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ALASKA PERMANENT FUND Corporation

**1981 Annual Report
And Financial Statements**

ALASKA PERMANENT FUND Corporation

Members of the Board of Trustees

Elmer E. Rasmuson, Chairman
Thomas K. Williams, Vice-Chairman
Peter B. McDowell, Secretary
Wilson L. Condon
Robert W. Ward
George W. Rogers

Acting Executive Director

Peter Bushre, Treasurer

Contact Address

Alaska Permanent Fund Corporation
Pouch SB
Juneau, Alaska 99811

Telephones: Juneau, (907) 465-2350
Anchorage, (907) 277-1496





Elmer Rasmuson
Chairman of the Trustees

ALASKA PERMANENT FUND CORPORATION

POUCH SB - JUNEAU, ALASKA 99811
TELEPHONE 907-465-2351

BOARD OF TRUSTEES:

ELMER E. RASMUSON - CHAIRMAN
THOMAS K. WILLIAMS - VICE-CHAIRMAN
WILSON L. CONDON
PETER B. MCDOWELL
GEORGE W. ROGERS
ROBERT W. WARD

RESPONDENT ADDRESS

September 30, 1981

"Shaping the Future of the Permanent Fund"

In the fall of 1976, the people of Alaska made the first great change in their fiscal affairs, creating the Permanent Fund. This set aside 25% of the oil royalties and related income of the State (about 11% of all oil receipts) and the Legislature can set aside more from year to year, as it added \$900 million in 1980 and \$1.8 billion in 1981.

In truth, the Permanent Fund began chiefly with a "negative" goal, to place a part of one-time oil wealth beyond the reach of day-to-day government spending. During these past five years, Alaskans have taken up the work of defining the "positive" goals of the Permanent Fund. The first results of that effort were in 1980, prescribing the independent management of the Fund and setting out a cautious list of investments and providing dividends for the public from the earnings of the Fund. This effort of defining positive goals continues.

For our part, we, your trustees, are convening a series of seminars to explore the possible futures of the Permanent Fund and the best ways to attain them. Meeting jointly with a select legislative delegation, we have asked the counsel of economists and other financial specialists, of major Alaskan interests, and of the general public.

We have been guided by the conviction that shaping the future of the Permanent Fund must be done in the light of all the oil revenues. Otherwise, there is the danger the Permanent Fund will duplicate or work against other State actions instead of complement them. Accordingly, we have brought into one public forum the issues that surround budget growth, the loan and capital programs, the equity of how the oil money is being divided—and the Permanent Fund. This is described in this Annual Report.

We are in the midst of preparing recommendations for the opening of the next legislative session. Already, I believe, there is a growing sense of which questions are the key ones: What is the fundamental purpose of the Fund (high quality savings, some kind of development program, or both if they are not in conflict); given a fundamental purpose, what is the proper size of the Fund and what adjustments in the management structure and the list of authorized investments may be necessary, especially to protect the income and capital of the Fund from surging inflation; how much income could be used for what purposes and with how much equity?

The Permanent Fund is unique in being created by the people themselves and not only for the present generation. Shaping its future is not to be done by your Trustees alone or by any one group. We ask for the help of all our fellow Alaskans.

Sincerely,



Elmer Rasmuson
Chairman of the Trustees

THE YEAR IN REVIEW

Actions of the Trustees

The six Trustees appointed as the first board of the newly created Alaska Permanent Fund Corporation were faced with a series of critical decisions in several areas: (1) organization and management; (2) establishment of investment guidelines; (3) review of the current provisions of law; and (4) examination of issues crucial to the future of the Fund.

Organization and Management

Under the provisions of the Permanent Fund Act, the Trustees were given the freedom to elect all officers of the board and to reevaluate those decisions on an annual basis. At their first annual meeting, the Trustees elected Elmer Rasmuson as Chairman, Thomas Williams as Vice-Chairman, and Deputy Commissioner of Revenue Peter Bushre, who had been chosen Acting Executive Director, as Secretary-Treasurer. The Chairman and Vice-Chairman were reelected at the second annual meeting, with Peter McDowell elected Secretary and Mr. Bushre as Treasurer.

Among other management decisions during the first year were the selection of Attorney General Wilson Cordon as general counsel, the appointment of the Department of Revenue as agent for the corporation to continue managing the Fund at the Trustees' direction, taking formal action to transfer the Permanent Fund to the Alaska Permanent Fund Corporation by the end of calendar year 1980, selecting Price Waterhouse & Co. as the Fund's auditors, selecting Trustees' staff, and making decisions regarding the development of a separate entity for management of the Fund.

A paper on organization and management by Trustee Peter McDowell served as a focus in the Trustees' discussion of moving to separate or "independent" status as provided for by law. There was a consensus among the Trustees in examining the legislative history that although they were not legally bound to develop a separate corporate entity, there existed a public and legislative preference for their doing so. The Chairman appointed a subcommittee to identify the factors involved in implementing this intent, to develop a time line for effecting the move and to determine staffing requirements.

Investments

The Permanent Fund Act provides what is generally considered a very narrow range of permissible investments. Faced with an unpredictable and wildly fluctuating money market, the Trustees have followed a conservative investment strategy, directing the Fund managers in the Department of Revenue to emphasize short term money market instruments in the Permanent Fund's portfolio. Initial direction to the managers was to consider four years as the outer perimeter of acceptable investment with greater emphasis to be placed on two year maturities. As the year continued, the Trustees urged progressively shorter maturities, so that by the end of the fiscal year, the average weighted life of marketable securities in the Fund was one year one month. Since June 30, 1981, all marketable investments in the Fund have been limited to maturities of three months and shorter duration.

The Trustees adopted a plan to place 5% of the Fund in in-state federally guaranteed mortgages for owner-occupied one-to-four unit dwellings. A plan to place 5% of the Fund in in-state banks in the form of time certificates of deposit with maturities established in one year increments, funds to be rebid at maturity, was also adopted.

Review of Current Provisions

Early in the year, in a paper entitled "Thoughts of the Chairman", Mr. Rasmuson observed that the narrow range of allowable investments in the current law prevents the Trustees from providing an effective hedge against inflation. He called for consideration of modifications in the Fund legislation to allow investments which would offset inflation, and he also identified the need to coordinate any examination of the Fund, which automatically receives only about 11% of the state's oil wealth, with plans for the remaining 90% of the revenues. This approach was endorsed by the Trustees, who further agreed that the task of shaping the Fund must be a continuing process and that if the Fund is to have a stabilizing role in the Alaskan economy, any changes must be made with careful deliberation.

Subsequently, a special legislative panel was appointed to work with the Trustees. Appointments were made both by Senator Sturgulewski, Chairwoman of the Legislative Budget and Audit Committee, which has statutory oversight responsibility for the Permanent Fund, and by the presiding officers of the Legislature. A series of seminar/work sessions was scheduled and the Trustees and legislators are meeting regularly to examine the issues and discuss recommendations.

Examination of Issues

A consensus has emerged as to the questions which must be addressed and on which recommendations ought to be made.

Assuming the fundamental role of the Fund to be provision of high quality savings, with both present and future residents enjoying the income, is there also a possible development role and is that role desirable? What are the risks of concentrating investments within a single state? Is the present investment list adequate and, if not, would it be prudent to diversify into other asset classes such as equities, real estate or foreign assets? What are similar institutions doing in this regard? Given the fact that the principal and income of the Fund will be eroded by inflation, should some provision be made to pay out only "real" or inflation-adjusted income rather than all income? Should an objective rate of return over the rate of inflation be set as an overall performance measurement goal (i.e., 2% over the rate of inflation)? What management changes may be needed (such as composition of the board, size of internal staff)? What legal constraints must be considered in making recommendations? And, finally, what is the proper size of the Fund? This last question turns on how the income may be used. Several proposals for the use of income have been advanced; distribution to residents, covering some part of future state budgets, and endowing central programs in the budget, such as education, housing, or local grants, are some of the possibilities.

Guest speakers of national repute have been featured at the series of seminars. Broad questions of state spending and distribution of oil wealth were dealt with by Professor Don Gordon of City University of New York, Katherine Peden, a private industrial development consultant, Nobel laureate Kenneth Arrow from Stanford, Professor Maxwell Fry of University of California at Irvine, and Professor Richard Coffman of University of Idaho. George Russell of the Frank Russell Company, Robert Greeley, manager of corporate investments at Hewlett Packard, and Sam Nakagama of Kidder, Peabody & Co., specifically addressed investment strategy.

To obtain more detailed information on investment and management questions, representatives of the Permanent Fund, Treasury Division, the Legislative Budget and Audit Committee and the Attorney General's office had a series of meetings with prominent New York financial houses, reports were filed upon their return.

Meetings and Information

Four regular meetings and two special meetings were held during fiscal year 1981 and two meetings have been held thus far in fiscal year 1982. Dates and places are noted below. Summary minutes are available for all meetings. In addition, a compilation of papers presented by guest speakers, together with an executive summary, will be made available to the Legislature in January. Copies of that report will be furnished upon request to any interested groups or individuals.

Regular Meetings

September 12, 1980 — Juneau
November 21, 1980 — Juneau
March 20, 1981 — Juneau
June 30, 1981 — Anchorage
September 10 & 11, 1981 — Juneau

Special Meetings

January 9, 1981 — Juneau
May 8, 1981 — Juneau
August 20, 1981 — Fairbanks

Future meetings are scheduled for October 22 and 23 in Anchorage, December 3 in Juneau, and at a date uncertain in January in Juneau. The public is always encouraged to attend meetings and is given an opportunity to address agenda items.



FUND PERFORMANCE DURING FY 1981

(July 1, 1980—June 30, 1981)

Investment Strategy

Fiscal year 1981 was a period characterized by extreme volatility in financial and capital markets. As measured by the accepted bond indices, the first and third quarters of calendar year 1980 were the worst two in fifty years, while the second quarter was the best ever recorded. Declining interest rates in the second quarter encouraged both consumers and corporate borrowers to resume their earlier spending patterns. As a result the economy experienced the shortest recession on record—three months—and then bounced back to produce extraordinary growth in early 1981 before weakening in the second quarter of 1981. While inflation has abated recently, there is nothing substantive to indicate that this improvement is anything more than a temporary phenomenon. Wage demands continue strong and there has been no improvement in productivity.

Fund investments during FY 81 were concentrated in two year and shorter maturities, with investments in progressively shorter maturities as the year advanced and the economic climate remained unpredictable. By mid-June, 90.7% of the Fund portfolio matured within two years, 66.9% within one year, and 49.8% within six months. On June 30, 1981, the average weighted life of marketable securities was one year one month as compared to three years one month on the same date in 1980.

Performance Versus Goals

AS 37.13.170 requires that the annual report include a comparison of corporation performance with the goals outlined in AS 37.13.020. These goals are: (1) conservation of a portion of the state's mineral resource revenues to benefit all generations of Alaskans; (2) maintain safety of principal while maximizing total return; (3) management of Fund as a savings device to allow maximum use of disposable income for purposes defined by law.

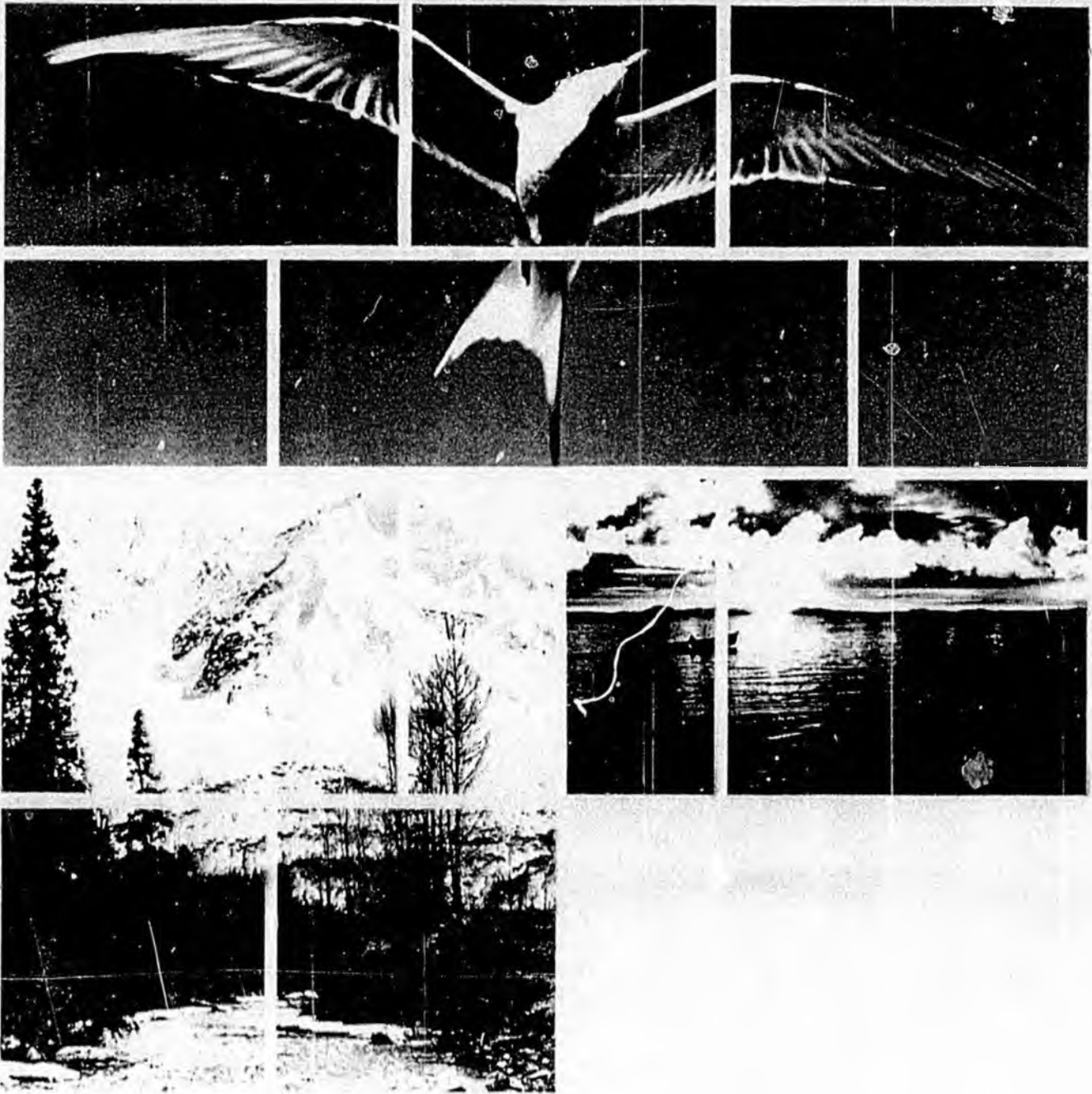
Through the regular contributions required by the constitutional amendment and by the Permanent Fund Act, plus the special appropriation of \$900 million made during the 1980 legislative session, the Permanent Fund grew from \$483,208,000 on June 30, 1980, to \$1,827,299,000 on June 30, 1981.

The realized rate of return on Fund investments has climbed steadily and was 16.0% as of June 30, 1981. The net realized gain on transactions retained in the Fund's principal during fiscal year 1981 is \$219,388. All principal contributions have been retained in the Fund's balance, and disbursement of income earned has been limited to cash amounts received.

The Permanent Fund Dividend Plan is the only provision currently in law for the use of disposable income. According to the constitutional amendment which created the Permanent Fund, all disposable income of the Fund is transferred to the General Fund and is available for expenditure by the Legislature, unless otherwise provided by law. The statutory provision for payment of dividends in proportion to duration of Alaska residence has been challenged. The Alaska Supreme Court decision upholding the dividend distribution plan is presently under review by the U.S. Supreme Court; a decision is expected sometime in early 1982.

Audit

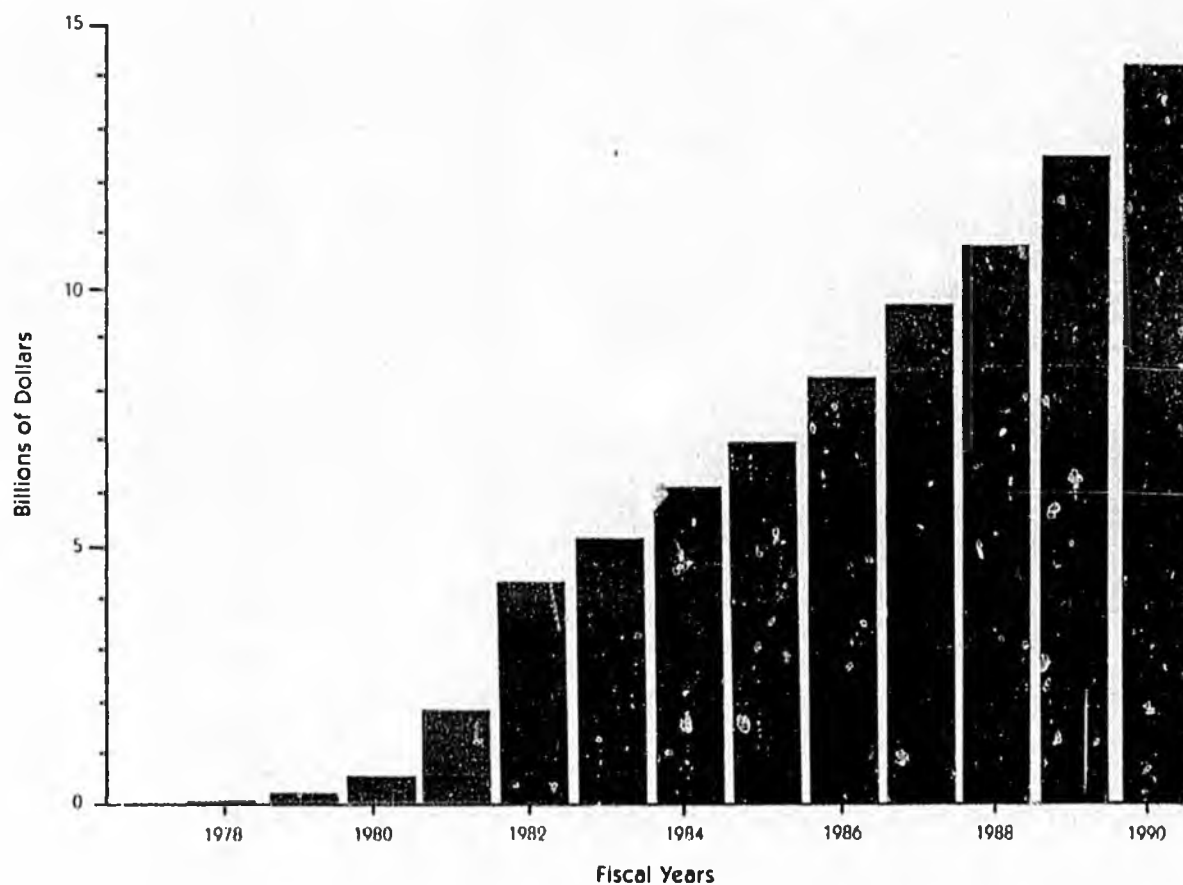
The Fund was audited by Price Waterhouse & Co., independent public accountants, for the 1981 fiscal year. The auditors expressed an unqualified opinion as to Statements of Net Assets, Investment Income and Changes in Net Assets.



OUTLOOK FOR FISCAL YEAR 1982

Cumulative Balances

- Historical Cumulative Balance
- Projected Cumulative Balance



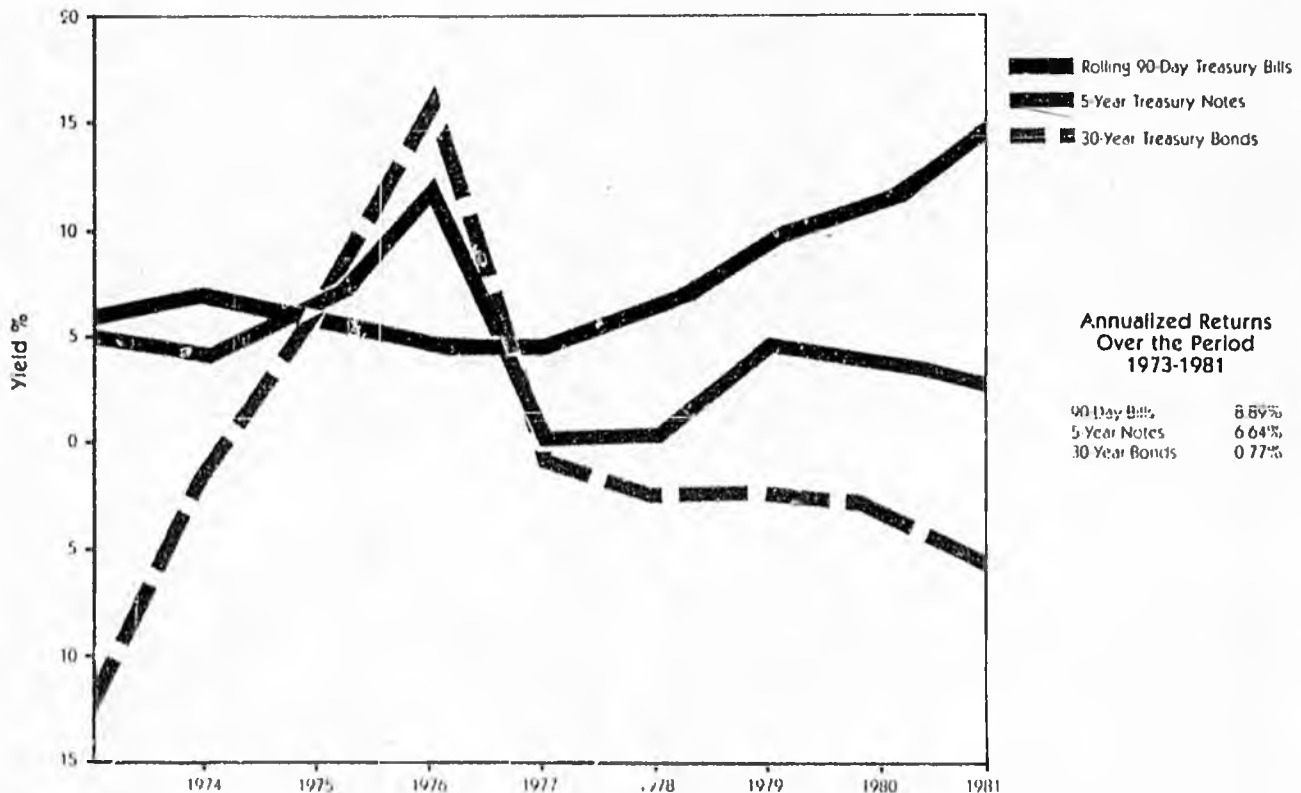
Fund Balance

During the 1981 legislative session, a special appropriation of \$1.8 billion was made to the Permanent Fund under the provisions of Chapter 51, Session Laws of Alaska 1981. With the addition of that amount plus regular contributions, the Fund is projected to be \$4,273,900,000 on June 30, 1982.

Economic Outlook and Investment Strategy

The central concern in the development of any coherent investment strategy is the willingness of the U.S. government to come to grips with inflation and the nature of policies proposed to bring it under control. The Administration's budget cutting and tax cut victories along with its defense program have raised a number of significant concerns within the investment community. There is a growing realization that the U.S. Treasury and federal agencies will continue to make heavy demands on the credit markets for the remainder of this year and 1982. The Treasury's early estimate of \$42.5 billion deficit for federal fiscal year 1982 is proving to be unrealistic, and a number of private analysts are projecting a deficit in the \$70 to \$80 billion range. The Administration is currently searching for new areas to cut spending, but any search will likely involve some extremely difficult political struggles.

Fixed Income Total Returns
(Revised Sept. 1981)



Alaska Permanent Fund

Realized rates of return, income, and portfolio balances
for the fiscal years ended June 30, 1981, 1980, 1979, & 1978

| | Fiscal Year 1981 | Fiscal Year 1980 | Fiscal Year 1979 | Fiscal Year 1978 |
|---|---------------------|---------------------|---------------------|---------------------|
| Realized rates of return (based on accrued income) | 16.00% | 11.29% | 8.24% | 7.53% |
| Investment income (including amounts earned but not rec'd. by year end) | \$ 149,867,000 | \$ 32,426,923 | \$ 7,967,131 | \$ 1,791,000 |
| Case earnings received transferred to general fund | \$ 54,931,481 | \$ 23,675,560 | \$ 5,702,926 | \$ 900,434 |
| Average portfolio balance | \$ 936,243,000 | \$ 287,255,000 | \$ 96,700,000 | \$ 23,800,000 |
| Marketable securities on June 30, at cost | \$1,846,491,000 | \$493,427,071 | \$137,783,958 | \$ 54,387,000 |
| Marketable securities on June 30, at market | \$1,795,730,000 | \$493,444,000 | \$136,140,000 | \$ 52,300,000 |

There appears to be a growing perception in the financial markets that a strict monetarist monetary policy and supply-side oriented fiscal policy are not entirely mutually compatible. Those advocating most strongly the supply side fiscal policy are already beginning to contend that high interest rates are suppressing economic growth, pushing the federal budget further out of balance and jeopardizing the tax cut's chance of success. The Federal Reserve Bank, on the other hand, is undoubtedly concerned that a significant easing in interest rates would start another inflationary surge in pent up consumer demand for housing and automobiles. These concerns are also no doubt compounded by fears that this surge could be reinforced by the administration's three year tax cut and a planned surge in defense spending. Fixed income investors seem to sense that eventually one philosophy will have to be deemphasized.

Given the volatility of the economy and interest rates, a conservative investment strategy emphasizing short term investments appears best suited to providing high rates of return while at the same time minimizing the risks of capital depreciation. Until such time as fiscal and monetary policies are brought into a more harmonious relationship, interest rates are likely to remain highly volatile.

ALASKA PERMANENT FUND Corporation
Financial Statements
June 30, 1981

Rice
Waterhouse & Co.



101 WEST BENSON BOULEVARD
ANCHORAGE, ALASKA 99503
907-279-1424

August 13, 1981

To the Board of Trustees
Alaska Permanent Fund Corporation

In our opinion, the accompanying statements of net assets, of investment income and of changes in net assets present fairly the financial position of the Alaska Permanent Fund Corporation at June 30, 1981 and its investment income and changes in net assets for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including at June 30, 1981 confirmation of securities owned by correspondence with the custodians. The financial statements of the Alaska Permanent Fund Corporation for the year ended June 30, 1980 were examined by other independent accountants, whose report dated August 29, 1980 expressed an unqualified opinion on those statements.

Price Waterhouse & Co.

Price Waterhouse & Co.

ALASKA PERMANENT FUND Corporation

Statement of Net Assets

| | June 30 | |
|--|-----------------------|----------------------|
| | 1981 | 1980 |
| Cash in Savings Account | \$ 43,000 | \$ 39,000 |
| Contributions receivable from the State General Fund | 92,000 | 34,000 |
| Interest Receivable | 26,925,000 | 9,377,000 |
| Loans and Mortgages | 1,086,000 | |
| Investment Securities, at cost | | |
| U.S. Treasury notes and bonds | 670,771,000 | 303,964,000 |
| Bankers acceptances | 537,715,000 | 23,510,000 |
| U.S. Treasury bills | 466,615,000 | 20,583,000 |
| Certificates of deposit | 137,600,000 | 111,879,000 |
| Corporate bonds | 13,487,000 | 13,487,000 |
| Federal agency notes | 13,004,000 | 13,004,000 |
| Securities purchased under agreements to resell | 7,300,000 | 7,000,000 |
| | <u>1,846,492,000</u> | <u>493,427,000</u> |
| Amounts due to the State General Fund | <u>(47,339,000)</u> | <u>(19,669,000)</u> |
| Net Assets | *1,827,299,000 | \$483,208,000 |

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Statement of Changes in Net Assets

| | Year Ended June 30 | |
|--|------------------------|----------------------|
| | 1981 | 1980 |
| Assets Were Provided By: | | |
| Investment income | \$ 149,867,000 | \$ 32,427,000 |
| Contribution from the State of Alaska General Fund | 900,000,000 | |
| Royalties and other State receipts | 385,128,000 | 344,396,000 |
| Total assets provided | 1,434,995,000 | 376,823,000 |
| Transfers of investment income to State of Alaska General Fund | (90,904,000) | (32,161,000) |
| Increase in net assets | \$1,344,091,000 | \$344,662,000 |
| Increase (Decrease) in Components of Net Assets: | | |
| Cash in savings account | \$ 4,000 | \$ 8,000 |
| Contributions receivable | 58,000 | (205,000) |
| Interest receivable | 17,548,000 | 5,936,000 |
| Loans and mortgages | 1,086,000 | |
| U.S. Treasury notes and bonds | 366,807,000 | 231,530,000 |
| Certificates of deposit | 25,721,000 | 106,865,000 |
| Bankers acceptances | 514,205,000 | (4,843,000) |
| U.S. Treasury bills | 446,032,000 | 20,583,000 |
| Federal agency notes and bonds | | 5,008,000 |
| Securities purchased under agreements to resell | 300,000 | 6,500,000 |
| Commercial paper | | (10,000,000) |
| Amounts due to the State General Fund | (27,670,000) | (17,720,000) |
| | \$1,344,091,000 | \$344,662,000 |

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Statement of Investment Income

| | Year Ended June 30 | |
|---|----------------------|---------------------|
| | 1981 | 1980 |
| Interest Income: | | |
| U.S. Treasury notes and bonds | \$ 61,279,000 | \$13,060,000 |
| U.S. Treasury bills | 32,229,000 | 808,000 |
| Bankers acceptances | 28,115,000 | 5,251,000 |
| Certificates of deposit | 22,636,000 | 10,130,000 |
| Securities purchased under agreements to resell | 1,950,000 | 306,000 |
| Corporate bonds | 1,140,000 | 1,140,000 |
| Federal Agency notes and bonds | 1,082,000 | 1,069,000 |
| Commercial paper | 1,062,000 | 387,000 |
| Other interest income | 120,000 | |
| Savings account | 35,000 | 10,000 |
| | <u>149,648,000</u> | <u>32,161,000</u> |
| Net securities gains | 219,000 | 266,000 |
| Investment income | \$149,867,000 | \$32,427,000 |

See accompanying notes to financial statements

ALASKA PERMANENT FUND Corporation

Notes to Financial Statements

Note 1 — Authorization

The State of Alaska Constitution was amended by voter approval in 1976 to provide for the segregation of certain mineral lease rentals, bonuses, royalties, royalty sale proceeds and federal mineral revenue sharing payments received by the State for the use and benefit of present and future residents.

Distributable income from the Corporation is defined by statute and further clarified by administrative regulation to be the lesser of the latest fiscal year's income or the average annual current income calculated using a simple average of the last five years or the number of years in existence if less than five after adjustment for capital gains and losses.

All of the Corporation's investment securities are held by a commercial lending institution pursuant to a custodial agreement, except for certain certificates of deposit purchased from Alaska banks.

Note 2 — Summary of Significant Accounting Policies:

The accounting and reporting policies of the Alaska Permanent Fund Corporation conform to generally accepted accounting principles. The more significant accounting policies are as follows:

Interest Income

Interest income on loans is accrued monthly as earned.

Interest income on investments is shown net of amortization of premium and accretion of discount.

Investment Securities

Investment securities are carried at cost adjusted for amortization of premium and accretion of discount. Investment securities are expected to be held to maturity and, therefore, will be fully realized.

Gains or losses on the sale of securities are determined on a specific identification basis.

Provision for Loan Losses

The provision for loan losses is determined from specific evaluation of delinquencies and would be charged directly to operations in the period that the loss exposure becomes known. At June 30, 1981 no provision has been made since no losses are presently anticipated.

Note 3 — Marketable Securities:

The cost and estimated market value of investment securities at June 30, were as follows:

| | 1981 | | 1980 | |
|---|------------------------|------------------------|----------------------|----------------------|
| | Cost | Market | Cost | Market |
| U.S. Treasury notes & bonds | \$ 670,771,000 | \$ 633,501,000 | \$303,964,000 | \$304,967,000 |
| Bankers acceptances | 537,715,000 | 536,411,000 | 23,510,000 | 23,692,000 |
| U.S. Treasury bills | 466,615,000 | 464,330,000 | 20,563,000 | 20,924,000 |
| Certificates of deposit | 137,600,000 | 134,120,000 | 111,879,000 | 113,899,000 |
| Corporate bonds | 13,487,000 | 8,135,000 | 13,487,000 | 10,753,000 |
| Federal Agency notes | 13,004,000 | 10,642,000 | 13,004,000 | 12,209,000 |
| Securities purchased under agreements to resell | 7,300,000 | 7,300,000 | 7,000,000 | 7,000,000 |
| | \$1,846,492,000 | \$1,794,439,000 | \$493,427,000 | \$493,444,000 |

Note 4 — General Fund Contribution:

For the year ended June 30, 1981, the State of Alaska Legislature appropriated \$900,000,000 to the Corporation from the General Fund. For the year ended June 30, 1982, the Legislature appropriated an additional \$1,800,000,000 to the Corporation from the General Fund of which at least \$1,400,000,000 is to be contributed prior to June 30, 1982.

Note 5 — Administrative Expenses (Unaudited):

Administrative and other expenses are paid by the State of Alaska General Fund and are not included in the accompanying statements. The related budget and actual expenses for 1981 and budgeted expenses only for 1982 for operations of the Permanent Fund Corporation are as follows (unaudited):

| | 1981 | 1982 |
|------------------|------------------|------------------|
| Budget | | Budget |
| \$206,800 | Actual | \$450,500 |
| | \$165,000 | |

Photographs courtesy of the Division of Economic Enterprises
Department of Commerce and Economic Development.

Legislative Committee of Oversight

Legislative Budget and Audit Committee
Senator Arliss Sturgulewski, Chairwoman

Special Legislative Liaison Committee

Senator Arliss Sturgulewski, Chairwoman
Senator Patrick Rodey
Senator Vic Fischer
Senator Bob Mulcahy
Senator Ed Dankworth
Representative Al Adams
Representative Hugh Malone
Representative Boo Bettisworth
Representative Oral Freeman
Representative Sam Cotten
Representative Ernie Haugen

Cross references. — For provisions concerning application to the Department of Revenue for permanent fund dividends for 1979, see editor's note following the chapter analysis to AS 43.23.010 — 43.23.100.

Sec. 43.23.030. Amount of dividend. By December 1 of each year the commissioner shall give public notice of the value of each permanent fund dividend to be paid in the following year. The commissioner shall determine the value of a permanent fund dividend by

(1) determining the amount of income of the Alaska permanent fund transferred to the dividend fund under AS 43.23.050(b) in the current year, less the amount, if any, to be repaid in the current year to the general fund under AS 43.23.050(c);

(2) determining the number of permanent fund dividends paid during the current year; and

(3) dividing the amount determined in (1) of this section by the amount determined in (2) of this section. (§ 2 ch 21 SLA 1980)

Editor's notes. — For 1979 the value of a permanent fund dividend is \$50. See § 3, ch. 21, SLA 1980, in the 1980 Temporary and Special Acts and Resolves.

NOTES TO DECISIONS

Chapter is constitutional. — See notes under same catchline following chapter analysis. Stated in *Williams v. Zobel*, Sup. Ct. Op. No. 2201 (File No. 5400), 619 P.2d 448 (1980).

Sec. 43.23.040. Penalties and enforcement. (a) In addition to any criminal penalties imposed by state law, if an individual is convicted of unsworn falsification for a statement made in a certification of residency made for purposes of AS 43.23.010 — 43.23.100, and the conviction is not reversed, that individual is not, and may never become, eligible for a permanent fund dividend, and he forfeits all permanent fund dividends paid to him.

(b) If the commissioner determines that a permanent fund dividend should not have been claimed by or paid to an individual, he may use any collection procedures or remedies available under AS 43.05.010 — 43.80.040 to recover the payment of a permanent fund dividend which was improperly made. (§ 2 ch 21 SLA 1980)

Sec. 43.23.050. Dividend fund established. (a) The dividend fund is established as a separate fund in the state treasury. The dividend fund shall be administered by the commissioner and may be invested by the commissioner in the same manner provided for the investment of the Alaska permanent fund under AS 37.13.120. Money in the dividend fund and any interest earned from investment of money in the dividend fund shall be used to pay permanent fund dividends annually and to repay loans from the general fund as provided in (c) of this section.

(b) Each year the commissioner shall transfer to the dividend fund 50 percent of the income of the Alaska permanent fund which was earned during the fiscal year ending on June 30 of the preceding year and which is available for distribution under AS 37.13.140.

(c) The legislature may annually appropriate money from the general fund to the dividend fund if there is not enough money in the dividend fund to pay each eligible individual an annual permanent fund dividend valued at \$50. One-fifth of the amount transferred to the dividend fund each year under (b) of this section shall be annually withdrawn from the dividend fund by the commissioner and deposited in the general fund to repay appropriations made under this subsection. (§ 2 ch 21 SLA 1980)

Cross references. — For provisions concerning application to the Department of Revenue for permanent fund dividends for 1979, see editor's note following the chapter analysis to AS 43.23.010 — 43.23.100.

NOTES TO DECISIONS

Chapter is constitutional. — See notes under same catchline following chapter analysis. Stated in *Williams v. Zobel*, Sup. Ct. Op. No. 2201 (File No. 5400), 619 P.2d 448 (1980).

Sec. 43.23.060. Duties of the department. The department shall

(1) by the 10th day of each regular legislative session, present a request to the legislature for an appropriation from the general fund to the dividend fund to satisfy the requirements of AS 43.23.050;

(2) annually pay permanent fund dividends from the dividend fund;

(3) adopt regulations under the Administrative Procedure Act (AS 44.62.010 — 44.62.650) which establish procedures and time limits for claiming a permanent fund dividend; the department shall set the time limit for applications for permanent fund dividends so that single-payment permanent fund dividends for a year are paid before October 15 of the following year and so that installment-payment permanent fund dividends for a year begin by October 15 of the following year; and

(4) assist residents of rural areas who because of language, illness, old age, or inaccessibility to public transportation need assistance to establish eligibility and to apply for permanent fund dividends. (§ 2 ch 21 SLA 1980)

Sec. 43.23.070. Exemption of permanent fund dividends. (a) An eligible individual may assign, pledge, or encumber not more than 50 percent of the annual permanent fund dividends which are due and payable or which may become due and payable to the individual.

(b) Fifty percent of the annual permanent fund dividends payable to an individual is exempt from levy, execution, garnishment, attachment, and any other remedy for the collection of a debt.

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Denali Towers North, 2550 Denali St., Suite 1603, Anchorage, Alaska 99503 (907) 276-6939

Handwritten note:
M. J. ...
L. J. ...

March 16, 1982

Senator Bob Mulcahy
Pouch V
Juneau, Alaska 99811

Dear Senator Mulcahy:

As a follow up to our discussion on March 12, 1982, with regard to the Permanent Fund, it is hoped that this letter can be entered into the record.

The purpose of this letter is to insure that if the Permanent Fund is allowed to invest in Equities and Bonds, that as long as Alaskan Brokerage houses can be competitive that they should be permitted to participate in the purchase and sale of Securities.

Alaska has four major brokerage houses at present, all with world wide offices and major institutional trading departments in New York and San Francisco.

I would like to be kept advised of our request and if necessary I would like the consideration to introduce Legislation to protect the Alaskan Brokers who are taxpayers and residents.

Very truly yours,

Handwritten signature: Dennis L. Waldock
DENNIS L. WALDOCK
Vice President

DLW/dm

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

JAY S. HAMMOND, GOVERNOR

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2515

March 17, 1982

Honorable Bob Mulcahy
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Mulcahy:

Re: CS SB 684 Informational Request

In insurance language "Capital" is invested money by investors that is not encumbered.

"Surplus" is added funds accumulated over a period of time. These funds are not encumbered.

"Capital" and "Surplus" are for the benefit of all policyholders should the need arise for their use.

"Reserves" in insurance language is the amount of money set aside for known losses or losses incurred but not reported. "Reserves" in insurance language is encumbered money.

Sincerely,


Kenneth E. Moore
Director

KCM/lt3/12

cc: Charles R. Webber, Commissioner

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

167-00
STATE OF ALASKA
LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 14, 1981

SUBJECT: Confirmation of appointees of the board of trustees of the Alaska Permanent Fund

TO: Senator Arliss Sturgulewski

FROM: John B. Chenoweth
Legislative Counsel

You have directed my attention to two provisions relating to legislative review and confirmation of the members of the board of trustees of the Alaska Permanent Fund:

The Legislative Budget and Audit Committee has the power to:

* * *

(9) hold public hearings on the confirmation of the members of the Board of Trustees of the Alaska Permanent Fund Corporation . . .

AS 21.20.201(a).

The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of appointees to the Board of Trustees of the Alaska Permanent Fund Corporation . . .

AS 24.20.206. You have inquired as to "the right of the legislature to hold confirmation hearings for appointees to the permanent fund board of trustees".

Legislative confirmation on these appointees may not constitutionally be required. The decision in Bradner v. Hammond, 553 P.2d 1 (1976), contains the most pertinent discussion of the underlying reason:

May 14, 1981

"In Alaska State-Operated School System v. Mueller, 536 P.2d 99, 103 (Alaska 1975), we observed that '[E]hose who wrote our constitution followed the traditional framework of American government. The governmental authority of the State of Alaska was distributed among the three branches, the executive, the legislative, and the judicial'. Analyzing this tripartite form of government provided for Alaska, this court concluded, in Public Defender Agency v. Superior Court, Third Judicial District, 534 P.2d 947, 950 (Alaska 1975), that . . . it can be fairly implied that this state does recognize the separation of powers doctrine.

* * *

"A problem inherent in applying the doctrine of 'separation of powers' stems from the fact that the doctrine is descriptive of only one facet of American government. The complementary doctrine of checks and balances must of necessity be considered in determining the scope of the doctrine of the separation of powers.

* * *

"In the instant appeal, the parties, in recognition of the controlling nature of the issue, dispute the meaning of the doctrine of separation of powers, and its implication for the determination as to whether Chapter 82 is violative of Alaska's constitution. In our view, the doctrine is of importance to the resolution of the merits of this appeal, for if the doctrine clearly precludes legislative intervention (by confirmation) in the appointment of executive officials, or requires 'strict departmentalization,' then Chapter 82, which purports to authorize legislative 'meddling' in the exercise of an executive power, is unconstitutional because it would be violative of separation of powers requirements.

"In determining if Chapter 82 violates the doctrine of separation of powers, which is implicit in Alaska's constitution, it is necessary to answer whether the appointment of executive officers is a legislative or executive function.

* * *

"Appellee [Hammond] contends that the appointment of executive officers is an executive function. We find appellee's contention most persuasive. In addition to vesting the executive power of the state in the governor, Section 16 of Article III provides that '[t]he governor shall be responsible for the faithful execution of the laws'. In view of the responsibilities imposed by Section 16, and the authority granted by Section 1, the governor is necessarily clothed with the power to appoint subordinate executive officers to aid him in carrying out the laws of Alaska. Thus we conclude that the appointment of executive officers is an executive function; for without such a power, the responsibility of executing executive duties would be diffused and the goal of separation of branches of government avoiding too great a concentration of power in one branch, would be defeated.

* * *

"[I]t is then necessary to determine the nature of the legislature's confirmation powers. Here we are in agreement with appellee's analysis that under Alaska's constitution confirmation is a specific attribute of the appointment power of the executive. Other courts which have been called on to resolve this issue have been unanimous in their holdings that confirmation is not a distinct legislative power, but rather a part of the executive power of appointment which in turn has been delegated in some specific instances by constitution to the legislative branch of government.

"In light of the nature of the legislature's power of confirmation, the question whether Sections 25 and 26 of Article III describe the outer limits of the legislature's confirmation authority, or whether the legislature may be statute require confirmation of other high-level, policy making officials within the executive branch, admits of but one resolution. As to this issue, we think the provisions of Sections 25 and 26 of Article III are clear and unambiguous. Thus we conclude that Sections 25 and 26 mark the full reach of the delegated, or shared, appointive function to Alaska's legislative branch of government.

May 14, 1981

"The lack of ambiguity in Sections 25 and 26 of Article III of the Alaska Constitution mandate that this court interpret these express provisions as embodying not only the maximum parameters of the delegation of the executive appointive authority through the legislative confirmation function but, further, that they delineate the full extent of the constitution's express grant to the legislative branch of checks on the governor's power to appoint subordinate executive officers. In our view, the separation of powers doctrine requires that the blending of governmental powers will not be inferred in the absence of an express constitutional provision." (Emphasis and bracketted material added, footnotes omitted). 1/

1/ I cannot find that, in preparing the many drafts of the 1980 permanent fund legislation, this office ever formally advised a committee or member of the legislature that the confirmation requirements under consideration were unconstitutional. There is only a handwritten note from the revisor to the file:

For the file: The appointment and removal provisions violate Bradner v. Hammond re confirmation. This is not (1) a regulatory board, (2) a board at head of dept. Confirmation is unconstitutional. . .

However, the governor had the benefit of timely advice:

"The bill has some provisions which are in conflict with the constitution; however, they appear to be severable, and the bill should otherwise be effective and valid.

"The unconstitutional provisions are those which provide or relate to the legislature's confirming the appointment of board members or to the legislature's vetoing their removal. In Alaska, the constitution prescribes which offices are subject to confirmation, and the legislature

Apparently, it is the position of the attorneys in the executive branch that the requirement of confirmation of permanent fund trustees is a requirement of Chapter 18, SLA 1980 which is severable. Hence, they have suggested that the legislation may be carried out as if the unconstitutional provision did not exist. Quoting, again, from the advisory letter:

As a general rule, unconstitutional provisions may be treated as severable and the remainder of the bill upheld if (1) the bill would be whole and effective so severed, and (2) the legislature would have enacted the bill even without the severed provisions. Here, the bill obviously forms a whole and effective law without the unconstitutional provisions. Additionally, the Eleventh Legislature's enactment of legislation prescribing the fund's management was its number one priority. We cannot conceive of its not enacting this legislation with or without its unconstitutional features. Accordingly, they are severable, and the bill should be applied just as if those provisions did not exist.

Letter of the Attorney General, April 7, 1980, pp. 1, 2.

There is support for the position taken by the Attorney General in his letter, chiefly in a lengthy consideration of the applicability of severability principles in Lynden Transport, Inc. v. State, 532 P.2d 700 (1975):

1/ Continued

has no power to add to that list without a constitutional amendment. Bradner v. Hammond, 553 P.2d 1 (Alaska 1976). The constitutional also prescribes which executive actions are subject to a legislative veto, and the legislature has no power to add to that list without a constitutional amendment. State v. A.L.I.V.E. Voluntary, ___ P.2d ___ (Alaska 1980). Accordingly, those provisions of the bill which require legislative confirmation of appointments and authorize a legislative veto of removals from office are unconstitutional."

Letter of the Attorney General of April 7, 1980, p. 1.

"[AS 01.10.030] contains the following general savings clause:

"Any law heretofore or hereafter enacted by the Alaska legislature which lacks a severability clause shall be construed as though it contained the clause in the following language, 'If any provision of this Act, or the application thereof to any person or circumstance is held invalid, the remainder of this Act and the application to other persons or circumstances shall not be effected thereby.'

"This is designed to preserve to as great an extent as possible all valid portions of enactments by the Alaska State Legislature.

"The federal rule with regard to specific severability sections which are enacted as part of a challenged statute is relatively well settled. In Carter v. Carter Coal Co. [298 U.S. 238, 80 L.Ed.1160 (1936)], the Supreme Court stated the effect of such a provision:

"In the absence of such a provision, the presumption is that the Legislature intends an act to be effective as an entirety -- that is to say, the rule is against the mutilation of a statute; and if any provision be unconstitutional, the presumption is that the remaining provisions fall with it. The effect of the statute [specific section] is to reverse this presumption in favor of inseparability, and create the opposite one of separability. Under the nonstatutory rule, the burden is upon the supporter of the legislation to show the separability of the provisions involved. Under the statutory rule, the burden is shifted to the assailant to show their inseparability. But under either rule, the determination, in the end, is reached by apply the same test -- namely, What was the intent of the law makers?

"Under the statutory rule, the presumption must overcome by considerations which establish 'the clear probability that the invalid part being eliminated the Legislature would not have been satisfied with what remains.'

"By interpreting the statutory severability provisions as reversing the common law presumption that a statute void in part was void in its entirety, the Supreme Court intended to provide a rule of construction which may sometimes aid in determining that [legislative] intent. But it is an aid merely; not an inexorable command." (Footnotes omitted).

536 P.2d 700, at 711, 712. There is additional support provided in Sutherland's treatise on Statutes and Statutory Construction:

"Although there is no measureable differences in effect between general separability acts and particular separability clauses in individual statutes, it is reasonable inference that because a general act cannot control subsequent legislative intent and therefore is questionable evidence if it, less weight may attach to such a general rule of separability than to the clause in a separate act. Thus general separability statutes have been regarded as mere codifications of a canon of statutory construction. One state has given the same effect to a general severability statute as to particular saving clauses, applying the usual federal rule that it substitutes a presumption in favor of severability in place of the common-law presumption against it. But generally these statutes are treated only as aids to interpretation and not as commands.

"If the valid parts are dependent or not severable from the invalid parts, all must fall. The valid parts must be enforceable as a separate law. If the remaining valid portions would not be passed by the legislature without the invalid, the statute must fail in its entirety. When the most important features or the paramount intent is invalid, the entire act must fall. Thus the rules concerning normal separability are still present.

"The principle of separability is sometimes separately enacted as general law applicable to all acts subsequently adopted in the state irrespective of whether such subsequent acts contain their own separability clauses. Courts have considered these clauses as codifications of general rules of interpretation, not binding as fixed rules of law."

2 Sutherland, Statutes and Statutory Construction, sec. 44.11 (4th ed., Sands, 1973). Lynden Transport, and cases cited therein 2/ which construed Alaska's severability clause, AS 01.10.030, enunciate the general rule:

The test for determining the severability of a statute is twofold. A provision will not be deemed severable "unless it appears both that, standing alone, legal effect can be given to it and that the legislature intended the provision to stand, in case others included in the act and held bad should fall." 3/

432 P.2d 700, at 713. Clearly, in the case of the permanent fund legislation, Chapter 18, SLA 1980, the remaining provisions of the legislation may stand even absent the legislative confirmation requirement.

From the record of the legislation, I cannot say that the legislature intended the entirety of the bill to be set aside in the event the confirmation requirement would be found invalid. The legislature did not specifically include a provision setting aside the bill in its entirety in the event any portion of it were set aside. While the legislature did underscore the significance of legislative oversight of permanent fund corporation activities, 4/ the confirmation requirement is not particularly significant to that "oversight" when considered in context.

2/ State v. Baker, 363 P.2d 892 (Alaska 1964) and Speidel v. State, 460 P.2d 77 (Alaska 1969).

3/ Quoting Dorchy v. Kansas, 264 U.S. 286, at 290, 68 L.Ed. 686 at 690 (1924).

4/ See Sec. 1, Chapter 18, SLA 1980:

FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of those agencies of the state which perform lending or investment functions since those functions do not receive the

In conclusion, I share the Attorney General's counsel to the governor expressed in his April 7, 1980 letter. The confirmation provisions are unconstitutional and almost assuredly are severable. You should not expect the governor formally to submit the names of individuals appointed as trustees of the Alaska Permanent Fund for your committee's review and legislative approval.

JBC:ljb

4/ Continued

detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and the state treasury.

Meetings with Investment Firms
Week of July 6-10

SUMMARY OF INVESTMENT DISCUSSIONS

People in attendance:

Permanent Fund Staff
James B. Rhode
Susie Gregg Fowler
Department of Revenue,
Treasury Division
Peter A. Bushre
William L. Means
Legislative Budget and Audit
Steven Rieger
Department of Law
Laura Davis

The question that rose most frequently in New York was "What is the objective of the Alaska Permanent Fund?" The near unanimous opinion was that this question must be addressed by the Trustees before meaningful discussion can occur on such questions as allocation of investments and investment strategy. Robert Salomon, of Salomon Brothers, asked whether the Board of Trustees realized that if the Permanent Fund paid out more than 3% to 5% of its earnings, a level of earnings above inflation which might be attainable, the Trustees would be operating a fund with diminishing real capital and real income. At such time that the Permanent Fund ceased to grow in real terms, either through inflation or a fall in contributions, it would become self-liquidating. The crucial decision is whether the Permanent Fund is going to pay out real earnings, all earnings or a portion thereof. This is a grave problem being faced today by a growing number of foundations and university endowments. The Rockefeller Foundation, a \$1 billion foundation, has grown substantially in nominal terms, but has experienced an actual 35% contraction in real earnings power while the Ford Foundation, a \$2.5 billion foundation, has contracted in real earnings power by 55%. If nothing is done to curb these foundations' spending programs, Robert Salomon stated that he could project for their trustees the dates on which they would be totally self-liquidated.

Once the objective of the Permanent Fund has been decided, much will be determined as to level of risk which will be required to meet that objective. Long term studies, for example, have indicated that it is unrealistic to expect to earn more than a 2% real rate of return on a high grade fixed income portfolio, whereas a 3% to 5% real rate of return has been attainable in common stock over an extended period of time. Questioning Salomon Brothers as to what percentage

of common stock that they thought might be appropriate to the Permanent Fund given an earnings objective of a 3% to 5% real rate of return, the response was 80%. U. S. Steel Pension Fund, a pension fund in a mature industry, has approximately 80% of its assets currently in common stock, 10-15% in real estate, and the balance in fixed income securities. As reported by the S. E. C., the typical large corporate pension plan is approximately 55% invested in common stock. The normal asset mix of a portfolio under management by the Prudential Insurance Company of America is 40% to 60% in common stock and 20% to 30% in real estate equity, with the balance in fixed income securities. Mr. William Field, Senior Vice President of Prudential's Asset Management Department, indicated that for reasons of political toleration a 20% commitment to common stock might be more advisable for the Alaska Permanent Fund.

Mr. William Field, Mr. Robert Salomon and Mr. Heath McLendon, President of the investment management firm of Bernstein-Macaulay, Inc. agreed that the Trustees should seek authority from the Legislature to invest in domestic common stock, foreign securities, and real estate equity. They also volunteered that in their respective opinions, the timing for purchases in foreign securities and real estate was not good. However, they all felt that there would be better opportunities in the next two or three years, and any program to make major commitments in foreign securities and real estate should be understood by all to be a three to five year program. However, in their judgment, it is highly desirable to obtain authority as soon as possible so as to maximize flexibility.

With the exception of the U. S. Steel Pension Fund, it was the opinion of those that we contacted that the Alaska Permanent Fund, as a consequence of its sheer size, should utilize an index fund approach for its core holdings of common stock. Mr. William Field suggested that otherwise the investment management fees would become prohibitively expensive. It was suggested that outside managers be utilized in such specialized areas as high technology stocks, energy development stocks, foreign securities, and real estate equity to provide the Permanent Fund an extra increment of yield above that which an index fund would provide. It was the unanimous opinion of those to whom we talked that the significant danger in hiring a number of investment managers to manage the common stock portfolio was that the Permanent Fund would end up de facto as an expensively managed index fund. The largest acceptable number of outside managers suggested by anyone was six, and these six would cover the full gamut of investments from domestic common stock, foreign securities, to real estate equity. If more are hired, the feeling was expressed that the Trustees and staff are apt to find increasingly large segments of their time devoted to monitoring the managers performance and trying to determine how new flows of investable funds are to be allocated among the various investment managers.

Typically most large corporate pension plans are handled by outside investment managers with a number of plans managing only fixed income assets in house. Among the people we visited, only the manager of the U. S. Steel Pension Fund unqualifiedly thought that the entirety of the Alaska Permanent Fund could be managed in house in Alaska. The U. S. Steel Pension Fund is managed entirely in house with a staff of eleven investment professionals. This staff consists

of nine Certified Financial Analysts, one trader, and one specialist in money market and fixed income securities. It is interesting to note, however, that although the headquarters for the U. S. Steel Corporation is in Pittsburgh, the Company chose to run its pension fund out of New York City. Also the manager of the Fund felt that they were not close enough to the European markets to run a portfolio of European securities out of their New York office. Mr. William Field of the Prudential Insurance Company of America, on the other hand, felt on the basis of his experience with governmental bodies that the Trustees would likely have great difficulty in obtaining funding from the Legislature to run an in house operation with first class talent. To attract a top administrator to the Permanent Fund would require, in his opinion, a salary of approximately \$250,000 per annum with other positions scaled down to \$70,000.

The consensus opinion was that, if the Trustees chose to run fixed income securities in house, an index fund for core domestic stock holdings, and to choose outside investment managers for other specialized investment areas, a staff of four investment professionals plus clerical help would be adequate to manage a \$6 billion or larger fund. Assuming a staff of four investment professionals, one should specialize in fixed income securities; one should manage the index fund; one should monitor the outside managers; and one should have expertise in the field of real estate investments.

In selecting investment managers, the general feeling was that enough information is published regarding the performance of investment managers that the Board of Trustees should utilize its staff to select the most promising managers to make investment presentations before the Trustees. It was also strongly urged by Mr. Heath McLendon and Mr. William Field that the Permanent Fund staff make visits

directly to potential managers' offices to meet their staffs and discuss with them their investment philosophies and how they visualize investing for the Permanent Fund. It was felt that only after the Permanent Fund staff has made its selection of potential managers should a consultant be hired for the specific purpose of reviewing this list to see if any managers of merit have been missed.

It was interesting to note the generally low regard held for performance measurement analysts by most people we visited. While agreeing that they are necessary for public bodies in order to provide an element of comfort to them, they felt that they are expensive and that undue heavy reliance on them may result in inappropriate comparisons. In measuring performance, Mr. William Field strongly urged that the Standard & Poor's 500 not be used as the measurement of performance. Rather, in his opinion, the measure should be the ability of a fund to earn a specific positive rate of return above inflation on a consistent basis. Consistency, in his view, is the most important element of measurement.

In conclusion, there are two basic questions which the Board of Trustees should address before deciding questions of organization and investment strategy. As Robert Salomon said these are questions which your Trustees cannot avoid for they will ultimately be held responsible for the answers whether or not they address the questions directly or leave them to members of their staff. The questions are as follows:

1. What is to be the objective of the Alaska Permanent Fund?
2. How is the corpus of the Alaska Permanent Fund to be allocated to different types of investments?

Once the first question is answered, much will have been determined about the level of liquidity which can be maintained and the parameters of risk that the Permanent Fund will have to assume in order to attain its objective. Quite obviously the level of risk toleration would have to be substantially higher should the Board seek to obtain a 5% real rate of return as opposed to a 2% real return, and the allocation of investments would have to be concentrated in those areas which have a higher element of inherent risk but also offer potentially greater investment rewards.

INVESTMENT MEETINGS
New York City

Monday - July 6

9:30 A. M. Bache Halsy Stuart Shields Inc.
Bache Building
100 Gold St.
6th Floor
New York City, N. Y.
Sam Plia, Lou Auer, Executive Vice President
212-791-2467

12:00 Noon (To include lunch)
Prudential Insurance Company
Newark, N. J.
William Field 201-877-7979

Tuesday - July 7

11:30 A. M. (To include lunch)
Shearson Loeb Rhoades Inc.
2 World Trade Center
106th Floor
John McDougall 212-577-2718

Wednesday - July 8

10:00 A. M. The First Boston Corporation
20 Exchange Place
8th Floor
(To include lunch)
Gene Boehringer 212-825-2096

3:30 P. M. Discount Corporation of New York
58 Pine Street
Rodney Bird 212-248-8931

6:00 P. M. (To include dinner)
The Leash Club
41 East 63rd St.

Thursday - July 9

11:00 A. M. (To include lunch)
U. S. Steel Pension Fund
General Motors Building
767 Fifth Avenue
Graham Harrison, President & John Van Duesen, Vice President
212-826-8472

3:00 p.m. Buck Consulting Group

INVESTMENT MEETINGS - New York City Continued -

Friday - July 10

10:00 A. M. (To include lunch)
Salomon Brothers
One New York Plaza
42nd Floor
R. S. Salomon 212-747-7000

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K -- STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

July 31, 1981

Mr. Elmer Rasmuson, Chairman
Board of Trustees
Alaska Permanent Fund Corp.
Box 600
Anchorage, AK 99510

Re: Legal assistance re
investment practices

Dear Mr. Rasmuson:

I am writing to inform you of the current activities of the Department of Law relating to the investment of state funds. As background, the current status of the investment of state funds may be summarized as follows:

The monetary assets of the State of Alaska now consist of four funds: the general fund, the public employees' retirement system fund, the teachers' retirement system fund, and the permanent fund, all of which are managed and invested by the Treasury Division of the Department of Revenue, under the authority and supervision of the commissioner of revenue. The approximate aggregate balance of these funds at present is \$4.9 billion (approximately \$510 million in the PERS fund, \$385 million in the TRS fund, \$1.8 billion in the permanent fund, and \$2.2 billion in the general fund). These figures represent the amount of money for which the treasury has investment management responsibility (not the amount available for appropriation or expenditure), and they vary from day to day depending on the flow of income and the demand on state warrants.

The investment of each of the four funds is regulated by a separate statute (AS 14.25.180, TRS fund; AS 37.-10.070, general fund; AS 37.13.120, permanent fund; and AS 39.35.110, PERS fund), and in the case of the permanent fund, by a constitutional provision requiring investment only in income-producing assets. Alaska Const., art. IX, § 15. These statutes vary in terms of the list of specific types of investments which are authorized, but each contains a general provision commonly known as the prudent-man or prudent-investor rule.

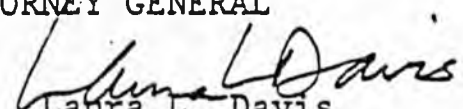
There is a large body of law interpreting the prudent-investor rule in the context of both public and private funds. It is our opinion that prudence in the management of all of these state funds requires the development and implementation of consistent procedures and practices for the evaluation of investment opportunities, and the execution of investment agreements, which conform to the prudent-investor rule. The development of such routine practices and procedures is particularly important at present, because of the rapidly expanding variety of investment alternatives, the volatility of financial markets, and the rapid expansion of the state treasury.

While in New York with the permanent fund and treasury staff, I met with members of two law firms (Shearman & Sterling, and Debevoise, Plimpton, Lyons, and Gates) to discuss their ability to provide legal assistance on matters related to state investment practices. I also met with the chief general counsel in the Investment Management Group of Citibank, N.A. to discuss matters related to the function of general counsel to an institution which manages large investment funds.

We have retained Shearman & Sterling to assist us in preparation of an agreement related to investment in gold by the retirement funds. We are now discussing with both firms their ideas for assisting us in the development of standard investment practices and procedures as discussed above, and hope to retain one of them for this purpose in the near future. We believe that the development of such investment practices with the assistance of a law firm which is actively involved in advising major public and private financial institutions will be important in helping our investment managers to carry out their fiduciary responsibilities for our rapidly increasing state funds over the next several decades. Our current work in this area is aimed primarily at investment management for the retirement funds and the general fund, but will be directly relevant to developing investment management guidelines for the permanent fund.

Sincerely yours,

WILSON L. CONDON
ATTORNEY GENERAL

By: 
Laura L. Davis
Assistant Attorney General

LLD/pjg

cc: Thomas K. Williams
Robert W. Ward
George Rogers
Peter McDowell
Jim Rhode ✓
Peter Bushre

Memorandum to the Trustees of the Permanent Fund
After a Year - Some Decisions we all Face

INTRODUCTION

The objective of this memorandum is to take stock of where we are with the Permanent Fund, identify where we are going, and indicate some of the policy decisions on which the Governor and the Legislature would want our views.

The decision which the Trustees made early last year to work in close liason with the Governor's office and the Legislature in evolving operational and future policy has proven a wise one. Everyone has been kept informed, and participation has been sincerely invited, including from the general public. Since the time for any legislative recommendations from our Board is rapidly approaching, I am setting down various observations for purpose of discussion, amplification and final decision, not later than our December meeting.

I. History

- A) The Permanent Fund was created by constitutional amendment in 1976. The key features are:
- 1) "no less than" 25% of royalty and related mineral income goes into the Fund automatically (about 10% of total oil receipts today).
 - 2) The money is to be used only for "income producing investments", this precludes using the principal for government spending, presumably rules out barren assets such as gold, and could bar taking equity positions that have delayed income.
 - 3) Fund income goes into the general fund "unless otherwise provided by law", which the framers considered the most neutral place for the income pending legislative action.
- B) Following a determined legislative struggle of four years, the Permanent Fund Act of 1980 provided:
- 1) Management by six trustees, three from the public, the Commissioner of Revenue, and the Governor's choice of any two other commissioners.
 - 2) Independent staffing, internal or retained, with (rare) authority to hire without the normal restrictions and pay scales of the civil service.
 - 3) A consciously restricted investment list (largely to forstall financial adventures by the Fund), focusing on U. S. government securities, money market paper, bank CD's, mortgages and other fixed income paper. Common stocks, income property, and foreign assets were not allowed.
 - 4) Unusual rules were imposed to insure full disclosure of the Fund's activities and financial health, including special legislative oversight. These rules have since become a model for the laws governing other state corporations.

II. Possible Changes in the Permanent Fund

A) Perspective

- 1) In order to play a stabilizing role in state affairs (and to guard the independence of the Fund), changes ought to be careful and gradual.
- 2) The sheer magnitude of the Fund requires caution in making changes.
 - a) If all goes well, the Fund will have over \$4 billion by next July. Alaska's economy, with \$4.5 billion personal income last year, could not absorb this level of investment. Department of Revenue forecasts estimate the Fund to be \$28 billions by the year 2000.
 - b) Even if we could force a large part of this money into our economy,

- 1) The "savings-income approach" is to convey the principal of the Fund to future generations, while both current and future residents enjoy the income.
- 2) The "full-scale development approach" is to have the Fund take the central role in the growth of the Alaskan economy, either by direct lending, the guarantee of business and municipal borrowings, or even the building of capital projects that earn user fees (at a market rate).
- 3) There are many problems with this second, "full-scale development approach".
 - a) The evidence presented to the Trustees is that major, sound business proposals do not lack investors here and from Outside. Indeed, the Native corporations, which have powerful reasons to find investment opportunities in Alaska, have a continual problem in finding new businesses for their money. A so-called "capital gap" usually turns out to be a gap in managerial skill or markets or labor costs between here and other places.

Asking the Fund to carry out this role may only result in displacing private capital, and may take us into risks and losses that betray the name of a "Permanent Fund."

- b) If we choose to favor a sector of the economy with special programs, I believe that decision belongs in the Legislature. Even there, as we know, it is difficult to measure success, efficiency, and the fairness of programs. Correcting problems seems harder still. Cut off from elected officials, such programs seem bound to be a case of public money used for private policy.
- 4) I believe, however, there is a proper role for the Fund to play in our economy, as part of having a balanced portfolio. A year ago, I set out some of my first ideas on this matter. Essentially, a Fund taking part in Alaskan investments on equal terms and conditions with other investors is not the same thing as being the "Lender of First Resort."

III. Implications of the Basic Choice

- A) Management under the "savings-income approach", with its clear aims, is fully consistent with the present independent status of the Fund. But I would ask you to consider these changes.
 - 1) The effective supervision of a large investment pool, one day the largest of any state, cannot be an occasional thing. It is not for any of us today and the challenge can only increase. I believe that recognition of the time expected of each trustee is best made by an ample, but not full-time salary. In this way, people of the necessary background can be retained, without the Board ever becoming a place to reward political allies. Many large corporations compensate their directors on this basis.
 - 2) If the true responsibilities of each trustee are extensive, their selection must be made, not only on a basis of special competence, but also on availability for the job. This raises a question as to availability of Commissioners for future trustee duties, since they presumably are already burdened with full-time responsibilities. The participation of the existing Commissioners has been excellent in this formative policy period but we will soon pass to an operational stage. Probably the Commissioner of Revenue should always be a trustee because of the information he brings as chief fiscal officer of the state and the consequent ease in coordination with the major force in Alaska's economy.
 - 3) A Fund of this kind will not require a large, locally based staff. At this point, I see a place for some internal staff, both to share in placing the portfolio and to monitor specialty firms that will have to be retained. We cannot hope to draw people who are expert in some special areas of investment and, even if we could, they would be too far away from market centers.

The criteria for selection of investment managers necessarily depend upon the investment and Fund objectives.

B) If our basic choice is the "savings-income approach", then we have to deal with inflation. We may not have to spend principal for long decades, but a fall in real principal (adjusted for inflation) always brings a like fall in real income.

- 1) The first defense is to widen the list of legal investments to include some equities--both in stocks and real estate. All that "equity" means is residual ownership, after any debts have been satisfied. We all know that debts are paid off in fixed sums of money. Thus in times of inflation, the increased value of the property or security belongs to the equitable owner--the common stockholder.

This is the advise we are receiving from our visiting advisers and financial consultants outside the state. Our investments should be broadened to include some common stocks, income property and perhaps even foreign assets. Changes of this kind can be done prudently; but we must come to understand what it means to invest for the long term, which involves a patient outlook.

- 2) A second defense of the real principal is to return a portion of the Fund's earnings to the Fund for reinvestment. Perhaps we can limit outgo to real income, or simply half the earnings. One of the most powerful and prudent ways to expand the Fund (and at the same time offset inflation) is by reinvestment of income. Certainly, for the time being the General Fund of the state is not in need of supplements from the Fund.

Let me illustrate what happens if we do nothing. Suppose we had a \$10 billion Fund earning 15%, and paid all of it out despite a 10% inflation. The result in 30 years is a fall in real income from \$1.5 billion to \$86 million at the end. To make the same point, a \$1.5 billion Permanent Fund dividend will then only buy what \$86 millions buys today.

- 3) This emphasis on maintaining purchasing power gives the clue to evaluating investment performance. We have been advised that the best measurement of performance should be the ability of the Fund to earn a specific rate of return above inflation on a consistent basis.

Inflation can be tracked through the Consumer Price Index (CPI). Some investment managers recommend comparison with the Gross National Product (GNP) deflator as a less volatile indicator.

The advantages of this approach is that the Trustees and Legislature can agree on a percentage above the inflation rate as being the target real income. This fits in with the concept of total asset management--both short and long term. It avoids striving for excessive and speculative returns which could lead to eventual losses.

C) Under this "savings-income approach", a number of uses for the income suggest themselves.

- 1) Cash dividends. This is already on the books, but pending, as you know, before the U. S. Supreme Court, and may have to be changed. This certainly brings the widest possible constituency for the Fund, but not a few have various problems with this approach, especially the problem of in-migration as the plan now stands.
- 2) Others speak of using the Fund income to cover future budgets for as long as possible. But there are serious doubts about this, first about our readiness to put the large sums aside in time, secondly about the wisdom of giving (another) blank check to the state government.
- 3) I want to offer a third approach, which compliments the idea of the dividends, although these are tax-free. It would be to endow central programs in the budget, those which benefit the widest cross-section of the public. They include education, housing, block grants to cities and boroughs, Alaskan oriented research, possibly energy.

Some of the thoughts expressed in my memorandum of November 21, 1980, are equally applicable today in our formulation of policy. They are thus incorporated herein by reference.

Memorandum from the Chairman of Trustees

The desirable changes in the legislative act creating the Alaska Permanent Fund are simple in concept and appear to need only be three in number. Most of the policy decisions and operating procedures of the Fund can better be defined through Board of Trustees Resolutions. This gives flexibility and, at the same time, clarity to the public.

The three legislative changes can be classified as follows:

1. Structure of the Board of Trustees to achieve a desirable degree of independence.
2. Expansion of the legal investments of the Fund to include equities-- both in securities and in real estate.
3. Permission for the Trustees to reinvest part of the investment income of the Fund to offset the impact of inflation and to permit growth of the Fund.

These changes are discussed in supporting memoranda.

Structure of the Board of Trustees

The most fundamental part of the Permanent Fund and the determining factor in its success or failure is the Board of Trustees. Water cannot rise higher than its source.

The Board sets the policy for:

1. The goals of the Fund.
2. The investments within the limits set by the Legislature.
3. Selection of investment managers--whether in-house or outside.

In addition, the Board operates in close coordination in policy and practice with the executive and legislative branches of the state government.

The public image and confidence in the Fund rests with the Board.

Qualifications of the Trustees:

It is not reasonable to expect that the Trustees should be especially skilled in investment management. The prime requisites are that the Trustees be Alaskans of integrity and favorable public image.

However, it is desirable that each Trustee have a background in decision

appointment by the Governor, it is essential that the Board be reasonably insulated from the fluctuating winds of politics--either executive or legislative.

This is in order to:

1. Enable consistency in policy to be developed and implemented.
2. Give confidence to prospective staff in recruitment and in retaining of investment managers.
3. Attract top quality trustees.

The recommended independence has adequate safeguards built in for protection against an irresponsible independence of the Board.

From the standpoint of the executive branch, this results from the fact that the Governor:

1. Appoints all trustees and may remove them at will.
2. There is a continuous liason through the Commissioner of Revenue.

From the standpoint of the Legislature, this results from the fact that the Legislature:

1. Sets the legislative guidelines (i.e. the charter) of the Fund, which can be changed by any succeeding Legislature.
2. Determines the disposition of the earnings of the Fund.
3. Has review on a continuous basis through the joint Legislative Budget and Auditing Committee.

Conclusion:

The trustees can neither in theory nor in practice operate without joint support and confidence of both the Governor and the Legislature. The degree of independence recommended is merely to slow down precipitous action. This enables a reasonable time to:

1. Develop proper organization and investment strategy.
2. Evaluate the Board's policies and action by the Governor, the Legislature and the public.

The greatest safeguard from undesirable action by the Board, political office holders, or the public is through accepted tradition--and the next three years are crucial.

Implementation:

The movement towards beneficial independence can be facilitated by a change in the composition of the Board of Trustees to limit the cabinet representation to the Commissioner of Revenue and have four public members with staggered terms of

primarily associated with the responsibilities of their respective departments. However, because of the close relation necessary with the Department of Revenue, the duties of its Commissioner naturally flow into the work of a Fund Trustee. The close identity with the Governor's office inherent in having half of the Trustees represented by Commissioners has been very effective in the organizational stage of the Board. However, the operational stage which is forthcoming, will involve considerable travel, probably monthly meetings and numerous consultations, thus requiring commitments difficult for Commissioners to include in their busy time schedules.

If this change in composition of the Board is acceptable to the Governor and the Legislature, the necessary enabling legislation could be passed at the forthcoming session. Attached is a schedule showing the effect of the suggested change in composition and terms.

With the operational stage of the Board developing, it is logical to change the compensation of the public members by eliminating the honorarium for attendance at meetings and substitute an annual fee for all personal services of each public Trustee.

Reasoning:

The attendance honorarium is illogical in that it assumes that the Trustees' services are performed only at a stated meeting. It ignores the fact that the Board is a working body involving continuous services in committees, traveling, consultation with staff, investment managers, other fund trustees, participation in work shops with legislators, interested public groups, etc.

It is suggested that the public members receive an annual fee on a par with that of the legislators. This does not introduce an employee relationship but assumes the fiduciary relation comparable to that of directors of a corporation.

1. The suggested compensation would be in line with compensation of legislators, state of Alaska staff and private industry.

2. It assumes a dedication of 25% to 50% of the public members' time, depending on assignments.

3. The suggested fee is set to be midway between the value of the Trustee's services in the market place and a pure donation of time which is not within the ability of many fine, potential Trustees. It is not so large as to be a sought-

Accountability of the Board:

The Legislature has provided for independence of Board management of the Fund by transfer of Fund assets to the Permanent Fund Corporation and instructions to manage and invest. However, there are problems of identity which soon will be upon us and deserve clarification.

1. There is no place under present law where the complete financial performance of the Fund is summarized and disclosed. Administrative and other expenses (e.g. supplies, safe keeping, travel, auditing consultants' fees, etc.) are paid by the General Fund and are not included in the statements of the Permanent Fund. This is so significant an omission that our auditors have to mention it through footnote. This has also been commented on in public hearings. The forthcoming large expenses in staff and management consultants, this lack of centralization of all income and expenses of the Fund will prevent any proper accountability of Fund performance and the published statements will be a distortion of results.

2. To the extent that professional in-house investment management is built up, certain key personnel will probably require compensation at rates higher than presently contemplated in state salary structures. Those individuals are highly trained and, since the best are limited in supply, command specialty compensation. To the extent that investment managers are retained, their services, based on market value of assets could be greater than any previously paid state departments.

3. Another requirement for proper management of the Fund is strict confidentiality during sensitive operations. This includes the negotiation with investment managers, decisions on investment strategy, receipt and study of evaluations of both securities and the performance of investment managers. While the security portfolio held by the Fund would be published in detail, the decisions during the purchases and sales would require confidentiality.

A simple and straightforward solution to the foregoing problems is to designate the Permanent Fund Corporation as a separate entity for budgetary and accountability purposes. All income and expenses attributable to the Fund operation should flow through the Fund accounts. By this means, the financial statements of the Fund would disclose all results of operation and the complete performance of the Board Management could be easily monitored by the Governor, the Legislature and the public.

difficult to determine in advance but the number of positions could be estimated and then fixed by the Legislature if they so desire.

Expansion of Legal Investments of the Fund

The Legislature has charged the Board with the obligation of "conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans." (Sec. 37.13.020(a)).

It would be of little benefit to future Alaskans to hand on to them a Fund of the same dollars but of sharply reduced purchasing power because of inflation. This has a double doleful impact, because a fall in real principal (adjusted for inflation) always brings a like fall in real income.

The advice we have received from visiting advisers, financial consultants and the fund managers is consistent. Our investments should be broadened to include equities--both in stocks and real estate.

The reasoning of the advice is clear and simple. Under present law, the only legal investments for the Fund are debt instruments. Debts are repaid in fixed sums of money. In times of inflation, the increase in value of the underlying property of a company belongs not to the debt holder but to the stockholder. Therefore, to offset inflation, the Fund needs to have a substantial part of its investments in the form of equity ownership.

There is another compelling reason for the Fund to hold common stocks and that is to share in the growth of the company and the country. With population increases in Alaska, the per capita value of the Permanent Fund can be increased by adding to the Fund's principal at a faster rate than the population growth. But this ability to add to the capital may not continue indefinitely. Furthermore, why turn down the opportunity to share in the economic growth of the companies whose securities are available for investment?

An obvious and legitimate concern in the expansion of the legal investment list is the matter of risk. There are three main types of risk to which the Fund management must address itself.

The first risk is the erosion of value through inflation. By confining the investments only to debt instruments, this risk is assured and devastating.

in market value than debt instruments. However, in recent years, bonds of both medium and long term have experienced as great a market risk. No one recommends that a large pension or endowment fund be concentrated entirely and permanently in short-term investments. The answer to this type of risk is to have a long-term outlook in investments--a patient capital approach. Statistical summaries for practically any ten year period selected, show a positive appreciation for equity investments.

The third risk is variability in rate of investment return. This should be of great concern to all interested in the performance of the Permanent Fund. Consistency of return will yield better long term results than a fluctuating return. Dependability in return is necessary for making budget forecasts by those who are designated to receive the income.

The factors which must be considered in this type of risk are varied and complex. However, modern portfolio management has learned to overcome such risk. Diversification of investment by security, issuer, industry and location is a useful tool. The impact of business cycles, interest movements and political changes can be dampened out by a proper mix of equity and fixed income securities in the portfolio. The risk in investment management is best countered by having a number of managers with their performance monitored by professional experts and their retention based on their results.

Changes by the Legislature in the investment guidelines for the Fund should be gradual and step by step. Fortunately, there exists a precedence in the investment authority for the Teachers Retirement System and the Public Employees Retirement System which is familiar to the Legislature. It appears that the investment criteria for these retirement funds could be flexible enough for a positive performance by the Permanent Fund.

It should be noted that the permission to the Retirement Funds to invest in gold is not desired for the Permanent Fund. The constitutional requirement for investments to be income producing would probably eliminate it anyway.

The proportions of the Fund to be invested in stocks should best be left to the discretion of the Board and will vary over years as the mix between equities and fixed income securities is determined to meet the objectives of the Fund.

The retirement funds of the state of Alaska allow real estate investment in national pooled funds. This would be the principal kind of real estate investment for the Permanent Fund. In the opinion of the writer, there are profitable and very safe investments that could be made directly in improved real estate on a selective basis. However, if there is any hesitation on the part of the Legislature to grant this kind of real estate investment authority, it could await further experience in the management of the Fund.

Permission to Reinvest Part of Investment Income
of the Fund

The most important legislative change necessary to enable the Board to carry out its implied mandate to conserve the real principal of the Fund for future generations is to permit reinvestment of investment income. Investment in equities will help the Fund grow. But if a permission to invest in equities is granted, it need be coupled with a redefinition of income to include dividends and capital gains. Then, regardless of the rate of income, if all income is transferred to the Permanent Fund, the value of ^{the} Fund will inevitably decline in purchasing power and income.

To illustrate the point: If the Fund has \$10 billion, earning 15%, and pays all of it out despite an inflation of, say 10%, in 30 years there would be a fall in real income from \$1.5 billion to \$86 million at the end.

Redefinition of income:

If equities are permitted for investment by the Fund, the income therefrom,-- dividends, rents and capital gains and losses--must be netted out and included in that investment income. This is necessary to compute the true income of the investment and to yield the cash for purposes of distribution to beneficiaries as determined by the Legislature.

If this expanded definition of income is made in the existing law, it should be coupled with a change to charge all security losses to income as incurred. This would be in accordance with generally accepted principles of accounting.

Amount of income to retain in Fund.

The most effective way to retain income is for the Legislature to authorize

A portion of this income, say one-half, should be carried to surplus and permanently retained as part of the principal of the Fund. The resultant earnings would aid in the dollar growth of the Fund and help in part to offset inflation.

The other half can best be carried to a reserve, subject to appropriation by the Legislature. The decision as to how much to appropriate, and for what, can perhaps better be done later. A good argument can be made to not appropriate the entire half, but let inflation and investment results enter also in the picture.

The practice of the Harvard Management Company is helpful in this regard. This is a growing fund of approximately \$1.7 billion at present. Income distribution is predicated on the anticipation that total investment return will be 8% annually on market value over the long term. 4% is distributed to University Departments and is used for planning purposes. The other 4% is retained for reinvestment. The actual earnings in most years have been higher and the excess of the distributable 4% goes into a stabilization reserve so as to meet the budgeted distribution rate. It should be noted that an 8% anticipated return on market value of investments is substantially more than on historical cost.

Elmer Rasmuson

T E R M

Under present law:

Inception Expiration

| | | |
|--|------|-----------------|
| First year of office of new Governor - | | |
| Commissioner of Revenue | 1983 | Pleasure of Gov |
| Two other Commissioners | 1983 | " |
| One public member | 1983 | 1986 |
| Second year of office - | | |
| One public member | 1984 | 1987 |
| Third year of office - | | |
| One public member | 1985 | 1988 |
| Fourth year of office - | | |
| No new appointment | | |

Result: Under present law, four of the six trustees are appointed by the incoming Governor within six months of his office.

Under proposed law:

if approved at next legislative session:

| | | |
|--|------|-----------------|
| Governor Hammond would appoint - | | |
| Commissioner of Revenue | 1981 | Pleasure of Gov |
| One public member | 1982 | 1986 |
| (present term of Elmer Rasmuson) | | |
| New Governor would appoint in first year of office - | | |
| Commissioner of Revenue | 1983 | Pleasure of Gov |
| One public member | 1983 | 1987 |
| (present term of George Rogers) | | |
| Second year of office - | | |
| One public member | 1984 | 1988 |
| (present term of Peter McDowell) | | |
| Third year of office - | | |
| One public member | 1985 | 1989 |
| Fourth year of office - | | |
| One public member | 1986 | 1990 |

Stability consequences of proposed legislation:

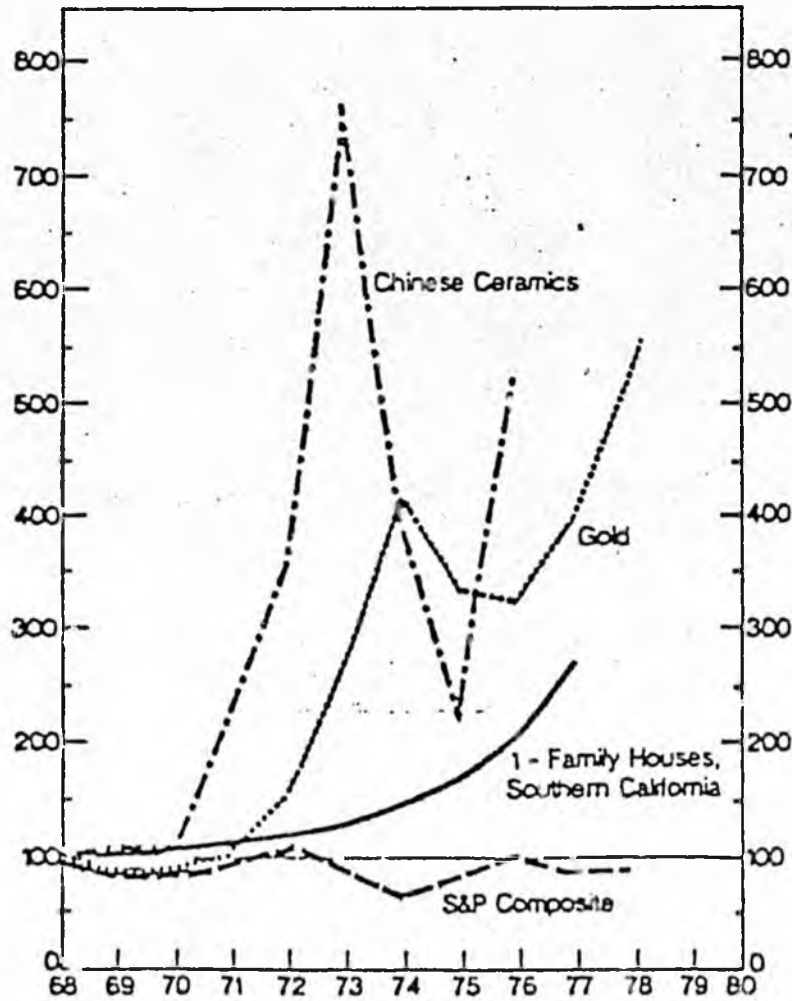
1. None of the terms of the present public members would be abridged.
2. Governor Hammond would maintain his right to have the Commissioner of Revenue on the Board, and his present authority to appoint a public member in 1982 would not be changed.
3. The three public members appointed by Governor Hammond would continue into the administration of the succeeding Governor.
4. The incoming Governor would have the right to appoint his Commissioner of

ALLIANCE CAPITAL MANAGEMENT CORPORATION

INFLATION IMPACT

| | <u>1975-1979</u> | <u>9 MOS. 1980</u> |
|--------------------------------|------------------|--------------------|
| CONSUMER PRICE INDEX | 47.9% | 9.5% |
| STANDARD & POORS 500 | 99.9 | 21.0 |
| ALLIANCE EQUITY FUND COMPOSITE | 141.1 | 28.0 |

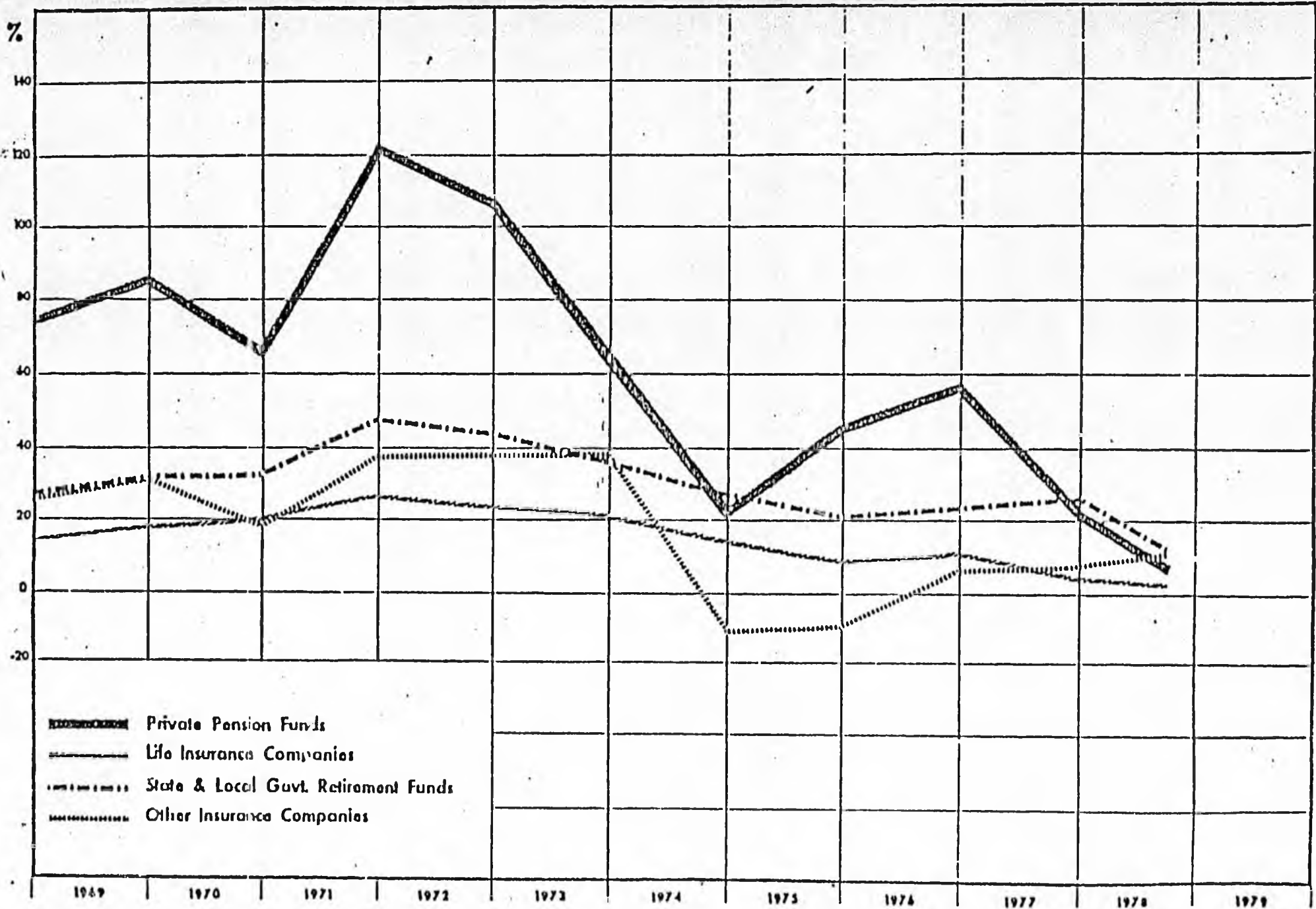
MOVEMENT OF TANGIBLE ASSET INDICES
1968=100



Source: Lehman Brothers Kuhn Loeb Research, Commodity Research Bureau, Real Estate Research Council of Southern California, Sotheby's and Parke-Bernet.

| | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Gold | 100 | 84 | 90 | 104 | 155 | 268 | 417 | 336 | 322 | 395 | 541 |
| Year to Year % Change | | -16 | 7 | 16 | 49 | 73 | 55 | -19 | -4 | 23 | 45 |
| Chinese Ceramics | 100 | 110 | 111 | 229 | 359 | 762 | 371 | 223 | 530 | N/A | N/A |
| Year to Year % Change | | 10 | 1 | 106 | 57 | 112 | -49 | -43 | 137 | N/A | N/A |
| 1-Family Homes So. Cal. | 100 | 105 | 109 | 114 | 119 | 128 | 146 | 168 | 205 | 267 | N/A |
| Year to Year % Change | | 5 | 4 | 4 | 5 | 8 | 14 | 15 | 22 | 30 | N/A |
| S&P Composite | 100 | 86 | 85 | 93 | 110 | 89 | 63 | 83 | 98 | 88 | 90 |
| Year to Year % Change | | -14 | -1 | 10 | 18 | -19 | -21 | 32 | 18 | -10 | 2 |

Net Purchases of Equities as a Percentage of Cash Flow



STOCKS, BONDS, RISK FREE ASSETS & INFLATION

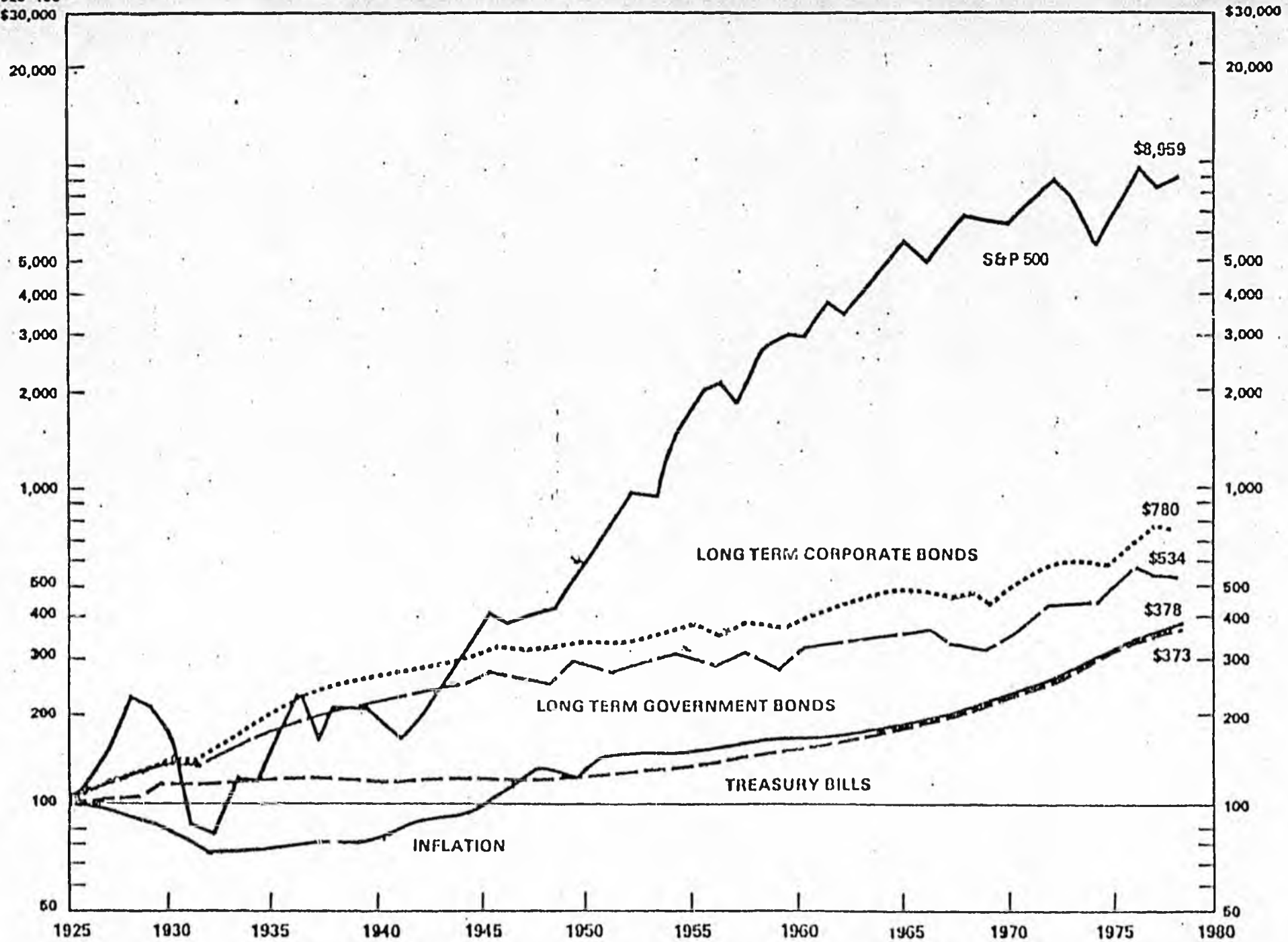
COMPOUND GROWTH RATES: 1926 - 1979

| | NOMINAL | REAL |
|---------------------------|---------|--------|
| COMMON STOCKS (S & P 500) | 9.0% | 6.1% |
| LONG-TERM CORPORATE BONDS | 3.8% | 1.0% |
| TREASURY BILLS | 2.7% | (0.1%) |
| INFLATION | 2.7% | --- |

Source: Ibbotsen-Sinquefield

WEALTH INDICES OF INVESTMENTS IN THE U.S. CAPITAL MARKETS 1926-1978

Index:
1925=100
\$30,000



Prepared by Alliance Capital Management Corporation based upon data presented in *Stocks, Bonds, Bills and Inflation: The Past (1926-1976) and The Future (1977-2000)* published in 1977 by the Financial Analysts Research Foundation.

THE CASE FOR EURODOLLAR DEPOSITS AND C. D.s

Eurodollar time deposits and Eurodollar certificates of deposit are time deposits denominated in U. S. dollars and accepted or issued by the London branches of major European, United States, Canadian, and Japanese commercial banks as well as the international subsidiaries of United Kingdom clearing banks. The Eurodollar deposit and C. D. markets grew rapidly in the 1960's in response to measures taken by the United States to restrict the outflow of dollars. Significant growth is also attributable to the tight money periods of 1966 and 1969 when short term rates in the United States rose above the maximums U. S. commercial banks could pay on domestic time deposits in accordance with Regulation Q. This forced U. S. banks to borrow heavily from their branches abroad where interest rates were not regulated.

As the result of recurrent balance of payments problems during the 1960's, such foreign investment controls as the Interest Equalization Tax, Voluntary Foreign Credit Restraint Guidelines, and Overseas Foreign Direct Investment Regulations were instituted. Although these controls effectively closed the U. S. capital markets to foreign borrowers and prevented U. S. firms from transferring capital abroad, they contributed significantly to the development of an active market for U. S. dollars on deposit outside the U. S. In early 1974, these control programs were all eliminated. Many observers thought that the Eurodollar market as a result would disappear. However, since no reserve requirements were levied on these deposits, the continued growth of the Eurodollar market was assured. The lack of reserve requirements enabled banks to pay higher interest on deposits while at the same time charging a lower rate on loans and still to increase profits. The volume of outstanding Eurodollar negotiable C. D.s continued to grow to its present size of approximately \$32 billion while the much larger Eurodollar deposit market has grown to an estimated \$425 billion.

Most Eurodollar negotiable C. D.s are issued with maturities up to one year by prime international banks. Banks usually quote rates for three, six, and twelve month maturities, corresponding to their loan rollover requirements, rather than for all maturities as in the United States. U. S. purchasers of Eurodollar C. D.s include commercial bank portfolios and trust departments, corporations, insurance companies and various other institutions. In addition, a large number of foreign entities are active participants in the Eurodollar C. D. market. Investors generally receive an additional 1/8 to 1/4% in yield over domestic C. D.s of the same issuer and maturity while a holder of a non-negotiable Eurodollar time deposit normally picks up still an additional 1/8 to 1/4%. These spreads may change as the result of the recent (November 13, 1980) requirement that U. S. and foreign agency banks hold 3% reserves against their net balances due to foreign branches. It is still too early to determine what the likely impact of this reserve requirement on the Eurodollar markets will be.

Many investment bankers and commercial banks actively trade Eurodollar C. D.s providing liquidity to these investment instruments. The standard trading units are multiples of \$1,000,000. The trading volume of Eurodollar

C. D.s has grown steadily from a monthly average turnover of about \$2.1 billion in 1974 to more than \$12 billion in mid-1979 with trades of \$20 to \$25 million not uncommon. Trading activity in the market is influenced not only by normal seasonal pressures affecting the domestic C. D. market but also by periodic loan rollover pressure and foreign exchange developments which may have a significant impact on rates, thereby presenting opportunities for the investor.

With regard to credit risk, the deposits are general obligations of the issuing bank under the laws of England where they are issued and payable. Holders of these deposits are creditors of the entire bank and not just the issuing branch. If a branch failed to pay a C. D. because of insolvency, it could be enforced against the head office of the bank. A depositor or C. D. holder could be negatively affected by government action in two ways. One would be an action of the English government such as its imposition of currency controls or interest limitations and the other would be by the action of the bank's head office. This could take the form of modification or termination of the issuing bank's liability regardless of where the holder sought payment. The chances of such governmental action are viewed as highly unlikely.

**Yields of Three and Six Month Eurodollar Certificates of Deposit
and their Yield Spreads above U.S. Prime Certificates of Deposit**

| <u>First of Month</u> | <u>Yields-</u> <u>Eurodollar C.D.</u> | | <u>Yield Spreads-</u> <u>Euro \$ vs. U.S. C.D.s</u> <u>(In Basis Points)</u> | |
|-----------------------|--|--------------|--|--------------|
| | <u>Three</u> | <u>Six</u> | <u>Three</u> | <u>Six</u> |
| | <u>Month</u> | <u>Month</u> | <u>Month</u> | <u>Month</u> |
| 1974-Jan. | 10.00% | 10.00% | + 80 | +150 |
| Apr. | 9.81 | 9.81 | + 6 | + 51 |
| July | 13.31 | 13.31 | +121 | +151 |
| Oct. | 11.69 | 11.75 | + 89 | +105 |
| 1975-Jan. | 9.63 | 9.44 | + 53 | + 74 |
| Apr. | 6.56 | 6.94 | + 46 | + 54 |
| July | 6.50 | 7.00 | + 20 | + 30 |
| Oct. | 7.63 | 8.25 | + 53 | + 20 |
| 1976-Jan. | 5.63 | 6.25 | + 13 | + 30 |
| Apr. | 5.31 | 5.88 | + 11 | + 28 |
| July | 5.88 | 6.50 | + 14 | + 30 |
| Oct. | 5.56 | 5.75 | + 21 | + 25 |
| 1977-Jan. | 4.88 | 5.00 | + 23 | + 20 |
| Apr. | 5.06 | 5.31 | + 16 | + 16 |
| July | 5.63 | 5.81 | + 25 | + 21 |
| Oct. | 6.69 | 6.94 | + 29 | + 24 |
| 1978-Jan. | 7.00 | 7.25 | + 20 | + 25 |
| Apr. | 7.20 | 7.50 | + 35 | + 20 |
| July | 8.35 | 8.70 | + 25 | + 15 |
| Oct. | 8.30 | 9.60 | + 40 | + 35 |
| 1979-Jan. | 11.45 | 12.00 | + 55 | + 50 |
| Apr. | 10.35 | 10.62 | + 35 | + 32 |
| July | 10.40 | 10.38 | + 60 | + 51 |

**Volume Outstanding of U.S. and Eurodollar Certificates of Deposit
and Secondary Market Turnover of Eurodollar Certificates of Deposit
(Billions of U.S. Dollars)**

| Mid-month (Approx.) | U.S. C.D.s | Eurodollar C.D.s | |
|------------------------|--------------------------|--------------------------|----------------------------------|
| | Total Outstanding (1) | Total Outstanding (2) | Secondary Market Turnover (3) |
| 1974-Jan. | 65.6 | 11.1 | 2.3 |
| Apr. | 71.8 | 13.7 | 2.0 |
| July | 83.0 | 13.0 | 1.4 |
| Oct. | 88.7 | 12.5 | 2.6 |
| 1975-Jan. | 61.4 | 11.6 | 3.3 |
| Apr. | 85.2 | 11.2 | 2.2 |
| July | 80.9 | 11.8 | 2.1 |
| Oct. | 83.3 | 12.4 | 3.7 |
| 1976-Jan. | 79.1 | 13.3 | 5.1 |
| Apr. | 69.9 | 14.1 | 4.6 |
| July | 69.5 | 14.9 | 5.0 |
| Oct. | 64.6 | 15.7 | 5.4 |
| 1977-Jan. | 62.8 | 15.9 | 6.2 |
| Apr. | 59.9 | 17.0 | 5.7 |
| July | 62.5 | 19.0 | 6.3 |
| Oct. | 68.5 | 21.7 | 6.1 |
| 1978-Jan. | 75.8 | 21.9 | 7.4 |
| April | 80.7 | 21.9 | 7.5 |
| July | 87.3 | 22.0 | 4.7 |
| Oct. | 90.0 | 23.5 | 6.8 |
| 1979-Jan. | 96.5 | 27.5 | 11.6 |
| Apr. | 86.5 | 28.1 | 9.3 |
| July | 79.3 | 32.2 | 12.4 |

REAL ESTATE INVESTMENT MARKET & REAL ESTATE EQUITY POOLS

Until the early 1960's the real estate investment market in the United States was primarily controlled by the real estate developer and the small investor or investor group. There were few large real estate projects and those that were built were either financed or owned by one of a few insurance companies purchasing for their own investment account. Industrial property was usually owned by the corporate user or leased from local investors. The market place was highly fragmented and very much an activity at the local level. Developers had small organizations and essentially seat-of-the pants entrepreneurs.

The 1960's saw an explosive demand for manufacturing warehousing, retail, commercial and office facilities. The larger industrial and office park concepts were created and the increasing demand for capital led most corporations to a leasing posture. This was appropriate for warehousing and office facilities as a way to conserve capital for business and as a strategy which allowed reaction to changing markets. Family formation growth led to rapid residential suburban growth and as residential developments grew so did retail and commercial developments. The shopping center grew from infancy to maturity as regional enclosed mall centers creating a mini-downtown which had a major impact on residential and commercial growth patterns. During this period a very few pension funds began to acquire industrial and commercial properties for investment. At the same time, more insurance companies began to add properties to their investment portfolios. The institutional real estate investment market began to take on the characteristics of a regional and in some cases a national market.

As we moved into the 1970's real estate projects increased rapidly in size and complexity demanding a broader range of professional skills. The size of real estate development organizations expanded to handle regional as well as national areas as well as a national market.

The 1974-1976 recession dampened much corporate involvement in real estate but the demand and growth for investment grade real estate product remained intense. Demand for pension fund real estate investments during the latter part of the 1970's drove down the current cash return on investments. Appreciation in value and rapidly rising rental rates created even more demand as real estate appeared attractive as an alternative pension investment vehicle.

As we move into the 1980's, commercial and industrial grade real estate will become more and more an institutional market. The long term mortgage market is likely to see a radical change necessitating substantial equity to be raised for larger real estate projects. This will squeeze the smaller developers or will force them to sell or joint venture their projects with institutions and pension funds. The very large development projects will become exclusively an institutional and pension fund market.

Consequently, the demand for real estate facilities from the user side is currently very strong and promises to remain so during the 1980's and beyond. The demand for quality investment grade real estate by institutions and pension funds will be even stronger. This will predictably result in lower current returns and stretched out

periods to realize long term return on investment objectives. The demand from both the user and investor side combined with the effects of inflation and government regulations will continue to push real estate up at a substantial rate. Commercial and industrial real estate investments should continue to provide superior long-term returns on investments.

In the last 10 years many trust, pools or funds have been established to participate in the advantages of real estate investments. They consisted of larger mortgage companies, banks, brokerage houses and insurance companies to name a few. Insurance companies led the way since in many cases they had been involved in real estate lending or purchasing for their portfolio for the past 100 years or longer.

Real estate is not a passive investment. It is a highly complicated field requiring creative ability, qualitative as well as quantitative analysis, and most of all experience. Owned real estate has its own risk parameters quite different from those of other investments. Once purchased, it has to be managed properly. Real Estate is susceptible to vacancies, demographic change, imbalance of income to expenses, and overbuilding to name a few. Major insurance companies have the expertise as well as offices all over the country, and this is a major advantage not available to most other managers. Real Estate pools offer protection against downside risk due to vacancies or rapidly escalating operating costs. Prudently selected and maintained Real Estate can be considered a viable supplement to other portions of a portfolio.

Funds accepted for real estate pools are limited to the properties available for purchase in any given period. You advise them of your intention to join and give them an indication of the amount you would like to deposit. They will accept your funds on a quarterly basis only, and then only if they have sufficient properties in line for purchase the following quarter. They will not guarantee acceptance of your funds in a specified time frame. They will not purchase unqualified properties just because funds are available.

Just as it is sometimes difficult to get in a real estate pool, it also takes time to withdraw. It must be realized that real estate investments are relatively illiquid and should be considered long term investments. They will not force sell a property just because you want to withdraw your funds. Most pools require 90 days written notice prior to any quarterly date. This allows them time to find other investors who want to invest in the pool, thus allowing you to withdraw. However, if cash available in the pool is sufficient to allow your withdrawal earlier, they will honor your request.

We're sure everyone will agree that any investment portfolio, pension fund or permanent fund in this case, should have the ability to diversify its investments. We have all witnessed the ups and downs in stock and bond markets over the years. Good real estate on the other hand on average has always increased in value. Investment decision makers have finally been convinced that real estate deserves a place in a well diversified portfolio. We believe that the current trend toward real estate as a major investment asset is both justified and of growing importance.

Many investment managers have been aware of the advantages of real estate investing but were discouraged from participating in real estate due to the lack of liquidity and risk characteristics associated with outright ownership. Real estate pool investments are designed to overcome these problems. Pool investment offers well managed diversification characteristics tailored to meet the risk to expected return and liquidity requirements of participants. The pools offer the investment advantages of a portfolio of high quality real estate, diversified by property type, lease term, tenant type and geographic location, combining a potential for capital appreciation with an attractive level of current income.

That last sentence says it all and deserves expanding upon:

Advantages

Real Estate equity pools are designed to deliver all of the advantages investors seek from real estate, without the complexities of outright ownership.

Return Potential

Over the years, carefully selected real estate has demonstrated a consistent ability to produce attractive yields.

Inflation Hedge

A rapid increase in real estate values has become increasingly evident in recent years as escalating construction costs have exerted upward pressure on the replacement cost of commercial and industrial properties. An attractive hedge against inflation.

Portfolio Diversification

Real estate assets produce very positive diversification characteristics when introduced into the typical portfolio of stocks, bonds, mortgages and money market investments to name a few.

A real estate pool also provides diversification of property types such as shopping centers, apartment and office buildings, motels, hotels, industrial and warehouse buildings, etc. Geographic diversification is provided through purchases of property from coast to coast including Alaska.

As more and more investors become aware of the advantages of diversification and returns available on these pools, the demand has been increasing. With this demand there has been an increasing number of pools going on line, which makes good real estate investments harder to find.

The better real estate pools do not speculate as Real Estate Investment Trusts (REIT's) did back in the late sixties and early seventies. Real Estate Investment Trusts began in 1960 when Congress passed the Real Estate Investment Trust Act.

The purpose was to provide more capital to satisfy the growing demand for long term investment money by opening the field to individual investors. The mortgage type REIT created the surge of popularity between 1969-71. Underwriters encouraged banks and others to establish trusts because the shares were easily sold and good fees were to be made. The REIT's borrowed heavily from banks and others to support their demand for more money to lend construction and development projects. Serious problems began to surface in 1974 when the prime rate soared past 12% and some construction loans reached 18% to 20%. Many could not pay and projects could not be completed and many failures resulted. Insurance company pools do not sell shares to the public, do not get involved in development projects until completed, and best of all do not borrow money to purchase real estate investments.

The insurance companies described on the following pages, in our opinion, are among the best in the industry. Other pools are available, some managed by non insurance companies, and other insurance companies also have pools. We presently have retirement systems funds in the pools with companies used as examples.

PRUDENTIAL INSURANCE COMPANY OF AMERICA

Prudential is the largest private real estate investor in the United States. As of June 1980 their estate investment department employed a professional staff of almost 500 persons located in Prudential Corporate Headquarters and 71 field offices in the United States and Canada. They manage nearly \$18 billion of real estate investments, including \$14 billion in mortgages, \$3 billion in wholly owned properties and over \$1 billion in joint ventures throughout the United States.

Because of their nationwide structure, the real estate department has established direct working relationships with regional and national real estate developers, brokers, managers, and investors. These relationships allow Prudential to consider property opportunities on a national basis.

Prudential Property Investment Separate Account (PRISA)
 (\$2 billion) Annual Historical Performance

| <u>Year</u> <u>Ending</u> | <u>Gross</u> <u>Return</u> | <u>Net</u> <u>Return</u> | <u>Breakdown of</u> <u>Net Return</u> | |
|------------------------------|-------------------------------|-----------------------------|--|---------------------|
| | | | <u>Income</u> | <u>Appreciation</u> |
| 12-31-79 | 25.4% | 23.9% | 8.8% | 15.1% |
| 12-31-78 | 20.9 | 19.5 | 9.0 | 10.5 |
| 12-31-77 | 12.0 | 10.7 | 7.8 | 2.9 |
| 12-31-76 | 9.8 | 8.5 | 7.5 | 1.0 |
| 12-31-75 | 9.5 | 8.3 | 7.0 | 1.3 |

Geographical Location

As of 6/30/80-%

Regions (30 States)

| | |
|-----|----------|
| 22% | West |
| 20% | South |
| 18% | Mid-West |
| 40% | East |

Property Diversification

| | |
|-----|----------------------|
| 39% | Office Buildings |
| 23% | Industrial Buildings |
| 16% | Hotels & Motels |
| 19% | Shopping Centers |
| 3% | Apartments |

AETNA LIFE INSURANCE COMPANY

Aetna's Real Estate Department has been in operation for over 100 years, and in the last 10 years has established an equity unit responsible for buying and managing equity real estate. Aetna's real estate and mortgage portfolio exceeds \$5 billion. The real estate department is comprised of 130 employees with a variety of backgrounds in real estate. The department utilizes both correspondents and direct lending capabilities. They are affiliated with over 85 mortgage bankers in major metropolitan areas who are under contract to produce real estate and mortgage investments. Their internal National Accounts unit deals directly with major real estate development companies which operate on a national basis.

Aetna Real Estate Separate Account
(\$300 MM) Annual Historical Performance

| | <u>Yield</u> | <u>Appreciation</u> | <u>Total Return</u> |
|-----------------|--------------|---------------------|---------------------|
| Jan.-Dec., 1978 | 7.73% | 0.82% | 8.55% |
| Jan.-Dec., 1979 | 9.03% | 3.54% | 12.57% |

Geographic Distribution

| <u>As of 6/30/80-%</u> | <u>Regions</u> |
|------------------------|----------------|
| 30% | Rockies |
| 16% | South |
| 18% | Mid West |
| 3% | East |
| 33% | West |

Property Diversification

| | |
|-----|---------------------|
| 45% | Retail Buildings |
| 2% | Land |
| 20% | Office Buildings |
| 19% | Industrial |
| 14% | Warehouse Buildings |

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY

The John Hancock's Real Estate Department has been in existence for over 100 years and currently manages a portfolio of commercial and agricultural real estate and mortgages of all types in excess of \$4 billion. In addition to a staff of in-house professionals including 50 mortgage investment officers, they have advisory and origination capability from a network of 58 mortgage banking firms and their branch offices located in major metropolitan cities from coast to coast. They also have eight agricultural loan agencies in the major farm areas of the country, and maintain extensive contact with major property developers as well as the mortgage and real estate brokerage community.

(\$350 M) Equity Real Estate Account (ERA)
Annual Historical Performance

| | <u>Yield</u> | <u>Appreciation</u> | <u>Total*</u> <u>Return</u> |
|-------------------|--------------|---------------------|--------------------------------|
| Jan. - Dec., 1977 | 9.1% | 1.2% | 10.3% |
| Jan. - Dec., 1978 | 9.3 | 2.5 | 11.8 |
| Jan. - Dec., 1979 | 10.2 | 8.8 | 19.0 |

Geographic Distribution

| <u>As of 6/30/80-%</u> | <u>7 Regions (21 States)</u> |
|------------------------|------------------------------|
| 11% | New England |
| 13% | Middle Atlantic |
| 15% | Southeast |
| 30% | Midwest |
| 5% | Southcentral |
| 13% | Mountain/Southwest |
| 13% | Pacific |

Property Diversification

| | |
|-----|----------------------|
| 32% | Industrial Buildings |
| 8% | Hotel |
| 28% | Warehouse Buildings |
| 13% | Office Buildings |
| 17% | Shopping Centers |
| 3% | Retail Stores |

EQUITABLE LIFE ASSURANCE COMPANY

Equitable's Real Estate Department has been in operation for over 115 years and has been involved in equity real estate ownership and management for over 25 years with over \$3 billion under management. The real estate department presently has a staff of over 500 full-time real estate professionals. The department utilizes both correspondents and direct lending capabilities with their own nationwide network of 40 offices. They are also the investment advisor to Equitable Life Mortgage and Realty Investors, a Boston based real estate investment trust listed on the New York Stock Exchange.

Equitable's Equity Real Estate Account
(\$1 billion) Annual Historical Performance

| <u>Year</u> <u>Ending</u> | <u>Yield</u> | <u>Appreciation</u> | <u>Total</u> <u>Return</u> |
|------------------------------|--------------|---------------------|-------------------------------|
| 12-31-75 | 9.8% | (2.2%) | 7.6% |
| 12-31-76 | 8.7% | 1.5% | 10.2% |
| 12-31-77 | 9.1% | 2.2% | 11.3% |
| 12-31-78 | 9.2% | 4.7% | 13.9% |
| 12-31-79 | 9.3% | 5.5% | 14.8% |

Geographic Distribution

| <u>As of 6/30/80-%</u> | <u>Regions</u> |
|------------------------|----------------|
| 32% | Southern |
| 29% | Central |
| 15% | Western |
| 14% | Mid-Atlantic |
| 10% | Northeastern |

Property Diversification

| | |
|-----|------------|
| 64% | Retail |
| 16% | Office |
| 15% | Industrial |
| 2% | Hotels |
| 2% | Land |

PERFORMANCE FIGURES - POOLED REAL ESTATE ACCOUNTS

INVESTMENT RETURN NET OF INVESTMENT FEES

| <u>YEAR</u> | <u>INSURANCE COMPANY</u> | | | |
|------------------------------------|-----------------------------|--------------|-------------------------|------------------|
| <u>Ending 12/31:</u> | <u>Prudential PRISA</u> | <u>Aetna</u> | <u>John Hancock</u> | <u>Equitable</u> |
| 1979 | 23.9% | 12.6% | 17.8% | 13.9% |
| 1978 | 19.5 | 8.6 | 10.8 | 14.4 |
| 1977 | 10.7 | -- | 9.3 | 10.0 |
| 1976 | 8.5 | -- | -- | 8.9 |
| 1975 | 8.3 | -- | -- | 6.3 |
| Assets at Market 12/79 (000) | \$1,493.70 | \$184.75 | \$180.02 | \$903.09 |

THE CASE FOR INTERNATIONAL DIVERSIFICATION

International diversification of an investment portfolio can provide four benefits: reduction in the volatility of the portfolio; an increase in the return; an increase in the marketability of the portfolio as a whole; and protection against an unexpectedly high rate of inflation in the United States..

1. Protection from Inflation

Diversification into markets of different countries with different economic cycles and different rates of inflation reduces the risk that an entire portfolio will show a low real rate of return. The return of the international element of the portfolio will not be impaired by an unexpectedly high level of inflation in the United States. Indeed it will tend to benefit since the growth of the inflation differential is likely to be reflected in exchange rates so that overseas holdings will rise in terms of the United States dollar. A rise in the exchange rate of the United States dollar might lead, on the other hand, to the returns on overseas investments not matching those on United States investments. Any fall in the United States rate of inflation would, however, be highly beneficial to the performance of United States investments. Since the proportion invested in overseas markets would likely be relatively small, the overall performance of a portfolio with 90 per cent invested in the United States and 10 per cent in overseas markets would still be quite satisfactory during this period of low domestic inflation. International diversification protects the assets of a fund in that it provides a higher return on overseas securities at the time it is most needed - when the rate of domestic inflation is unexpectedly high.

2. Reduced Volatility

The prices of different shares in any one market tend to move fairly closely together, but the correlation between share price movements in different markets is low.

Correlation coefficients between United States and Foreign Stock Markets 1970-1979.

| | |
|----------------|------|
| United States | 1.00 |
| United Kingdom | .54 |
| Japan | .52 |
| Germany | .51 |
| France | .48 |
| Hong Kong | .45 |

One study has indicated that the reduction in volatility for the period 1959 to 1979 for a portfolio with 90 per cent invested in the Standard & Poor's Composite Index and 10 per cent equally divided among the equity markets of France, Germany, Japan, and the United Kingdom (as represented by the Capital International Index for each of these markets) from the volatility of a portfolio invested wholly in the Standard & Poor's Composite Index would have been nearly half that which would have been obtained by holding 10 per cent of the portfolio in cash equivalents. International diversification thus leads to a substantial reduction in volatility.

3. Greater Return

The rate of return in the years 1959 to 1979 was generally greater in the major markets outside North America than in the United States. A study made by InterSec Research Corporation shows the rates of return achieved by investment in the Capital International Indices of the markets of Canada, France, Germany, Japan, and the United Kingdom and in the Standard & Poor's Composite Index in the United States over four periods (1959 to 1979, 1965 to 1979, 1970 to 1979, and 1974 to 1979), after taking account of dividend yield and adjusting for fluctuations in exchange rates. The returns in every period were higher in each of the overseas markets than in the United States except in the case of the French market in the longest period. The rate of return of a portfolio divided equally among the four markets outside North America would have been higher by about 70 per cent in the first period, 150 per cent in the second period, 160 per cent in the third period and 85 per cent in the final period. The investment of even a small proportion of a United States portfolio in international markets would, therefore, have resulted in a significant increase in the return of the whole portfolio.

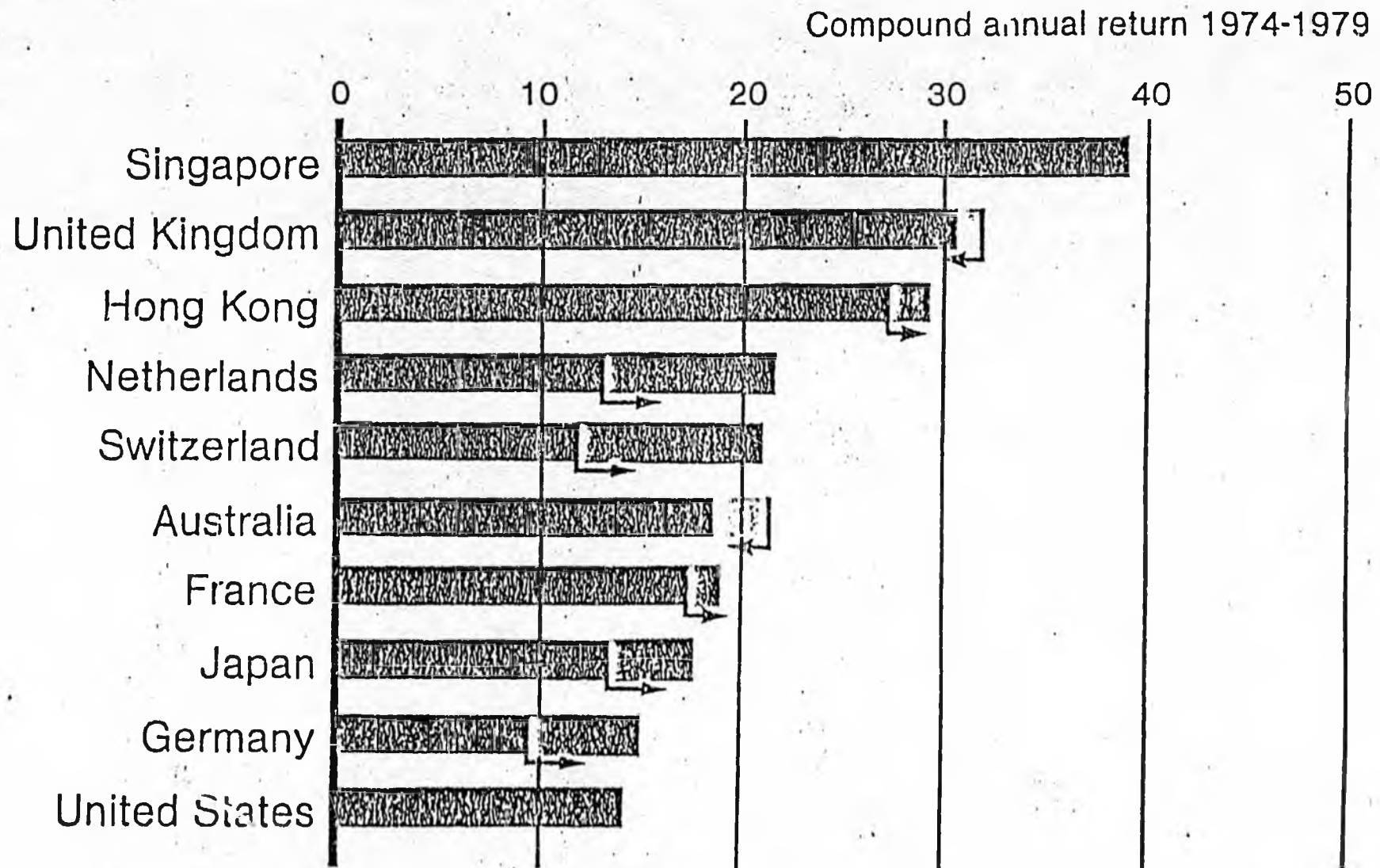
4. Increased Marketability

Capital International has published figures for turnover in 1979 in 14 stock markets in Europe and the Far East. Turnover in these 14 markets amounted to \$220.7 billion, over 86 per cent of the turnover of the United States and Canadian equity markets in the same year. Capital International has also published figures for the market capitalization of equities on 16 stock exchanges outside North America. At the end of 1979 the total amounted to \$755 billion, almost 71 per cent of the combined market capitalizations of the United States and Canadian stock markets at that time. The size of markets outside North America is thus considerable, and turnover forms a larger proportion of market capitalization in them, taken as a whole, than in North America. Moreover, there were 127 companies listed on these 16 markets outside North America with a market capitalization which was greater than that of the 200th largest listed United States company at the end of 1979. There is thus considerable opportunity for large scale investment in markets outside the United States and Canada.

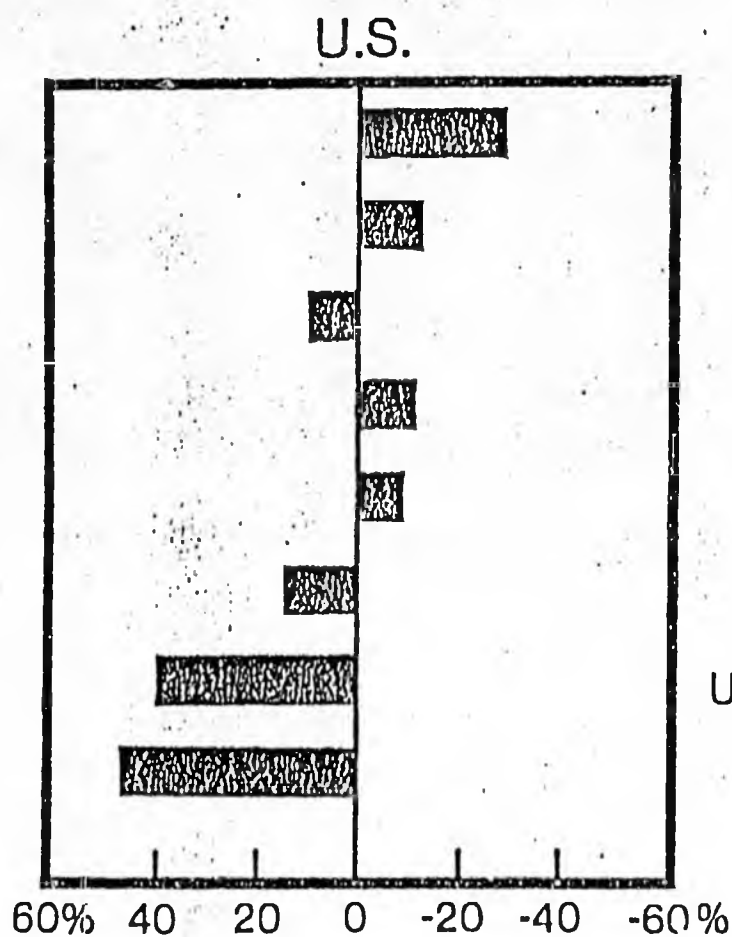
5. Investment in International Bond Markets

The total capitalization of the Eurobond market and the nine national bond markets of Australia, Denmark, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom at the end of 1979 was about \$1,414 billion. By comparison, the taxable bond market in the United States had an estimated capitalization of about \$1,400 billion and that of Canada a capitalization of about \$105 billion. The large size of international bond markets provides United States investors with a further means of benefiting from international diversification, but with a lower degree of volatility than that involved in equity investment.

Some return comes from currency exchange rate changes.

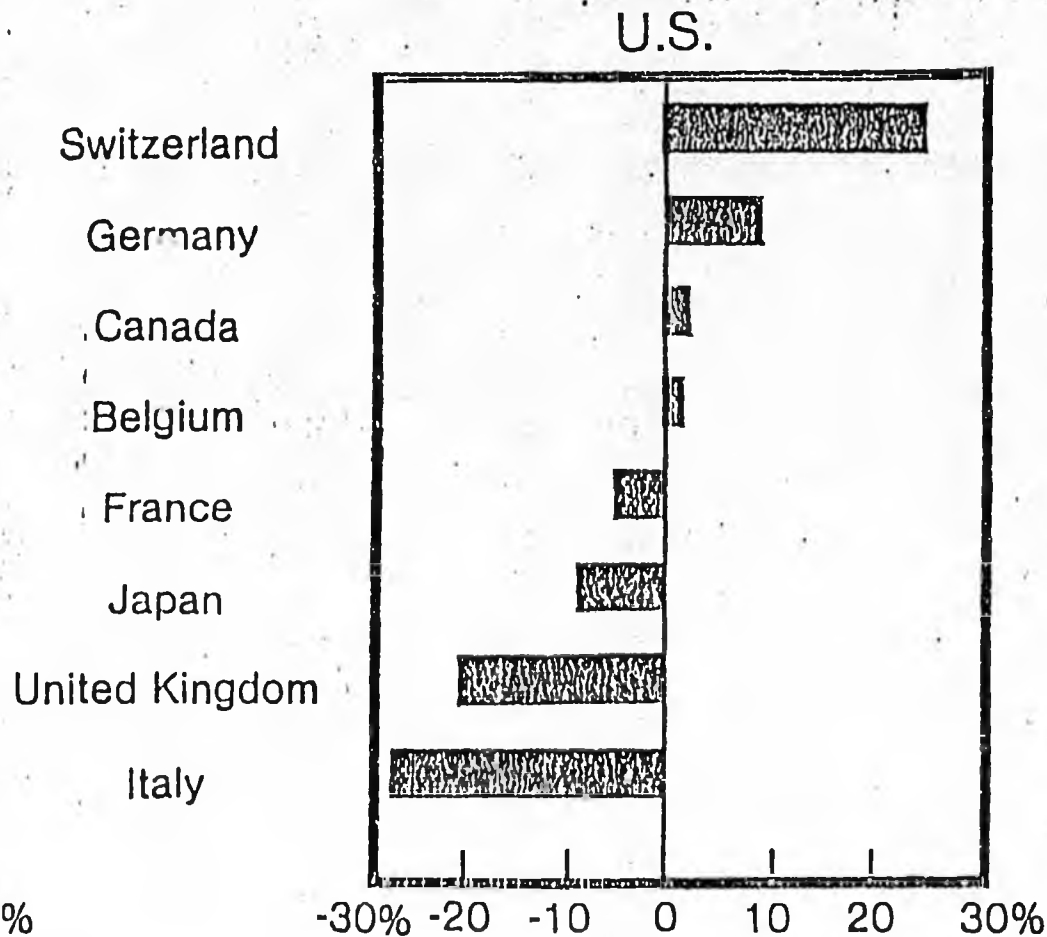


Currency exchange rates (longer term) depend on differences in inflation rates.



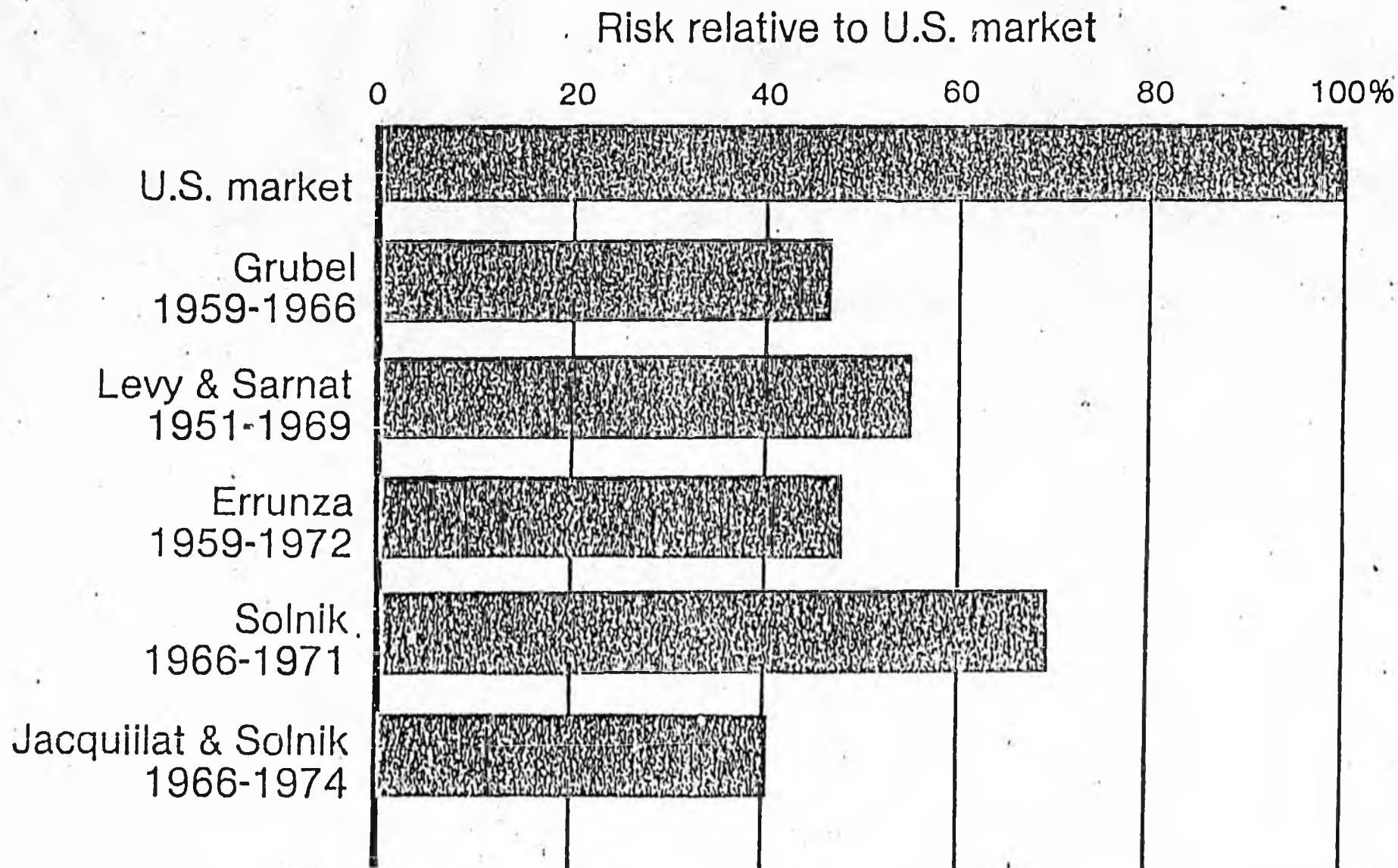
Cumulative inflation difference with U.S.

Wholesale price index



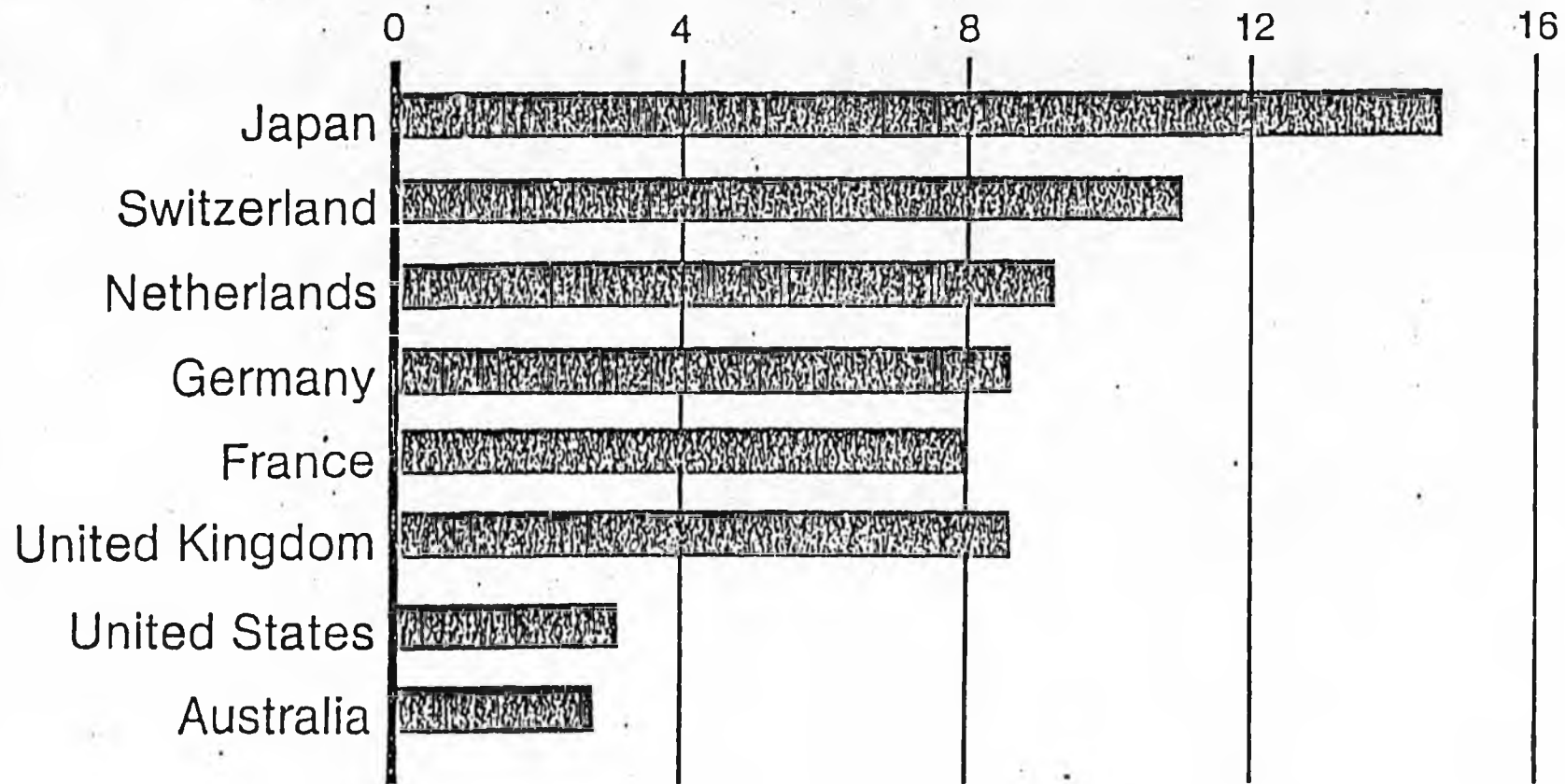
Cumulative exchange rate change vs. dollar

Studies show that international diversification reduces risk substantially.

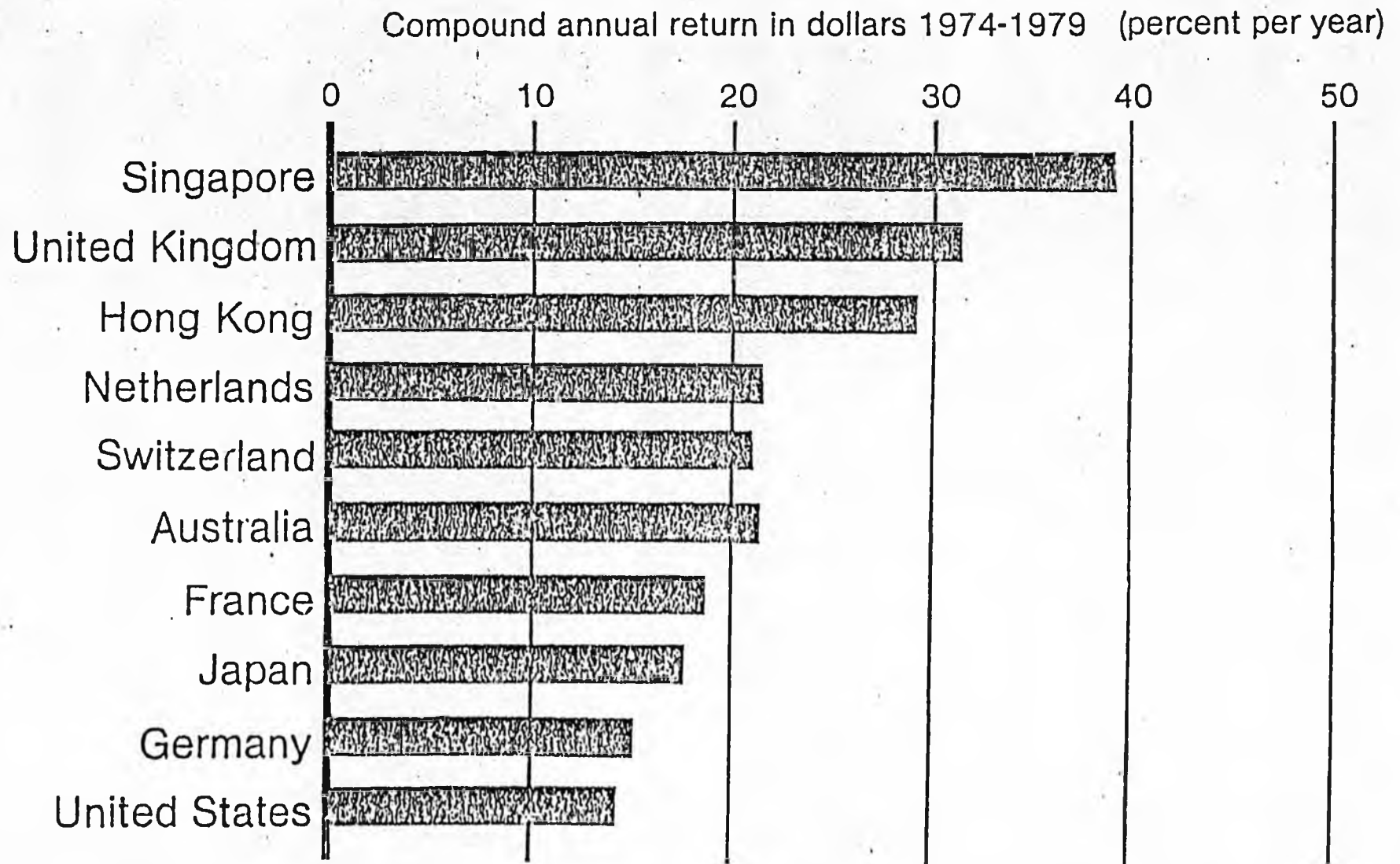


Foreign markets have shown better returns than the U.S. market for the past ten years.

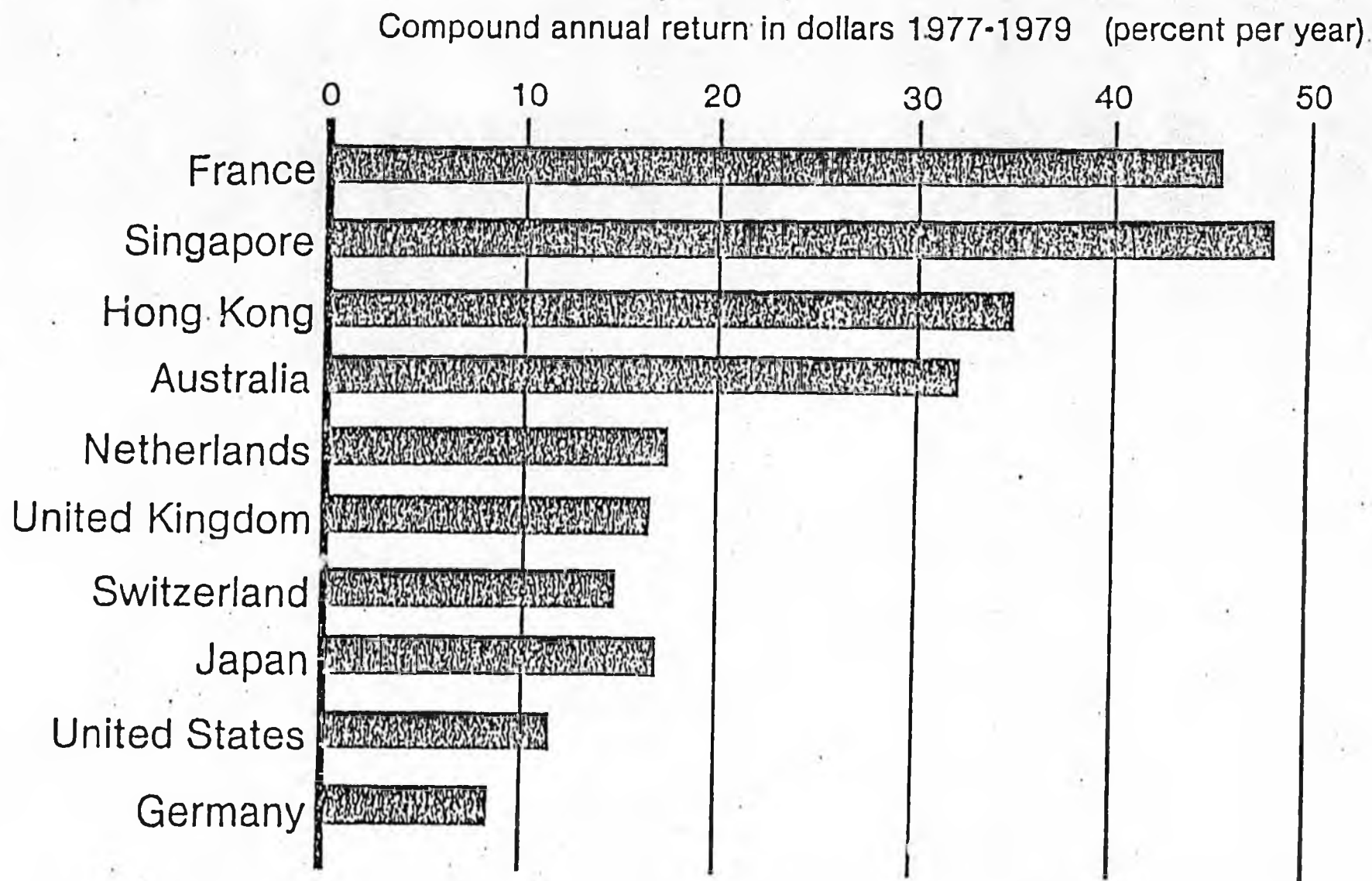
Compound annual return in dollars 1969-1979 (percent per year)



Foreign markets have shown better returns than the U.S. market for the past five years:



Foreign markets have shown better returns than the U.S. market for the past two years.





TOTAL RETURNS ON INVESTMENT FROM MAJOR WORLD STOCK MARKETS
BEFORE AND AFTER U.S. INFLATION FOR THE FIVE YEARS 1974-'78+

| | TOTAL RETURNS LOCAL CURRENCY | TOTAL RETURNS U.S. \$ TERMS | INFLATION in U.S. | TOTAL RETURNS AFTER U.S. INFLATION |
|-------------|---------------------------------|--------------------------------|----------------------|--|
| U.S. | 4.29 | 4.29 | 7.94 | -3.38 |
| Japan | 9.48 | 17.72 | | -9.06 |
| U.K. | 14.54 | 11.61 | | 3.40 |
| Germany | 11.65 | 21.04 | | 12.14 |
| France | 6.70 | 10.13 | | 2.03 |
| Switzerland | 1.37 | 16.84 | | 8.25 |
| Australia | 9.92 | 4.44 | | -3.24 |
| Canada | 5.40 | 1.93 | | -5.57 |
| EAFE* | | 12.11 | | 3.86 |

*Europe, Australia, Far East Indices of sixteen markets, weighted according to their size. Prepared by Capital International, Geneva.
+ percent per annum, compounded.



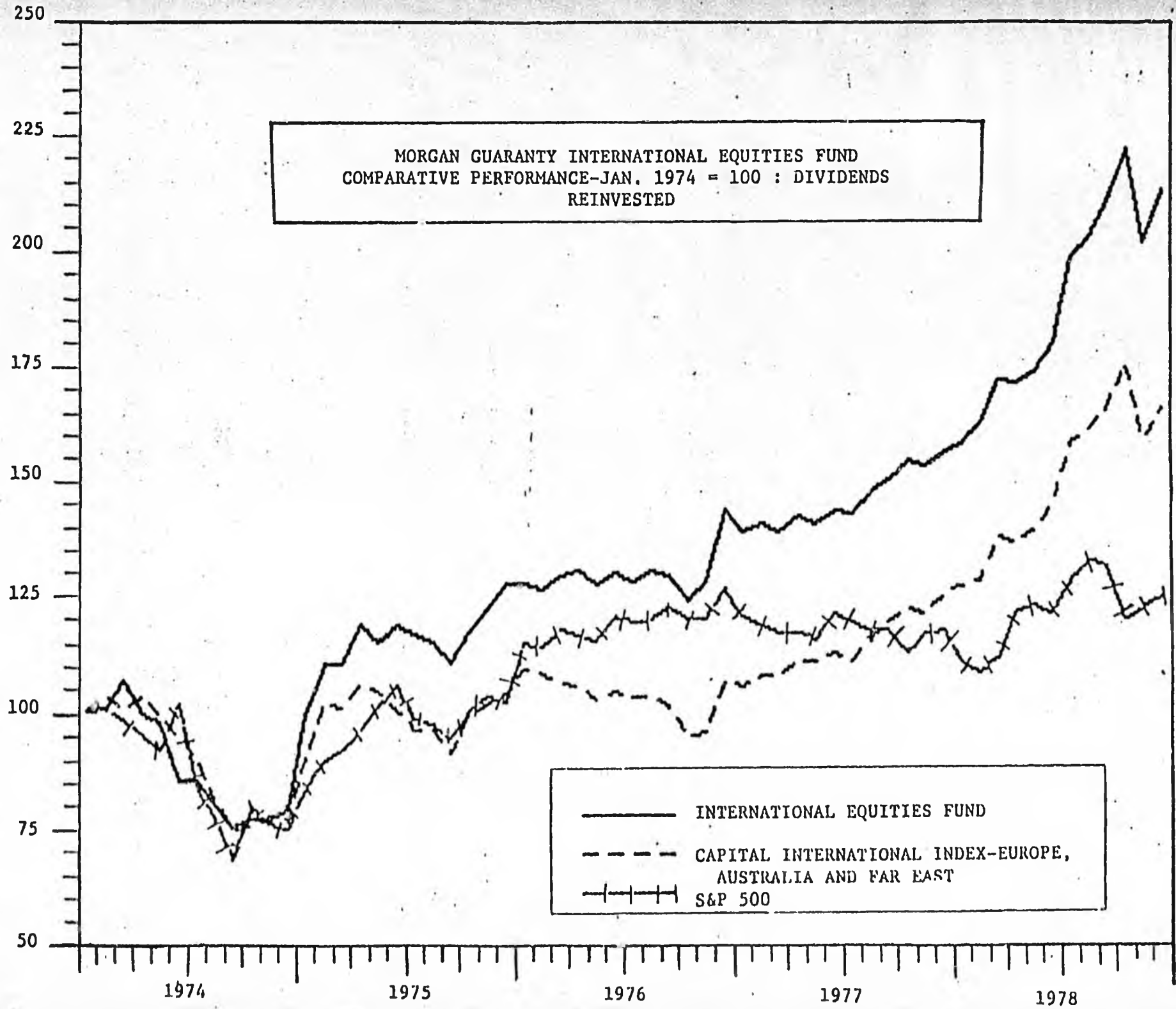
INTERSEC RESEARCH CORP.
Registered Investment Advisers

Consultants on International Diversification
for Pension Managers

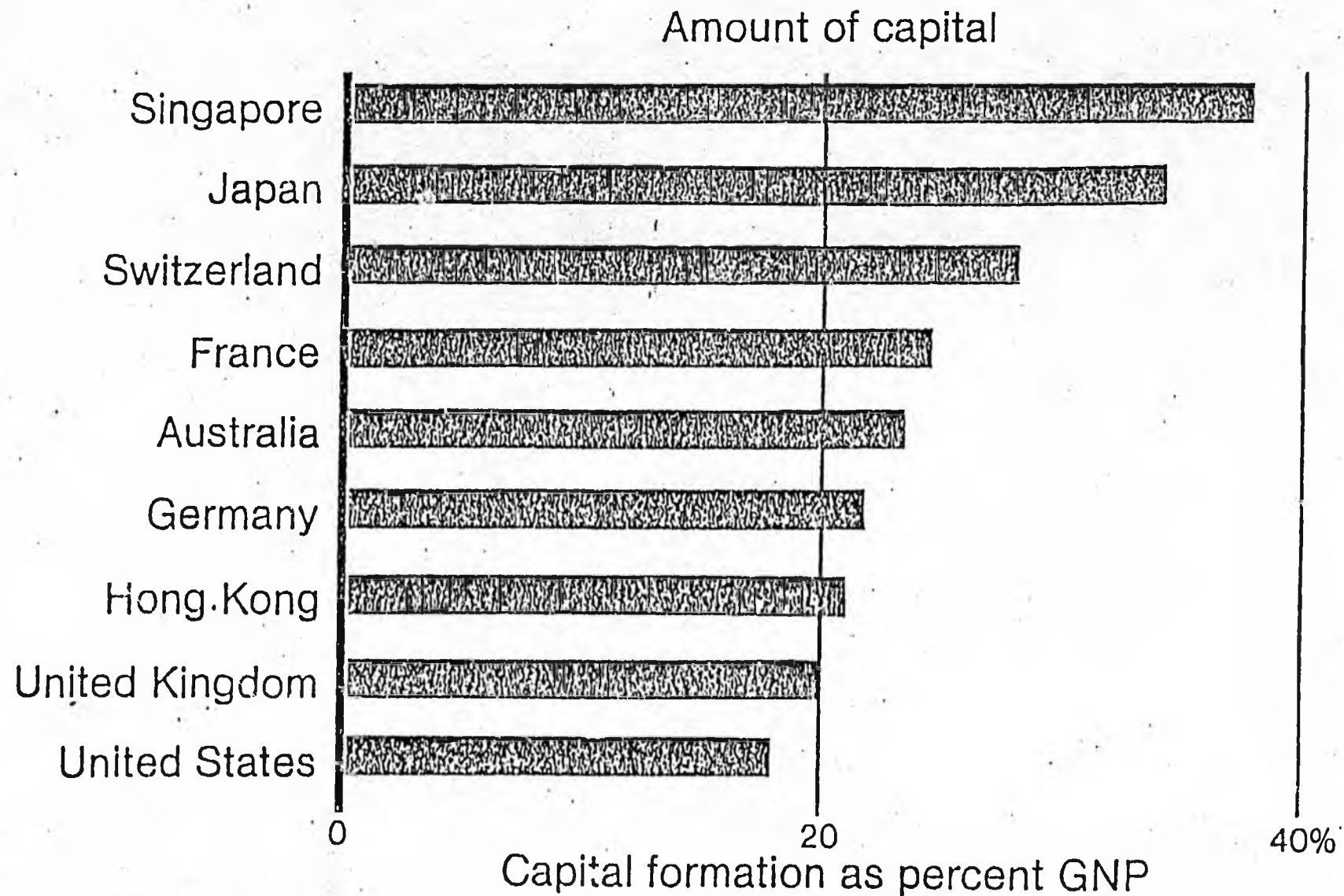
TOTAL RETURNS ON INVESTMENT FROM MAJOR WORLD STOCK MARKETS
BEFORE AND AFTER U.S. INFLATION FOR THE THREE YEARS 1976-'78+

| | TOTAL RETURNS LOCAL CURRENCY | TOTAL RETURNS U.S. \$ TERMS | INFLATION in U.S. | TOTAL RETURNS AFTER U.S. INFLATION |
|-------------|---------------------------------|--------------------------------|----------------------|--|
| U.S. | 6.92 | 6.92 | 6.86 | .06 |
| Japan | 24.49 | 30.73 | | 22.33 |
| U.K. | 17.12 | 17.42 | | 9.88 |
| Germany | 3.82 | 19.49 | | 11.82 |
| France | 10.28 | 12.93 | | 5.68 |
| Switzerland | 2.34 | 20.76 | | 13.00 |
| Australia | 10.31 | 7.16 | | 0.28 |
| Canada | 14.77 | 9.13 | | 2.12 |
| EAFE* | | 18.39 | | 10.79 |

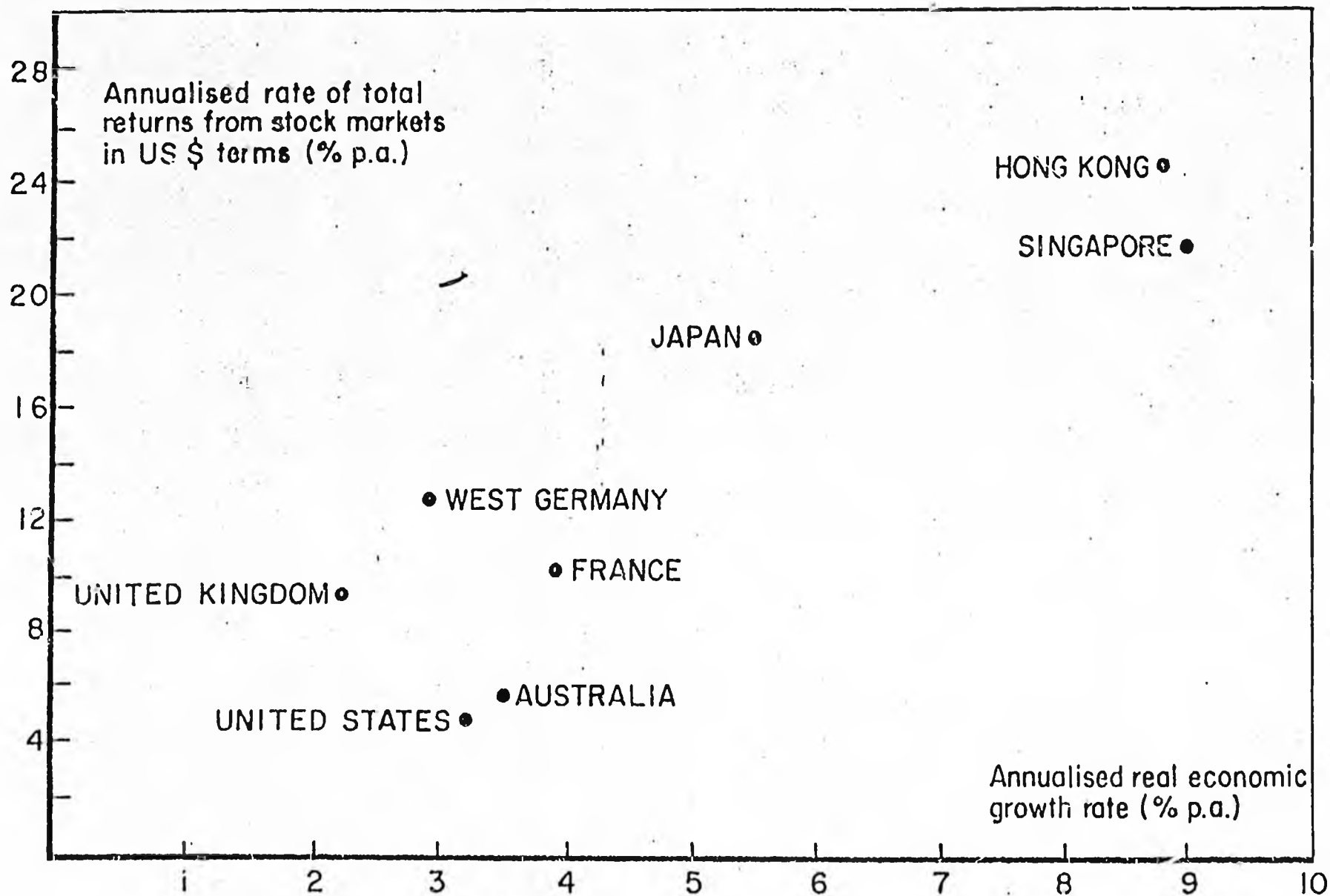
*Europe, Australia, Far East Indices of sixteen markets, weighted according to their size. Prepared by Capital International, Geneva.
+ percent per annum, compounded.



Greater capital formation in foreign countries leads to greater economic growth.



I. RELATION BETWEEN REAL ECONOMIC GROWTH AND STOCK MARKET RETURNS 1970-1979

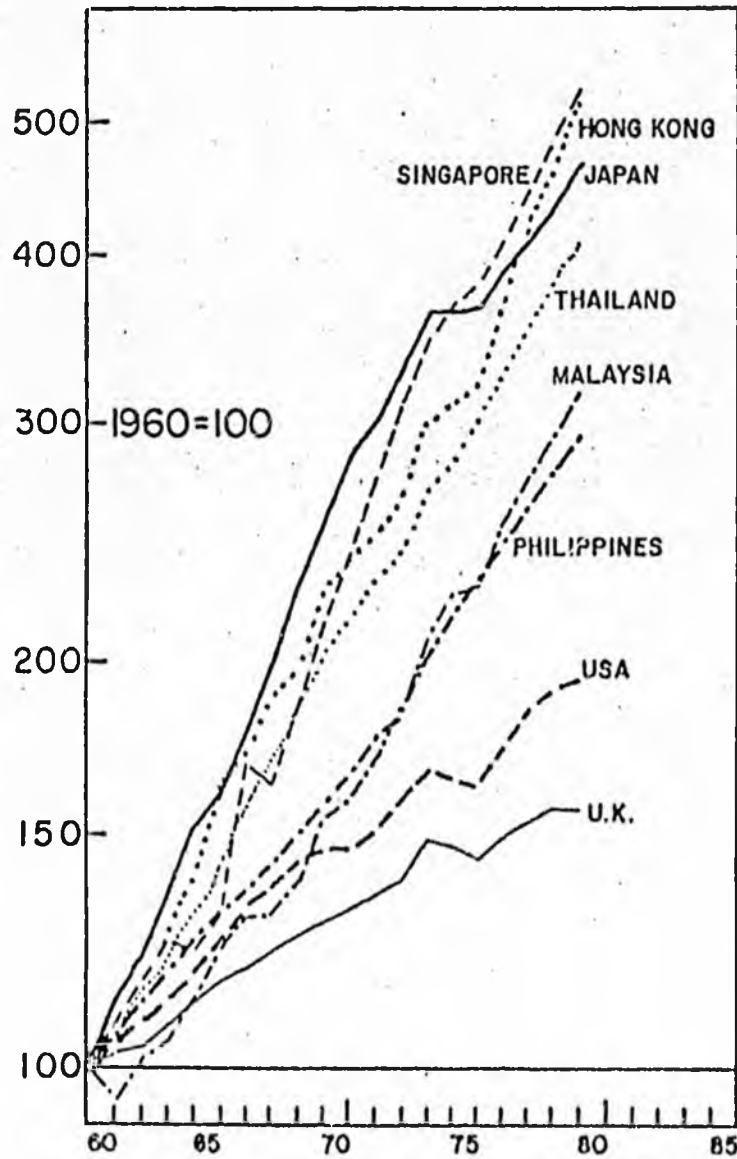


V. PROSPECTS FOR PROSPERITY IN THE 1980's

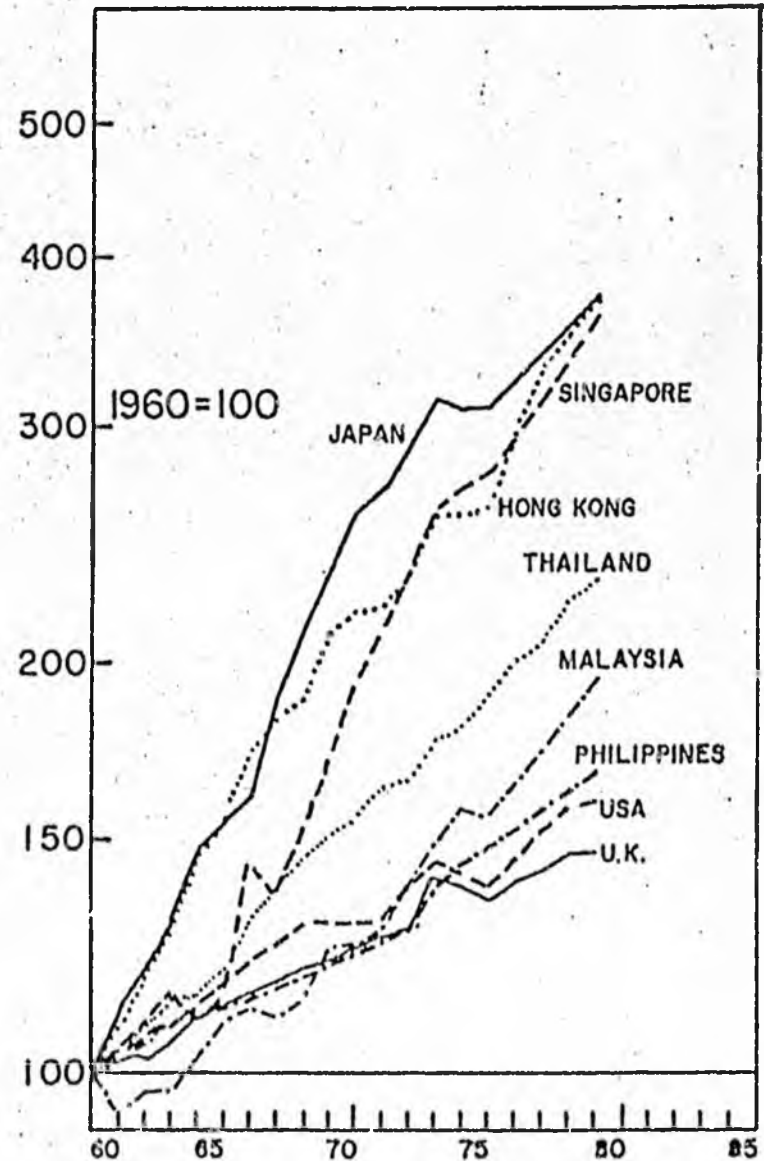
| <u>GOVERNMENT CONSUMPTION AS % OF GNP IN 1978</u> | <u>SAVINGS RATE IN 1977</u> | <u>PRIVATE FIXED CAPITAL FORMATION AS % OF GNP IN 1978</u> |
|---|---|--|
| UNITED STATES 20.5 | JAPAN 21.5 | SINGAPORE 22.9 |
| UNITED KINGDOM 20.2 | FRANCE 16.1 | WEST GERMANY 22.9 |
| WEST GERMANY 20.0 | WEST GERMANY 14.0 | JAPAN 20.4 |
| AUSTRALIA 16.9 | UNITED KINGDOM 13.9 | HONG KONG 18.2 |
| FRANCE 15.3 | UNITED STATES 5.1 | UNITED STATES 15.5 |
| SINGAPORE 11 | | AUSTRALIA 14.1 |
| JAPAN 9.5 | | UNITED KINGDOM 9.7 |
| HONG KONG 6.0 | Not Available: Australia, Hong Kong, Singapore | Not Available: France |

IV ECONOMIC PROGRESS IN THE FAR EAST

GROSS DOMESTIC PRODUCT GROWTH IN ASIA

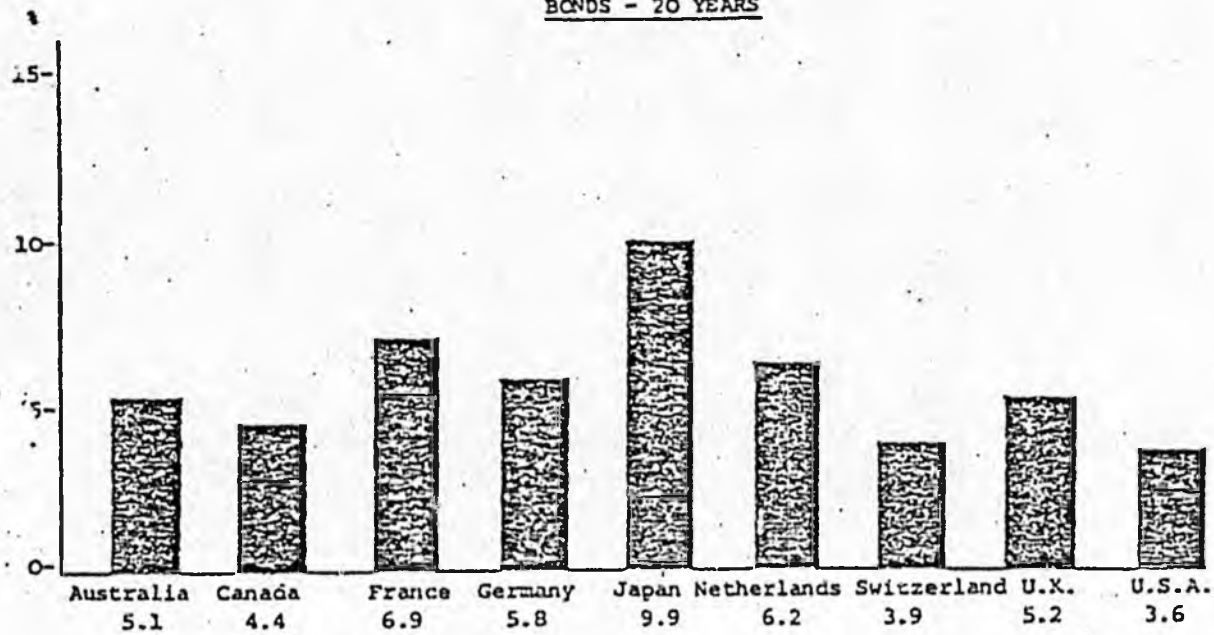


REAL PER CAPITA GDP IN ASIA



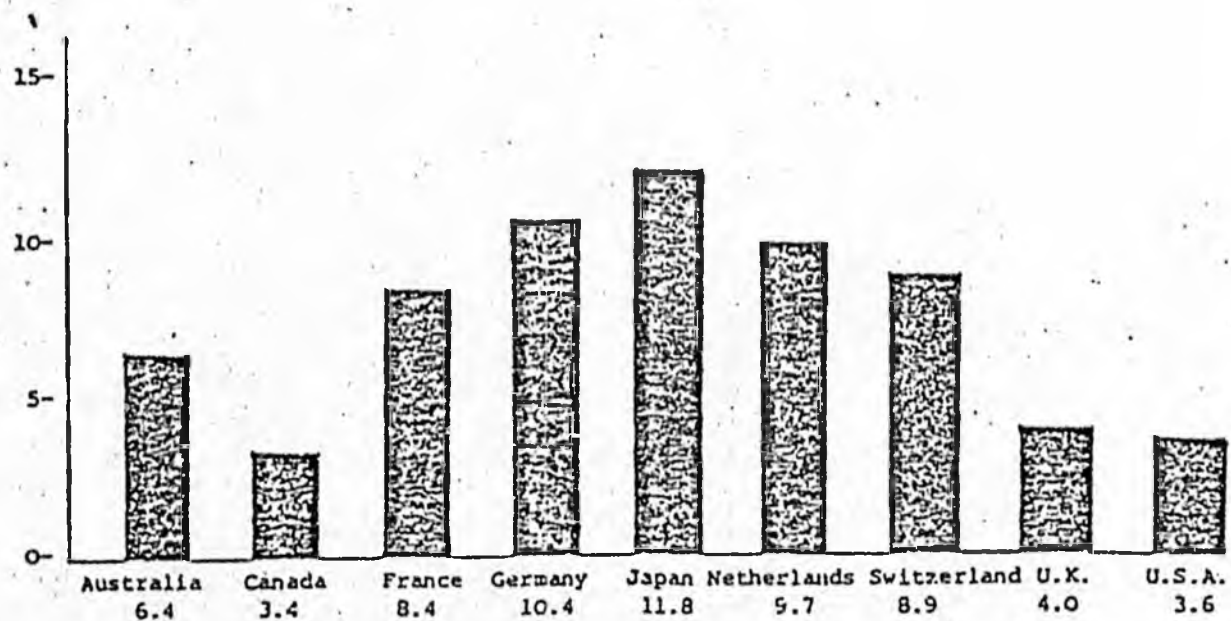
Average Annual Rates of Total Return
Bond Markets - No Currency Adjustment

1960-1979

BONDS - 20 YEARS

Average Annual Rates of Total Return
Bond Markets - Adjusted for Currency Movements Relative to Dollar

1960-1979

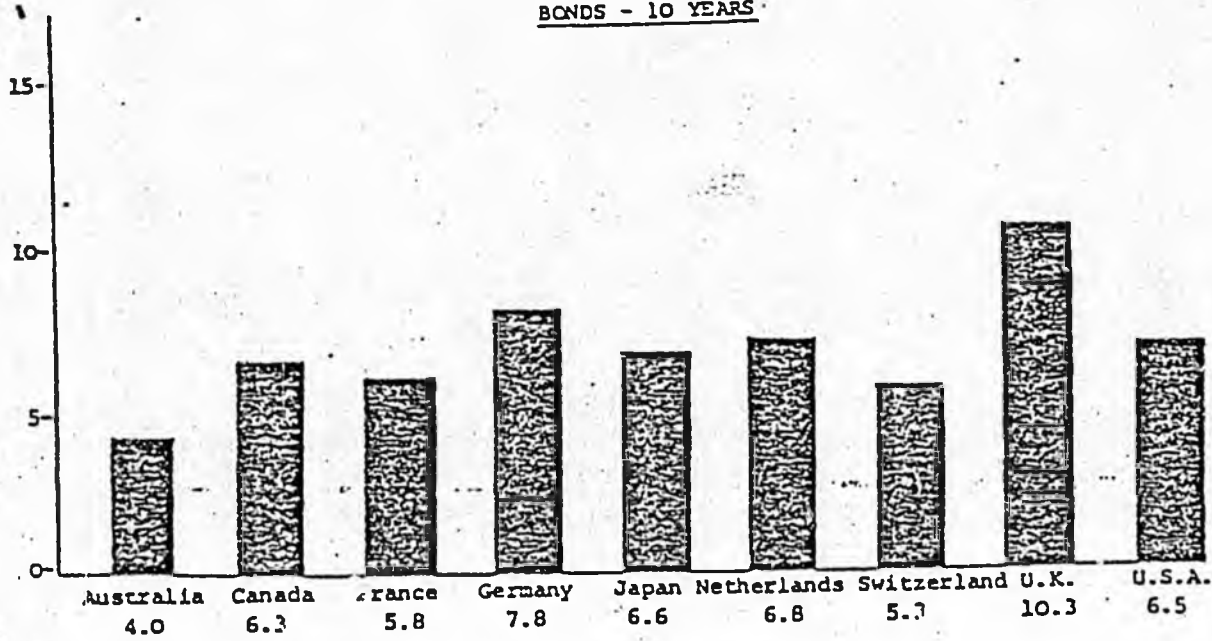


Source: Kleinwort, Benson Ltd., London

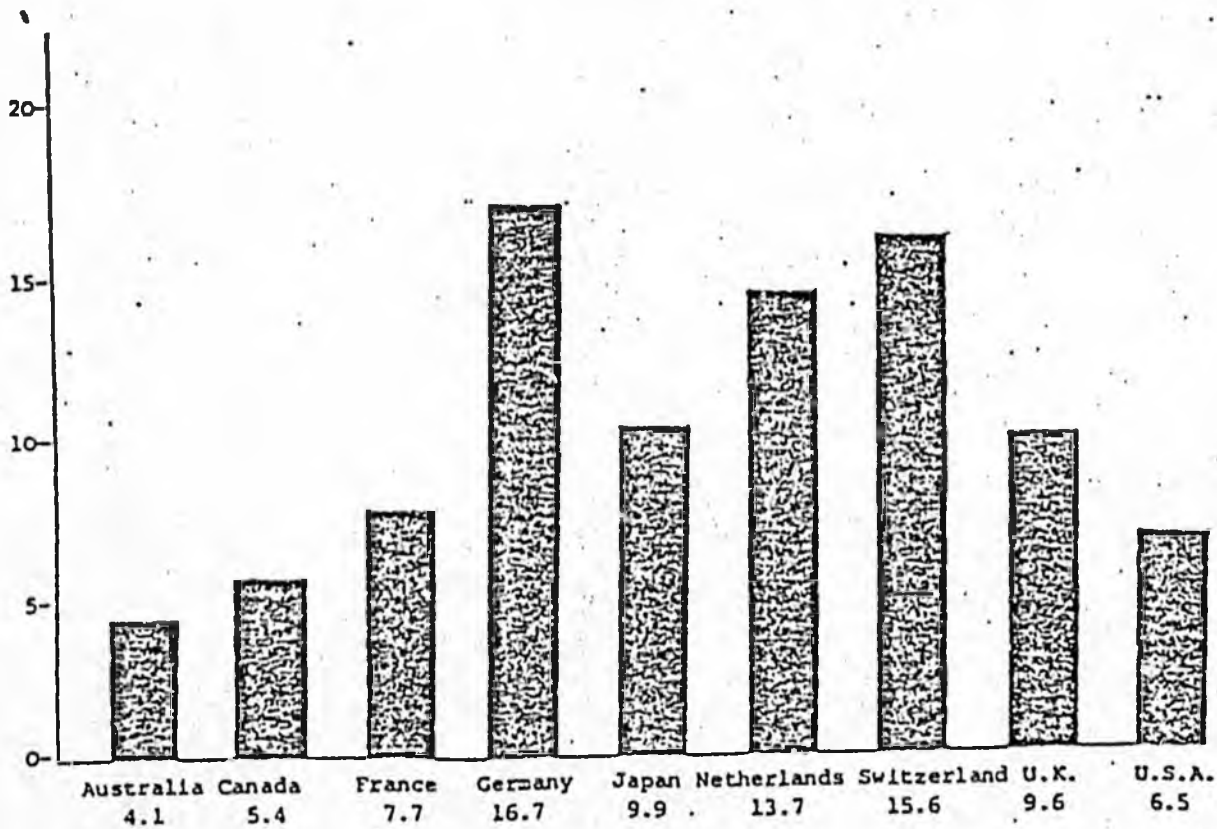
Average Annual Rates of Total Return
Bond Markets - No Currency Adjustment

1970-1979

BONDS - 10 YEARS



Average Annual Rates of Total Return
Bond Markets - Adjusted for Currency Movements relative to Dollar



Source: Kleinwort, Benson Ltd., London



Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

15 February, 1982

TO: Senator Hohman, Vice Chairman
Senator Fahrenkamp
Senator Rodey
Senator Ziegler

FROM: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

The following Governor's appointees for legislative confirmation have been referred to the Senate Labor and Commerce Committee:

ALASKA PUBLIC UTILITIES COMMISSION

* Carolyn Guess, Anchorage, term expiring 10/31/87

* Susan Knowles, Anchorage, term expiring 10/31/87

Diana Snowden, Anchorage, term expiring 10/31/86

Resumes are attached for the above named individuals, and I would appreciate hearing from you by 1 March, 1982, if you have objections to their confirmations. Thank you.

*Reappointments

CAROLYN S. GUESS

Commissioner Guess is currently the Chairman of the Alaska Public Utilities Commission.

EDUCATION

Bachelor of Arts Degree - College of Williams & Mary
Williamsburg Va

The Annual Regulatory Studies Program
National Association of Regulatory
Utility Commissioners - 1976

Seminar for Retail Rate Consultants
Rural Electrification Administration - 1977

Public Utility Seminar on Corporate Finance
Kidder, Peabody & Co., Incorporated - 1978

Electric Utility Rate Design Study
Electric Power Research Institute - 1980

RELEVANT EXPERIENCE

Alaska Public Utilities Commission

1975 - present - Commissioner
March 1981 - present - Chairman
March 1978 - November 1978 - Acting Executive Director
July 1979 - October 1979 - Acting Executive Director

National Association of Regulatory Utility Commissioners

| | |
|--------------|--|
| 1975-present | Member |
| 1978-present | Ad Hoc Committee on the National Energy Act |

SIGNIFICANT LEGISLATIVE TESTIMONY

Sunset Review of AS 42.05 - 1980

Merger of Alaska Pipeline
Commission and Alaska Public
Utilities Commission - 1981

CONFERENCE PARTICIPATION

Energy Conference sponsored by the Alaska Native
Foundation 1979

Governor's Committee - State Energy Policy - 1978-80

Reliability Council for Alaska (electric)
sponsored by Alaska Power Administration 1980-present

SUSAN M. KNOWLES

1319 G Street
Anchorage, Alaska 99501
(907) 279-6336

EDUCATION:

University of Alaska
Anchorage, Alaska
MBA, Finance, 1979

Vassar College
Poughkeepsie, New York
AB, Political Science, 1968

EMPLOYMENT:

October, 1975 to Present:

Commissioner

State of Alaska
Alaska Public Utilities Commission
Anchorage, Alaska

June, 1973 to September, 1975:

Property Investment Finance Manager

David E. Alm and Joe L. Hayes
Borough-City Development, Inc.
Campbell Lake Development Co.
Campbell Lake Inc.
Anchorage, Alaska

November, 1970 to September, 1975:

Secretary-Treasurer

Grizzly Burger, Inc.
Anchorage, Alaska

December, 1968 to November, 1970:

Administrative Assistant

Community Enterprise Development Corporation
Anchorage, Alaska

R E S U M E

DIANA E. SNOWDEN

Trapline Drive
SRA Box 1735-M
Anchorage, Alaska 99507

Home: (907) 344-0000
Work: (907) 263-2112

EXPERIENCE:

ALASCOM, INC., 949 EAST 36TH AVE., ANCHORAGE, AK 99502
TELEPHONE UTILITIES, INC., 1221 S.W. YAMHILL ST., PORTLAND, OR 97205

Vice President, Industrial Relations - September 1980 to September 1981. Salary and Bonus \$75,000.

Holding dual Vice President office positions for Alascom and Telephone Utilities (both subsidiaries of Pacific Power & Light), was responsible for policy level decisions affecting the overall business performance of the two companies and their 2,500 employees. As a member of the senior executive staff, approved \$50 million in annual capital expenditure requests, participated in the budget review process of \$80 million in annual operating costs, reviewed financial and operating statements of the company's monthly progress against budget. Initiated written corporate policy statements, directed management efficiency studies as well as time-and-motion analyses designed to eliminate unnecessary staffing and inefficient spending in a regulated industry. Presented formal reports to the Board of Directors of Alascom, Telephone Utilities, and their parent company (Pacific Power & Light) on matters affecting administration, employee and labor relations.

Directed combined Industrial Relations and Corporate Administrative Services staff composed of over 60 professional and clerical personnel with a 1981 budget of \$7 million. Responsibility for direction and coordination of all functions of Industrial Relations included: corporate employment in over 80 geographic locations in five states, labor relations and contract negotiations with largest Teamster bargaining unit in Alaska as well as IBEW and CWA units in Pacific Northwest, wage and salary administration, employee benefits, management training and development, position classification, EEO and Affirmative Action Programs, employee communications, long-range organizational planning and development, Workers' Compensation, performance appraisals, College Honors Internship Program, Safety and DOD Military Security, and employee social and recreational events. Was further responsible for Corporate Administrative Services including: Word Processing Center, mail and courier services, Telex, corporate aircraft and travel, office supplies and equipment, company cafeteria and motor pool, records management, and office space planning and allocation.

Provided guidance and direction for establishment of corporate policies and long-range planning with regard to human resource management. Provided direct policy guidance on design and development of employee benefits and compensation programs. Personally served as chief negotiator and spokesperson in labor negotiations with seven (7) parent company unions, and determined grievance resolutions. Testified on behalf of Alascom before regulatory agencies on telecommunications issues; represented the Company by speaking to statewide community groups and organizations.

Director of Employee Relations (ALASCOM) - May 1979 to September 1980. Salary \$48,000.

Responsibilities essentially identical to those stated above, but were limited to Alascom only and did not include Telephone Utilities.

ANCHORAGE SCHOOL DISTRICT, 4600 DEBARR ROAD, ANCHORAGE, AK

Director of Employee Relations/EEO - August 1977 to May 1979. Salary \$39,000.

Served as Chief Negotiator on administration negotiating committees; reported directly to the School Board on labor and negotiation matters. Conducted administrative hearings on employee terminations, suspensions, and other serious disciplinary actions, and established District position on disputed union grievances before appointed Hearing Examiner or Arbitrator. Presented School District's case, examined witnesses, prepared briefs, etc. Represented School District before State Unemployment Compensation Office in appeal hearings and prepared cases and represented School District in student/employee discrimination suits (over 70) before various federal and state human rights enforcement agencies.

Organized and conducted School District's training seminars on grievances, EEO, and personnel management related subjects. Chaired Classified Evaluation pilot program committee. Chaired District's Planning and Development Committee and wrote substantial portion of District's five-year operating goals. Responsible for all CETA contracts with State and Municipality. Represented School District in speaking before organizations and groups on a variety of community interests/concerns.

Director, Equal Employment Opportunity Office - November 1973 to July 1977. Salary \$30,000

Responsible for development, implementation, and monitoring of comprehensive district-wide Affirmative Action Plan designed to assure fair and impartial programs relative to employment, pro-

motion, and training for nearly 4,000 employees of the School District. Substantially increased the percentage of minorities in every job classification level. Approved all employee selection and promotion decisions to increase consideration of minority applicants.

WESTWOOD MANAGEMENT CORPORATION, 5401 WESTBARD AVE., WASHINGTON, D.C.

Assistant Vice President/Treasurer - April 1970 to September 1973.
Salary and Options \$22,000.

Directed real estate management affairs concerned with day-to-day operation of office staff, which managed commercial real estate investments of over \$110,000,000, and held overall operational responsibility for headquarters office in absence of Executive Vice President. Prepared profit and loss statements, net cash flow charts, and cost-effectiveness studies based upon comparable Washington, D.C. real estate market.

SYSTEMS RESEARCH CORPORATION, 1028 CONNECTICUT AVE., WASHINGTON, D.C.

Manager, Proposals and Solicitations - July 1969 to April 1970.
Salary \$14,000.

General responsibilities centered on research and writing of proposals and government contract bids, including supervision and coordination of staff of nine; liaison with government officials; and marketing. Performed marketing research analyses, attended Congressional hearings, interviewed legislative aides, and researched expected appropriations. Also responsible for corporate news releases and design and writing of a company brochure.

Research Associate - January 1969 to July 1969.
Salary \$8,900.

Researched and co-authored five technical reports on pre-design phase of the Navy's Amphibious Fire Support Ship (LFS): "Life-Cycle Cost Analysis," "Interface Requirements," "Fixed Annual Operating Costs," "Sensitivity and Trade-Off Analysis," and "Competing Systems."

Technical Assistant - September 1969 to January 1970.
Salary \$6,000.

Researched and wrote classified manuscripts on governmental and economic systems of Jordan, Tunisia and Turkey for technical documents prepared under contract to the U.S. Department of Defense. Rewrote, copy-edited text, and prepared all research and bibliographical materials for entire project.

EDUCATION (GRADUATE) PROFESSIONAL CERTIFICATE, LABOR/MANAGEMENT RELATIONS, UNIVERSITY OF ALASKA, ANCHORAGE, ALASKA, 1978.

M.P.A. CANDIDATE, UNIVERSITY OF ALASKA, ANCHORAGE, ALASKA. CONCENTRATION LABOR/MANAGEMENT RELATIONS (coursework completed; thesis remaining).

M.A. GEORGETOWN UNIVERSITY, WASHINGTON, D.C., 1969.
MAJOR - POLITICAL SCIENCE (URBAN STUDIES).

B.A. TRINITY COLLEGE, WASHINGTON, D.C. 1967, MAJOR -
GOVERNMENT

HONORS &
ACTIVITIES

COLLEGE: Four-year scholarship to Trinity College; Dean's Lis ; V.P. Student Council; V.P. Russian Club; elected to Pi Gamma Mu Honor Society; graduated Summa Cum Laude; Nominated for Woodrow Wilson Fellowship.

HIGH SCHOOL: Valedictorian; National Merit Scholarship Finalist; Texas State Debating Champion; Second in U.S. Cross-Examination Debate; Texas Science Fair Winner in Biology.

PERSONAL

Date of Birth - October 29, 1947; Height - 5' 11";
Weight - 120 lbs; Health - excellent.

REFERENCES

References from current and all past employees provided gladly upon request.

STATE OF ALASKA

OATH OF OFFICE

Office or Department of Commerce & Econ. Dev.
I, Diana E. Snowden, do solemnly swear
(or affirm) that I will support and defend the Constitution of
the United States, and the Constitution of the State of Alaska,
and that I will faithfully discharge my duties as a Commissioner
of (board or commission) the Alaska Public Utilities Comm.
to the best of my ability.

Diana E. Snowden

Subscribed and Sworn to before me this 23rd day of
Sept., 19 81.

Rona J. McPherson
Notary Public, State of Alaska
My Commission expires: 3-20-85

(Seal)

A F F I D A V I T
QUALIFICATIONS FOR APPOINTMENT
TO AN ALASKA BOARD OR COMMISSION

FULL NAME DIANA E. SNOWDEN
PLACE OF RESIDENCE ANCHORAGE, ALASKA
BIRTHPLACE NEW YORK, NEW YORK
MAILING ADDRESS SPA Box 1735-M, ANCHORAGE 99507
I HAVE LIVED IN ALASKA FOR eight (8) YEARS.
DATE/PLACE OF NATURALIZATION, IF A NATURALIZED CITIZEN
n/a
PLEASE GIVE EXACT NAME OR NUMBER OF THE ALASKA PRECINCT IN
WHICH YOU LAST VOTED O'Malley Elementary, #130

I, DIANA E. SNOWDEN, DO
SOLEMNLY SWEAR (OR AFFIRM) THAT THE ABOVE STATEMENTS ARE
TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Diana E. Snowden

Subscribed and Sworn to before me this 23rd day of
September 1981.

Lorna J. McPherson
Notary Public, State of Alaska
My Commission expires: 3-20-85



Official Business

Alaska State Legislature

Senate

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

15 February, 1982

TO: Senator Hohman, Vice Chairman
Senator Fahrenkamp
Senator Rodey
Senator Ziegler

FROM: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

The following Governor's appointees for legislative confirmation have been referred to the Senate Labor and Commerce Committee:

ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

Mike Harper, Anchorage, term expiring 7/01/83

A resume is attached for the above named individual, and I would appreciate hearing from you by 1 March, 1982, if you have objections to the confirmation. Thank you.

RESUME

MICHAEL C. HARPER

Personal

5051 Mills Drive
Anchorage, Alaska 99504
(907) 333-0372

37 years old (DOB 11-30-44)
Married: Jane E. Harper
One Daughter: Kristine

Education

1968 graduate of University of Georgia, Bachelor of Business Administration;
continuing professional development with courses in Commercial Banking and
Lending

Military

1968 - 1971 U.S. Army

Employment History

September 1979 to Present

Loan Officer - United Bank Alaska
Commercial Loan Department
645 G Street
Anchorage, Alaska 99501

January 1975 - August 1979

Deputy Commissioner - Department of
Community & Regional Affairs;
Administrative Assistant to the Governor
Office of Lt. Governor
State of Alaska
Juneau, Alaska

July 1971 - December 1974

Planner Deputy Director
Executive Director
Rural Alaska Community Action Program
Anchorage

Civic & Professional Organizations

Member - Tundra Times Board of Directors

Member - Basic Industrial Development Steering Committee

Past Memberships

Member - Doyon, Ltd.

Member - Governor's Task Force on Telecommunications

Member - Bristol Bay Regional Development Council

Member - State Manpower Planning Council

Member - United Bank Alaska

Awards

Outstanding Young Man Award - 1976

Community Leaders & Noteworthy Americans - 1976

STATE OF ALASKA

OATH OF OFFICE

Office or Department Alaska Industrial Development Authority

I, Michael C. Harper, do solemnly swear
(or affirm) that I will support and defend the Constitution of
the United States, and the Constitution of the State of Alaska,
and that I will faithfully discharge my duties as a _____
of (board or commission) board member
to the best of my ability.

Michael C. Harper

Subscribed and Sworn to before me this 22nd day of
September, 1981.

Janice D. Beam

Notary Public, State of ALASKA
My Commission expires My Commission expires
Dec. 10, 1984

(Seal)



A F F I D A V I T
QUALIFICATIONS FOR APPOINTMENT
TO AN ALASKA BOARD OR COMMISSIC.

FULL NAME Michael C. Harper
PLACE OF RESIDENCE 5051 Mills Drive Anchorage, Alaska 99504
BIRTHPLACE Fairbanks, Alaska
MAILING ADDRESS 5051 Mills Dr. Anchorage, Ak 99504
I HAVE LIVED IN ALASKA FOR 36 YEARS.
DATE/PLACE OF NATURALIZATION, IF A NATURALIZED CITIZEN

PLEASE GIVE EXACT NAME OR NUMBER OF THE ALASKA PRECINCT IN
WHICH YOU LAST VOTED Election District 10 Anchorage No. 22

I, Michael C. Harper, DO
SOLEMNLY SWEAR (OR AFFIRM) THAT THE ABOVE STATEMENTS ARE
TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Michael C. Harper

Subscribed and Sworn to before me this 22nd day of
September, 1981.



Shirice D. Bean
Notary Public, State of ALASKA
My Commission expires: My Commission expires:
Dec. 10, 1984



Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

15 February, 1982

TO: Senator Hohman, Vice Chairman
Senator Fahrenkamp
Senator Ziegler
Senator Rodey

FROM: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

The following Governor's appointees for legislative confirmation have been referred to the Senate Labor and Commerce Committee:

BOARD OF ELECTRICAL EXAMINERS

Gordon J. Helem, Sitka, term expiring 7/10 1984

A resume is attached for the above named individual, and I would appreciate hearing from you by 1 March, 1982, if you have objections to this confirmation. Thank you.

A. List any professional licenses, certifications, or registrations and dates obtained that may be used as qualifying criteria:

Alaska Electrical Contractor License IW & OLW #176

Original license issued in 1969

Specialty Contractor License #AA 0810

Certificate of Commission to the Board of Electrical Examiners 1971-1975

B. List both formal and informal education and training experiences: (Use additional paper if necessary)

High School

6 quarters University of Washington Engineering School

C. List any community service positions, municipal government positions, state positions held, and list any awards received. These include both compensated and uncompensated positions (for example, president of a service organization or a mayor). Also include length of time served in the positions.

City of Sitka Public Utility Board approx. 4 years

D. Employment work history: paid, unpaid or voluntary: (Use additional paper if necessary)

Construction & maintenance electrician: 1949-1959

Electrical Superintendent, Alaska Lumber & Pulp Co.: 1959-1963

Maintenance Dept Supervisor, " " " " : 1963-1967

Electrical Contractor : 1968-Present

The Office of the Governor and the State of Alaska have an Affirmative Action Equal Employment Opportunity Program. To assist in the program, you are asked to voluntarily answer the following questions to provide the information necessary for reporting purposes. Under State and Federal law, the information you provide will not be used to illegally discriminate against you.

SEX Male Female

ETHNIC BACKGROUND White Black Hispanic Alaska Native Asian or Pacific Islander American Indian

Date of Birth
7/12/22

Military Service (if applicable, give dates)
U.S. Navy 1944-1946

CERTIFICATION: I swear that the information I have entered on this form is true to the best of my knowledge. I understand that if I deliberately conceal or enter false information on the form my application may be rejected, I may be removed from the list of eligible candidates or I may be removed from the position. I agree that the Office of the Governor may contact present or former employers or other persons who know me to obtain additional information about my skills and abilities. I understand that the information on this application is public information and may be released through a legal request for such information.

Signature of _____

Arthur O. Nelson

Date 9/11/81



SITKA ELECTRIC, INC.

BOX 1609 - 815 HALIBUT POINT ROAD — SITKA, ALASKA — 99835

747-8887

GORDON J. HELEM
ELECTRICAL CONTRACTOR

December 14, 1981

VOCATIONAL RESUME

Gordon J. Helem
P.O. Box 1609
Sitka, Alaska 99835

Age: 59

1949-1954 Maintenance Electrician, Bethlehem Steel, Seattle, Washington

1954-1958 Maintenance Electrician, Ketchikan Pulp Co., Ketchikan, Alaska

1958-1959 Construction Electrician, City Electric, Anchorage, Alaska

1959-1963 Electrical Supervisor, Alaska Lumber & Pulp Co., Sitka, Alaska

1963-1967 Maintenance Supervisor, Alaska Lumber & Pulp Co., Sitka, Alaska

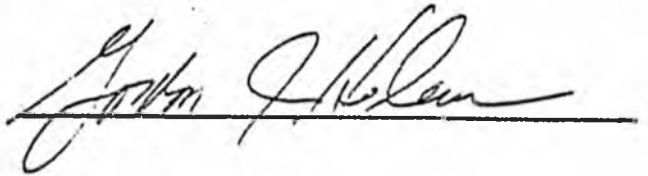
1967-Present Manager & President, Sitka Electric, Inc., Sitka, Alaska

STATE OF ALASKA

OATH OF OFFICE

Office or Department DEPARTMENT OF COMMERCE

I, GORDON JAMES HELEM, do solemnly swear
(or affirm) that I will support and defend the Constitution of
the United States, and the Constitution of the State of Alaska,
and that I will faithfully discharge my duties as a MEMBER
of (board or commission) BOARD OF ELECTRICAL EXAMINERS
to the best of my ability.



Subscribed and Sworn to before me this 12 day of
Oct., 1981.

Delores M. Hansen
Notary Public, State of Alaska
My Commission expires: 11-25-84

(Seal)

A F F I D A V I T
QUALIFICATIONS FOR APPOINTMENT
TO AN ALASKA BOARD OR COMMISSION

FULL NAME GORDON JAMES HELEM

PLACE OF RESIDENCE 1106 HALIBUT POINT ROAD, SITKA, ALASKA

BIRTHPLACE CORONATION, ALBERTA, CANADA

MAILING ADDRESS P.O. BOX 1609, SITKA ALASKA 99835

I HAVE LIVED IN ALASKA FOR 27 YEARS.

DATE/PLACE OF NATURALIZATION, IF A NATURALIZED CITIZEN

1932, SEATTLE, WASHINGTON

PLEASE GIVE EXACT NAME OR NUMBER OF THE ALASKA PRECINCT IN

WHICH YOU LAST VOTED SITKA PRECINCT # 3

I, GORDON JAMES HELEM, DO
SOLEMNLY SWEAR (OR AFFIRM) THAT THE ABOVE STATEMENTS ARE
TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Gordon J. Helem

Subscribed and Sworn to before me this 12 day of
Oct, 1981.

Delores M. Hansen
Notary Public, State of Alaska
My Commission expires: 11-25-84



Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

15 February, 1982

TO: Senator Hohman, Vice Chairman
Senator Fairenkamp
Senator Rodey
Senator Ziegler

FROM: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

The following Governor's appointees for legislative confirmation have been referred to the Senate Labor and Commerce Committee:

ALASKA WORKER'S COMPENSATION BOARD

Peter P. Gerl, Anchorage, term expiring 7/1/85

*Ann S. Pittenger, Anchorage, term expiring 7/1/84

William B. Woodland, Anchorage, term expiring 7/1/85

Resumes are attached for the above named individuals, and I would appreciate hearing from you by 1 March, 1982, if you have objections to their confirmation. Thank you.

*Reappointment

R E S U M E

Name: Peter P. Gerl

Address: 1210 W. 47th Avenue, Apt. #4
Anchorage, Alaska 99503
(907) 276-5829

Born: January 31, 1920 - Hewitt, Wisconsin

Married: Wife - Frances
Daughter - Clara

Education: High School Education with various seminar(s)
to update skills and abilities for my involved
profession(s) (i.e. International Foundation of
Employee Benefit Plans, I.B.T. Labor Institutes).

Alaska: I have resided in the Territory and State of
Alaska for approximately 30 years.

Military Service: I served in the United States Navy in
Alaska from 1943 to 1946. Honorable Discharge.

Brief Work History: I have worked in the Construction
Industry in Alaska both as a member of the Laborers
and Teamsters. I worked out of the Laborers
Union until 1958, at which time I joined and was
employed through the Teamsters.

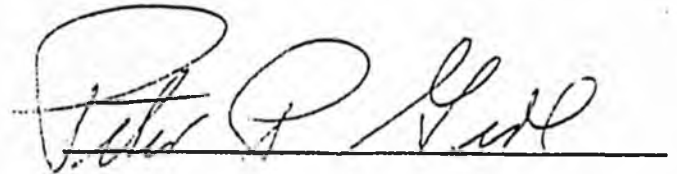
From 1960 - 1964 - I worked in the Communication
Industry at Clear, Alaska. employed as a Teamster
Craft Supervisor for the BMEWS site.

From 1964 - 1977 - I served as Business Represen-
tative and Union President until my recent re-
tirement. While serving as a Union Representative
and Officer, I served on various Local Union
Benefit Trust Funds and other Civic and State
related Commissions (i.e. Economic Development
Commission).

STATE OF ALASKA

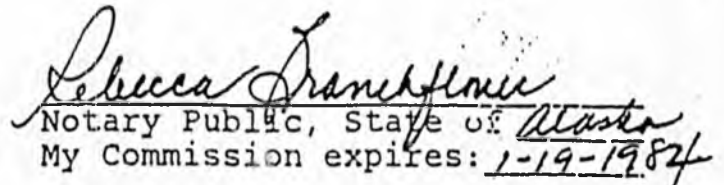
OATH OF OFFICE

Office or Department Department of Labor, Workers' Compensation Div.
I, Peter P. Gerl, do solemnly swear
(or affirm) that I will support and defend the Constitution of
the United States, and the Constitution of the State of Alaska,
and that I will faithfully discharge my duties as a Member
of (board or commission) The Workers' Compensation Board
to the best of my ability.



Subscribed and Sworn to before me this 25th day of

January, 1982.


Notary Public, State of Alaska
My Commission expires: 1-19-1984

(Seal)

A F F I D A V I T

RECEIVED

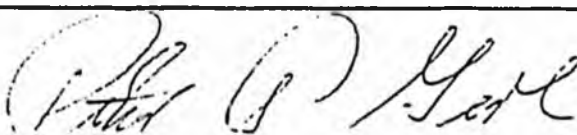
QUALIFICATIONS FOR APPOINTMENT

JAN 27 1982

TO AN ALASKA BOARD OR COMMISSION

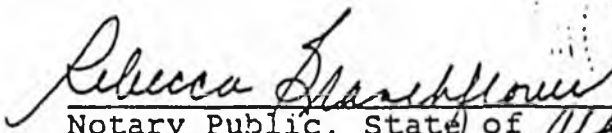
GOVERNORS OFFICE

FULL NAME PETER PAUL GERL
 PLACE OF RESIDENCE 1210 W 47 APT #4 99503
 BIRTHPLACE HEWITT WIS.
 MAILING ADDRESS 1210 W 47 APT #4 ANCHORAGE 99503
 I HAVE LIVED IN ALASKA FOR 36 YEARS YEARS.
 DATE/PLACE OF NATURALIZATION, IF A NATURALIZED CITIZEN
N/A
 PLEASE GIVE EXACT NAME OR NUMBER OF THE ALASKA PRECINCT IN
 WHICH YOU LAST VOTED NO 17

I, , DO

SOLEMNLY SWEAR (OR AFFIRM) THAT THE ABOVE STATEMENTS ARE
 TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Subscribed and Sworn to before me this 25th day of
January, 1982.


 Notary Public, State of Alaska
 My Commission expires: 1-19-1984

ANN D. FILLINGER
6602 Lakeway Drive
Anchorage, Alaska 99502

Telephone: Office (907) 278-2525
Residence (907) 243-7238

PROFESSIONAL OBJECTIVE

To transfer my knowledge and experience in Personnel Management to the field of Real Estate, utilizing interviewing skills to determine the needs and wants of clients and customers, and negotiating techniques to obtain the best terms possible. Being selfemployed the financial returns proves capabilities, whereas when on salary there is always the question of one's professional worth.

EXPERIENCE

April 1981 - Present
Area, Inc. Realtors
4794 Business Park Blvd
Building F
Anchorage, Alaska 99503

October 1974 - June 1980
The Hotel Captain Cook
P.O. Box 2280
Anchorage, Alaska 99510
Att: Walter J. Hickel, Jr.

Tax Season 1973 & 1974
H & R Block
2810 C Street
Anchorage, Alaska 99502
Att: Steve Audette

October 1968 - June 1971
Mother Wright's Bakery
P.O. Box 1345 Station 4
Omaha, Nebraska 68110
(Company Sold)

October 1964 - June 1968
Fedway Department Stores
East Central Avenue
Albuquerque, New Mexico 87106
Att: William F. Burnette

Prior 1964

EDUCATION

1980 - Present
1965 - 1980
1946 - 1949
University of New Mexico
Albuquerque, New Mexico
1945
Albuquerque High School

PRESENT AFFILIATIONS

REAL ESTATE ASSOCIATE
Serve the public in their Real Estate needs.

DIRECTOR OF PERSONNEL
Initiated and developed a viable Personnel Department and Program for all Nickel properties. Was responsible for monitoring same.

INCOME TAX CONSULTANT
Prepared personal and small business taxes. Managed branch office in 1974.

EMPLOYEE RELATION MANAGER
Handled all personnel functions including preparations for Union negotiations and grievances.

ASSISTANT PERSONNEL MANAGER
In charge of recruiting, interviewing, and hiring sales, clerical, and maintenance personnel (2 1/2 years).

PERSONNEL ASSISTANT
Responsible for establishing, conducting and evaluating a new Sales Training Program (1 year).

FLOATING SALES PERSON
Sales in all Departments (3 months).

Talent for television commercials; Children's Radio Program; Airline Reservationist and Ticket Agent; Summer Stock Theatre.

Courses in Real Estate.
Courses in Management and related seminars.

Major Fine Arts (Theatre)
Minor English

Graduated

National Association of Realtors/Member-
Alaska Workers Compensation Board/
American Society for Personnel Administrators.

STATE OF ALASKA

OATH OF OFFICE

Office or Department Department of Labor

I, Ann S. Pittenger, do solemnly swear
(or affirm) that I will support and defend the Constitution of
the United States, and the Constitution of the State of Alaska,
and that I will faithfully discharge my duties as a member
of (board or commission) Alaska Workmen's Compensation Board
to the best of my ability.

Ann S. Pittenger

Ann S. Pittenger

Subscribed and Sworn to before me this 30th day of

August, 1979.

John L. O'Berry
Notary Public, State of Alaska
My Commission expires: 4-4-82

(Seal)

A F F I D A V I T

QUALIFICATIONS FOR APPOINTMENT

TO AN ALASKA BOARD OR COMMISSION

FULL NAME Ann S. Pittenger

PLACE OF RESIDENCE Anchorage, Alaska

BIRTHPLACE Boston, Massachusetts

MAILING ADDRESS 6602 Lakeway Dr., Anchorage, Alaska 99502

I HAVE LIVED IN ALASKA FOR Eight (8) YEARS.

DATE/PLACE OF NATURALIZATION, IF A NATURALIZED CITIZEN

PLEASE GIVE EXACT NAME OR NUMBER OF THE ALASKA PRECINCT IN WHICH YOU LAST VOTED Anchorage No. 120 - Election District No 12

I, Ann S. Pittenger, DO

SOLEMNLY SWEAR (OR AFFIRM) THAT THE ABOVE STATEMENTS ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Ann S. Pittenger

Subscribed and Sworn to before me this 30th day of August, 19 79.

James L. Berry
Notary Public, State of Alaska
My Commission expires: 4-4-82

RECEIVED

DEC 1 1981

WILLIAM B. WOODLAND
700 "I" Street
Anchorage, Alaska 99501
(907) 272-8501

OFFICE OF THE COMMISSIONER

General

Born April 22, 1949
Alaska Resident Since 1953
Married, Two Children

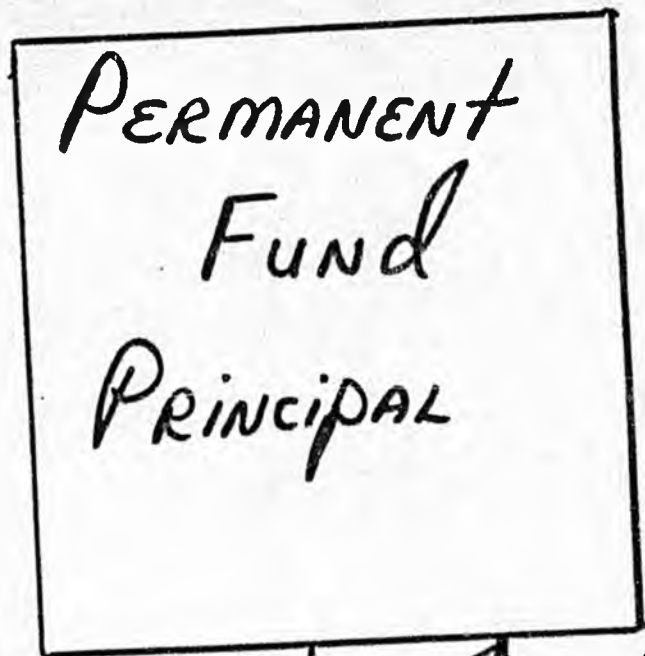
Education

Graduated from High School, Anchorage, Alaska 1967
Graduated from Western Washington University 1971, Engineering
Degree

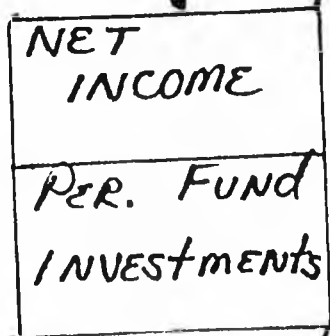
Work History

- 1971 - 1981: Self-employed as owner/operator of Snow White Laundry and Cleaners & Quality Linen Supply, Anchorage, Alaska; and Quality Cleaners and Laundry, Eagle River, Alaska.
- 1975 - 1977: Served as Management Member on the Alaska Workers' Compensation Board, Anchorage, Alaska

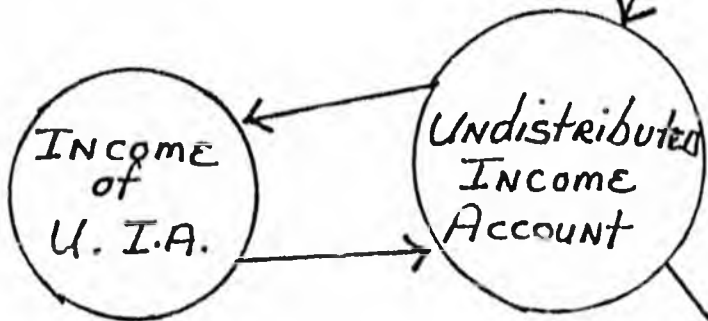
Workers' Compensation



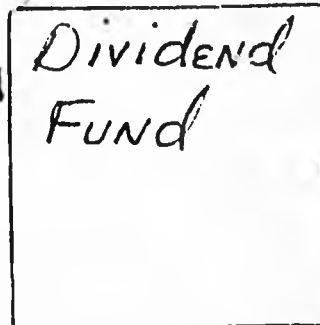
50% of NET INCOME
RETURNED to PRINCIPAL
for RE INVESTMENT;



50% of NET INCOME
TRANSFERRED to
UNDISTRIBUTED INCOME
ACCOUNT;



ANNUAL TRANSFER to
dividend fund; or for
LEGISLATIVE APPROPRIATION;



ALASKA
RESIDENTS

INCOME of
U I A REVERTS
to U I A account;

mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in AS 37.13.010 — 37.13.210. (§ 5 ch 18 SLA 1980)

Legislative history reports. -- For the House Journal, Supplement No. 7, April 2, 1980.
Free Conference Committee Report on ch. 18, SLA 1980 (FCCSSB 161), see 1980

Sec. 37.13.020. Findings. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device managed to allow the maximum use of disposable income from the corporation for purposes designated by law. (§ 5 ch 18 SLA 1980)

Sec. 37.13.030. Purpose. It is the purpose of AS 37.13.010 — 37.13.210 to provide a mechanism for the management and investment of those permanent fund assets allocated to the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020. (§ 5 ch 13 SLA 1980)

Sec. 37.13.040. Alaska Permanent Fund Corporation. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumental. in the Department of Revenue managed by the board of trustees. The purpose of the board is to manage and invest the assets of the corporation in accordance with AS 37.13.010 — 37.13.210. (§ 5 ch 18 SLA 1980)

commercial purchasers of the 1980 salmon harvest;

(3) participate with commercial banks in the making of loans to provide financial assistance to commercial purchasers of the 1980 salmon harvest;

(4) enter into agreements with the Department of Revenue to provide guarantees from the fish processing loan guarantee account for

(A) up to 60 percent of the portion of a loan described in (1) — (3) of this subsection held by a commercial bank; and

(B) up to 100 percent of the portion of a loan described in (1) — (3) of this subsection held by an institution of the federal farm credit system if that portion does not exceed 80 percent of the total amount of the loan.

(b) A loan may not be guaranteed under (a)(4) of this section unless 20 percent or more of the guaranteed portion of the loan is held by the Commercial Fishing and Agriculture Bank.

(c) There is created as a separate account in the general fund the fish processing loan guarantee account. The fish processing loan guarantee account consists of assets transferred to it from the general fund. The commissioner of revenue shall administer the fish processing loan guarantee account and may enter into agreements with the Commercial Fishing and Agriculture Bank to use the assets of the fish processing loan guarantee account to provide guarantees for loans under (a)(4) of this section. The total

amount of the guaranteed portion of loans guaranteed under (a)(4) of this section may not exceed \$40,000,000.

(d) The commissioner of revenue may, to the extent that appropriations are made available to him for the purpose, lend up to \$12,000,000 to the Commercial Fishing and Agriculture Bank to provide financial assistance to commercial purchasers of the 1980 salmon harvest. The portion of a loan made with money lent to the Commercial Fishing and Agriculture Bank under this subsection may not be guaranteed under (a)(4) of this section.

(e) In this section, "commercial bank" means a bank chartered by the United States or by a state of the United States."

Section 3, ch. 32, SLA 1980 provides: "The legislature finds that the Alaska Renewable Resources Corporation has complied with all requirements for an investment of \$3,500,000 in Ball Brothers, Inc., an Alaska corporation, except for the requirement in AS 37.12.080(b) that no financial assistance of more than \$1,500,000 may be provided to a single project or applicant unless the legislature has approved the investment by concurrent resolution. The legislature further finds that approval of the investment is in the public interest. Notwithstanding the provisions of AS 37.12.080(b) requiring approval by concurrent resolution, the investment in the amount of \$3,500,000 is approved and the corporation is authorized to make the proposed investment in Ball Brothers, Inc., an Alaska corporation."

Chapter 13. Alaska Permanent Fund.

Section

- 10. Alaska permanent fund
- 20. Findings
- 30. Purpose
- 40. Alaska Permanent Fund Corporation
- 50. Composition and qualifications of board of trustees
- 60. Term of office
- 70. Removal and vacancies
- 80. Quorum
- 90. Compensation of board members
- 100. Corporation staff
- 110. Conflicts of interest

Section

- 120. Investment responsibilities of the board
- 130. Gains and losses
- 140. Income
- 150. Board budget
- 160. Audits
- 170. Reports and publications
- 180. Tax exemption
- 190. Political activities
- 200. Public access to information
- 210. Definitions

Sec. 37.13.010. Alaska permanent fund. (a) Under art. IX, § 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal

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Sec. 37.13.050. Composition and qualifications of board of trustees. (a) The Board of Trustees of the Alaska Permanent Fund Corporation consists of six members appointed by the governor. Three of the members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue. Three members shall be appointed by the governor from the public and may not hold any other state or federal office, position or employment, either elective or appointive, except as a member of the armed forces of either the United States or of this state. Members other than the commissioner of revenue shall be separately confirmed by a majority of the members of the legislature in joint session.

(b) The three public members of the board shall have recognized competence and wide experience in finance, investments, or other business management-related fields.

(c) The board shall annually elect a chairman from among its members. (§ 5 ch 18 SLA 1980)

Sec. 37.13.060. Term of office. The members of the board shall be appointed for terms of three years, and they may be reappointed subject to confirmation by a majority of the members of the legislature in joint session. Terms shall be staggered. Initial terms for members other than the commissioner of revenue shall be two members serving for one year, two members serving for two years, and one member serving for three years. (§ 5 ch 18 SLA 1980)

Sec. 37.13.070. Removal and vacancies. (a) The governor may remove a member of the board from office. However, the removal of a member of the board is subject to disapproval by a vote of a majority of the members of the legislature at the first joint session held 10 or more days after the legislature receives notice of the removal from the governor. A removal by the governor shall be in writing and shall state the reason for the removal. A member who is removed by the governor may not participate in board business and may not be counted for purposes of establishing a quorum between the time he receives written notice of his removal from the governor and the time that the legislature's power to disapprove the removal under this subsection expires. If the legislature disapproves the removal of a board member, the board member shall be reinstated.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session. An appointee to a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise the powers of a board member until the legislature fails to confirm the appointment of the interim board member.

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(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.080. Quorum. Four members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board. (§ 5 ch 18 SLA 1980)

Sec. 37.13.090. Compensation of board members. Public members of the board receive an honorarium of \$400 for each meeting day if they attend the meeting. All members of the board are entitled to per diem and travel allowances as provided by law for members of state boards and commissions. (§ 5 ch 18 SLA 1980)

Sec. 37.13.100. Corporation staff. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. No employee of the corporation, including the executive director, may be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25.010 — 39.25.220. (§ 5 ch 18 SLA 1980)

Sec. 37.13.110. Conflicts of interest. (a) Members of the board and the executive director are subject to the provisions of AS 39.50.010 — 39.50.200.

(b) If a member of the board or an employee of the corporation acquires, owns or controls an interest, direct or indirect, in an entity or project in which corporation assets are invested, he shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure. (§ 5 ch 18 SLA 1980)

Sec. 37.13.120. Investment responsibilities of the board. (a) The prudent-man rule shall be applied by the board in the management and investment of Alaska permanent fund assets. The prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

(b) The corporation assets shall only be used for income-producing investments.

(c) The board shall maintain a reasonable diversification among investments unless under the circumstances it is clearly prudent not to do so.

(d) The board shall submit long-range and quarterly investment reports to the Legislative Budget and Audit Committee.

(e) The corporation may not borrow funds or guarantee from principal of the Alaska permanent fund the obligations of others.

(f) The board may enter into and enforce all contracts necessary, convenient or desirable for purposes of the corporation.

(g) Subject to the limitations in (h) and (i) of this section, the board may invest corporation assets in

(1) obligations of, or obligations insured by or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposit issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation for which a generally recognized secondary market exists or which are fully secured at all times as to payment of principal and interest by investments described in (1), (2), (8) or (12) — (16) of this subsection; the security pledged under this paragraph shall be at least equal to the face value of the deposit and the board may require substitution of collateral;

(4) shares of federally chartered savings and loans associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(5) savings certificates issued by state chartered savings and loan associations in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(6) deposits with mutual savings banks in Alaska which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(7) fixed-term certificates of indebtedness of federally insured credit unions which are fully secured at all times as to payments of principal and interest by investments described in (1), (2) of this subsection;

(8) corporate debt securities which are rated AA or better by a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United States banks each of which have a combined capital and surplus aggregating at least \$200,000,000;

(11) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (3) and (8) — (10) of this subsection;

(12) the guaranteed portion of Federal Small Business Administration loans;

(13) the portion of first lien real estate mortgages guaranteed by the Federal Veterans Association;

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(14) the portions of business and industrial loans made under the Rural Development Act of 1972 which are guaranteed by the Farmer's Home Administration;

(15) the guaranteed portion of Farmer's Home Administration loans;

(16) notes secured by mortgages of residential real estate if the mortgages are insured by a private mortgage insurance corporation which is authorized to do business in Alaska and has combined capital, surplus and reserves aggregating at least \$20,000,000; the minimum coverage shall be 10 percent for loans having a loan-to-value ratio of less than 90 percent, and the minimum coverage shall be 20 percent for loans having a loan-to-value ratio of 90 percent or more.

(h) The board may enter into future contracts for the sale of investments purchased under (g) of this section only for the purpose of hedging an existing equivalent ownership position in these securities.

(i) Investments under (g)(8) of this section may not exceed 25 percent of the total investments of the Alaska permanent fund. Investments under (g)(16) of this section may not exceed in the aggregate 15 percent of the total investments of the Alaska permanent fund.

(j) The assets of the Alaska permanent fund may not be used for the purchase of bonds of a corporation, upon which any regular interest payment has been defaulted within five years before purchase, except bonds never in default but which have been outstanding for less than five years.

(k) The board shall establish and from time to time as necessary modify guidelines for the investment of the assets of the corporation. Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(l) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section. (§ 5 ch 18 SLA 1980)

Editor's notes. — Section 9, ch. 18, SLA 1980 provides: "TRANSITION. The commissioner of revenue shall transfer the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this act after request for transfer is made by the board of trustees of the corpo-

ration. Notwithstanding AS 37.10.065(a), the commissioner of revenue may invest the money in the Alaska permanent fund in the investments described in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and (i)."

Sec. 37.13.130. Gains and losses. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a

*REPEALED
REENACTED*

REPEALED

portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the Alaska permanent fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the Alaska permanent fund. (§ 5 ch 18 SLA 1980)

*Repealed
Reenacted*

Sec. 37.13.140. Income. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the Alaska permanent fund at cost, and after adjustment for capital losses charged to that fiscal year. (§ 5 ch 18 SLA 1980)

Sec. 37.13.150. Board budget. The operating budget of the board is from the general fund and is subject to the Executive Budget Act (AS 37.07.010 — 37.07.130). (§ 5 ch 18 SLA 1980)

Sec. 37.13.160. Audits. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs. (§ 5 ch 18 SLA 1980)

Cross references. — For the responsibilities of the Legislative Budget and Audit Committee, see AS 24.20.206.

Sec. 37.13.170. Reports and publications. By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of investments of the corporation including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of AS 37.13.010 — 37.13.210 on the corporation portfolio with recommendations of any needed changes, and any other information the board believes would be of interest to the

governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15 58.010 — 15.58.090 shall be included in that pamphlet. (§ 5 ch 18 SLA 1980)

Sec. 37.13.180. Tax exemption. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state. (§ 5 ch 18 SLA 1980)

Sec. 37.13.190. Political activities. The resources of the corporation may not be used to finance or influence political activities. (§ 5 ch 18 SLA 1980)

Sec. 37.13.200. Public access to information. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises. (§ 5 ch 18 SLA 1980)

Sec. 37.13.210. Definitions. In AS 37.13.010 — 37.13.210,

(1) "board" means the Board of Trustees of the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation. (§ 5 ch 18 SLA 1980)

Chapter 14. Trust Funds.

Editor's notes. — Section 4, ch. 182, SLA 1978, purported to add an article 2, entitled "University Fund" and consisting of AS 37.14.060 — 37.14.100. Section 27 of ch. 182, however, made article 2 effective on the date that the Board of Regents

voted to approve the matters under consideration as provided in § 24 of the act. The Board of Regents disapproved all matters on August 17, 1978. Consequently, article 2 was ineffective.

ALASKA PERMANENT FUND CORPORATION

POUCH 88 - JUNEAU, ALASKA 99811

TELEPHONE 907-485-2351

BOARD OF TRUSTEES:

ELMER E. RASMUSON - CHAIRMAN
THOMAS K. WILLIAMS - VICE-CHAIRMAN
WILSON L. CONDON
PETER B. MCDOWELL
GEORGE W. ROGERS
ROBERT W. WARD

RESPONDENT ADDRESS:

TO: Senator Mulcahy, Chairman
Senate Labor and Commerce Committee

FROM: James B. Rhode, Special Assistant to the Trustees
Alaska Permanent Fund

DATE: March 12, 1981

SUBJECT: Sectional Analysis of Sponsor Substitute for SB 684

PREFACE

Nearly one year ago, the Trustees of the Alaska Permanent Fund and the Special Liaison Committee of the Legislature, chaired by Senator Sturgulewski, began a series of seminars and work sessions on the future of the Fund.

From the first, it was agreed to explore the issues in the context of how all the oil revenues were, or might be, spent. This was to insure that any new role for the Fund would be consistent with its fundamental purposes and, too, would be more suitably lodged in the Fund than elsewhere.

Meeting at various points in the state, the group examining the ideas of economists, financial specialists, major Alaskan interests, and the general public. This is further described in the Annual Report of the Fund (pp. 3, 5-7). The analysis offered by various professionals is soon to be published under the heading of The Trustee Papers. A special edition, including formal statements from various groups and citizens, has been compiled for the committees of referral for this bill.

SUMMARY

SB 684 contains three key proposals: (1) having the public members comprise the majority of the Trustees to slow the effects of a change of administration or a change in political moods; (2) revising the list of permitted investments to be the same as for the pension funds (with some added restrictions and excepting gold, which does not produce direct income), as holding the best hope for long-term rates of return that exceed inflation without sacrificing of safety; and (3) reinvesting one-half the Fund's earnings to protect the buying power of the Fund's principal and income from inflation, and providing that the remaining earnings be paid over on the basis of a five-year average with, in effect, a reserve to keep those payments as stable as possible for state planning.

ANALYSIS

Section 1. The replacement of a commissioner by a public member in the composition of the Trustees has the dual effect of giving the public members the working majority and requiring that majority to have special qualifications for their office. In the discussion of this provision, it was felt that the Commissioner of Revenue, as the State chief fiscal officer, must be formally accorded the role that he will always exercise in Administration decisions on the Fund. As well, this insures the Administration will be directly informed of the views of the Trustees. The provision to eliminate one commissioner was to recognize the growing demands placed upon the cabinet in recent years. While noting the advantage of having three commissioners during the organizational phase of the Fund, it was felt that it would be difficult to expect that many to be able to devote the necessary time indefinitely.

Sections 2 and 3 have the practical effect of staggering terms so that a governor will only be able to select all of the Trustees by the last year of his term. This gives a greater measure of independence to the board over existing law (where the next governor would have chosen a majority within six months of taking office), but also mitigates the deletion of existing language (p. 2, lines 2-3) which, on the basis of a decision of the Alaska Supreme Court, does not permit confirmation by the Legislature without constitutional amendment.

In like manner, section 4, requiring that a governor remove only for good cause, is designed to replace the check in the existing statute where the Legislature, by vote, can halt a removal.

Section 5. A majority of the Trustees felt that an annual fee for members of the board was justified on several grounds: The management of a fund of this size will involve working subcommittees and considerable travel to meet with outside fund managers, with financial advisors, and with senior officials in similar institutions. Assuming the likely stature of the public members, it was thought just to compensate them for the significant loss of income entailed by their work, and wise to prevent appointees from stating that personal circumstances limited the amount of time which they could devote. The annual fee, here tied with the salaries of legislators, is to be on the order of \$20,000 a year, which is the sum typically paid by leading corporations to outside directors. This figure was consciously set to be insufficient to draw potential appointees for the sake of the fee alone.

Section 6 adds to the list of permitted investments for the Fund with the dual aims of improving long-term, real earnings and giving needed diversity. At present, the Fund is essen-

tially a large "money market" account of the kind now open to many private individuals. However, a number of financial specialists have pointed out that, on average over the decades, these securities have only matched inflation or have been somewhat negative in terms of real earnings. The situation of the past two years, with as much as 6% return above inflation, happened but once before in this century: 1931. Interest rates were then at a bare 1% but price levels had fallen 5%, thus giving a real income of 6%. Based on this historical data, our existing investment list promises few years in which earnings can exceed inflation. In contrast, the investment areas proposed to be added (stocks, income property, and foreign assets) have brought yields in line with the long-term real growth of the United States, 2 to 4% beyond inflation and, in some years, particularly in Japan and the strongest economies of Europe, the gains have been more substantial. To be sure, not all of these investment areas have performed well in every period owing to economic cycles, political and other events, and changes of investor preference. Indeed, our advisors have stressed that no guarantees against fluctuations can be offered for any class of investments, not even the highest grade of U. S. Government securities. (Actually, in recent years, the latter have swung more sharply and more often than other instruments). Hence, the necessity of having, now, a wider selection of proven investment options so that adjustments can be timely and of enough size to win better returns while avoiding reverses - both in a manner consistent with safety of principal.

It would be well to note here that section 7 places limits on the extent to which investments, other than fixed income securities, can be made and the limits are more severe than for the pension funds. The lack of a limit on fixed income securities is not because they afford markedly greater safety; in certain markets, they do not. Rather, the projected growth of the Fund, even with declining revenues, is such that it could, absent restraints, cause these markets to rise and fall by the very fact that it was buying and selling. Further, the limits are proposed by the Trustees as part of their commitment to gain experience in these new areas on a gradual, deliberate basis.

Ironically, our present investment list is not truly "conservative," in the sense of protecting either the current dollars or real worth of the Fund's corpus and income. Our list, by the standards of comparable institutions and court rulings, is more accurately described as "traditional". Most participants in the drafting of this bill were stunned to learn that a \$10 billion fund, earning 15% a year, suffering 10% inflation, and paying over all of its returns, would shrink in 30 years to less than \$250 million in value. The goods and services that could be purchased with the income of this fund would collapse in the same ratio, from \$1.5 billion at today's prices to \$89 million in three decades. Or, more graphic still, a dividend

of \$1,500 would then buy what \$89 will buy today. Accordingly, whether one believes that the Fund's principal should be conveyed intact to the next generation or the Fund's income should be conveyed equally to present and future Alaskans, a portfolio that loses to inflation will serve us at the expense of those who follow. (Please see Appendix A for a more detailed analysis of the financial sections.)

Section 10, 11. Broadly, these sections provide that one-half the net earnings of the Permanent Fund shall be retained in principal and the balance is available for distribution on a five-year average, with any excess to be used to raise payments in a year they would fall below the average. The first is to sustain the real earnings power of the Fund; the second is to give the Legislature a stable income on which to plan.

More specifically, the Fund's earnings can be expected to rise steadily over the next decade as the result of regular contributions and competent management. During this period, more income will be made than is necessary to meet the five-year average, and the excess and the interest on it will build up in the "undistributed income account." In the first year, if that income were to fall below the average, the reserve would be drawn upon. In the event that it was judged that reserves were ample, a larger dividend could be declared or, perhaps, the extra sums could be applied to other purposes by the Legislature.

Section 12 simply provides that the Fund's expenses will be met from the Fund's earnings (as "program receipts"), however, no money may be spent except as provided by the budget. Although the control of the Legislature is not altered in any way, this approach plainly shows what it has cost to make our income, thus allowing the public and legislators to better assess the worth of these expenses. This practice is virtually universal in the accounting of similar private institutions.

Section 13 is to allow the Legislative Budget and Audit Committee to be selective as to which financial and operational reports it prepares, or has prepared, in the light of circumstances. For example, this language would permit the Fund and the Committee to reach mutual agreement on a firm to assess performance in different areas of investment and, further, to reach mutual agreement on definitions of terms, the proper sample of statistics, and the like. This "ground rules" approach will aid fuller disclosure of the Fund's activities while at the same time reduce temptations for either side to craft reports that are merely designed to attack or defend the Fund.

Section 14 brings the Permanent Fund into conformity with the law governing most other boards and commissions.

BUDGETARY NOTES

The Trustees ask that SB 684 be considered together with the Governor's budget request to achieve independent status for the Permanent Fund, and with the fiscal note which provides for outside, specialized firms to carry out the new investment authority under this bill.

Independence for the Permanent Fund has been the clear preference of public and legislative sentiment to date. (Please see the paper on the relevant legislative history prepared by Trustee Peter B. McDowell.) The case for independence, in brief, is that special interests pressing the Fund to win concessions will be more visible in their attempts and that your Trustees can be held to fuller account if they choose their own servants. The last point is not meant to reflect on the present Commissioner of Revenue or the staff of the Treasury. On the contrary, their ready cooperation has been frequently noted in the record of the Trustees. But, it has been the consistent advice of professional managers that "... those committed to investing must have their operations separate from those committed to spending ...", especially given the "... great, tempting size ..." of the Fund. In the wealthiest state in the nation, California, where state and local pension assets exceed \$30 billion, such a separation has always been maintained.

Still, after independence has been attained, the Fund will have less freedom than any independent board or commission in present law. For the Fund has the most definite charter in state government, is not permitted to spend, does not lend directly to any borrower, and is subject to all the oversight that is applied to a line agency.

As for the fiscal note, the Trustees have agreed that outside managers are best suited to execute the new investment authority in this bill. In addition to our remoteness from the markets involved, there are numbers of reputed firms that can do this work more efficiently, and for less cost, than it can be done internally.

APPENDIX A
ANALYSIS OF FINANCIAL SECTIONS

SSS'3 684

Peter A. Bushre

Deputy Commissioner of Treasury

Department of Revenue

Current law provides the corporation with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans. Management is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwelling, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska.

The permanent fund statute has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. Purchases of residential mortgages may be a further 15% of total assets. The statute allows the Fund to use the futures market to protect investments

from severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and not to speculate. The statute also prohibits the Fund from either borrowing or guaranteeing the obligations of others.

Section 6 of the bill would amend the present investment list by adding five categories currently authorized for the State pension funds and by conforming other language to the retirement system law. The additional investments are:

1. Commercial mortgages - loans secured by a first lien on commercial properties such as shopping centers, office buildings, etc. The corporation may purchase uninsured loans if the originating financial institution retains at least 25%, or insured loans which meet requirements currently in effect for the pension funds.

2. The common stock of U. S. corporations which have paid dividends in each of the immediately preceding three years.

3. Stocks and bonds that are denominated in foreign currencies or Eurodollars, provided that they are of the same quality as their U. S. counterparts.

4. Bank deposits that are denominated in foreign currencies or Eurodollars, provided that they are readily negotiable or that the issuing bank has capital and surplus of at least \$500 million.

5. Equity interests in commingled pools of real estate.

Section 7 of the bill reduces the limit on loans and mortgages to 15% and restricts the investment in foreign securities and bank deposits to the levels which currently prevail in the retirement systems. Common stock and corporate debt are together limited to 50%; both are more restrictive than the pension funds. The bill further limits the permanent fund to no more than 5% of the voting stock of any one corporation, and domestic stocks, with the exception of insurance companies and banks, must be listed on an exchange registered with SEC. Both are identical to current limitations on pension fund investments.

Section 8 would standardize the collateral requirements for deposits with all types of financial institutions, and require them to pledge U. S. government securities, corporate bonds, or mortgages if their certificates of deposit are not freely negotiable.



Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

Pouch V
State Capitol
Juneau, Alaska 99811

SB 684: Sectional Analysis

Section 1) Changes the composition of the Board of Trustees of the Permanent Fund;

- a) Two (THREE) members shall be heads of principal departments of state government, one of whom shall be the commissioner of revenue.
- b) Four (THREE) members of the public appointed by the Governor
- b) Public members shall have recognized expertise in finance, investment, and business management related fields
- c) Board shall annually elect a chairman from among its members

Section 2) Public members shall be appointed for terms of four (THREE) years, with terms to be staggered so that no more than one public members terms expire in one year, and they may be reappointed.

Section 3) Transition to four year terms: at the expiration of a public members term, the governor shall replace or reappoint the present member for a term of four years. Within 90 days of the effective date, the governor shall appoint a public member to replace one of the two commissioners other than the commissioner of revenue, to serve for a term of four years or less, and whose term expires in a year when no other public members term expires. The commissioner who is to be replaced shall continue to serve until the appointment of a replacement.

Section 4) For good cause, the governor may remove a member of the board from office; A written statement of the reason for removal shall be given by the governor, and after a member receives written notice of his removal, he may not participate in board business and his presence will not establish a quorum.

A vacancy on the board shall be promptly filled by appointment of the governor, and the appointee shall hold office for the balance of the term of his predecessor. A vacancy on the board does not impair the authority of a quorum of the board to exercise its powers and duties.

Section 5) Members of the board shall be compensated at an annual fee equal to the salary of state legislators; if the chairman is a public member, he is entitled to

receive a salary equal to the president of the senate or the speaker of the house. All members of the board are entitled to per diem and travel allowances as provided by law for members of state boards or commissions.

Section 6) pertains to the investment authorities of the permanent fund; Items (1) thru items (16) refer to investments which the permanent fund is currently permitted to participate in. Items (1) thru (16) have been amended to include certificates of deposit, term deposits, or the equivalent..... which may be readily sold in a secondary market at prices reflecting fair value. Items (1) thru (16) allow the authority to place funds in direct obligations of the U.S. Treasury, federal agency securities, certificates of deposit, high grade corporate bonds, quality short term investments, and federally guaranteed loans. Specifically, deposits can be made in Alaskan banks, mutual savings banks, savings and loans associations, and credit unions. Residential real estate (owner occupied single family dwellings, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska. Further, item (16) details the insurance requirements on notes secured by mortgages granting a first lien on commercial or residential real estate improved by completed buildings. Private mortgage insurance corporation must be authorized to do business in Alaska and have a combined capital, surplus and reserves aggregating at least \$20 million dollars. Mortgage insurance criteria is as follows:

- A. No mortgage insurance is necessary for commercial loans having a loan to value ratio of of less than 50%;
Minimum coverage of other commercial loans shall be 10% for thos having a loan to value ratio of 50% to 60%;
commercial loans having a loan to value ratio greater than 60% but less than 75% shall be 15%;
- B. No mortgage insurance is necessary for residential loans having a loan to value ratio of less than 70%;
Minimum coverage of loans (residential) having a loan to value ratio greater than 70% but less than 90% shall be 10%;
Minimum coverage for loans which have a loan to value ratio in excess of 90% shall be 20%;

(17) Relates to commercial mortgages- loans secured by a first lien on commercial properties such as shopping centers, office buildings, etc. The corporation may purchase uninsured loans if the originating financial institution retains at least 25%, or insured loans which meet the requirements currently in effect for pension funds.

(18) Relates to investments in common stock of U.S. corporations which have paid dividends in each of the immediately preceding³years;

Section 6 continued:

(19) Relates to investments in stocks and bonds that are denominated in foreign currencies or Eurodollars, provided that they are of the same quality as their U.S. counterparts;

(20) Relates to investments in bank deposits that are denominated in foreign currencies or Eurodollars, provided that they are readily negotiable or that the bank issuing them has capital and surplus of at least \$500 million dollars.

(21) Relates to the investment in equity interests in commingled pools of real estate;

These investments may be made in a corporation, partnership, trust, or other entity in which at least 60% of the beneficial ownership interests are held by other institutional investors at the conclusion of each investment transaction.

The corporation, partnership, trust or other entity must be organized and operated for the purpose of making real estate investments by a bank, insurance company, or other manager of institutional funds and have had at least five years experience in the management of real estate investment of institutional investors; or in conjunction with an entity which meets substantially the same criteria.

Section 7) AS 37.13.120 (i) is repealed and reenacted; (i) the aggregate investment of the Alaska Permanent Fund may not exceed the following percentages of the total investment of the fund:

Mortgages: 15%

Foreign Securities: 10%

Foreign certificates of deposit (or their equivalent): 20%

Corporate stocks and debt securities: 50%

The fund may not own more than 5% of the voting stock of any corporation. Domestic stocks, except for bank and insurance company stocks, must be listed at the date of purchase on an exchange registered with the Securities and Exchange Commission.

Section 8) standardizes the collateral requirements for deposits with all types of financial institutions, and requires them to pledge U.S. government securities, corporate bonds, or mortgages if their certificates of deposit are not freely negotiable.

Section 9) Repeals AS 37.13.130; See statutes beneath bill; highlighted area

Section 10) Net income of the fund must be computed annually on the last day of the

Section 10) continued fiscal year in accordance with generally accepted accounting principals, excluding any unrealized gains or losses.

Income available for distribution equals the average net income for the last five fiscal years (including fiscal year just ended) but may not exceed the net income for the fiscal year just ended, plus the balance of the undistributed income account described below. (section 11)

Section 11) At the end of the fiscal year, one-half of the net earnings (see section 10) of the permanent fund shall be retained in principal and the balance is available for distribution on a five year average, with any excess used to raise the payments in a year they would fall below the average. The other 50% of the net income, must be transferred to the undistributed income account, and any income in the undistributed income account of the permanent fund must be transferred to principal for reinvestment. Money in the undistributed income account must be invested in authorized investments and income from the investments of the undistributed income account must be treated as an addition to that account.

Section 12) Revenues generated by the investments of the corporation must be identified as the source of the corporations operating budget (program receipts) and the unexpended balance of the annual operating budget does not lapse at the end of the fiscal year but must be treated as income.

Section 13) Legislative Budget and Audit committee may provide for an annual post audit, and operational and performance evaluations of the investments and investment programs of the permanent fund.

Section 14) Board may adopt regulations under the Administrative Procedures Act to interpret and implement the chapter.

Section 15) Effective date of July 1, 1982.



Alaska State Legislature

Senate

Official Business

Labor & Commerce Committee

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State Capitol
Juneau, Alaska 99811

Investments by percentage limitations as currently authorized under AS 37.13.120 (i)

Corporate debt securities rated AA or better: G(8) 25% of the total investments of P.F.

Notes secured by mortgages of residential real estate G(16) may not exceed in the aggregate
15% of the total investments of P.F.

Permanent Fund investments by percentage limitations and categories (SB 684 section 7)

The aggregate investment of the permanent fund may not exceed the following percentages
of the total investments of the fund:

Mortgages under (g) (16); 15%

Real Estate Investments (g) (21); 15%

Foreign Securities (g) (19); 10 %

Foreign certificates of deposit (g) (20); 20%

Corporate stocks and debt securities (g) (8), (9), and (18); 50%



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 26, 1982

The Honorable Jalmar Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the investment and management of the Alaska Permanent Fund and to the calculation of income of the fund which will be available for distribution. The bill makes changes of three general types.

First, it will expand the investment authority of the fund to parallel that of the public employee and teacher's retirement funds (with the exception that investment in gold will not be permitted for the permanent fund, as it does not meet the constitutional requirement that all permanent fund investments be "income-producing"). It will add authority to invest in

(1) common and preferred stock of United States corporations on which dividends have consistently been paid;

(2) notes secured by mortgages on commercial real estate;

(3) real estate equity if the investment is made in an entity organized and operated for the purpose of managing real estate investments for institutional investors; and

(4) foreign securities and deposits which are of substantially equivalent quality as permitted domestic investments.

These changes will permit the fund's managers to diversify its investments against risks of large losses due to inflation and currency value fluctuation.

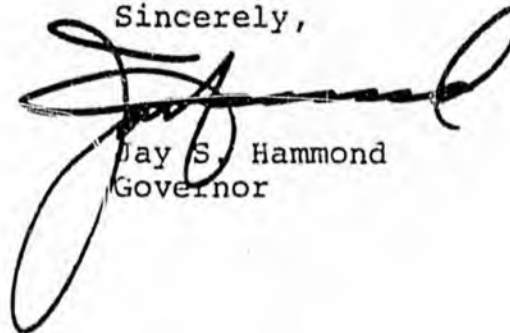
Second, the bill changes the composition of the board of trustees by adding a public member and removing a commissioner. It also provides for an annual fee for each public member equal to a legislator's salary. These changes will recognize the substantial time commitment required for active participation of the board in the management of the Alaska Permanent Fund Corporation.

Third, the bill provides for the corporation's budget to be appropriated from the income of the fund's investments, and for one-half of the net income to be reinvested in the fund. The other one-half will remain available for distribution. The appropriation of the corporation's budget in this manner will permit the application of standard accounting procedures to determine the actual performance of the fund. The reinvestment of one-half of the income will counter the effects of inflation on the real value of the fund, without disturbing the flow of income to the Dividend Fund established under AS 43.23.050.

The bill also makes several minor changes, including (1) revising collateral requirements for certificates of deposit to ensure consistency among the various types of institutions which issue such certificates, (2) eliminating the mortgage insurance requirement for loans with a loan-to-value ratio of less than 70 percent, and (3) authorizing the board to adopt regulations to implement and interpret the relevant statutes.

The Board of Trustees of the Alaska Permanent Fund Corporation has discussed drafts of this bill at public meetings attended by representatives of the Legislative Budget and Audit Committee. The consensus of the board is that this bill will make only those changes necessary to permit prudent investment and management of the fund in times of high inflation and volatile financial markets.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Jay S. Hammond', is written over the typed name and title.

Jay S. Hammond
Governor

Meetings with Investment Firms
Week of July 6-10

SUMMARY OF INVESTMENT DISCUSSIONS

People in attendance:

Permanent Fund Staff

James B. Rhode

Susi Gregg Fowler

Department of Revenue,

Treasury Division

Peter A. Bushre

William L. Means

Legislative Budget and Audit

Steven Rieger

Department of Law

Laura Davis

The question that rose most frequently in New York was "What is the objective of the Alaska Permanent Fund?" The near unanimous opinion was that this question must be addressed by the Trustees before meaningful discussion can occur on such questions as allocation of investments and investment strategy. Robert Salomon, of Salomon Brothers, asked whether the Board of Trustees realized that if the Permanent Fund paid out more than 3% to 5% of its earnings, a level of earnings above inflation which might be attainable, the Trustees would be operating a fund with diminishing real capital and real income. At such time that the Permanent Fund ceased to grow in real terms, either through inflation or a fall in contributions, it would become self-liquidating. The crucial decision is whether the Permanent Fund is going to pay out real earnings, all earnings or a portion thereof. This is a grave problem being faced today by a growing number of foundations and university endowments. The Rockefeller Foundation, a \$1 billion foundation, has grown substantially in nominal terms, but has experienced an actual 35% contraction in real earnings power while the Ford Foundation, a \$2.5 billion foundation, has contracted in real earnings power by 55%. If nothing is done to curb these foundations' spending programs, Robert Salomon stated that he could project for their trustees the dates on which they would be totally self-liquidated.

Once the objective of the Permanent Fund has been decided, much will be determined as to level of risk which will be required to meet that objective. Long term studies, for example, have indicated that it is unrealistic to expect to earn more than a 2% real rate of return on a high grade fixed income portfolio, whereas a 3% to 5% real rate of return has been attainable in common stock over an extended period of time. Questioning Salomon Brothers as to what percentage

of common stock that they thought might be appropriate to the Permanent Fund given an earnings objective of a 3% to 5% real rate of return, the response was 80%. U. S. Steel Pension Fund, a pension fund in a mature industry, has approximately 80% of its assets currently in common stock, 10-15% in real estate, and the balance in fixed income securities. As reported by the S. E. C., the typical large corporate pension plan is approximately 55% invested in common stock. The normal asset mix of a portfolio under management by the Prudential Insurance Company of America is 40% to 60% in common stock and 20% to 30% in real estate equity, with the balance in fixed income securities. Mr. William Field, Senior Vice President of Prudential's Asset Management Department, indicated that for reasons of political toleration a 20% commitment to common stock might be more advisable for the Alaska Permanent Fund.

Mr. William Field, Mr. Robert Salomon and Mr. Heath McLendon, President of the investment management firm of Bernstein-Macaulay, Inc. agreed that the Trustees should seek authority from the Legislature to invest in domestic common stock, foreign securities, and real estate equity. They also volunteered that in their respective opinions, the timing for purchases in foreign securities and real estate was not good. However, they all felt that there would be better opportunities in the next two or three years, and any program to make major commitments in foreign securities and real estate should be understood by all to be a three to five year program. However, in their judgment, it is highly desirable to obtain authority as soon as possible so as to maximize flexibility.

With the exception of the U. S. Steel Pension Fund, it was the opinion of those that we contacted that the Alaska Permanent Fund, as a consequence of its sheer size, should utilize an index fund approach for its core holdings of common stock. Mr. William Field suggested that otherwise the investment management fees would become prohibitively expensive. It was suggested that outside managers be utilized in such specialized areas as high technology stocks, energy development stocks, foreign securities, and real estate equity to provide the Permanent Fund an extra increment of yield above that which an index fund would provide. It was the unanimous opinion of those to whom we talked that the significant danger in hiring a number of investment managers to manage the common stock portfolio was that the Permanent Fund would end up de facto as an expensively managed index fund. The largest acceptable number of outside managers suggested by anyone was six, and these six would cover the full gamut of investments from domestic common stock, foreign securities, to real estate equity. If more are hired, the feeling was expressed that the Trustees and staff are apt to find increasingly large segments of their time devoted to monitoring the managers performance and trying to determine how new flows of investable funds are to be allocated among the various investment managers.

Typically most large corporate pension plans are handled by outside investment managers with a number of plans managing only fixed income assets in house. Among the people we visited, only the manager of the U. S. Steel Pension Fund unqualifiedly thought that the entirety of the Alaska Permanent Fund could be managed in house in Alaska. The U. S. Steel Pension Fund is managed entirely in house with a staff of eleven investment professionals. This staff consists

of nine Certified Financial Analysts, one trader, and one specialist in money market and fixed income securities. It is interesting to note, however, that although the headquarters for the U. S. Steel Corporation is in Pittsburgh, the Company chose to run its pension fund out of New York City. Also the manager of the Fund felt that they were not close enough to the European markets to run a portfolio of European securities out of their New York office. Mr. William Field of the Prudential Insurance Company of America, on the other hand, felt on the basis of his experience with governmental bodies that the Trustees would likely have great difficulty in obtaining funding from the Legislature to run an in house operation with first class talent. To attract a top administrator to the Permanent Fund would require, in his opinion, a salary of approximately \$250,000 per annum with other positions scaled down to \$70,000.

The consensus opinion was that, if the Trustees chose to run fixed income securities in house, an index fund for core domestic stock holdings, and to choose outside investment managers for other specialized investment areas, a staff of four investment professionals plus clerical help would be adequate to manage a \$6 billion or larger fund. Assuming a staff of four investment professionals, one should specialize in fixed income securities; one should manage the index fund; one should monitor the outside managers; and one should have expertise in the field of real estate investments.

In selecting investment managers, the general feeling was that enough information is published regarding the performance of investment managers that the Board of Trustees should utilize its staff to select the most promising managers to make investment presentations before the Trustees. It was also strongly urged by Mr. Heath McLendon and Mr. William Field that the Permanent Fund staff make visits

directly to potential managers' offices to meet their staffs and discuss with them their investment philosophies and how they visualize investing for the Permanent Fund. It was felt that only after the Permanent Fund staff has made its selection of potential managers should a consultant be hired for the specific purpose of reviewing this list to see if any managers of merit have been missed.

It was interesting to note the generally low regard held for performance measurement analysts by most people we visited. While agreeing that they are necessary for public bodies in order to provide an element of comfort to them, they felt that they are expensive and that undue heavy reliance on them may result in inappropriate comparisons. In measuring performance, Mr. William Field strongly urged that the Standard & Poor's 500 not be used as the measurement of performance. Rather, in his opinion, the measure should be the ability of a fund to earn a specific positive rate of return above inflation on a consistent basis. Consistency, in his view, is the most important element of measurement.

In conclusion, there are two basic questions which the Board of Trustees should address before deciding questions of organization and investment strategy. As Robert Salomon said these are questions which your Trustees cannot avoid for they will ultimately be held responsible for the answers whether or not they address the questions directly or leave them to members of their staff. The questions are as follows:

1. What is to be the objective of the Alaska Permanent Fund?
2. How is the corpus of the Alaska Permanent Fund to be allocated to different types of investments?

Once the first question is answered, much will have been determined about the level of liquidity which can be maintained and the parameters of risk that the Permanent Fund will have to assume in order to attain its objective. Quite obviously the level of risk toleration would have to be substantially higher should the Board seek to obtain a 5% real rate of return as opposed to a 2% real return, and the allocation of investments would have to be concentrated in those areas which have a higher element of inherent risk but also offer potentially greater investment rewards.

INVESTMENT MEETINGS
New York City

Monday - July 6

9:30 A. M. Bache Halsy Stuart Shields Inc.
Bache Building
100 Gold St.
6th Floor
New York City, N. Y.
Sam Plia, Lou Auer, Executive Vice President
212-791-2467

12:00 Noon (To include lunch)
Prudential Insurance Company
Newark, N. J.
William Field 201-877-7979

Tuesday - July 7

11:30 A. M. (To include lunch)
Shearson Loeb Rhoades Inc.
2 World Trade Center
106th Floor
John McDougall 212-577-2718

Wednesday - July 8

10:00 A. M. The First Boston Corporation
20 Exchange Place
8th Floor
(To include lunch)
Gene Boehringer 212-825-2096

3:30 P. M. Discount Corporation of New York
58 Pine Street
Rodney Bird 212-248-8931

6:00 P. M. (To include dinner)
The Leash Club
41 East 63rd St.

Thursday - July 9

11:00 A. M. (To include lunch)
U. S. Steel Pension Fund
General Motors Building
767 Fifth Avenue
Graham Harrison, President & John Van Duesen, Vice President
212-826-8472

3:00 p.m. Buck Consulting Group

INVESTMENT MEETINGS - New York City Continued -

Friday - July 10

10:00 A. M. (To include lunch)
Salomon Brothers
One New York Plaza
42nd Floor
R. S. Salomon 212-747-7000

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JAY S. HAMMOND, GOVERNOR

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

July 31, 1981

Mr. Elmer Rasmuson, Chairman
Board of Trustees
Alaska Permanent Fund Corp.
Box 600
Anchorage, AK 99510

Re: Legal assistance re
investment practices

Dear Mr. Rasmuson:

I am writing to inform you of the current activities of the Department of Law relating to the investment of state funds. As background, the current status of the investment of state funds may be summarized as follows:

The monetary assets of the State of Alaska now consist of four funds: the general fund, the public employees' retirement system fund, the teachers' retirement system fund, and the permanent fund, all of which are managed and invested by the Treasury Division of the Department of Revenue, under the authority and supervision of the commissioner of revenue. The approximate aggregate balance of these funds at present is \$4.9 billion (approximately \$510 million in the PERS fund, \$385 million in the TRS fund, \$1.8 billion in the permanent fund, and \$2.2 billion in the general fund). These figures represent the amount of money for which the treasury has investment management responsibility (not the amount available for appropriation or expenditure), and they vary from day to day depending on the flow of income and the demand on state warrants.

The investment of each of the four funds is regulated by a separate statute (AS 14.25.180, TRS fund; AS 37.10.070, general fund; AS 37.13.120, permanent fund; and AS 39.35.110, PERS fund), and in the case of the permanent fund, by a constitutional provision requiring investment only in income-producing assets. Alaska Const., art. IX, § 15. These statutes vary in terms of the list of specific types of investments which are authorized, but each contains a general provision commonly known as the prudent-man or prudent-investor rule.

Mr. Elmer Rasmuson, Chairman
Alaska Permanent Fund Corp.

July 31, 1981
Page #2

There is a large body of law interpreting the prudent-investor rule in the context of both public and private funds. It is our opinion that prudence in the management of all of these state funds requires the development and implementation of consistent procedures and practices for the evaluation of investment opportunities, and the execution of investment agreements, which conform to the prudent-investor rule. The development of such routine practices and procedures is particularly important at present, because of the rapidly expanding variety of investment alternatives, the volatility of financial markets, and the rapid expansion of the state treasury.

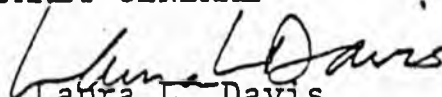
While in New York with the permanent fund and treasury staff, I met with members of two law firms (Shearman & Sterling, and Debevoise, Plimpton, Lyons, and Gates) to discuss their ability to provide legal assistance on matters related to state investment practices. I also met with the chief general counsel in the Investment Management Group of Citibank, N.A. to discuss matters related to the function of general counsel to an institution which manages large investment funds.

We have retained Shearman & Sterling to assist us in preparation of an agreement related to investment in gold by the retirement funds. We are now discussing with both firms their ideas for assisting us in the development of standard investment practices and procedures as discussed above, and hope to retain one of them for this purpose in the near future. We believe that the development of such investment practices with the assistance of a law firm which is actively involved in advising major public and private financial institutions will be important in helping our investment managers to carry out their fiduciary responsibilities for our rapidly increasing state funds over the next several decades. Our current work in this area is aimed primarily at investment management for the retirement funds and the general fund, but will be directly relevant to developing investment management guidelines for the permanent fund.

Sincerely yours,

WILSON L. CONDON
ATTORNEY GENERAL

By:


Laura L. Davis
Assistant Attorney General

LLD/pjg

cc: Thomas K. Williams
Robert W. Ward
George Rogers
Peter McDowell
Jim Rhode ✓
Peter Bushre

A paper on the
Organization and Management of the
Alaska Permanent Fund Corporation

I. History and Objectives

Determination of the appropriate management structure of an organization follows from an understanding of the history and objectives of the organization.

History

On November 2, 1976 Alaska voters by a 2:1 margin approved Ballot Proposition .2, which added the following to Article 9 of the Alaska State Constitution:

"Alaska Permanent Fund. Section 15. At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

There is little or no background or elaboration on what was meant by the title "permanent" at that time (1976), but limited research indicates that the common understanding was as defined

by contemporary usage. Two dictionaries in use at the time included the following:

Permanent: "1. Fixed and changeless; lasting or meant to last indefinitely." (Source: The American Heritage Dictionary of the English Language, 1970). "1. Lasting or intended to last indefinitely without change; continuing in the same state or in the same place, stable, durable, abiding." (Source: Webster's New Universal Dictionary of the English Language, 1976).

Development of legislation

The Legislature and administration, in particular the House Special Committee on the Permanent Fund, then proceeded to evaluate a number of alternative ways of defining "income-producing investments." The major alternatives considered were:

- Activist development bank in the private and public sectors
- Savings account
- Passive trust fund of high-grade investments.

A number of bills were drafted for legislative consideration of these alternatives. This process of evaluation culminated in the drafting of House Committee Substitute for SB 161 and the accompanying Joint Committee Report, approved by the House in 1979. The final bill, which was approved by both houses and signed by the Governor in April 1980, was very similar to the 1979 House bill. The final Free Conference Committee Report

(Appendix I) was virtually unchanged from the 1979 House Joint Committee Report. As can be seen from Appendix II, the final bill also adhered closely to the concerns expressed by the Governor in April 1979.

Corporation objectives

As indicated in the Committee Report, the Corporation, ". . . provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets . . . The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second." Safety in this context is not explicitly defined, but at a minimum appears intended to provide that the face amount of fund principal never diminish and that at least some of the effects of inflation be mitigated.

1. Safety of principal

Throughout the legislation and the Committee Report are threads which indicate the legislative view of "safety of principal" included a recognition that some erosion of purchasing power might take place. The risks associated with investments which might yield returns equal to or greater than inflation would be higher than acceptable under the fiscally conservative investment philosophy inherent in the legislation.

2. Maximization of income

The legislation provides that the second major objective is to maximize income from the investments which are available to

the Corporation. Thus investment strategy, in practice, involves choosing among various maturities and issues while maintaining reasonable diversification among the allowable categories of investments.

Scope of the Fund

The present and future scale of the Fund are important considerations for organization and management. The current balance is slightly in excess of \$1 billion. It is expected to exceed \$2 billion by June 30, 1981 and \$12 billion by 1990, without further appropriations to principal. There appear to be strong prospects for additional appropriations, so that \$12 billion should be considered the minimum 1990 balance.

II. Management Structure

The legislation and Committee Report provide some guidance as to the intended management structure. The following is quoted from the Accountability section of the Committee Report:

"It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create

a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state. The Corporation is placed within the Department of Revenue for administrative matters such as payroll, but has a legal existence independent of and separate from the state."

Organizational objectives

The Permanent Fund is clearly important enough in its own right, due to its unique existence, purpose and size, to warrant special consideration from an organizational viewpoint. One purpose of a separate corporation is to provide high visibility for the Fund, its management and its investment activities. A second purpose is to provide the structure within which a separate staff, whose time is devoted wholly to the affairs of this Fund, may operate. As noted in the Committee Report, the objectives and the size of the Fund clearly justify the existence of a full-time professional staff to operate the Corporation, in a manner that will enable the Board of Trustees to carry out its responsibilities and achieve the objectives established for the Corporation.

Corporation objectives

The Corporation's objectives might be restated from the statute as:

1. Conserve (i.e., render permanent) a portion of the state's revenues from mineral resources to benefit all generations of Alaskans,
2. Maintain safety of principal in face value terms at a minimum with at least some gains offset against erosion by inflation, and
3. Maximize total return from investments (the investments allowed by statute which were selected primarily to insure safety of principal), in order to allow the maximum use of disposable income for purposes designated by law.

Trustees' responsibilities

The following list of responsibilities has been extracted from the statute and the Committee Report.

1. Manage and invest the assets of the Corporation, in accordance with the "prudent-man" rule, to achieve superior results, i.e. a sound rate of return on investments.
2. Maintain a reasonable diversification among the investment categories permitted by law.
3. Establish and as necessary modify guidelines for investment.

4. Relate to the Legislative Budget and Audit Committee by:
 - a) Reporting investment guidelines to the Committee for review and comment before adoption.
 - b) Reporting long-range and quarterly investment plans to the Committee.
 - c) Working with the Committee to help it carry out its duties with regard to the Permanent Fund, including:
 - Hearings on the confirmation of members of the Board of Trustees
 - Reviews of plans and reports
 - Annual post audits and operational and performance evaluations of Fund investments
 - Recommended changes in policy or legislation
5. Prepare and publish the annual report to the Governor, Legislature and the public. The report must include:
 - Audited financial statements
 - Income from investments
 - Investments at market value
 - Description of investment activity
 - A comparison of performance with statutory goals
 - An examination of the impact of the statutory investment criteria on the portfolio with recommendations of any needed changes in the investment list.
6. Prepare and submit annual operating budgets in accordance with the Executive Budget Act.

III. Conclusion

It appears, from a review of the statute, intent and history, that the Legislature clearly intended the Corporation to be separate from ordinary state government operations in both fact and appearance. It seems that the Legislature felt the Corporation would be more accountable to state government and the public if it had a high profile and maximum organizational visibility.

The Governor and Legislature, through the dividend program, also gave the Alaskan public a personal financial stake in the management of Corporation investments. The level of dividends paid to Fund beneficiaries will rise or fall with the returns on investments.

Finally, there is the impact that the present interim arrangements have on the Department of Revenue, Division of Treasury. The Division is presently being asked to carry out all of its normal responsibilities and the additional burden of Permanent Fund activities without additional staff or budget. These arrangements would not seem to be in the best interest of either the Department or the Board of Trustees.

IV. Recommendation

In view of the above, it is recommended that the Board of Trustees consider the creation of a separate corporate organization of a size and with the levels of full-time professional

investment management that are appropriate to a multi-billion dollar trust fund. The unique nature of the trust fund; i.e., its size, its permanent character and universal group of direct beneficiaries; make it essential that the Board of Trustees have full-time staff support and an organization dedicated to helping the Board meet its objectives and carry out its responsibilities.

V. Plan of Implementation

If the Board agrees with the recommendation of this paper, it could be implemented by carrying out (but not limited to) the following steps:

1. Engage professional consultants to design the organization and handle recruitment of an executive director and staff of say 6-8 persons.
2. Selection of independent professional advisers:
 - Auditors
 - Legal Counsel
 - Investment Performance Measurement consultants
3. Retain the office space and other facilities required.
4. Agree with the Department of Revenue regarding accounting and other administrative arrangements.

BBM

Peter B. McDowell

December 19, 1980

(1) for residential mortgage loans:

- (A) under \$100,000: .375 percent;
- (B) \$100,00 – \$299,999: .25 percent;
- (C) \$300,000 and above: .125 percent;

(2) for all other loans:

- (A) under \$300,000: .375 percent;
- (B) \$300,000 and above: .25 percent.

(e) Loans will be purchased no more often than once a month at a time set by the corporation.

(f) Each application to have the corporation purchase conventional mortgage loans must be accompanied by the following:

- (1) the original loan application;
- (2) original appraisal with photographs;
- (3) credit report;
- (4) deposit verifications;
- (5) employment verifications;
- (6) earnest money agreement;
- (7) credit verifications;
- (8) tax returns (three years), if self-employed;
- (9) financial statement, if self-employed;
- (10) a copy of any audited financial statement if one was required by the S.B.A. or any other public or private entity to make, insure, or guarantee the loan; and
- (11) other documents as requested by the corporation.

(g) Except for construction loan take-outs, no refinancing loans will be purchased by the corporation.

(h) No loans will be purchased from an institution which has a current, over-60-day delinquency status for more than .5 percent of all loans purchased from it by the corporation until that delinquency status is reduced to .5 percent or less. (Eff. 2/5/81, Reg. 77)

Authority: AS 37.13.120

15 AAC 137.050. GENERAL TERMS AND CONDITIONS FOR CERTIFICATES OF DEPOSIT. The following terms and conditions apply generally to certificates of deposit purchased by the corporation:

(1) interest on all certificates of deposit must be due annually from date of issue, or at maturity if the maturity date is less than one year;

(2) interest on all certificates of deposit will be calculated on a 360-day basis times actual days in the payment period;

(3) to avoid penalties, principal and interest payments must be received by the corporation in collected funds on or before the due date by wire transfer through the Federal Reserve Bank at a bank designated by the corporation;

(4) any payment for which the due date falls on a weekend or holiday is payable on the next state working day;

(5) all certificate of deposit issuers whose payments are not received by the corporation on or before the due date shall pay an additional day's interest on the principal amount due at the certificate of deposit rate for each day the payment is delinquent in addition to the regular interest accrual. (Eff. 2/5/81, Reg. 77)

Authority: AS 37.13.120

15 AAC 137.060. ACCOUNTING PRACTICES.

(a) Annual income equals the total interest actually received during a fiscal year on investments held by the corporation, minus the amount transferred to principal to amortize net losses as provided in (b) of this section.

(b) At the end of each fiscal year, losses to the fund will be treated as follows:

(1) All gains on the sale of investments during the fiscal year will be offset against losses in the following order:

(A) first, all losses on the sale of investments during the same fiscal year; then,

(B) the balance of net losses remaining from prior fiscal years, with priority to the oldest losses.

(2) If losses exceed gains during a fiscal year, the net losses will be divided by the average remaining life of investments sold at a loss during that year and that amount of interest will be transferred to principal. A similar transfer of interest to principal will be made for each prior year from which a net loss remains, until all losses are absorbed over the average remaining life for that fiscal year, or are offset as provided in (1) of this subsection.

(c) Income available for disbursement under AS 37.13.140 will include interest earned on that amount, at the actual average yield rate for the permanent fund, from the end of the latest fiscal year until the date of transfer of the money to the dividend fund. (Eff. 5/31/81, Reg. 78)

Authority: AS 37.13.120
AS 37.13.130
AS 37.13.140

15 AAC 137.200. DEFINITIONS. In 15 AAC 137.010 – 15 AAC 137.200

(1) "certificate of deposit" includes

(A) certificates of deposit;

(B) shares of federally-chartered savings and loan associations in the form of time certificates;

(C) savings certificates issued by state-chartered savings and loan associations;

(D) deposits with mutual savings banks in Alaska in the form of time certificates; and

(E) fixed-term certificates of indebtedness, as those terms are used in AS 37.13.120(g)(3)-(7);

(2) "corporation" means the Alaska Permanent Fund Corporation;

(3) "Fm.H.A." means the federal Farmers' Home Administration;

(4) "GNMA" means the federal Government National Mortgage Association;

(5) "loan" includes a mortgage loan;

(6) "mortgage loan" means a loan secured by a first-lien security interest in real property improved by one or more buildings;

(7) "S.B.A." means the federal Small Business Administration;

(8) "V.A." means the federal Veterans' Administration;

(9) "average remaining life" means the figure obtained as follows: for each investment sold at a loss during the fiscal year, the loss is multiplied by the remaining life; the sum of these products is divided by the total loss for that fiscal year;

(10) "gain" means the amount by which the principal proceeds of the sale of an investment exceed the cost of the investment;

(11) "investment" means any transfer or expenditure of money or other assets made for the purpose of obtaining an income or profit;

(12) "loss" means the amount by which the cost of an investment exceeds the principal proceeds of the sale of the investment; and

(13) "remaining life" means the number of years remaining until the maturity date of an investment. (Eff. 2/5/81, Reg. 77; am 5/31/81, Reg. 78)

Authority: AS 37.13.120
AS 37.13.130
AS 37.13.140

THE CASE FOR COMMON STOCK

One investment paradox is that common stock can be used to reduce portfolio risk. For example, adding small amounts of common stock to bond portfolios will usually reduce the standard deviation of total portfolio returns. This is due to the "magic" of diversification. In many years, such as 1979-80, stock prices go up while bond prices go down and stocks thereby provide a cushion against bad bond markets. To make this point even more specific, Salomon Brothers reports that an average which they maintain of a variety of both short and long term debt, securities provided total returns of 1.2% in 1979 and .1% in the first nine months of 1980. By contrast, the Standard & Poor's Composite Index produced total returns of 18.2% and 20.6% for the respective periods. Listed below are the total returns for common stock management achieved by Alliance Capital Management Corporation for the Alaska Teachers' Retirement System for the past six calendar years.

Performance Review

| Yearly Summary | Rate of Return |
|-----------------------|----------------|
| 1980 through Sept. 30 | 27.5% |
| 1979 | 18.5% |
| 1978 | 7.8% |
| 1977 | -3.4% |
| 1976 | 23.4% |
| 1975 | 28.8% |
| 1974 | -17.5% |

Cumulative Return Since Inception - 106.5%

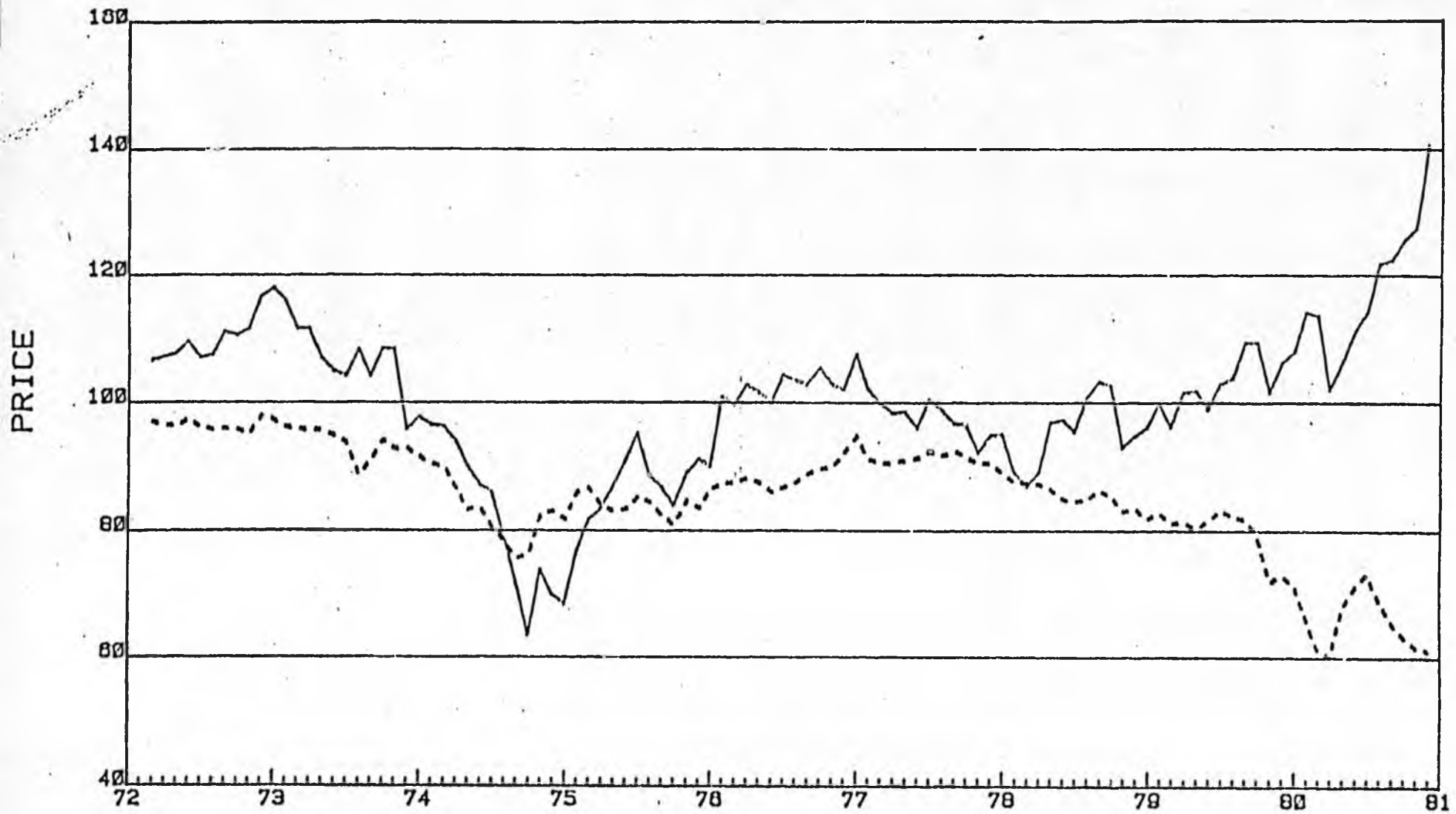
Even though there has been seemingly endless streams of negative news including ever-higher oil prices, the Iran crisis, continued double digit inflation, and rising interest rates, there are good reasons for viewing the common stock market as affording a good, long term investment opportunity.

The common stock of many companies is selling well below book value at a time when replacement costs are rising more rapidly than general price levels. At a time when diamonds, paintings, and condominiums in California have reached record levels, the assets of many American corporations are still selling at a fraction of their replacement value. From an earnings standpoint, the progress of American corporations, notwithstanding two recessions, has been dramatic. From 1969 to 1979, the Standard & Poor's 500 was flat. Corporate profits during the same period tripled.

Since 1969, private pension funds have substantially reduced their holdings in common stocks. Insurance companies have reduced their equity positions to extreme low points. For example, fire and casualty companies hold only 12% of their assets in equities. Foreigners likewise hold a

PRICE PROFILE

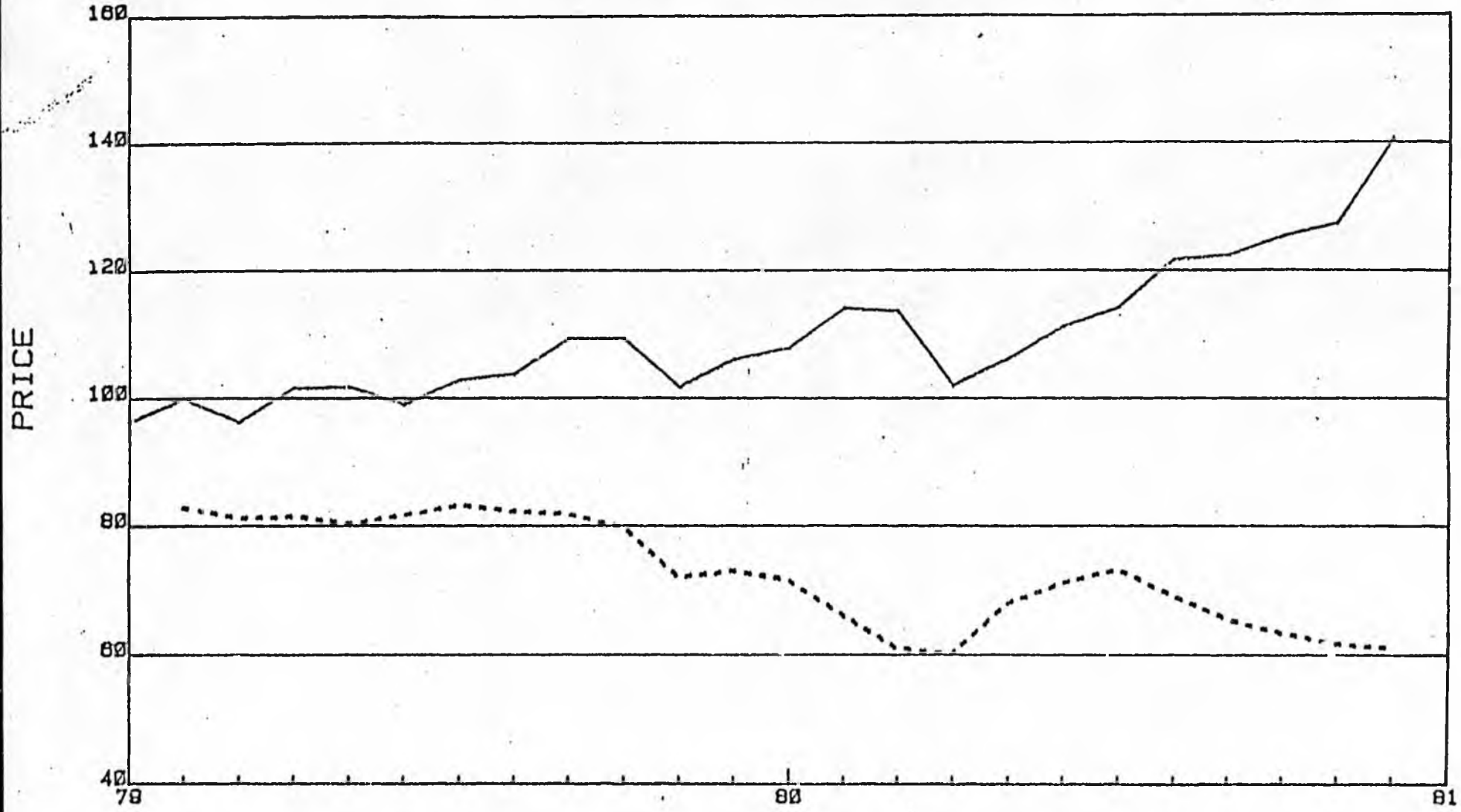
PREPARED FOR THE STATE OF ALASKA
MONTHLY DATA



———— S&P 500
----- SALOMON BOND INDEX

PRICE PROFILE

MONTHLY DATA - 12/78 TO 12/80



— S&P 500
- - - SALOMON BOND INDEX

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 684

Title Relating to Investment & Management of the Alaska Permanent Fund

Requested by _____ Date 1/22/82

II. FISCAL DETAIL

Agency Affected Department of Revenue

Program Category Affected Revenue Collection and Management

BRU, Program, Or Subprogram(s) Affected Permanent Fund Corporation

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

| | FY 82 | FY 83 | FY 84 | FY 85 | FY 86 | FY 87 |
|--------------------------|-------|----------------|----------------|----------------|-----------------|-----------------|
| 100 PERSONAL SERVICES | | 94.4 | 103.8 | 114.2 | 125.6 | 138.2 |
| 200 TRAVEL | | (28.8) | | | | |
| 300 CONTRACTUAL | | 6,119.7 | 6,989.6 | 8,775.4 | 9,914.5 | 11,159.7 |
| 400 COMMODITIES | | | | | | |
| 500 EQUIPMENT | | | | | | |
| 600 LAND & STRUCTURES | | | | | | |
| 700 GRANTS, CLAIMS, ETC. | | | | | | |
| TOTAL | | 6,185.3 | 7,093.4 | 8,889.6 | 10,040.1 | 11,297.9 |

FUNDING (Thousands of Dollars)

| | | | | | | |
|------------------------|--|---------|---------|---------|----------|----------|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER (Specify Source) | | | | | | |
| Permanent Fund Income | | 6,185.3 | 7,093.4 | 8,889.6 | 10,040.1 | 11,297.9 |

POSITIONS

| | | | | | | |
|-----------|--|-----|-----|-----|-----|-----|
| FULL TIME | | -0- | -0- | -0- | -0- | -0- |
| PART TIME | | | | | | |
| TEMPORARY | | | | | | |

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Personal Services is for four public members of Board of Trustees to be compensated at salary prescribed for state legislators. Reduction in Travel for deletion of \$100/meeting day honorarium budgeted for present public members.

Contractual Services is for associated costs of new allowable investments for outside management fees were applicable and related safekeeping. Assumes, of average Fund balance for a fiscal year, 25% in preferred and common stock, 5% real estate equity, 5% foreign securities, 10% foreign certificates of deposit or equivalent; all percentages used are one-half of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed with FY 85 and after (not per year). Reduction in regular safekeeping cost accounted for as securities shift from present pool to other categories. Brokerage fee on preferred and common stock not included as that is part of base security cost.

Anselm C. Staack

IV. DATE January 22, 1982

PREPARED BY Anselm C. Staack, Treasury Comptroller

AGENCY Dept. of Revenue/Treasury Division

Original: Legislative Finance

PHONE 465-2350

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)