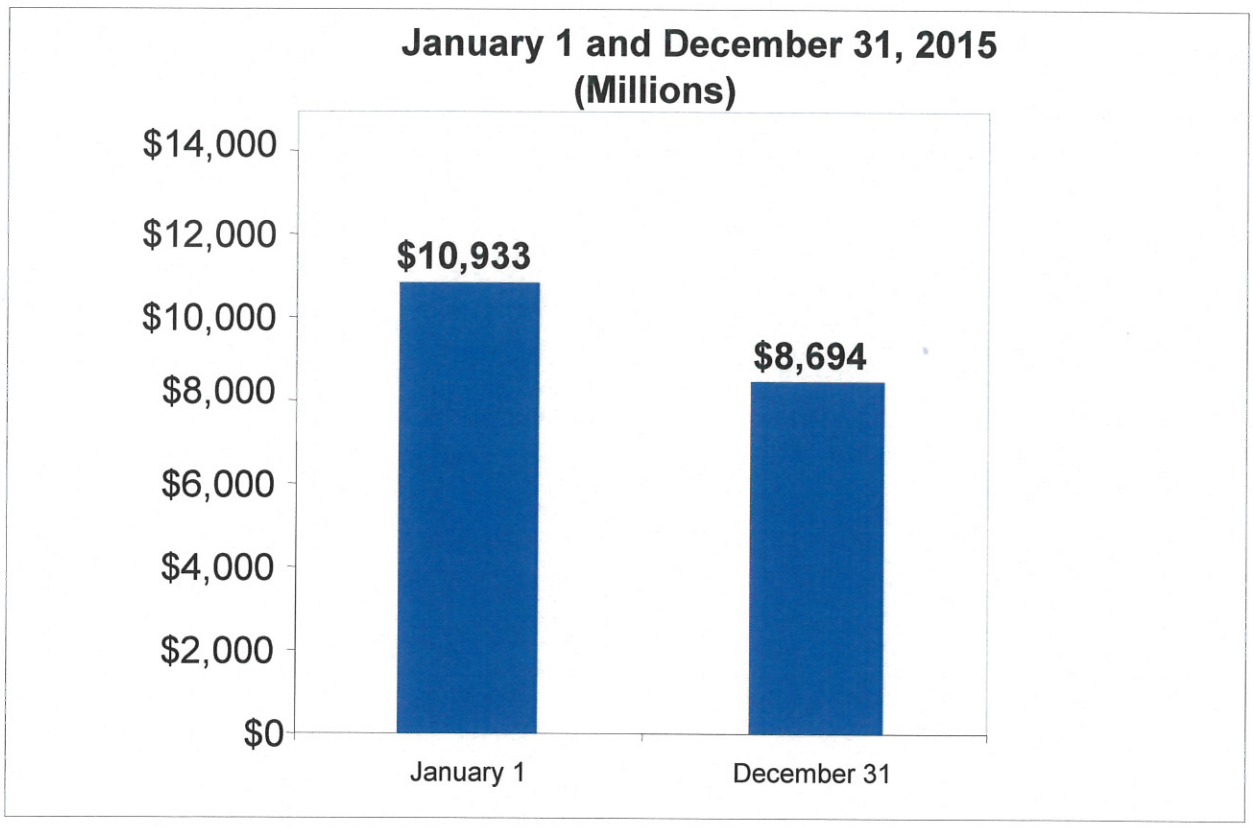
Attachments
cc: House Finance – Neuman, Thompson, Saddler, Edgmon, Gattis, Munoz, Pruitt, Wilson, Gara, Guttenberg, Kawasaki, Hawker
Senate Finance – Kelly, MacKinnon, Micciche, Bishop, Dunleavy, Hoffman, Olson

Department of Revenue
Treasury Division

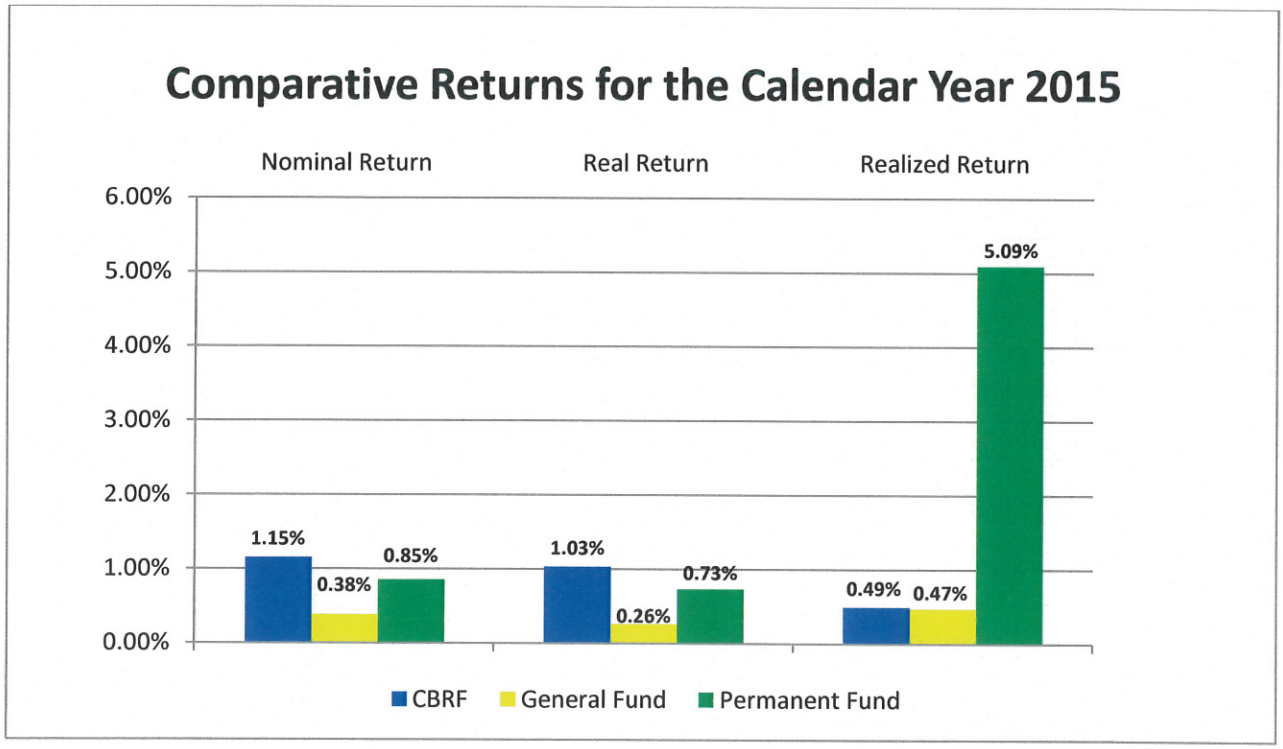
Annual Report on the Constitutional Budget Reserve Fund

Sec. 37.10.430(b): *By March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.*

Constitutional Budget Reserve Fund Balances



Cont'd: Annual Report on the Constitutional Budget Reserve Fund



Fund	Nominal (Total) Return [2]	Real Return [3]	Realized Return [4]
Constitutional Budget Reserve Fund [1]	1.15%	1.03%	0.49%
General Fund [5]	0.38%	0.26%	0.47%
Alaska Permanent Fund [6]	0.85%	0.73%	5.09%

1 Reflects the combined rates of return for the CBRF main account and subaccount. The subaccount alone had a total return of 1.474% for calendar year 2015. The main account alone had a total return of 0.419% for calendar year 2015. The subaccount was liquidated April, 2015 and all assets transferred into the main fund.

2 Data for CBRF and General Fund from State Street Analytics Performance Reports. Total return includes all components of investment income, including interest, dividends and realized and unrealized gains and losses.

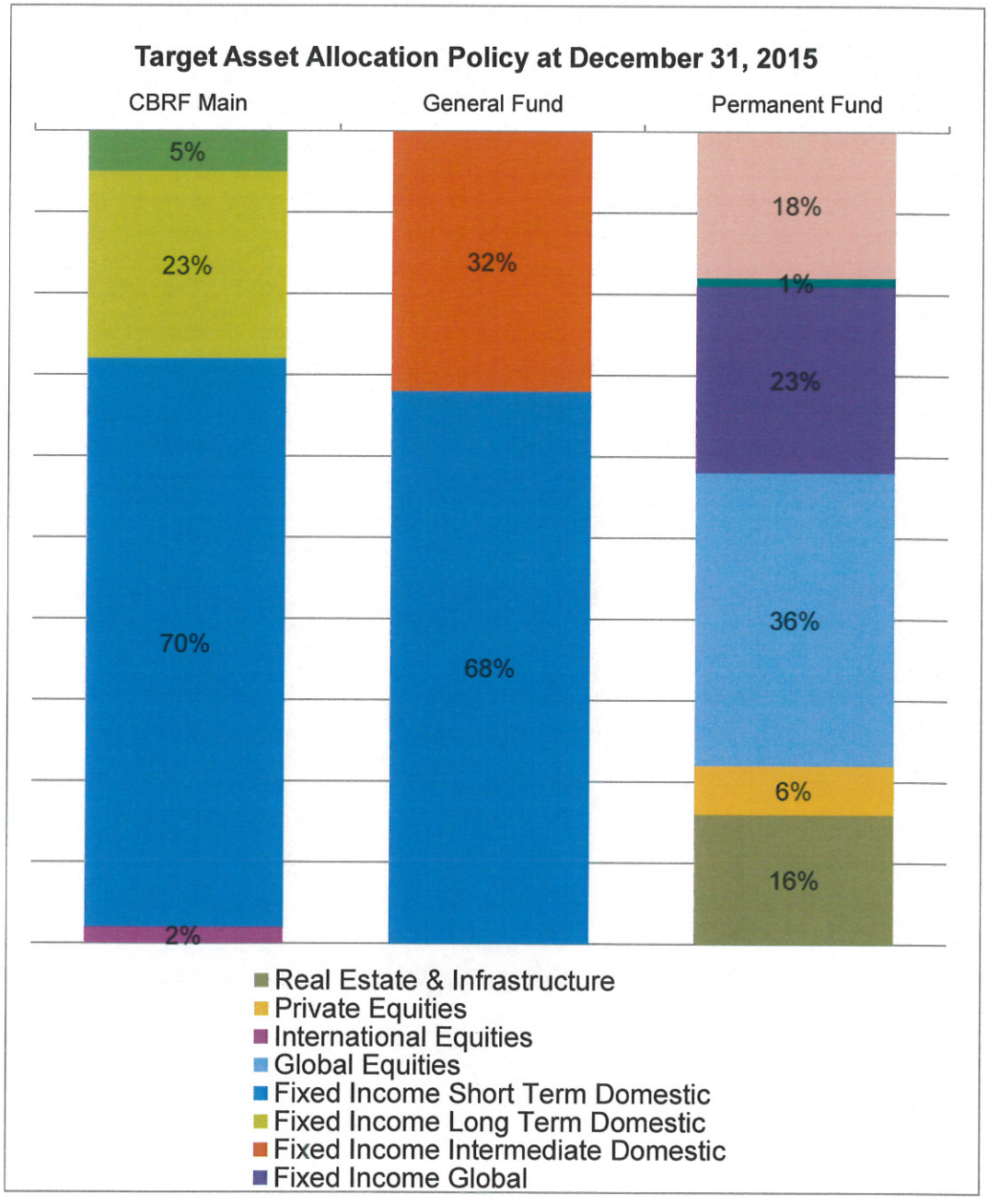
3 Total return adjusted for the effect of inflation (0.12%) calculated by the Alaska Permanent Fund Corporation per AS 37.13.145 (c).

4 Custodial banks and external performance providers do not calculate a realized return. These amounts were calculated by staff of the Treasury Division as well as the Permanent Fund Corporation. Realized returns *do not* include unrealized gains and losses in investment income; therefore, *comparisons between realized and total return have no meaning.*

5 Does not include returns on the sale proceeds of Tobacco Settlement Revenue. Although part of the General Fund, these Investments are managed by the Alaska Housing Finance Corporation and had balances of $17.39 million and $16.55 million on January 1, 2015 and December 31, 2015 respectively.

6 All information related to the Alaska Permanent Fund Corporation is provided by Alaska Permanent Fund Corporation.

Cont'd: **Annual Report on the Constitutional Budget Reserve Fund**

Calendar Year 2015 Target Asset Allocation Policies with Effective Dates for Selected Funds

Last Target Policy in CY2013	CBRF Main	General Fund	Permanent Fund
Alternative Investments			18%
Cash			1%
Domestic Equities	5%		
Fixed Income Global			23%
Fixed Income Intermediate Domestic		32%	
Fixed Income Long Term Domestic	23%		
Fixed Income Short Term Domestic	70%	68%	
Global Equities			36%
International Equities	2%		
Private Equities			6%
Real Estate & Infrastructure			16%
Totals	100%	100%	100%