

CSHB

217

SENATE COMMITTEE REPORT

FURTHER

DATE TURNED INTO OFFICE 5/5/88

5/2/88
Mr. President:

FINANCE Committee considered CSHB 217 (FIN)

purchase of investments by the board of trustees of the Alaska permanent fund

and recommended

[] replace with _____ CS _____) [] same title
[] or adopt _____ CS _____) [] new title

[] attached amendment(s) and

[] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

[] letter of intent adopted _____

Committee [] attached or [] adopted fiscal note(s)

[] new [] updated or [] previous
[] zero [] fiscal impact 35.0

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Handwritten signatures]

Paul Frick (No Rec)

Rick Halford no rec

Chairman signature and recommendation

[] Committee Backup attached

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE FINANCE COMMITTEE
2 CS FOR HOUSE BILL NO. 217 (Finance)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - SECOND SESSION
5 A BILL
6 For an Act entitled: "An Act relating to purchase of investments by the
7 board of trustees of the Alaska permanent fund."
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
9 * Section 1. AS 37.13.120(g)(8) is amended to read:
10 (8) domestic corporate debt securities that [WHICH] are
11 rated AA or better by a nationally recognized rating service, or
12 foreign corporate debt securities of comparable quality;
13 * Sec. 2. AS 37.13.120(g)(19) is amended to read:
14 (19) certificates of deposit, term deposits, or bankers'
15 acceptances, which are issued by a United States or foreign bank or
16 trust company located in a foreign country and are denominated in
17 United States or foreign currency, if either (A) they may be readily
18 sold in a secondary market at prices reflecting fair value, or (B) the
19 issuing bank or trust company has capital, [AND] surplus, and retained
20 earnings at the date of issue equaling at least \$500,000,000; invest-
21 ments made under this paragraph are not subject to the collateral
22 requirements for domestic certificates under (m) of this section;
23 * Sec. 3. AS 37.13.120(g) is amended by adding a new paragraph to read:
24 (21) securities of foreign governments, foreign govern-
25 mental agencies, and foreign corporations the principal of which is,
26 or the interest or dividends on which are, payable in either United
27 States dollars or foreign currencies.
28 * Sec. 4. AS 37.13.120(h) is amended to read:
29 (h) The board may enter into future contracts for the sale of

1 investments purchased under (g) of this section, or for the sale of
2 foreign currencies, only for the purpose of hedging an existing equiv-
3 alent ownership position in these investments [SECURITIES].

4 * Sec. 5. AS 37.13.120(i) is amended to read:

5 (i) [AT THE TIME OF EACH INVESTMENT, THE AGGREGATE INVESTMENT OF
6 THE ALASKA PERMANENT FUND IN EACH STATED CATEGORY OF INVESTMENT MAY
7 NOT EXCEED THE FOLLOWING STATED PERCENTAGE OF THE TOTAL INVESTMENTS OF
8 THE FUND: MORTGAGES UNDER (g)(16) OF THIS SECTION, 15 PERCENT; REAL
9 ESTATE INVESTMENTS UNDER (g)(20) OF THIS SECTION, 15 PERCENT; FOREIGN
10 CERTIFICATES OF DEPOSIT OR THE EQUIVALENT UNDER (g)(19) OF THIS SEC-
11 TION, 20 PERCENT; CORPORATE STOCKS AND DEBT SECURITIES UNDER (g)(8),
12 (9), AND (18) OF THIS SECTION, 50 PERCENT.] The Alaska permanent fund
13 may at no time own more than five percent of the voting stock of a
14 corporation. Domestic stocks, except for bank and insurance company
15 stocks, must be listed at the date of purchase on an exchange regis-
16 tered with the Securities and Exchange Commission. At the time of
17 each investment the aggregate investment of the fund in each stated
18 category of investment may not exceed the following stated percentage
19 of the total investments of the fund:

20 (1) mortgages under (g)(16) of this section - 15 percent;

21 (2) real estate investments under (g)(20) of this section -
22 15 percent;

23 (3) foreign certificates of deposit, foreign term deposits,
24 and foreign bankers' acceptances under (g)(19) of this section, and
25 securities of foreign governments, foreign governmental agencies, and
26 foreign corporations under (g)(8) and (21) of this section - 20 per-
27 cent;

28 (4) domestic corporate stocks and debt securities under
29 (g)(8), (9), and (18) of this section - 50 percent.



Alaska Permanent Fund Corporation
Pouch 4-1000 Juneau, Alaska 99802
(907) 465-2047 Telex 099-46-323

April 13, 1987

Representative Fran Ulmer, Chair
House State Affairs Committee
P.O. Box V
Juneau, Alaska 99811

Dear Representative Ulmer:

I am writing to request that you schedule House Bill No. 217, "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

This bill is supported by the board of trustees of the Alaska Permanent Fund Corporation. It was originally recommended by the Trustees on September 26, 1986 (see Board Resolution 86-13 attached). Since the Board membership at that time was quite a bit different than at present, the bill was discussed again at the most recent Board meeting on March 9, 1987, and the original recommendation for passage of this bill still stands.

We think it is important for the legislature to expand the Fund's authorized list of investments to include foreign securities, and we look forward to testifying in support of this bill at your earliest convenience. Staff will be providing your committee with back-up material on this bill in particular and global investing in general.

Thank you.

With warm regards,

David A. Rose
Executive Director

Attachment

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RESOLUTION OF THE BOARD OF TRUSTEES
THE ALASKA PERMANENT FUND CORPORATION
REGARDING INVESTMENTS IN FOREIGN SECURITIES

RESOLUTION 86-13

WHEREAS, returns from foreign investment have exceeded those in the United States over most recent ten year periods; and

WHEREAS, the United States represents less than one-half of the world's equity capitalization and is declining in share as foreign economies experience more rapid long-term growth; and

{

WHEREAS, equity participation in many emerging and fast growth industries can only be attained through foreign investment; and;

WHEREAS, foreign securities markets exhibit a low correlation with the U.S. market therefore reduced overall portfolio volatility will result from international investments; and

WHEREAS, no one national market consistently produces superior or inferior returns; and

WHEREAS, combining U.S. and international investments has consistently provided both increased return and reduced risk compared to a portfolio of all U.S. equities; and

11

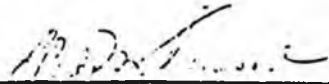
WHEREAS, growth in the U.S. economy remains slow while many foreign economies enjoy more rapid and accelerating growth; and

WHEREAS, increased disposable income and low inflation abroad is spurring consumer demand and domestic growth; and

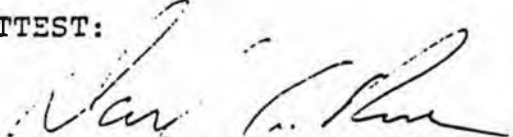
WHEREAS, a continuation of the dollar's gradual descent will enhance U.S. investors' total return from foreign security holdings;

NOW THEREFORE BE IT RESOLVED that the Board of Trustees recommend that the State of Alaska Legislature consider and adopt legislation permitting purchase of foreign securities similar in content to the suggested Bill attached hereto as Appendix A.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 26th day of September, 1986.


Clyde M. Sherwood, Chairman
Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:


David A. Rose, Executive Director

ALASKA PERMANENT FUND CORPORATION
BOARD OF TRUSTEES

APPENDIX A TO RESOLUTION 86-13
INVESTMENTS IN FOREIGN SECURITIES

A BILL

For an Act entitled: "An Act relating to purchase of foreign securities by the Alaska permanent fund."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37.13.120(g) (8) is amended to read:

(8) domestic corporate debt securities which are rated AA or better by a nationally recognized rating service, or foreign corporate debt securities of comparable quality;

* Sec. 2. AS 37.13.120(g) (19) is amended to read:

(19) certificates of deposit, term deposits, or bankers' acceptances, which are issued by a United States or foreign bank or trust company located in a foreign country and are denominated in United States or foreign currency, if either (A) they may be readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust company has capital and surplus at the date of issue equaling at least \$100,000,000 (\$500,000,000); investments made under this paragraph are not subject to the collateral requirements for domestic certificates under (m) of this section;

* Sec. 3. AS 37.13.120(g) is amended by adding a new paragraph to read:

(21) securities of foreign governments, foreign governmental agencies, and foreign corporations the principal of which is, or the interest or dividends on which are, payable in either United States dollars or foreign currencies.

* Sec. 4. AS 37.13.120(h) is amended to read:

(h) The board may enter into future contracts for the sale of investments purchased under (g) of this section, or for the sale of foreign currencies, only for the purpose of hedging an existing equivalent ownership position in these investments [SECURITIES].

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 1987

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the purchase of foreign investments by the board of trustees of the Alaska Permanent Fund. The bill specifically permits the purchase of foreign securities by the board.

Returns from foreign investment have exceeded those from investments in the United States over most recent 10-year periods. In addition, the United States represents less than one-half of the world's equity capitalization, and that share is declining as foreign economies experience more rapid long-term growth. No one national market consistently produces superior or inferior returns, and foreign securities markets exhibit a low correlation with the U.S. market. Consequently, the ability to invest in those foreign securities will reduce overall portfolio risk while providing an increased return when compared to a portfolio of solely U.S. equities.


In sec. 2 of the bill, capital and surplus requirements are reduced in recognition of different international accounting conventions. For example, it has been reported in Barron's National Business and Financial Weekly that, if U.S. regulators required U.S. banks to establish a modest 10 percent reserve against their loans to the six major Latin American debtors, it would cost Chase Manhattan Bank \$4.82 a share this year and Manufacturers Hanover Trust Co. more than twice that amount. On the other hand, some German banks reserve more than 30 percent against lesser-developed-country loans. If we were to require \$500,000,000 in capital and surplus of all foreign banks,

Hon. Ben Grussendorf

Page 2

we might be forced to eliminate investments in banks with smaller reported capital but very large unreported reserves, which might make them some of the safest banks in the world.

Sincerely,



Steve Cowper
Governor



ALASKA STATE CHAMBER OF COMMERCE

310 Second Street
Juneau, Alaska 99801
(907) 586-2323

March 4, 1988

The Honorable Al Adams, Chairman
House Finance Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Al:

On Monday, March 7 you will be considering HB 217 relating to foreign investment by the Alaska Permanent Fund.

We have reviewed the Bill and strongly support the legislation as set forth in the committee substitute.

The Alaska State Chamber favors passage for the following reasons:

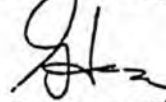
1. The Fund has developed (and earned) a reputation for conservative, careful, and deliberate investment. It clearly has the professional competence to utilize the additional proposed investment tools for the betterment of the State and its citizens.
2. The expansion of investments to the international arena provides further diversification of the Fund's stock and bond portfolios. This blending and diversifying permits the Fund to continue its investment mission at lower risk than that currently being experienced.
3. Generally, foreign investments generate higher earnings than domestic investments. This is evidenced by the performance of such investments in State PERS and TRS. While this should not be a compelling argument for foreign investment, it is clearly indicative that expected returns, over time, will be at least equal to domestic investments.
4. Finally, and perhaps most important from our viewpoint, is the by-product benefit of foreign investment. The contacts made by the Fund will be extremely valuable. As it researches foreign corporations; confers, meets, and enters into business arrangements with major nondomestic bankers and financiers; and creates dialogue with business leaders throughout the world, the Fund will bring business visitors and potential investors to our state. As these visitors

establish relationships with the Fund, they will gain firsthand exposure to Alaska and its business and economic opportunities.

The global outreach which will be facilitated by international investment is most timely in these difficult economic times for Alaska. We must do everything possible to expand our horizons and develop increased economic activity. Enactment and implementation of the Committee Substitute for House Bill 217 will help us accomplish this.

We recommend its adoption.

Cordially,


George Krusz
President

SENATE COMMITTEE REPORT

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4/14/88
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FURTHER

FINANCE

DATE TURNED INTO OFFICE _____

4/14/88
Mr. President:

JUDICIARY Committee considered CSHB 217 (FIN)

purchase of investments by the board of trustees of the Alaska permanent fund
and recommended *+ reports it such as follows*

replace with _____ CS _____) same title
 or adopt _____ CS _____) new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)
 new updated or previous
 zero fiscal impact

MEMBERS SIGNING DO PASS

2 William J. ...
2 Joseph ...

OTHER RECOMMENDATIONS

1 Victor ... *No Rec*
Chairman signature and recommendation

SENATE COMMITTEE REPORT

FURTHER

JUDICIARY
FINANCE

DATE TURNED INTO OFFICE 4-14-88

3/22/88

Mr. President:

STATE AFFAIRS Committee considered CSHB 217 (FIN)

purchase of investments by the board of trustees of the Alaska permanent fund and recommended

[] replace with _____ CS _____) [] same title
[] or adopt _____ CS _____) [] new title

[] attached amendment(s) and

Mason
 do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

[] letter of intent adopted _____

Committee attached or [] adopted fiscal note(s)
[] new [] updated or previous ^{NO}
[] zero fiscal impact

MEMBERS SIGNING DO PASS
[Signatures]

OTHER RECOMMENDATIONS

[Signature]
Chairman signature and recommendation

[] Committee Backup attached