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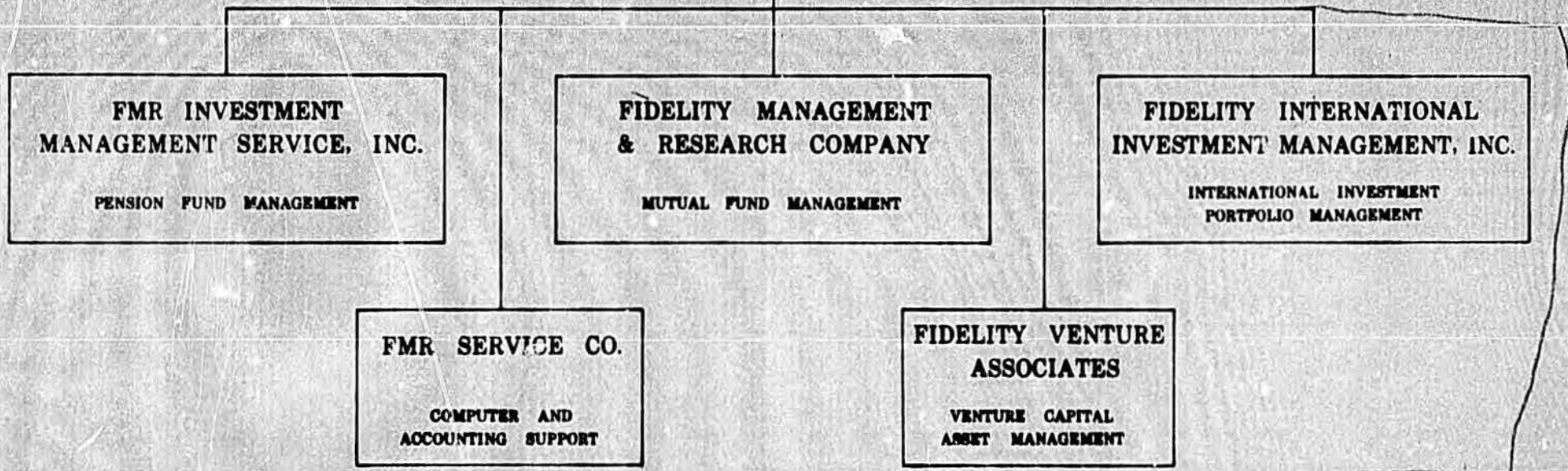
ROGER L. CLIFTON
PRESIDENT

FMR INVESTMENT MANAGEMENT SERVICE, INC.
NUMBER ONE BOSTON PLACE • BOSTON

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MAJOR OPERATING UNITS OF THE FIDELITY ORGANIZATION

FMR CORP.



Handwritten notes in a box, including the number 116.

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\$ 2.5 billion

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2. Professor James Lorie
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- Wednesday - Oct 19

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726-0330

6. Mr. Jon L. Hagler
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*consultant on selection of
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8. *Pete* Mr. Graham O. Harrison
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internal

October 7, 1977

STATE OF ALASKA

Mr. Clark Gruening
Mr. Belden Daniels - Harvard University

THE FIDELITY ORGANIZATION

Mr. Roger Clifton, President - FMR Investment Management Service, Inc.
Mr. Terrence B. Magrath, Vice President - Fidelity International Investment Management, Inc.

TOPIC OUTLINE

I. Evolution of Pension Fund Asset Management in the United States

- a. history
- b. current state of the art
- c. trends in force — *specialized managers*

II. Elements of Asset Management Function

- a. administration →
- b. planning *way of planning* — *Policy-flexibility*
- c. investment management

III. Perceived Nature of Alaska's Problem

- a. organizational issues
 - 1. control/responsibility
 - 2. establishment of policy
 - 3. interfacing with management unit
- b. investment policy issues
 - 1. inflows - expectations/deviations
 - 2. pattern after inflows
 - 3. risk tolerances
- c. operating issues
 - 1. selecting asset management structure
 - 2. special problems of running large pool of assets *# billions*

IV. Major Structure Options

vs eg US-Steel

a. multi-manager approach

Requirements

1. central administrative staff
2. purchased services
 - policy setting consultation *Hank Russell - Tacoma*
 - performance measurement service *Wash*
 - manager selection service
 - money management

Advantages

1. low overhead
2. flexibility to change structure
3. competition between managers

Disadvantages

1. very high service cost
2. complex administration
3. central staff critical

b. internal management

Requirements

1. total investment management company staff (sans marketing)

Advantages

1. relatively low cost (economies of scale)
2. under control of Alaska board
3. most responsive to State's needs

Disadvantages

1. little flexibility
2. difficult to match capability to asset base
3. remoteness from capital markets if based in Alaska

c. contract organization

Requirements

1. one time search
2. designation of liaison responsibilities in State

Advantages

1. responsive to Alaska - integrated
2. capability growth matched to needs
3. flexible to change structure
4. no committed overhead

Disadvantages

1. cost higher than internal option
2. no direct competition (competition through comparison with objective measures)

**Fidelity
International**
BOSTON LONDON TOKYO

December 1, 1977

Mr. Billy Berrier
Director of Division of Legal Services
Legislative Affairs Agency
Pouch Y - State Capital
Juneau, Alaska 99801

Dear Bill:

I telephoned my comments to Ken Vasser on the Powers and Duties section of the Work Draft Paper dated November 14, 1977 which you gave me at our meetings in Anchorage. This letter is to confirm these recommended changes to you. A marked-up copy is attached.

I believe that we had agreed in Alaska that the "prudent person" rule given in 37.13.130 (a) would be altered to assure that the standard of measurement would be the "prudent expert", i. e. how large pools of similarly oriented capital are managed, rather than how the individual investor manages his/her money. Given that change is made, I offer the following specific suggested changes to subsequent sections.

1. Page 8, Section (b), Line 14. Delete "type and maturity of investments in" and add to the end of the sentence the following: "by type of security, within type of security and with respect to geographic distribution. The board shall ~~from time to time~~ establish overall ^{and review regularly} guidelines _{in writing} for the diversification of the assets of the Permanent Fund".

Comment: the way that line had been written could be construed to restricting you to just investing in debt securities, since equity securities do not have a maturity of investment. The change clarifies this and assures that diversification will be more complete. Furthermore, it explicitly requires the board to assume the very important "policy-making" function, i. e. setting the overall mix of assets. This, coupled with the total return objective set forth in 37.13.020 and coupled with the "prudent expert" constraint, should provide a mechanism to match the asset mix to the fund's needs as conditions evolve.

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FSH Florida

Repon F. Committee

TERRANCE D. MACRATH
Vice President

5-7 Harold

2. Page 8, Section (e), Line 21. Between the words "persons" and "to", insert "to recommend or".

Comment: there may be a time which the board would prefer to contract with a party to provide advice on the management of the funds rather than to assume full discretionary management. This wording allows them that flexibility and it also differentiates between the advisory and discretionary management functions, thereby assuring that the latter is permitted.

3. Page 8, Section (f), Line 27. Delete "listed on a recognized stock exchange".

Comment: leaving the requirement to restrict investments to those issues listed on exchanges could preclude the fund from investing in substantial organizations, such as banks, which do not list. Since the board is constrained under the prudent expert rule, there should be no further need to restrict them to listed securities.

4. Page 8, Section (f), Line 29. Delete "or in which default is imminent to principal or interest at the time of investment".

Comment: this is non-operational since the prudent expert would obviously try not to invest in securities about to go into default. The wording as it is could allow hindsight litigation in the event some holding does go into default.

5. Page 9, Section (b), Line 2. Change word "stocks" to "securities" if your intent is to preclude all participation in a particular industry or alternatively change word "stocks" to "stocks and convertible issues" if your intent is to preclude equity participation in a particular industry.

Comment: my understanding is that you wish to assure diversification of the investments of the fund from the revenue source of the fund. Choosing from the above alternatives will exclude either a whole industry or just the equity component, however you desire. Keep in mind, however, that debt issues respond to maturity, quality and other factors germane to the issue, rather than to the industry. My recommendation is to just exclude the equity participation.

6. Page 9, Section (f), Line 2. Change "mining company" to "company whose primary business is the exploration or development of oil or gas", or "company whose primary business is the extraction of gold", or whatever combination of industries you desire.

Comment: restricting investments from such a broad category as mining companies could preclude investments in many securities which may have small mining operations. For instance, virtually every steel company does some mining. While you may want to add or delete certain industries to the above recommendation, the general principle is to be as narrow and specific as possible in your exclusions.

7. Page 9, Section (f), Line 3. Delete the word "private".

Comment: the word "private" could be misleading in the sense that companies like the one I work for, for instance, is a privately held corporation, with no stock sold to the public. U.S. Steel, on the other hand, would be considered to be a publicly held corporation. Further, there may come a day in which the fund may want to buy stock in quasi-government corporations such as Comsat, which could not be considered private in any case. Deleting the word "private" takes away this ambiguity.

8. Page 9, Section (f), Line 3. Delete all after the word "which" through to the semicolon on line 7 and substitute "is not paying dividends on that stock in cash at the time of purchase".

Comment: my understanding is that the only real requirement you have is that each security must be income producing. The way the sentence now reads the corporation could be paying dividends on another security, but not on the one being purchased in the fund. Also, by deleting the time and yield requirement, you are providing the board the flexibility to structure the portfolio as they see fit to achieve the objectives, again within the prudent expert rule.

9. Page 9, Section (f), Line 7. Delete all after the semicolon through to line 11.

Comment: this provision could be considered ambiguous in the sense that an interest payment could have been defaulted, but then made up at a later date. It seems to me that the prudent expert rule should be sufficient for the board to act in deciding whether or not a particular bond is qualified for purchase.

10. Page 9, Section (f), Line 11. Delete the last sentence.

Comment: this constraint could be very restrictive as capital markets and/or fund requirements change. Substituting the policy function in section (b) should preclude the necessity of establishing specific constraints.

Bill, I think you have drafted a fine piece of legislation, and one which should serve the people of the State of Alaska well. You may recall in my testimony that I emphasized the following points:

1. Investment management is a profession. Whether you develop investment capability internally or hire outside firms to do your investing, it is important that the actual investment operations be carried out by investment professionals.
2. The investment professionals should be able to act as independently as possible from spurious political considerations, their only allegiance being to the effective management of the assets. They especially should not be subject to turnover with changing political administrations.
3. The board should be high level and should consider themselves liable, in every sense of the word, for the prudent management of the assets to achieve the stated objective. They should delegate the actual operations but retain the policy function. They should be able to hire or contract separate staff or services to independently evaluate the professionals' investment and operational performance.

Given the above, and the changes recommended for the Powers and Duties section, you should have an effective mechanism to invest the assets in an optimum way as the fund and capital markets evolve.

Fidelity
International

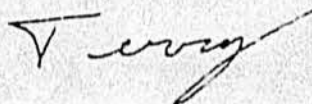
Mr. Billy Berrier

- 5 -

December 1, 1977

I hope this has been of help, and it certainly has been a pleasure to work with you and your colleagues in Alaska. Please let me know if there is anything else we can do for you.

Yours very truly,



TBM:del
Enclosure

cc: Mr. Clark Gruening
Special Committee on the Alaska
Permanent Fund
528 W. 5th, Suite 270
Anchorage, Alaska 99501

1 owned, controlled, or invested in by the permanent fund. If a member of
2 employee owns or controls an interest, he shall immediately disclose the
3 interest in writing to the board and refrain from participating in any
4 manner in any board activity relating to that interest.

5 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-person rule
6 is applicable to the board in its management and investment of permanent
7 fund assets. In making investments, the board shall exercise the judgment
8 and care under the circumstances then prevailing which a person of
9 ordinary prudence, discretion, and intelligence exercises in the management
10 of his own affairs not in regard to speculation but in regard to
11 the permanent disposition of funds, considering the probable income from
12 them as well as probable safety of capital.

13 (b) The board shall seek to maintain a reasonable diversification
14 ~~of type and maturity of investments in its investments.~~
15 ~~BY TYPE OF SECURITY, WITHIN TYPE OF SECURITY AND WITH RESPECT TO GEOGRAPHIC~~
16 ~~DIVERSIFICATION. THE BOARD SHALL FROM TIME TO TIME ESTABLISH GENERAL GUIDELINES FOR~~
17 ~~THE DIVERSIFICATION OF THE ASSETS OF THE PERMANENT FUND.~~

18 (c) The board shall submit long-range and quarterly investment
19 reports to the State Investment Oversight Committee.

20 (d) The board may not borrow funds or guarantee loans made by any
21 other program or association.

22 (e) The permanent fund shall be used only for income-producing
23 investments. The board may contract with the Department of Revenue or
24 ~~other persons~~ ~~to select investments for the permanent fund.~~
25 ~~Investments shall be selected in accordance with (f) of this section.~~
26 ~~TO ASSISTANCE OR~~

27 (f) Subject to (a) of this section the board may invest its assets
28 in obligations of the United States or obligations for which the faith
29 and credit of the United States are pledged for payment of principal and
30 interest; loans secured by first liens on unencumbered realty or lease-
31 hold; and corporate stock and corporate obligations ~~listed on a recog-~~
32 ~~nized stock exchange.~~ No investment may be made in a security which is
33 in default ~~or in which default is imminent to principal or interest at~~

* (COMPANYS WHOSE PRIMARY BUSINESS IS THE EXPLORATION OR DEVELOPMENT OF OIL OR GAS) OR (COMPANYS WHOSE PRIMARY BUSINESS IS THE EXTRACTION OF GOLD) OR AS DESIRED.

1 ~~the time of investment.~~ No portion of the assets of the fund may be
 2 used in the purchase of ~~stocks~~ ^{(SECURITIES) OR (STOCKS OR CERTAIN SECURITIES)} of any mining company; nor in the purcha
 3 of stock of any ~~private~~ corporation which ~~during the preceding five~~
 4 ~~is not paying dividends on that stock in cash at the time of purchase~~
 5 ~~fiscal years has not paid dividends in each of at least three and one-~~
 6 ~~fourth per cent per year upon the par or stated value of the class of~~
 7 ~~stock purchased or upon the par or stated value of a class of stock~~
 8 ~~junior to the stock purchased; nor in the purchase of bonds of any~~
 9 ~~private corporation, upon which any regular interest payment has been~~
 10 ~~defaulted at any time within five years before purchase, except bonds~~
 11 ~~never in default but which have been outstanding for less than five~~
 12 ~~years. No more than 15 per cent of the assets of the fund may be in-~~
 13 ~~vested in common stock.~~

14 Sec. 37.13.140. BOARD BUDGET. The board's budget is subject to
 15 the Executive Budget Act (AS 37.07).

16 Sec. 37.13.150. AUDITS. The Legislative Budget and Audit Commit-
 17 tee shall conduct annual operational and performance evaluations (post-
 18 audits) of the board's investments and investment programs and report
 19 the results to the State Investment Oversight Committee.

20 Sec. 37.13.160. REPORTS AND PUBLICATIONS. No later than the 20th
 1 day of the legislative session, the board shall publish a report to the
 2 governor, legislature, and the public in easily understandable language.
 3 Each report must include financial statements audited by the Legislative
 4 Budget and Audit Committee, a statement of the amount of money received
 5 by the permanent fund from each investment during the period covered, a
 6 statement of permanent fund investments, a description of permanent fund
 7 investment activity during the period covered by the report, and any
 8 other information the board believes would be of interest to the govern
 9 the legislature, and the public. The annual income statement and balance
 10 sheet of the permanent fund shall be published in at least one newspaper

October 7, 1977

STATE OF ALASKA

Mr. Clark Gruening
Mr. Belden Daniels - Harvard University

THE FIDELITY ORGANIZATION

Mr. Roger Clifton, President - FMR Investment Management Service, Inc.
Mr. Terrence B. Magrath, Vice President - Fidelity International Investment Management, Inc.

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a. multi-manager approach

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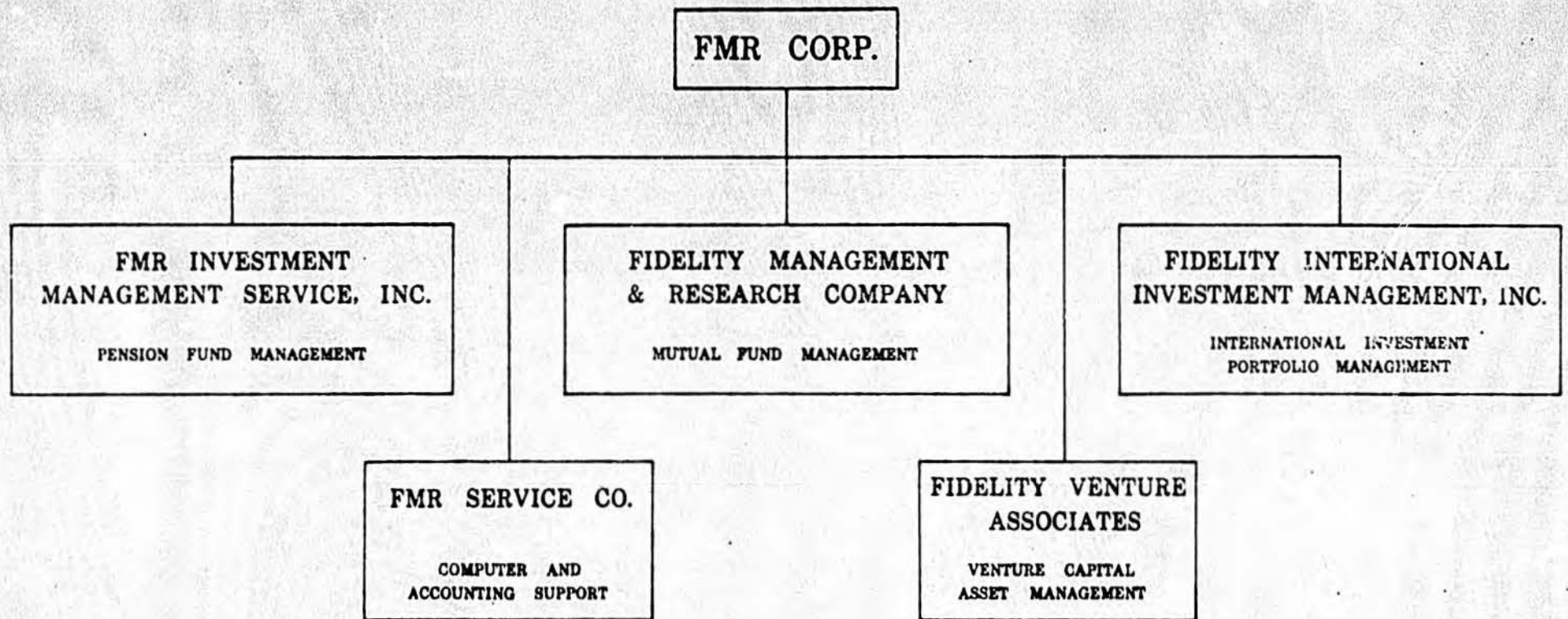
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Disadvantages

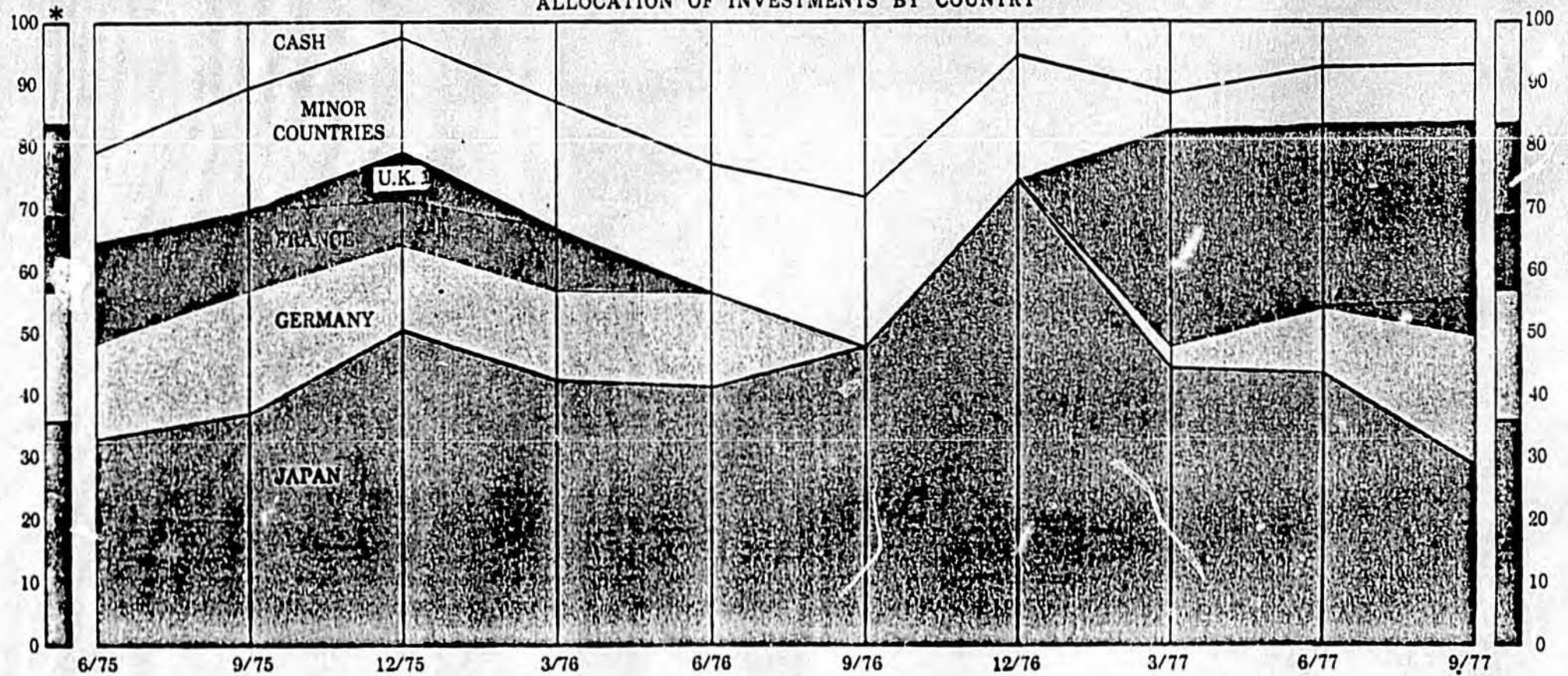
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MAJOR OPERATING UNITS OF THE FIDELITY ORGANIZATION



FIDELITY WORLD PENSION TRUST

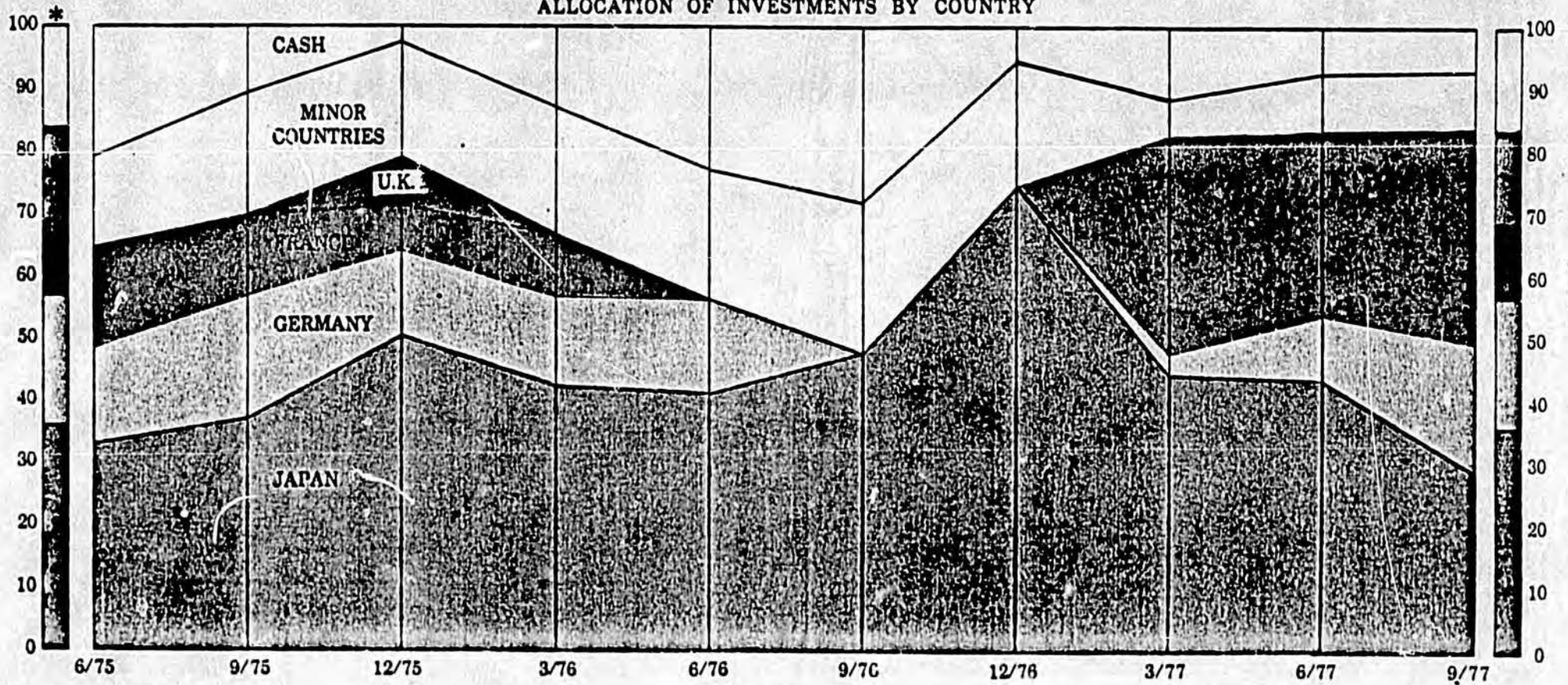
ALLOCATION OF INVESTMENTS BY COUNTRY



• NEUTRAL POSITION

FIDELITY WORLD PENSION TRUST

ALLOCATION OF INVESTMENTS BY COUNTRY



• NEUTRAL POSITION

MAJOR OPERATING UNITS OF THE FIDELITY ORGANIZATION

