



ACCOUNTABILITY

TO ALASKANS, FOR ALASKANS.

ALASKA PERMANENT FUND CORPORATION

Protecting the Permanent Fund through POMV

THE ALASKA PERMANENT FUND CORPORATION BOARD OF TRUSTEES BELIEVES THAT THE PERMANENT FUND IS NOT ADEQUATELY PROTECTED FOR THE FUTURE.

To address this concern, the Board is proposing a better way to manage and protect the Permanent Fund through a Percent of Market Value payout method, or "POMV." POMV would limit the amount of money that may be withdrawn annually from the Fund to no more than five percent of the Fund's total value. The POMV payout method contrasts with the present payout method, which allows all Fund earnings to be paid out.

POMV - the accepted method

POMV is a tried and true method used by over 85 percent of public endowments, including those at the foundations of Yale and Columbia Universities, the Pew Charitable Trust and the Ford Foundation.

The benefits to the Permanent Fund from a POMV payout method will:

- **Protect the option of an annual payout (for dividends or any other purpose)**
- **Maintain the entire Fund's purchasing power (inflation protection)**
- **Make the payout method compatible with the Fund's modern, diversified investment strategy**
- **Stabilize payout amounts from year to year**
- **Prevent overspending Fund earnings in good years**
- **Allow the Fund to benefit all generations of Alaskans equally**

The Trustees know that the Permanent Fund is a very valuable resource. They believe that Alaskans should carefully consider any proposed change to Fund management. Governor Murkowski endorsed the POMV proposal at the APFC Annual Dinner on Sept. 24. If the Legislature agrees with the Trustees and the Governor and approves POMV in the 2004 session, the question whether to adopt POMV will go to a vote of the people in November 2004.

In considering POMV, one question on most Alaskans' minds is, "How will POMV affect my dividend?" The answer is that the proposal would make the annual payout more predictable and stable. Just as it does now, the Legislature will continue to decide annually what portion of the Permanent Fund payout would go to dividends. Another question Alaskans ask is, "Is POMV a license to spend the Fund for state government?" The answer is no. The Legislature has always had the latitude to spend Fund earnings on government. POMV would restrict the amount the Legislature could spend to up to five percent of the Fund's market value. POMV offers superior protection from overspending the Fund as compared to the current payout method.

Legislature reviewing POMV

If the Legislature puts POMV on the 2004 ballot, Alaskans will need to understand more about the origins of the Fund, how the Fund works today and the concept

of POMV in order to make an informed decision in the voting booth. The following two pages outline how the Fund was created, how it works now and how it would be better protected under POMV. Also included in this publication are the most commonly asked questions and answers about POMV.

The APFC Board of Trustees takes its management responsibilities seriously and believes that POMV will best serve Alaskans - today and tomorrow. Please join us in supporting POMV.

For the most comprehensive and up-to-date resource on POMV and the Permanent Fund, be sure to visit www.apfc.org.

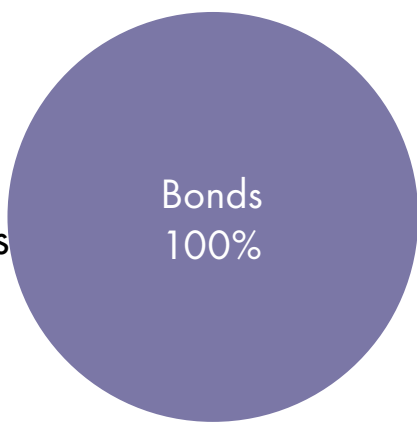
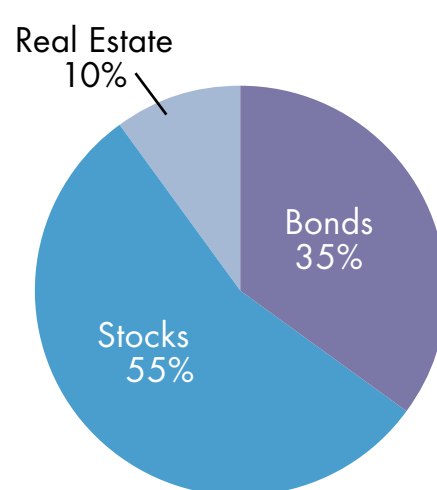
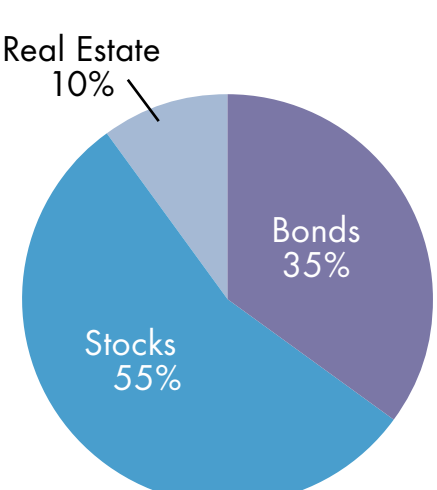
Sincerely,
The Board of Trustees
Alaska Permanent Fund Corporation



APFC Board of Trustees from left to right: Gregg D. Renkes, Eric E. Wohlforth, Executive Director Robert D. Storer, Former Trustee Clark S. Gruening, William A. Corbus, Vice Chair Steve Frank and Chair Carl Brady. Trustee Bill Hudson is not pictured.

The people of Alaska voted to create the Permanent Fund in 1977 and designed it to follow the best investment fund management practices of that era.

Now, in the Trustees' view, it is time for the people of Alaska to make another far-reaching decision to update Fund management if we want assurance that the Fund will realize its intended potential. The best way to accomplish that is to approve the constitutional amendment to adopt a Percent Of Market Value payout method, or "POMV." To help you make that decision, the chart below demonstrates how the Fund has changed over time, where problems exist, and how the Fund would be protected under POMV.

	Permanent Fund Yesterday	Permanent Fund Today	Permanent Fund Under POMV
THE LAW	<p>INCOME TO GENERAL FUND</p> <ul style="list-style-type: none"> • 25% of mineral revenues go in Permanent Fund • Fund principal is invested and protected from spending • Fund income goes to General Fund 	<p>ALL INCOME IN EARNINGS RESERVE ACCOUNT, AVAILABLE FOR SPENDING</p> <ul style="list-style-type: none"> • At least 25% of mineral revenues go in Permanent Fund • Fund principal is invested and protected from spending • All income is retained in the Earnings Reserve and is available for spending by the legislature 	<p>ENTIRE FUND – INCLUDING INCOME – IS PROTECTED</p> <ul style="list-style-type: none"> • 25% of mineral revenues go in Permanent Fund • Constitution is amended to protect entire Fund from over-spending • Spending limited to up to 5% of Fund value
INVESTMENTS	<p>COMPATIBLE</p> <ul style="list-style-type: none"> • Investment and payout policies are compatible • Income from bond interest • Payout based on income 	<p>INCOMPATIBLE</p> <ul style="list-style-type: none"> • Investment and payout policies are incompatible • Returns from bonds and real estate predominantly from income • Returns from stocks predominantly from increase in value 	<p>COMPATIBLE</p> <ul style="list-style-type: none"> • Investment and payout policies are compatible • Returns from bonds and real estate predominantly from income • Returns from stocks predominantly from increase in value 
PAYOUT	<p>LEGISLATURE DETERMINES GENERAL FUND SPENDING</p> <ul style="list-style-type: none"> • Fund income to General Fund – available for spending • No dividend • Payout is stable 	<p>LEGISLATURE CAN SPEND ENTIRE EARNINGS RESERVE</p> <ul style="list-style-type: none"> • Fund income to Earnings Reserve – available for spending • Each year Legislature decides whether to pay dividend • Payout is volatile 	<p>CONSTITUTIONAL SPENDING LIMIT</p> <ul style="list-style-type: none"> • Legislature limited to spending up to 5% of Fund value • Each year Legislature decides whether to pay dividend • Payout is stable and predictable
INFLATION PROTECTION	<p>NO PROTECTION</p> <ul style="list-style-type: none"> • Constitution and statutes do not include inflation protection 	<p>PARTIAL PROTECTION</p> <ul style="list-style-type: none"> • Statutes allow Legislature to decide annually whether to use Fund earnings to protect Fund principal from inflation • At times, the Legislature has also contributed additional money to Fund principal 	<p>FULL PROTECTION</p> <ul style="list-style-type: none"> • Constitution protects entire Fund from inflation

ALASKA NEWSPAPERS WEIGH IN ON POMV

A new proposal put forth by the Alaska Permanent Fund Corporation Board of Trustees to add protections to the fund was endorsed Wednesday by Governor Murkowski. The trustees' proposal is designed to guarantee that there will be a fund for future generations of Alaskans by setting a limit on how much of the fund could be paid out annually and by adding inflation-proofing safeguards. By establishing a percent-of-market-value (POMV) spending limit, the formula used to establish payouts would switch from one based on earnings to one based on the real value of the fund. Each year up to 5 percent of the entire market value of the permanent fund based on a five-year average would be available.

- Juneau Empire, Sept. 26, 2003

Good stewardship of the... Permanent Fund is a vital part of meeting (those) obligations to one another and to our children. To that end, the fund should be seen as more than a dividend machine.

First, we should guarantee the fund's permanence by approving a constitutional amendment making it an endowment, paying out no more than 5 percent of a five-year average market value each year.

- Anchorage Daily News, April 25, 2003

In the fund's present arrangement, annual earnings are held in a separate account from which the Legislature pays the dividends – a yearly payout not required by the Constitution. But dividends account for only half of the earnings total each year, meaning the rest is available for spending on whatever the Legislature chooses. The Legislature has always returned the remainder of the earnings to the fund principal to offset inflation and grow the principal.

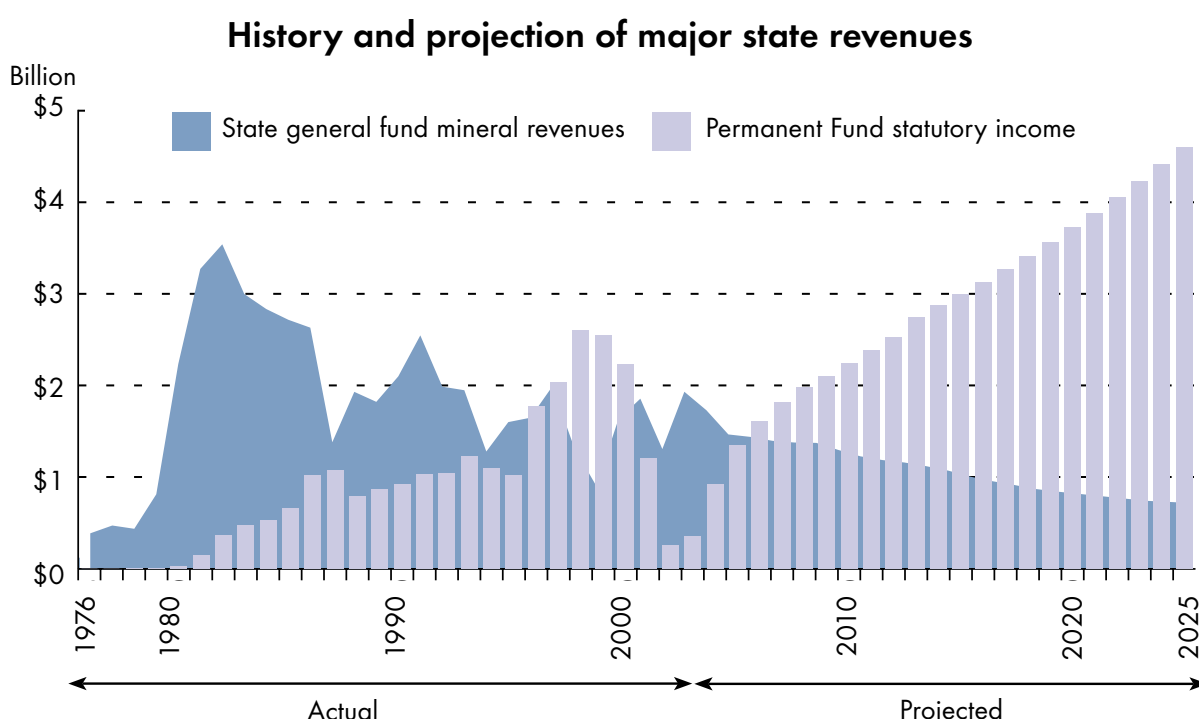
The POMV proposal does not specify how the 5 percent payout, deducted from an expected 8 percent investment return, should be used. Determining how much of it to spend and how to spend it – on dividends and general government, or by returning a portion to the fund, or some combination of the three – will be the job of the Legislature. In that regard, the Percent of Market Value plan changes nothing.

- Fairbanks Daily News-Miner, Nov. 9, 2003

With Gov. Frank Murkowski's endorsement of a proposal to change the Alaska Permanent Fund into an endowment, another hurdle has been cleared on the road to stabilizing the fund and adding to its protection.

There is little doubt that the proposed change deserves bipartisan support in the Legislature. After all, it would protect the fund and its dividend long-term...

- Voice of the Times, Sept. 29, 2003



FREQUENTLY ASKED QUESTIONS

What is POMV?

POMV, or "Percent Of Market Value," is a formula that limits spending to a set percent of a fund's total market value. Each year, the total market value of the Permanent Fund (principal and earnings combined) would be averaged over the previous five years. The Legislature could pay out up to five percent of that five-year average of Fund market values.

Why five percent?

The maximum percent for a POMV payout is determined by the long-term expected difference between total annual return on investments and the rate of inflation. For the Permanent Fund, that difference averages five percent over time.

It is important to note that five percent is the payout ceiling. The Legislature may consider market conditions annually when determining at what point - between zero and five percent - to set the annual payout.

Over the long term, five percent is the maximum that can be paid from the Fund each year while preserving its purchasing power and hence, its future growth potential.

When the markets go down, won't a payout cut into the value of the Fund?

POMV does not require a five percent payout each year; it simply says that up to five percent may be paid out. The risk of spending from the Fund in poor market years is more than balanced by the protection from overspending from the Fund in the strong market years. Over the Fund's history, it has earned in excess of eight percent. Based on that long-term return, a five percent spending limit should actually accumulate in excess of three percent over time. That excess return is the buffer that should protect the Fund from spending up to five percent in poor market years.

What will the POMV payout be used for?

Neither the current formula nor the POMV formula specifies how payouts are to be used. Under both formulas, the Legislature maintains the power to appropriate Fund payouts as it sees fit.

How will POMV affect my dividend?

It is the responsibility of the Alaska State Legislature to determine what part of the five percent available for appropriation would go toward dividends and what part would go toward other uses, if any.

How would POMV get adopted?

SJR 18 and HJR 26 are two resolutions currently in the Legislature that propose the necessary constitutional change to enact POMV. First, the Legislature must approve one of these resolutions. A question would then be placed on the November 2004 ballot asking the people of Alaska whether they approve changing from the current, earnings-based payout formula to a POMV payout method.