

HOUSE FINANCE COMMITTEE  
February 15, 2001  
8:40 AM

TAPE HFC 01 - 27, Side A  
TAPE HFC 01 - 27, Side B  
TAPE HFC 01 - 28, Side A  
TAPE HFC 01 - 28, Side B

CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 8:40 AM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Con Bunde, Vice-Chair  
Representative Eric Croft  
Representative John Davies  
Representative Richard Foster  
Representative John Harris  
Representative Bill Hudson  
Representative Ken Lancaster

MEMBERS ABSENT

Representative Whitaker  
Representative Moses

ALSO PRESENT

Representative Sharon Cissna; Clarke Gruening, Chair, Alaska Permanent Fund Corporation (APFC) Board of Trustees; Wilson Condon, Commissioner, Department of Revenue; Michael O'Leary, Executive Vice President, Callan Associates, Chicago; Robert Storer, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue; Chris Phillips, Chief Financial Officer, Alaska Permanent Fund Corporation, Department of Revenue; Terry Brown, Chief Investment Officer, Alaska Permanent Fund Corporation, Department of Revenue; Jim Kelly, Research & Liaison Officer, Alaska Permanent Fund Corporation, Department of Revenue; Bob Bartholomew, Administrative Officer, Alaska Permanent Fund Corporation, Department of Revenue; Allan Moore, Chief Investment Officer, Alaska Permanent Fund Corporation; Robert Maynard, Chief Investment Office, Public Employees Investment System of Idaho, Permanent Fund Investment Advisor; Jerrold Mitchell, Retired Partner, Wellington Management Company, Permanent Fund Investment Advisor; Allan Bufferd, Treasurer, Massachusetts Institute of Technology, Permanent Fund Investment Advisor.

GENERAL SUBJECT(S):

**ALASKA PERMANENT FUND CORPORATION PRESENTATION:  
2001 CAPITAL MARKETS OUTLOOK**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 22nd Legislative Session, contact 465-2156. After the 22nd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	<b>TAPE HFC 00 - 28 SIDE A</b>	
000	Co-Chair Mulder	Opened the meeting, noting that there would be a presentation provided by the Alaska Permanent Fund Corporation and board members regarding the 2001 Capital Market Outlook.
068	CLARKE GRUENING, CHAIR, APFC BOARD OF TRUSTEES, ALASKA PERMANENT FUND CORPORATION	Introduced members of his cabinet, the executive director, Bob Storer and the presenters for the discussion, Michael O'Leary, Allan Moore, Chris Phillips, Allan Bufferd, Robert Maynard, & Jerrold Mitchell.
166	ROBERT STORER, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE	Commented on the intent of the meeting and the caliber of the staff that would be testifying before the Committee. He pointed out that this year, three special advisors had been added. Robert Maynard, Jerrold Mitchell and Allan Bufferd. He emphasized the amount of experience having them on the Board would bring to the State of Alaska.
315	MICHAEL O'LEARY, EXECUTIVE VICE PRESIDENT, CALLAN ASSOCIATES, INC., CHICAGO	Referenced the handout-Capital Markets Outlook 2001. [Copy on File]. He stated that he would provide an overview of the <ul style="list-style-type: none"><li>• Long term capital market history including stocks, bonds and 60/40 combination with systematic spending;</li><li>• Economic setting;</li><li>• Recent market performance; and</li><li>• Callan's 5-year projections.</li></ul>
453	Mr. O'Leary	Addressed the "real rate of return" as indicated in the handout. He pointed out that the data on the bond returns is not as thorough as the data on the stock returns. He provided some hypothetical

		scenarios of combination spending/cost returns.
609	Mr. O'Leary	Commented that type of analysis could be done by anyone and indicates a real base. There could be higher equity exposures.
647	Mr. O'Leary	Spoke to the current economic environment occurring nationally. He emphasized that the changes have been dramatic in the market.
679	Co-Chair Mulder	Inquired if Mr. O'Leary anticipated that the charts would continue to look like the one on Page 3. He believed that it could not keep up with inflation.
709	Mr. O'Leary	Explained that the chart included an inflation adjustment rather than just a fixed number. In 1930, there was a deflation. All the variations are captured within the graph. In a period of deflation, bonds are the best performing asset to own. In a period of inflation, stocks are a good place to put the assets. During a period of acceleration, there is no place to hide.
845	Representative Hudson	Inquired how far back do the trusts go back to.
897	Mr. O'Leary	Replied that the bond market continues to change, however, the characteristics are more reliable these days than they were in previous years.
940	Vice-Chair Bunde	Suggested that plotting the life of the permanent fund would provide better information.
963	Mr. O'Leary	He explained that these numbers are correct. From 1991-2000, the S&P 500 return amounted to 12%. He emphasized that 12% was an extraordinary amount of return. He noted that his tendency was to average all years, providing a reasonable long-term projection. He added that 6%, 7%, or 8% would be a reasonable long-term expectation for moving forward.
1077	Mr. O'Leary	Interjected that: <ul style="list-style-type: none"> <li>• Consumers are scared;</li> <li>• The stock market is down;</li> <li>• The savings rate has fallen from 8% to -1%;</li> <li>• Consumer debt has risen from 76% to 94% of disposable income;</li> <li>• Energy prices are up;</li> <li>• The trade gap is hitting records;</li> </ul>

		<ul style="list-style-type: none"> <li>• Investment is slipping; and</li> <li>• Some manufacturing is already in recession.</li> </ul>
1175	Mr. O'Leary	Referenced the fall-off, which is happened quickly in the second half of 2000.
1195	Mr. O'Leary	He noted that the savings rate has gone declined, however, consumer wealth has increased. Consumer spending and debt has risen, and that consumer wealth is in better shape. He recommended that it is important to keep on eye on the stock market as it is in decline.
1269	Vice-Chair Bunde	Commented that what we have is "paper" wealth.
1285	Mr. O'Leary	Suggested that the balance sheets still show a lot of unrealized gains and that home prices have not softened. There is a lot of equity build up in that area, which is a significant portion of many consumers' wealth.
1326	Representative Hudson	Commented that the credit industry is not screening their debtors.
1364	Mr. O'Leary	Added that the credit debt is growing from those from 18-30 years old.
1385	Representative Davies	Asked the definition of savings.
1393	Mr. O'Leary	Advised that retirement is generally not included in that number. He offered to forward that information to Committee members, as he was uncomfortable "guessing".
1418	Mr. Storer	Mentioned the reinvesting of profits and the cash flow implications on savings.
1435	Mr. O'Leary	Noted the inflation, which should decelerate as the economy softens. He referenced Page 11 of the handout, illustrating the movement of the Consumer Price Index (CPI) over the past five years.
1489	Mr. O'Leary	Core CPI eliminates the more volatile inflation such as food and energy. He acknowledged that health care costs have risen as have housing costs.
1521	Mr. O'Leary	Referenced Page 12, which indicates oil prices, which are still low in real terms. He commented that the price peak might already be behind us.
1553	Mr. O'Leary	Page 13 - the Federal government should "loosen" quickly; the question is "when".
1571	Mr. O'Leary	Page 14 - Capital markets are confronting the law of gravity. Smaller cap stocks

		did better than the large ones. The NASDAQ declined a lot. It was a good year for bonds.
1649	Mr. O'Leary	Page 15 - Listed the returns by the price/earnings ratio decile. The table demonstrates how radically the world changed in 2000.
1692	Mr. O'Leary	Summarized the capital market projection process.
1707	Representative Croft	Referenced page 15 - The middle column, 1998-1999 annualized %.
1719	Mr. O'Leary	Explained that column represents the extraordinary growth in the past two years. There was a huge inversion. A value-oriented manager would suggest that substantiated long-term value in stocks. He acknowledged that there is a "craziness" going on in the market place. The average stock did not do nearly as well as it did in the past.
1825	Co-Chair Mulder	Made comments on the need to be conservative when dealing with the stock market.
1843	Mr. O'Leary	Referenced Page 17 & 18 graphs. He spoke to the importance of examining stock fundamentals. The P/E ratios hit astounding heights, being inconsistent with long-term interest rates. At the beginning of 2000, the projections were very conservative; however, by the end of the year, were overly optimistic.
1920	Mr. O'Leary	Commented that all projections are strategic projections. By not plotting a particular rate of return, makes for looking at the range of possibilities.
1945	Mr. O'Leary	He noted that they would be able to shift the long-range average around by determining where the State rests in the long-range market at this time.
1982	Representative Croft	Noticed the disconnect between price/earnings in the turnover time.
1993	Mr. O'Leary	Agreed. Some of the best investment returns are achieved in companies long before they have earnings, and then they make a quantum jump in earnings. Many large funds are currently investing in venture capital ideas. He advised that could be a prudent investment.
2053	Representative Croft	Referenced Page 19 and the re-connect to their underlying value.
2069	Mr. O'Leary	Clarified that the average stock is historically selling at price value right

		now. He questioned if the future outlook was sufficient and superior to warrant the high price earnings ratio.
2108	Representative Croft	Asked if that could be two different markets.
2118	Mr. O'Leary	Replied that could be high price.
2146	Mr. O'Leary	Referenced Page 18 - A graph representing the dividend yield around the stock average. He noted that corporate behavior has changed and companies are buying back shares to increase dividends. Big companies have a higher P/E ratio.
2205	Mr. O'Leary	Page 19 - A graph which looks at the earnings yield on the S&P 500 and then forecasts the rate of yield of future returns. There could be a 3% increase before inflation. He did not know if that could be a good projection technique.
2257	Mr. O'Leary	He pointed out that there had been recommendations to add inflation possibilities to that number.
	<b>TAPE HFC 01 - 27, Side B</b>	
000	Mr. O'Leary	Page 20 - Provides an outlined graph of the domestic fixed income. The graph indicates the Lehman Aggregate Index 5 year return versus the lagged yield to maturity. The five-year forecast is developed from that information.
085	Mr. O'Leary	Page 21 - Indicates the 2001 Capital Market Projections, breaking it down by equities, fixed income, other income sources and the inflation inclusion. He noted that the bond estimates declined, whereas the stock estimates remained the same. That resulted from the decline last year.
205	Co-Chair Mulder	Asked if it could be expected that the difference from last year and next year would be the same.
223	Mr. O'Leary	Thought so. He believed that there would be more confidence in the equity market.
278	Mr. O'Leary	Noted that equities are less expensive than they were than last year.
385	Mr. O'Leary	Mentioned that the forecasters are predicting a "range of return" including standard deviations. Last years result was within the expected range.
442	Representative Croft	Asked about "shape".
458	Mr. O'Leary	Replied that would be a risk adjustment measure. He commented on the risk free

		rate divided by the actual risk, thus providing the base. Mr. O'Leary noted that the sharp ratio becomes greater as one invests in more volatile assets.
530	Mr. O'Leary	Page 22 - Spoke to the risks on the horizon. <ul style="list-style-type: none"> <li>• Energy shortage worsens and forces large-scale lay-offs.</li> <li>• Consumers have difficulty paying for past extravagance.</li> <li>• The dollar falls sharply as capital inflows shrink.</li> <li>• Long-term interest rates rise with the passage of large tax cuts.</li> </ul>
546	Mr. O'Leary	Page 23 - Equities constrained to 60% and the current limit by statute, which is 55%, & with a 5% basket clause. The risk level is 10.6%. The annual return is projected to be 8.2%. He claimed that the odds were significantly greater that there would be two good years in succession. Mr. O'Leary commented that things tend to move more toward the middle.
654	Mr. O'Leary	Page 25 - Lists the range of returns over a 1-year period.
687	Mr. O'Leary	Page 26 - Indicates the range of returns over a 5-year period with the annual rate of return.
712	Mr. O'Leary	Reiterated the target mix and the annual rates of returns to be expected. Mr. O'Leary noted the importance of the rate of consistency.
774	Representative Croft	Asked about the expected "basket" rate of return.
791	Mr. O'Leary	Commented that the "basket" is not being used at this time. There exists a band around it up to 56%, -1% of the basket. He noted that the Board was investigating "private equity" to help with the basket equability. There was a decision not to proceed at this time.
851	Mr. Gruening	Spoke to the idea of "holding the course" of action and the longer term expected investments. He noted that idea had not yet been abandoned. He added that the State pension funds have ventured into that area with success.
895	Mr. Storer	Pointed out that the basket clause would give the ability to invest in very sophisticated options.
925	Mr. Storer	Invited his investment officers to the

		table to speak.
967	ALLAN MOORE, CHIEF INVESTMENT OFFICIER, ALASKA PERMANENT FUND CORPORATION	Spoke about data previously introduced. He commented on the fund asset allocation and the outlook for stocks, bonds and real estate (in the handout) - Page 1.
1059	Mr. Moore	Referenced Page 1.
1119	Vice-Chair Bunde	Noted the dividend distribution and asked the source.
1146	Mr. Moore	Advised that the policy was to keep all funds actively invested. He commented that interest costs could be a market calculation and that specifically would depend on what the market is doing at that time. He elaborated on that information.
1293	Vice-Chair Bunde	Pointed out that whatever is happens, there potentially could be a cost of earnings.
1309	Mr. Storer	Unless there is some unforeseen market force, there would be maintained exposure. He noted that his team works closely with Department of Revenue for guaranteeing a higher earning class.
1348	Vice-Chair Bunde	Asked if earnings would be reduced, when that was disbursed.
1364	Mr. Storer	Agreed that there are some irresponsible times. He stressed that the two organization work closely together.
1390	Vice-Chair Bunde	Suggested that the annual reports should include other investment options.
1414	Representative Hudson	Expounded on the possibility of splitting the dividend in half.
1452	Mr. Storer	Commented that theoretically, the longer it is held the more it will make.
1475	JIM KELLY, RESEARCH & LIAISON OFFICIER, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE	Interjected that if the fund is making \$7 million dollars a year, the dividend would be as that. He addressed the daily cost for transferring the funds.
1515	Mr. Moore	Page 2 - Spoke to the equity portfolio distribution. He pointed out that it was broken down by domestic active, international passive, domestic passive, and international active. International performance last year was the worst that it has been in the last 20 years.
1581	Mr. Moore	Page 3 - Capitalization size - dividing all stocks by the size of the company. Large cap, mid cap, small cap all produce differently. The policy mix intends to have 80% in large cap funds and 18% in

		the smaller cap.
1639	Mr. Moore	Last year, the smaller cap indexes produced more. He emphasized that segment of the market is more volatile now and less efficient. The results will be more extreme.
1686	Co-Chair Mulder	Believed that was inconsistent with the market portfolio.
1697	Mr. Storer	Noted that they like to rebalance as little as possible. He pointed out that the fund is rebalanced in September. The graph indicates a "snap shot" from December 31 <sup>st</sup> .
1723	Mr. Moore	Page 4 - The international equities. 61% in the active passive, 11% in the emerging markets, and 28% in the passive managed. Mr. Moore indicated that the emerging markets are countries such as Mexico, Korea, and Taiwan.
1771	Mr. Moore	Page 5 - Graphs equities by country
1785	Mr. Moore	Page 6 - APFC versus MSCI world index. He noted that Alaska has 65% in the U.S. market and 45% in other markets.
1847	Mr. Moore	Page 1 - [Same handout] Moving to new bond benchmarks graph, which indicates treasuries, agencies, corporate, and mortgage-backed. The two colors highlight the government/credit and the aggregate market.
1936	Mr. Moore	Page 2 - The graph demonstrates the Movement to new bond benchmarks and further diversification. He pointed out how it avoids concentration with too much in corporate debt.
1969	Mr. Moore	Page 3 provides a sketch of where the APFD has real estate holdings throughout the country. He reminded members that real estate values change more slowly than the other holdings.
2002	Mr. Moore	Pointed out the number of retail, residential, office and industrial spaces included in the real estate holdings graph. He noted that they make up 60% of the real estate holdings portfolio.
2060	CHRIS PHILLIPS, CHIEF FINANCIAL OFFICIER, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE	Provided an overview of where the fund is at present time. Ms. Phillips provides members a financial outlook for the fund and the expected growth and income. She referenced Page 2 [same handout] - The Permanent Fund market value graph, indicating the market value of the fund, which currently amounts to \$26.2 billion

		dollars.
2103	Co-Chair Mulder	Asked if that was considered part of the General Fund.
2109	Mr. Storer	Replied that it was, unless otherwise indicated by law.
2118	Mr. Gruening	Interjected that the fund does include the earnings reserve. He reiterated that it was available to appropriate the earnings reserve.
2138	Co-Chair Mulder	Pointed out the confusion that exists in the public eye regarding the appropriation of the Alaska Permanent Fund.
2144	Representative Hudson	Asked of the \$6 billion dollars, was the large part to be used for the inflation proofing of the corpus. He thought that the difference would be the inflated value. He interjected that this is not real money.
	<b>TAPE HFC 01 - 28, Side A</b>	
000	Ms. Phillips	Page 3 - the Permanent Fund principal earnings with the fund principal as protected by the Alaska Constitution and that which the Legislature may not spend.
092	Ms. Phillips	Page 4 - Referenced the Permanent Fund income as provided by law, all income from the fund's investments deposited into the Earnings Reserve Account in the permanent fund. The graph also indicates that which is retained there until appropriated by the legislature.
130	Ms. Phillips	Page 5 - Graphs the Permanent Fund projections - indicating the principle dedicated, the income earnings & statutory, realized and unrealized income.
234	Vice-Chair Bunde	Asked about the dividends.
262	Ms. Phillips	Explained that would be the dividends transferred to the Department of Revenue.
282	Ms. Phillips	Added that the Department projects the balance to be about \$21 million dollars.
301	Ms. Phillips	Discussed net income. She noted that the level was below its historic level. Total return of \$1.6 billion net income. She noted that the dividend was \$9 million dollars less.
408	Vice-Chair Bunde	Projected that the dividend would be lower for one of the first times in a while.
429	Mr. Storer	Noted that it had declined slightly in the 1980's.

466	Co-Chair Mulder	Advised that it had been over projected last year.
301	Ms. Phillips	Review Page 5. She stated that the estimates were based on 8 and 1/4 percent interest.
589	Ms. Phillips	Page 6 - Indicates the volatility estimates and the range of market value. She pointed out that 50% of the time; the expectations would be \$27.7 and \$34.5 billion dollars.
707	Ms. Phillips	Page 10 - She noted that the per capita dividend from FY01 - FY06 would be between \$2,850 and \$1,560 dollars. She advised that the chart was based on the forecast from June 30, 2000. Given the current year projection, the dividend would be at the lower quartile.
821	Co-Chair Mulder	Agreed that it appeared that the 2001 dividend would be lower than last year. He suggested that was the result of the markets not producing.
854	Ms. Phillips	Concluded that the Department of Revenue's financial statements are accessible on the Division's website.
896	ROBERT MAYNARD, CHIEF INVESTMENT OFFICE, PUBLIC EMPLOYEES INVESTMENT SYSTEM, IDAHO, PERMANENT FUND INVESTMENT ADVISOR	Stated that the number one strength of the Permanent Fund is the Board of Trustees. These are long-term policies made by "bright" people. He acknowledged that there are a few problems, which need to be faced. He noted that the business is <u>not</u> to pick the best stocks, but rather to met obligations. Mr. Maynard stressed that the investment strategies are different.
1212	Mr. Maynard	Advised that the accumulations phase of the Permanent Fund is over. Now is the time to make choices in investing that fund.
1254	Vice-Chair Bunde	Understood that the mission of the fund was to provide the maximum sustained yield. He asked what made falls into that formula for disbursement.
1286	Mr. Maynard	Countered that if more was needed, there should be more investment in stocks. If it were shorter in, then the fund would invest more in bonds. At this time, there is not a goal that must be reached. To double the fund in 10 years, the fund would need to make 10% per year.
1343	Vice-Chair Bunde	Thought that could inhibit the corporation.
1357	Co-Chair Mulder	Addressed the clarity of focus. He asked

		the time frame which could negatively impact the Permanent Fund.
1379	Mr. Maynard	Stressed that clear guidance from the Legislature is needed. He added that to date, it has been inconsistent. He stated that the issue had been devalued to the Board, which makes it much more difficult.
1412	Representative Hudson	questioned the distribution on the market value and then splitting the average of the earnings for government and then some for dividends. He asked if that was possible.
1450	Mr. Maynard	Noted the clear spending rule. He added that the distribution was difficult to understand. The realized and unrealized gains are no longer being used, but rather funds are poured back into the pool. He reiterated that the system makes little sense. It is not that the percentage of market value does not make a sense. The payout rule is NOT transparent, however, it is confusing. He spoke to the sort of things that the fund could do.
1529	Mr. Maynard	Commented that the Legislature needs to face the issue of giving more direction. He stressed that it is important to continually look at that issue in order to create more clarity. He agreed that the pride that Alaskan's take in the Permanent Fund is well placed; however, he warned that if the respect were lost even once, it would never come back. He reiterated that it should not be taken for granted.
1603	JERROLD MITCHELL, RETIRED PARTNER, WELLINGTON MANAGEMENT COMPANY, PERMANENT FUND INVESTMENT ADVISOR	Commented that he had reviewed the assumptions and financial outlook. Like all assumptions, he noted that they are not sure prospects. Investment management is an art and science. He noted that the process of the Permanent Fund is a sound process. He encouraged that the Fund's investment will become better over the next few years. He noted that his role would be see if the ideas are implemented, that they are translated into action. He noted that it was the execution and planning that made the difference. He suggested that the Permanent Fund's plans could be implemented with support. He added that the payout rates are a good idea and have

		been adopted in all endowment funds providing a greater measure of security and predictability.
1761	ALLAN BUFFERD, TREASURER, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, PERMANENT FUND INVESTMENT ADVISOR	Requested that the Legislature have patience. Investment policy is formulated with multi-level understanding of investment strengths. Issues that cannot be tolerated within the system would be that the dividend could go down from year to year. If the distribution were made available, there would need to be a new treasurer. A policy mandate is that the fund does not decrease. He stated that would relate in part to the Consumer Price Index (CPI) discussion. The purchasing power of the capital must be protected. He asked the appropriate inflation index number that could be used.
1884	Mr. Bufferd	Noted that labor costs rise at a quicker rate than the CPR. He suggested that protection of the purchasing power of the Permanent Fund needs examination. Also, he emphasized the need for definition of the liability strength. Mr. Bufferd stated that there is a constraint by eliminating equity exposure of the fund, which is not a flexible construct. He stressed that a reward cannot be achieved without risk. Mr. Bufferd listed the key liabilities.
1965	Co-Chair Mulder	Asked if the constraints placed by the Legislature have been preventing greater returns.
1991	Mr. Bufferd	Replied that in the context of understanding of the objectives, the policy is too constrained. He noted that if the liability issue were a short-term issue, then the fund, even if it had flexibility, could not do so because of the short-term risk. He hesitated to take the view that it would be the proper allocation outcome for the fund. The sequence must start with the liability.
2080	Mr. Bufferd	Questioned how are the distributions made from the endowment. He acknowledged that it is handled by making the payouts on a smoothing formula, while keeping the accounting with those numbers. He noted that payouts were made on the averaging measure used by the MIT value. He recommended that it would help to make the payout over a 36-month period. Mr.

		Bufferd suggested that would dampen the market volatility.
2143	Mr. Bufferd	Commented on the liability definition, the opening up of boundaries, and smoothing the payout formula.
2168	Representative Davies	Asked about the percent of market value payout.
2195	Mr. Bufferd	Responded that the analogy of how money comes into the Permanent Fund is clearly different from how it comes to MIT. He noted that there are three sources of revenue, the first being tuition.
	<b>TAPE HFC 01 - 28, Side B</b>	
018	Mr. Bufferd	Make comments on the MIT operation procedures.
066	Mr. Bufferd	Referenced gifts and earnings on the assets and defined an objective with those funds. He pointed out that there has been few times in history with a strong decapitalization.
199	Co-Chair Mulder	He asked if the 5% had been driven by development and/or gifts so to continue that performance.
232	Mr. Bufferd	Explained that the 5% came from a study done by the Ford Foundation. He commented that the long-term track of the real return from financial assets was on the order of 5%, however, some suggest that it is around 6.5%.
317	Mr. Maynard	Commented on the system that he used. The 5% real should have at least 70% in equities. He stated that there are artificial constraints placed on the market, which could prohibit the 5% real. He noted that no successful market timers could be used.
416	Vice-Chair Bunde	Voiced caution with the key liabilities. He stated that the PFD is "found" money and that there are no key liabilities in the publics mind.
479	Mr. Maynard	Interjected that liability does not always mean State money.
501	Vice-Chair Bunde	Did not believe that the Legislature would want that. At some time, those funds will need to pay the expenses of State government.
526	Mr. Bufferd	Reiterated that their roles were as investment advisers.
542	Mr. Maynard	Understand that idea and requested that the Legislature seriously consider the key issues proposed. He emphasized that

		there is a "serious hole" in the heart of the long-term liability of the Permanent Fund. He concurred that the fund has been lucky so far.
591	Vice-Chair Bunde	Interjected that the more successful that the Fund is, the less flexibility that the public will allow.
615	Representative Davies	Stated that the key is to think in establishing the liabilities, and people of Alaska agree that this has been an accumulation phase. The Legislature is now in the transition phase trying to determine how to benefit the future. He acknowledged that it is now being determined "how that should look" and the timing with that.
698	Mr. Bufferd	Recommended that one approach would be to address the benefit received by individual residents and define the core liability. To have it grow, an important liability would be to have it fixed. Define the context of long-term realistic investment objectives. He commented that the losses are about consumption. He stressed the need to define the target, minus the liability and then formulate the policy in that context. He acknowledged that idea was simplistic.
843	Co-Chair Mulder	Spoke to integrating the constraints on the management team, noting that, however, it does allow for political protection. He reminded members that initially, there were potential danger when the Board was formed.
917	Co-Chair Mulder	Made comments on protection of the national security interests with the Chinese entering into the stock market. He noted that the push was to protect our national defense and asked how difficult it would be.
984	Mr. Maynard	Replied that it could be very difficult if the intend was to be very thorough and that source restrictions could be limited.
1028	Co-Chair Mulder	Referenced the peer pressure on the required restrictions.
1041	Mr. Bufferd	Commented that when there are concerns like these, it is difficult in terms of analyzing. He noted that It was clear about the opportunity established. He pointed out that at 1/3 of the S&P 500, the opportunity set was created.
1149	Co-Chair Mulder	Understood the balance, however, wanted

		to protect the earnings.
1169	Mr. Moore	Addressed managing roles for that concern.
1190	Mr. Storer	Agreed that there are groups like that and that it would not be a quick fix.
1207	Co-Chair Mulder	Advised that he was attempting to develop legislation to address this concern. He noted that he wanted it to be an effective tool for the Fund managers.
1239	Co-Chair Mulder	Lamented that the entire Legislature was not hearing the comment made at today's meeting. He voiced his gratitude for the time and energy given by the presenters.
1269	Representative Davies	Interjected that there are many legislators and staff that were watching the presentation through the "camera". He echoed his appreciation for the work of the presenters.
1300	Mr. Storer	Voice his appreciation for the time and opportunity to present to the House Finance Committee.
1313	Co-Chair Mulder	<u>ADJOURNMENT</u>  The meeting was adjourned at 11:15 a.m.