

SB

218

SENATE COMMITTEE REPORT

FURTHER:

4/24/87

DATE TURNED INTO OFFICE _____

Mr. President:

FINANCE Committee considered SB 218

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

and recommended:

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

OTHER RECOMMENDATIONS

Chairman signature and recommendation

Committee Backup Attached

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of ✓ 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED ✓ **
IN ACCORDANCE WITH AS 24.08.035 + Gov's FN attached ✓
(see below)

3/30/97 DATE TURNED INTO OFFICE _____
Mr. President:

INTERNATIONAL TRADE Committee considered SB 218

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

and recommended:

- replace with CS _____ same title
- attached amendment(s) and new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____
- letter of intent adopted and attached

** Committee attached or adopted fiscal note(s)
 zero fiscal impact *previous Gov.*

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
Willie Humley

[Signature] (DO PASS)
 Chairman signature and recommendation

Committee Backup Attached

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 218

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to purchase of foreign investments
7 by the board of trustees of the Alaska permanent
8 fund."

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

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

11 (8) domestic corporate debt securities that [WHICH] are
12 rated AA or better by a nationally recognized rating service, or
13 foreign corporate debt securities of comparable quality;

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

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

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

25 (21) securities of foreign governments, foreign govern-
26 mental agencies, and foreign corporations the principal of which is,
27 or the interest or dividends on which are, payable in either United
28 States dollars or foreign currencies.

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

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

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

6 (i) At the time of each investment, the aggregate investment of
7 the Alaska permanent fund in each stated category of investment may
8 not exceed the following stated percentage of the total investments of
9 the fund: mortgages under (g)(16) of this section, 15 percent; real
10 estate investments under (g)(20) of this section, 15 percent; foreign
11 certificates of deposit, foreign term deposits, and foreign bankers'
12 acceptances [OR THE EQUIVALENT] under (g)(19) of this section, 20
13 percent; securities of foreign governments, foreign governmental
14 agencies, and foreign corporations under (g)(8) and (11) of this
15 section. 20 percent; domestic corporate stocks and debt securities
16 under (g)(8), (9), and (18) of this section, 50 percent. The Alaska
17 permanent fund may at no time own more than five percent of the voting
18 stock of a corporation. Domestic stocks, except for bank and insur-
19 ance company stocks, must be listed at the date of purchase on an
20 exchange registered with the Securities and Exchange Commission.
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28
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No 171

B

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: Senate
3-27-87
SB 218

REQUEST
Bill/Resolution No: SB 218
Title: An Act relating to purchase of
foreign securities by PFC

FISCAL DETAIL
Agency Affected: Revenue
BRU: Permanent Fund Corporation

Sponsor: Rules
Requestor: Governor
Date of Request: March 12, 1987

Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	35.0	500.0	500.0	500.0	500.0
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	35.0	500.0	500.0	500.0	500.0
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHEP	-	35.0	500.0	500.0	500.0	500.0
TOTAL	-	35.0	500.0	500.0	500.0	500.0

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS:

FY 88 - Contractual for Manager Search

FY 89 - FY 92 Management Fees

Prepared By: Royce Weller by request of PFC
Division: Office of the Commissioner

Phone: 465-2300
Date: March 12, 1987

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: 3/12/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

9/16/86

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

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,

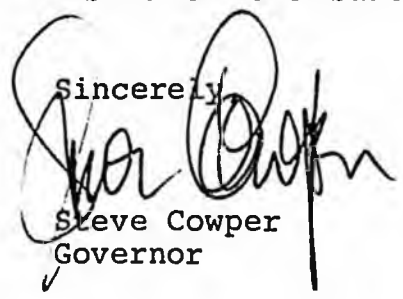
Hon. Jan Faiks

Page 2

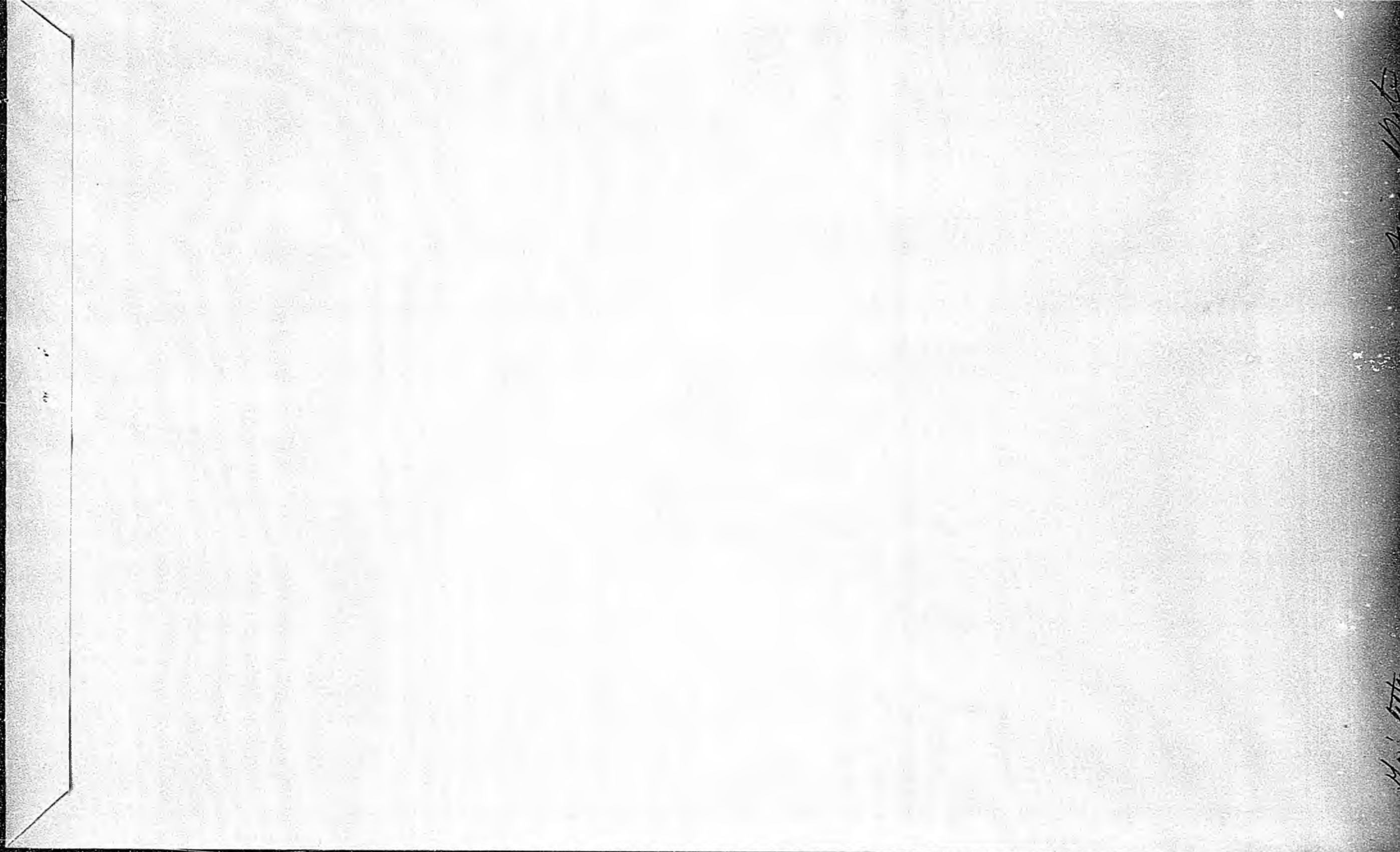
IF

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



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11

11

ALASKA STATE LEGISLATURE

15th Legislature 1st Session

SENATE... BILL..... NO. 218.

By THE RULES COMMITTEE BY.....
REQUEST OF THE GOVERNOR

"An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

Introduced in the Senate .. 3/27....., 19 87....

HISTORY IN THE SENATE

19	87	Read first time and referred to Committee on <i>Unemployment Trade Refund</i>										
3	30	<i>added</i>										
3	27	Finance										
4	24	Reported back with <i>J. T.</i> recommendation that <i>30 days</i> <i>Exp. Fiscal Note, to Finance.</i> <i>Fix:</i>										
		Read second time and										
		Read third time and										
		<table border="0"> <tr> <td>PASSED</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> </table>	PASSED	Effective Date	Yeas	Yeas	Nays	Nays	Excused	Excused	Absent	Absent
PASSED	Effective Date											
Yeas	Yeas											
Nays	Nays											
Excused	Excused											
Absent	Absent											
		Reconsideration Reconsideration not taken up										
		<table border="0"> <tr> <td>PASSED</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> </table>	PASSED	Effective Date	Yeas	Yeas	Nays	Nays	Excused	Excused	Absent	Absent
PASSED	Effective Date											
Yeas	Yeas											
Nays	Nays											
Excused	Excused											
Absent	Absent											
		Reported correctly engrossed Signed by President Sent to House										
SECRETARY OF THE SENATE												

HISTORY IN THE HOUSE

19		Read first time and referred to Committee on										
		Reported back with recommendation that										
		Read second time and										
		Read third time and										
		<table border="0"> <tr> <td>PASSED</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> </table>	PASSED	Effective Date	Yeas	Yeas	Nays	Nays	Excused	Excused	Absent	Absent
PASSED	Effective Date											
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Nays	Nays											
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Absent	Absent											
		Reconsideration Reconsideration not taken up										
		<table border="0"> <tr> <td>PASSED</td> <td>Effective Date</td> </tr> <tr> <td>Yeas</td> <td>Yeas</td> </tr> <tr> <td>Nays</td> <td>Nays</td> </tr> <tr> <td>Excused</td> <td>Excused</td> </tr> <tr> <td>Absent</td> <td>Absent</td> </tr> </table>	PASSED	Effective Date	Yeas	Yeas	Nays	Nays	Excused	Excused	Absent	Absent
PASSED	Effective Date											
Yeas	Yeas											
Nays	Nays											
Excused	Excused											
Absent	Absent											
		Reported correctly engrossed Signed by Speaker Returned to Senate										
CHIEF CLERK OF THE HOUSE												

HISTORY IN THE SENATE

19		Received from House
		To enrolling
		Reported correctly enrolled
		Sent to Governor
	 by Governor
		Chapter No.
		Filed with Lt. Governor

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act relating to purchase of
foreign securities by PFC.
Sponsor: Rules
Requestor: Governor

Agency Affected: Revenue
BRU: Permanent Fund Corporation
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	35.0	500.0	500.0	500.0	500.0
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LAND & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	35.0	500.0	500.0	500.0	500.0

CAPITAL	-	-	-	-	-	-
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REVENUE	-	-	-	-	-	-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	35.0	500.0	500.0	500.0	500.0
TOTAL	-	35.0	500.0	500.0	500.0	500.0

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS : (Attach a separate page if necessary)

FY 89: Contractual services for manager search.

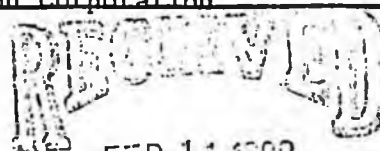
FY 90 - FY 93: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047
Division: _____ Date: February 8, 1988

Approved by Commissioner: David A. Rose, Exec. Director Date: February 8, 1988
Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

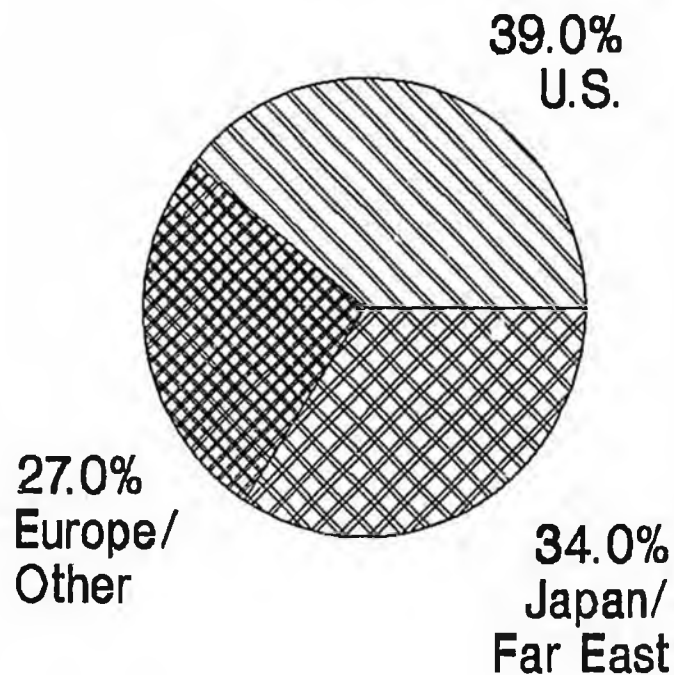


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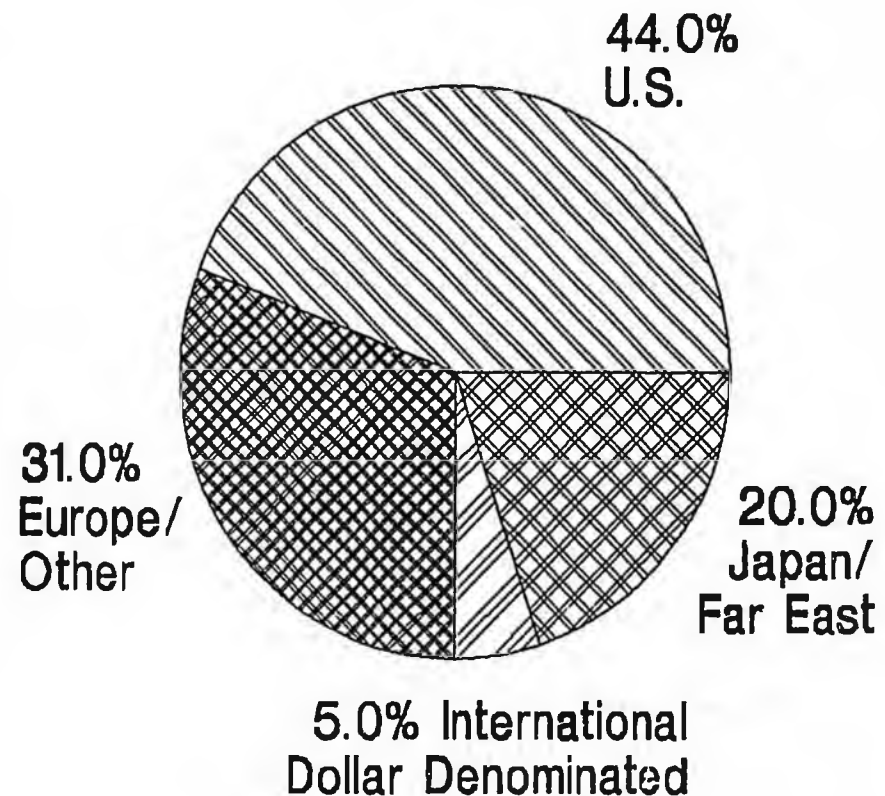
LEGISLATIVE FINANCE

1986 WORLD CAPITAL MARKETS

EQUITIES (\$5.6 Trillion)



BONDS (\$7.4 Trillion)



Source: J.P. Morgan Investment

Prepared by Permanent Fund Corporation

TOTAL ANNUAL RETURN (U.S. DOLLARS)

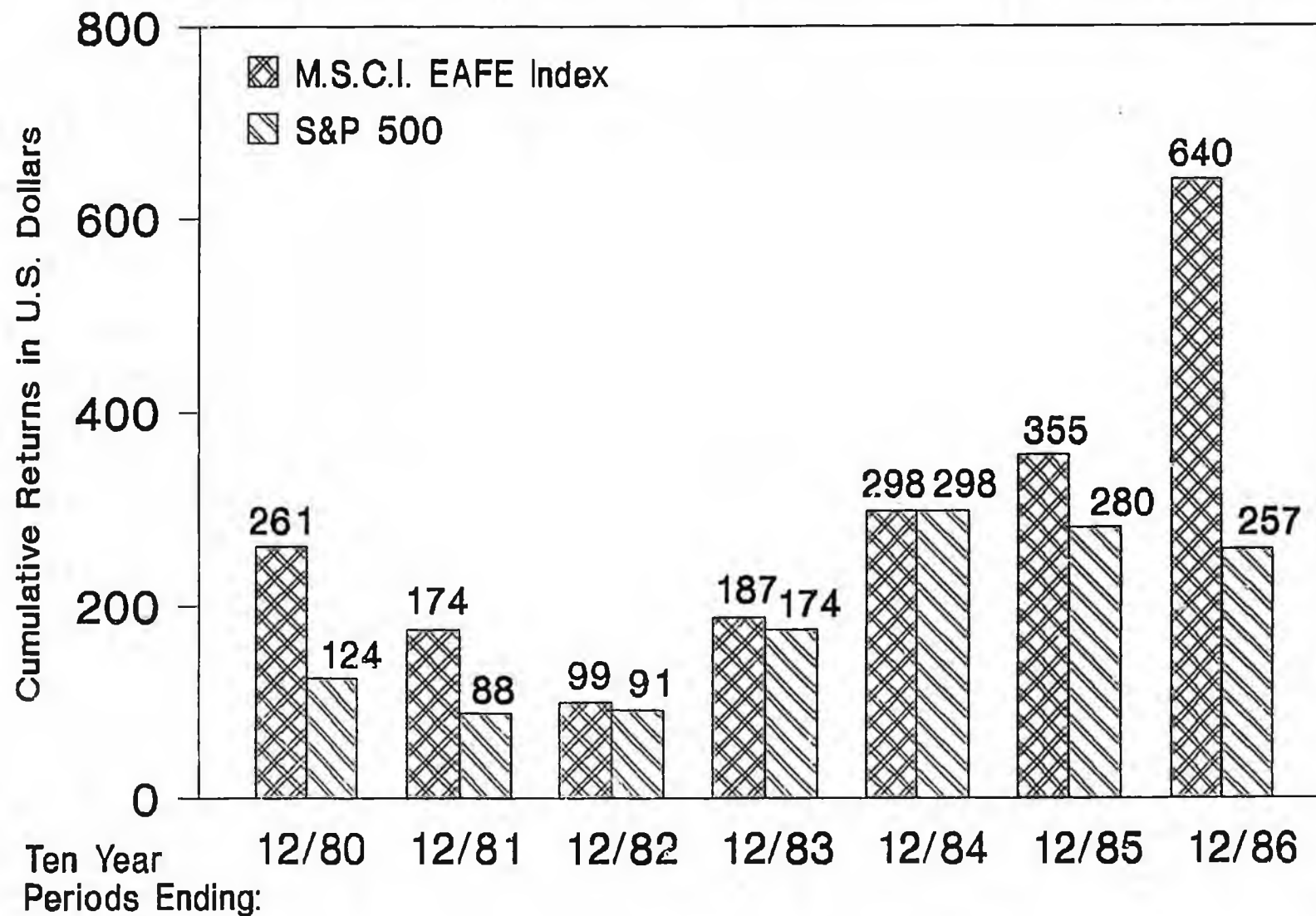
	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<u>S&P 500</u>
1977	25.8	28.7	58.0	11.9	████████	15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.8	18.5	53.3	45.1	20.4	████████
1979	(2.2)	12.1	22.1	43.6	83.5	████████	28.5	51.8	18.5
1980	████████	(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)	████████	(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)	████████	(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0	████████	24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1	████████	(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9	████████	16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2	████████	18.2

□ BEST PERFORMER

████████ WORST PERFORMER

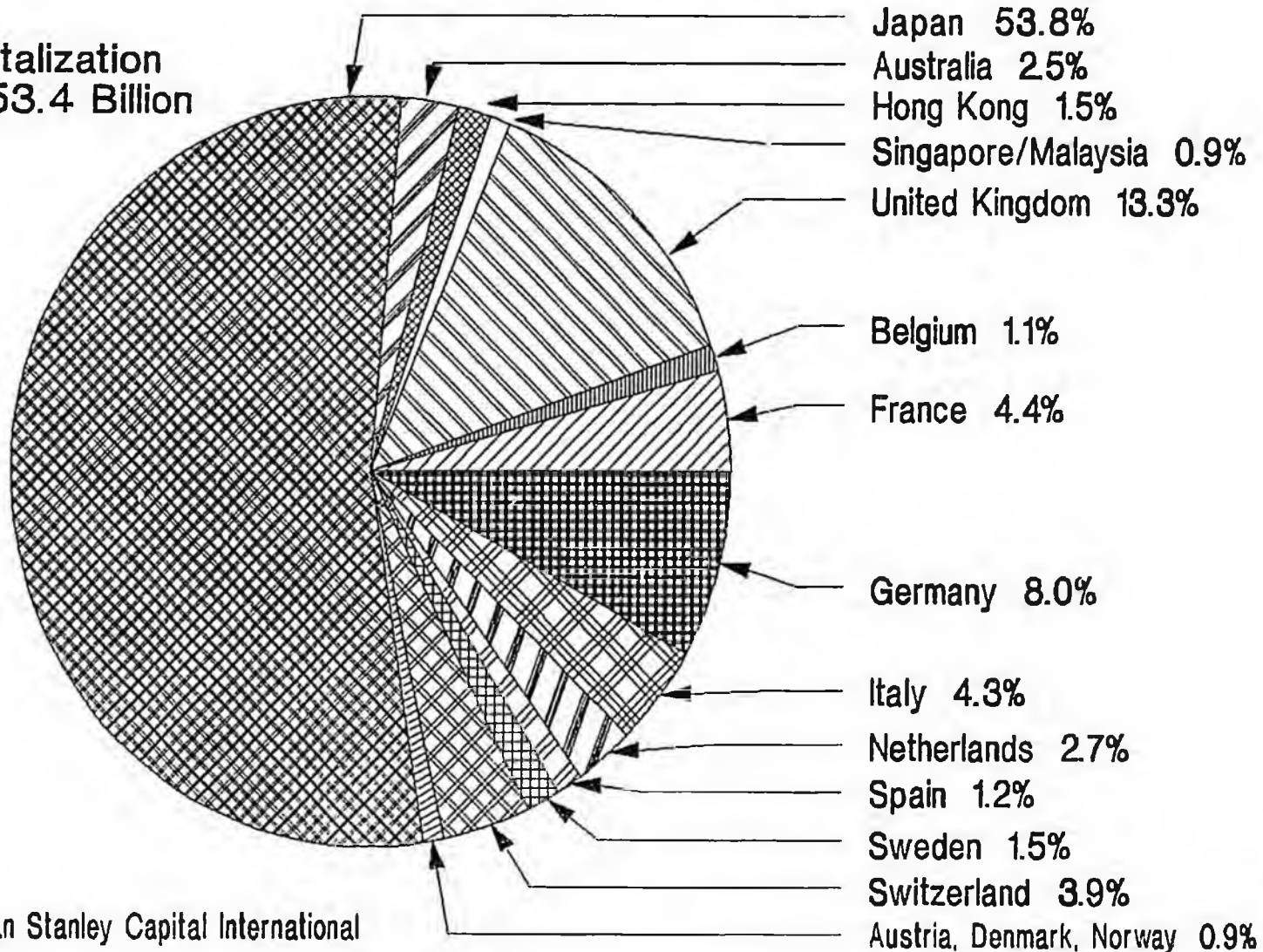
U.S. INTERNATIONAL EQUITY MARKET PERFORMANCE COMPARISON

M.S.C.I. EAFE INDEX vs. STANDARD & POOR'S 500



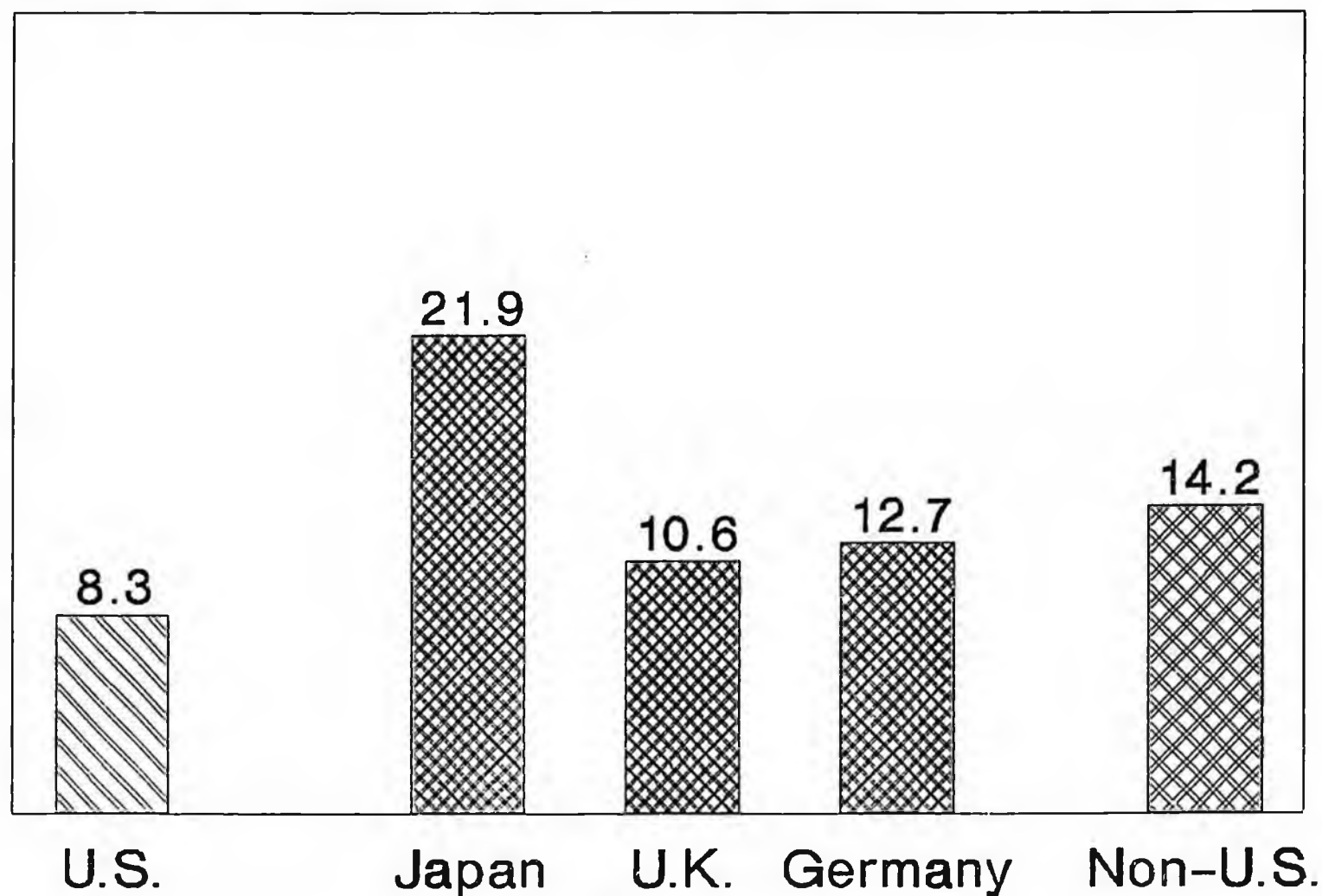
Components of The MSCI Europe, Australia, Far East (EAFE) Index December 31, 1986

Total Capitalization
U.S. \$2,053.4 Billion

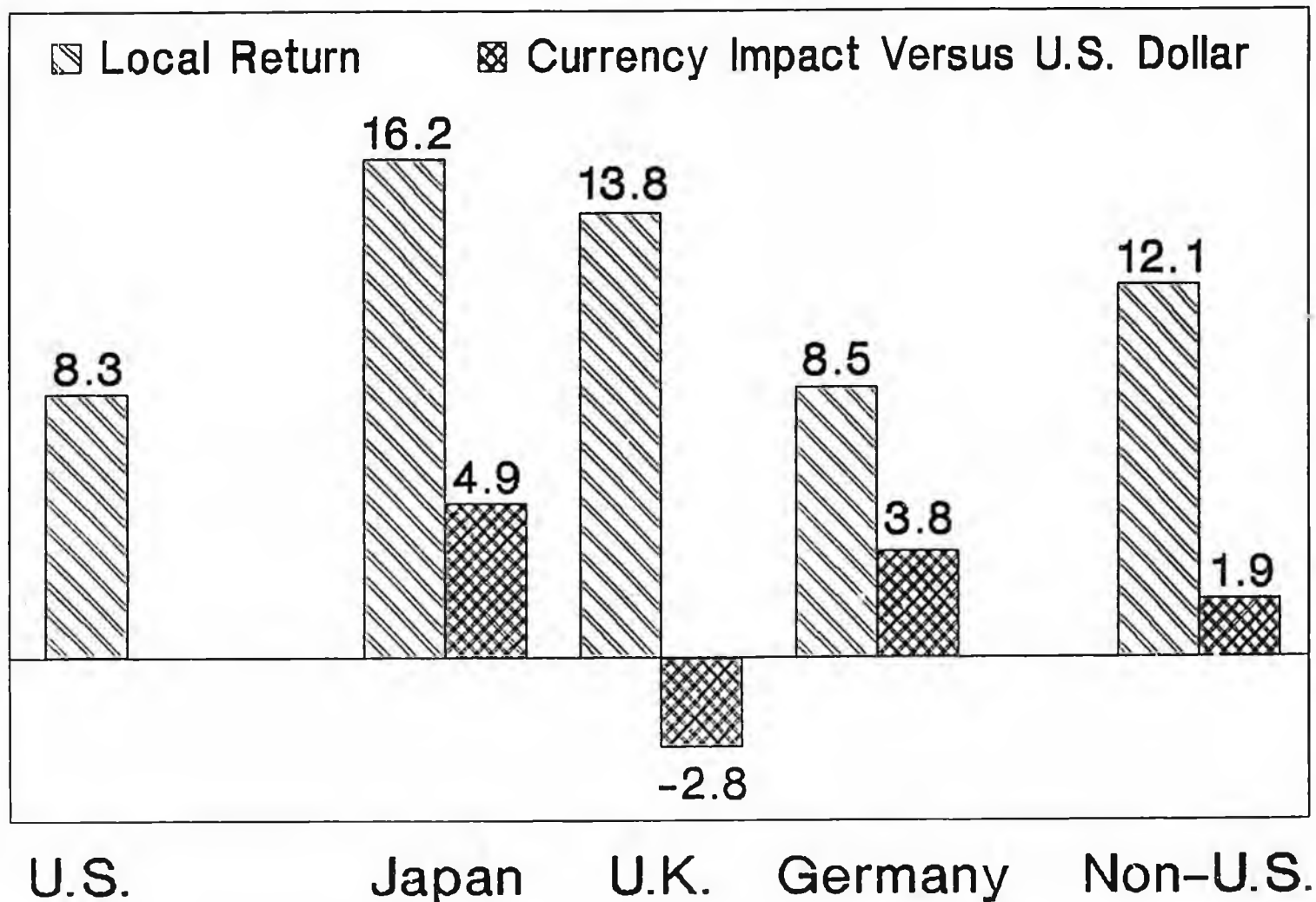


Source: Morgan Stanley Capital International

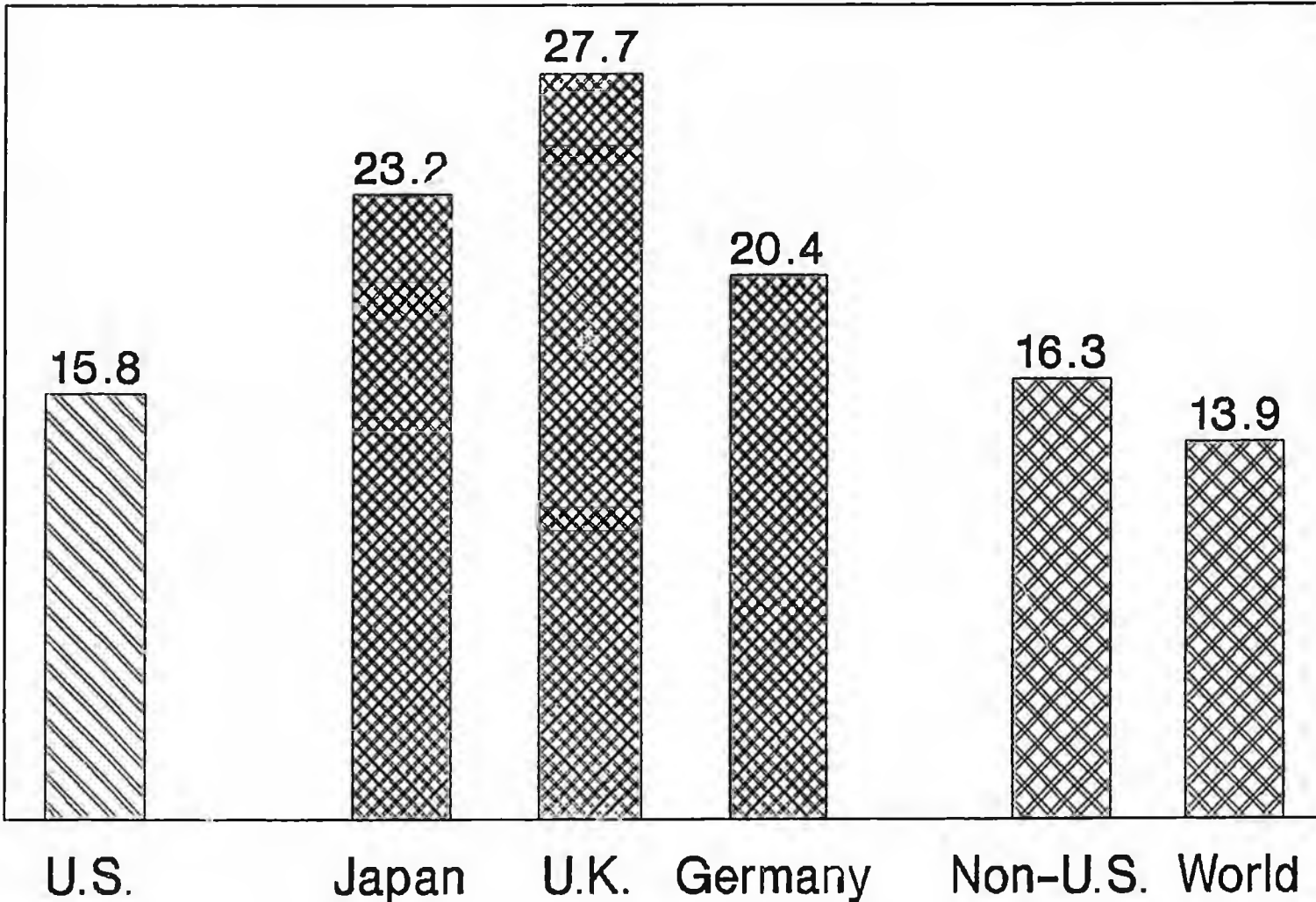
INTERNATIONAL EQUITY MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



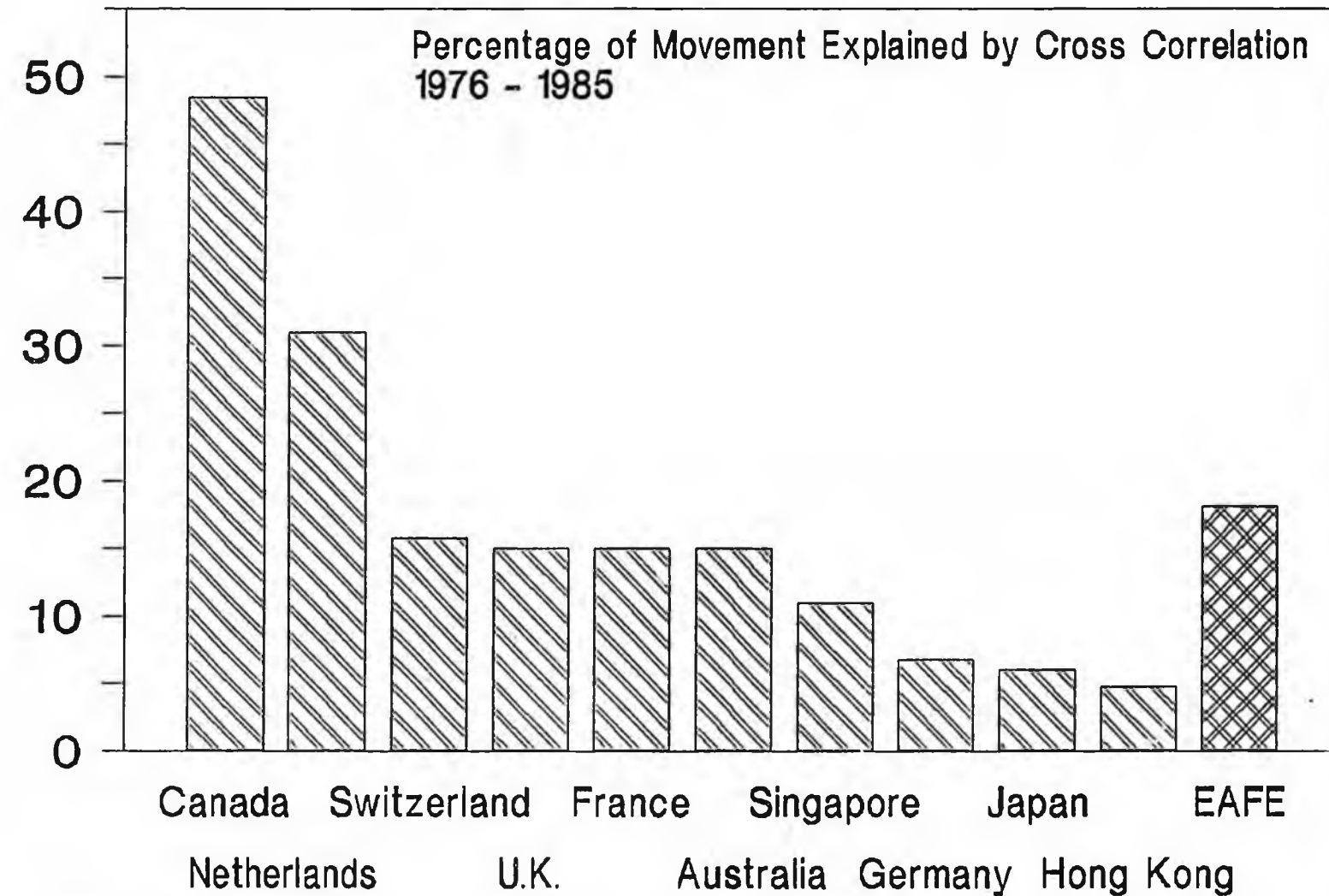
INTERNATIONAL EQUITY MARKETS ANNUALIZED LOCAL AND CURRENCY RETURNS 1970 - 1986



INTERNATIONAL EQUITY MARKETS
STANDARD DEVIATION OF RETURNS IN U.S. DOLLARS
1970 - 1986

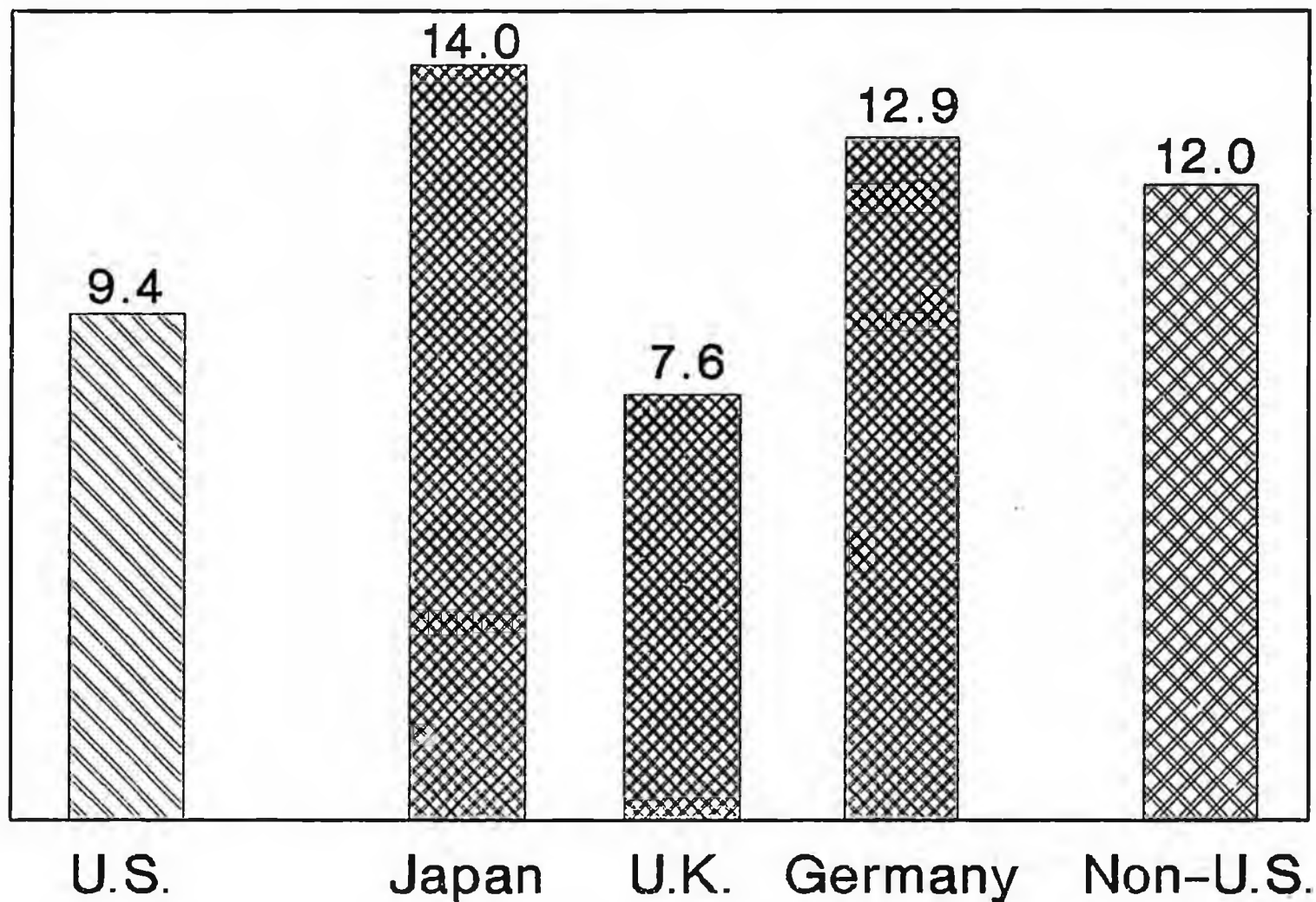


CORRELATION OF RETURNS BETWEEN U.S. AND MAJOR FOREIGN MARKETS

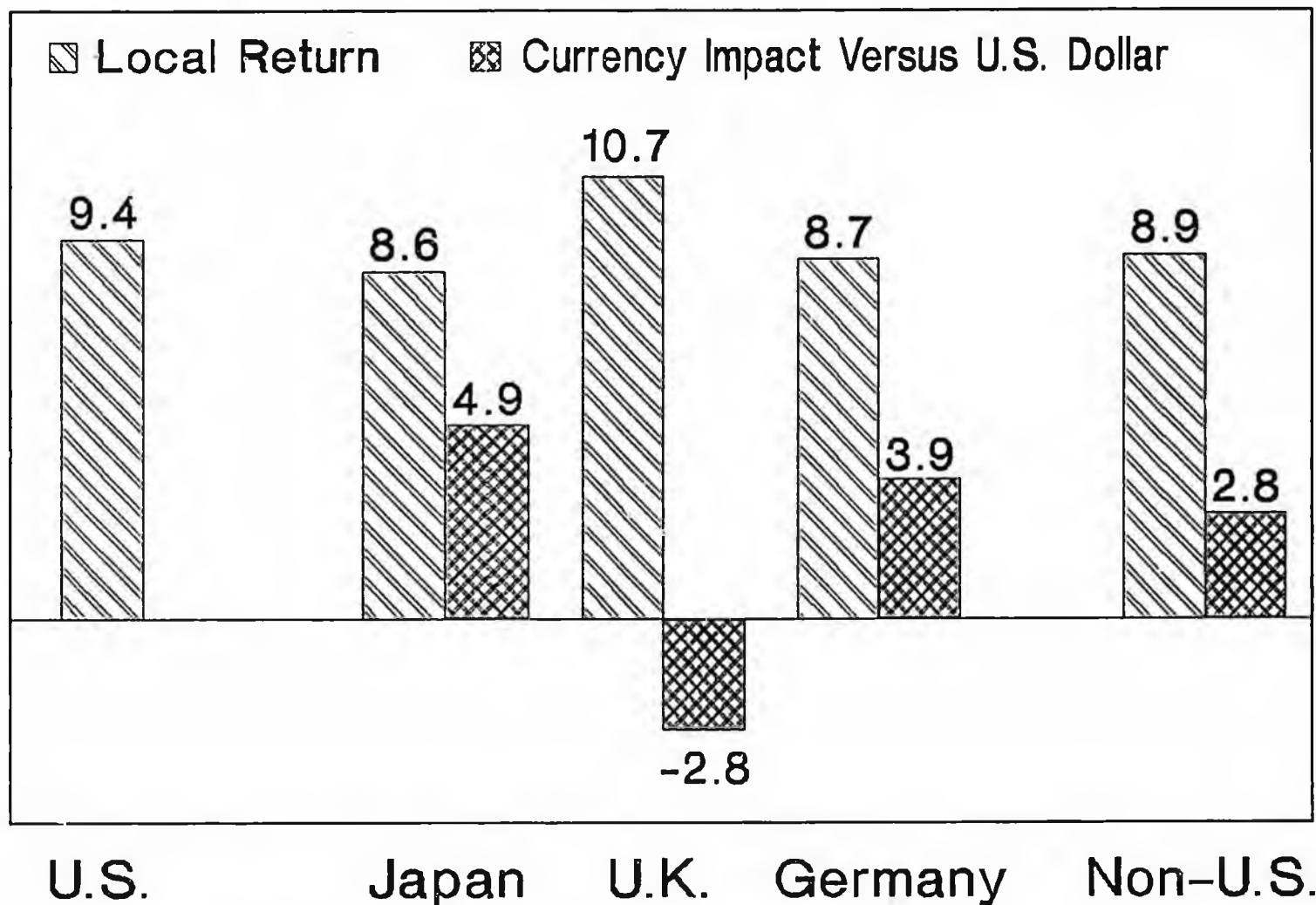


EAFE: Europe, Australia, and Far East Index

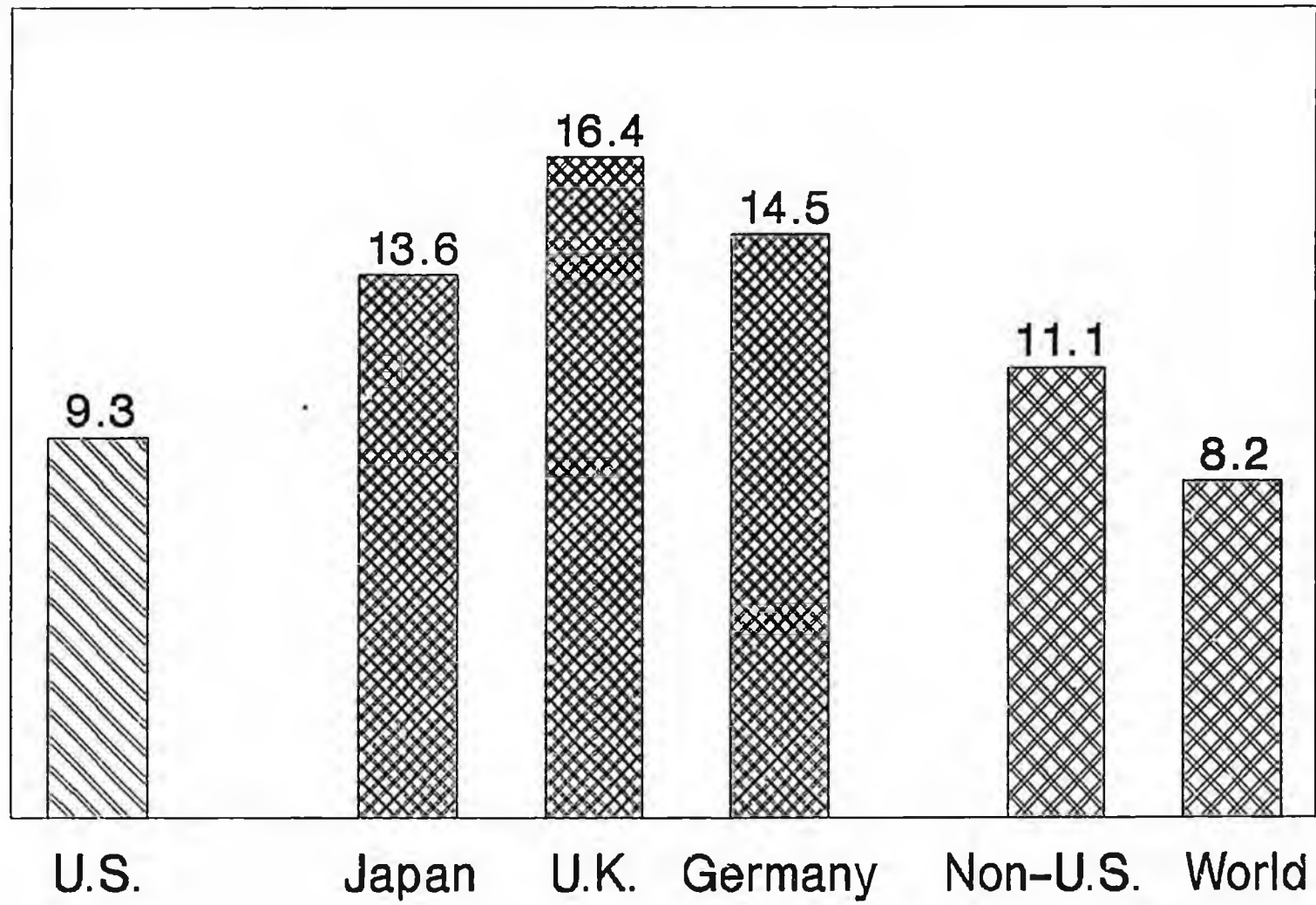
INTERNATIONAL FIXED INCOME MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



INTERNATIONAL FIXED INCOME MARKETS ANNUALIZED LOCAL AND CURRENCY RETURNS 1970 - 1986

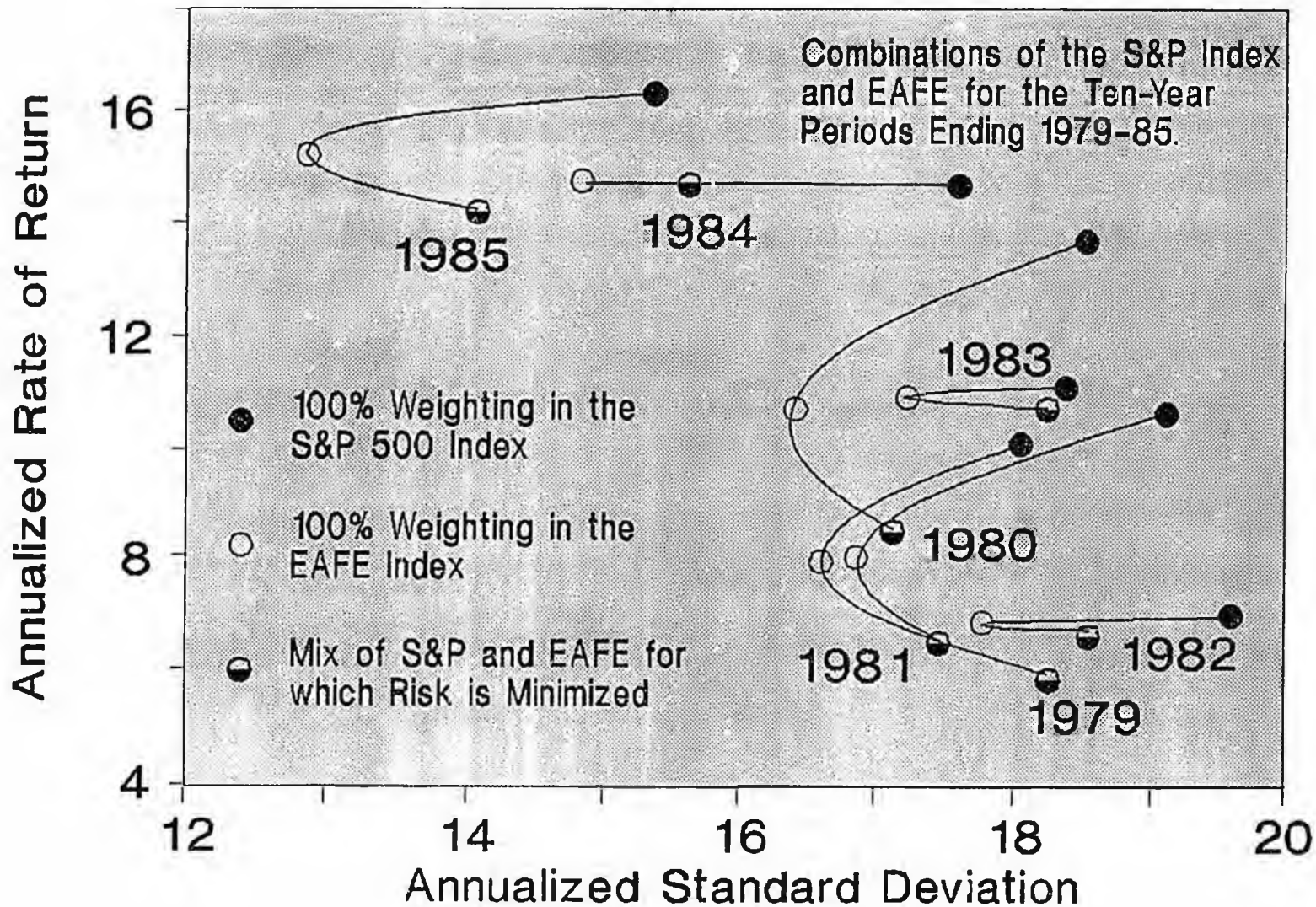


**INTERNATIONAL FIXED INCOME MARKETS
STANDARD DEVIATION OF RETURNS IN U.S. DOLLARS
1970 - 1986**



EAFE VERSUS THE S & P 500

RISK-RETURN ANALYSIS





Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telecopy (907) 586-2057

Board of Trustees:

Byron I. Mallott, Chairman

Oral E. Freeman, Vice-Chairman

Hugh Malone

Grace Schaible

Marc Langland

John Kelsey ✓

Executive Director:

David A. Rose

Chief Investment Officer:

William L. Means

THE IMPORTANCE OF INVESTING GLOBALLY IN A SHRINKING WORLD

Why foreign investments? This is a question which wouldn't even have arisen 20 years ago. In 1967, the United States' financial markets represented over two-thirds of the world's equity market capitalization, and the United States was the world's unquestioned financial and industrial leader. By the end of 1987, it represented only 33% of the world's equity market capitalization, and many economists predict that this percentage will continue to shrink.

The world's investable capital markets, excluding cash and real estate, totaled some \$13 trillion at the end of December 1986. The world fixed-income markets amounted to some \$7.4 trillion while the world equity markets totaled \$5.6 trillion. Some statisticians are projecting that by the year 2000, world GNP will be over \$15 trillion, with 75% outside the United States.

With the breakdown of exchange controls and rapid technological advances in communications, the internationalization of the world's financial markets has been proceeding at a rapid pace. To put into perspective the magnitude of these changes, one only has to consider that in 1973 television news in Juneau was delayed at least a day

and all scheduled programs were delayed a week. The tapes had to be flown to Juneau from Seattle, and not infrequently, bad weather delayed their arrival. The only access to current world news and the financial markets was the telephone.

Today, thanks to satellite telecommunications, the Alaska Permanent Fund Corporation has instant access not only to world news but also to the world's financial markets. In our office in Juneau, each of our investment officers has two television monitors on which we are able to obtain Reuters and Telerate financial services. We have instant access to the stock market, the U.S. Government bond market, foreign exchange quotations, commodities, financial futures, worldwide financial news, and trading in U.S. Government bonds in both London and Tokyo as well as New York.

The rapidity with which the world has been shrinking has been truly breathtaking. Worldwide global telecommunications and the integration of the world's financial markets is no longer a dream but well on the way to being an accomplished fact.

During the past 17 years, a period of explosive change, the non-U.S. markets have offered significant investment

opportunities for U.S. investors. Many of the world's fastest growing economies today are located in the Pacific Basin, and investments in this area offer some of the most attractive opportunities currently available.

Opportunities can be seen both in the form of return enhancement and risk reduction. A number of statistical studies have shown definite benefits from foreign investment, both in the level of return and the reduction of risk. It has been demonstrated that the inclusion of foreign investments in a domestic portfolio reduces the volatility (risk) of that portfolio since the world's financial markets do not all move in concert. The degree of benefit demonstrated varies from one study to another depending upon the particular time span used, the countries covered, and the types of investments, but the positive conclusions persist through all of them.

Global investing isn't restricted to only a few companies; it includes most of the world's major industries. The number one oil company in the world is Exxon. Numbers two and three are foreign companies - The Royal Dutch Shell Group and British Petroleum. The two largest food companies are European - Unilever of Dutch and British ownership; and Nestle, a Swiss concern. The number two and three chemical companies in the world behind Dupont are German - Bayer and

Hoechst. And the top four banks are Japanese - Daichi Kangyo, Fuji, Sumitomo, and Mitsubishi. Some of the most significant research for modern wonder drugs is being undertaken by a number of major Swiss and British pharmaceutical companies.

Currently the world is involved in fierce competition to determine which companies will be the winners in the fields of capital goods, consumer electronics, and telecommunications. A large number of the most rapidly growing firms are situated outside the United States, reflecting fast expanding overseas markets and abundant overseas supplies of industrial raw materials and of labor at various skill levels. In some instances, investors can only participate in certain areas of technology by investing in foreign firms.

Over the ten year period ending December 1986, the Standard & Poor's 500 Index managed a very healthy compounded return of 13.7% annually. The Capital International Europe, Australia, Far East Index returned an annual 22.3% for the same period. The next decade may be just the converse with the S&P at 22.3% and EAFE at 13.7%. Even if this is the case, one can be fairly certain that there will be countries, securities, and whole asset classes that will

outperform the U.S. for periods of time during the next decade.

The United States' inability to stand apart from the rest of the world as an independent entity is, above all, the reason to factor international investing into investment plans. In addition, a number of analysts suggest that the prudent man rule and the prudent expert rule require investors with fiduciary responsibilities to look carefully at developments worldwide and to put in place plans for an uncertain future - a future of unpredictable global influence on investments.

We don't know how the U.S. market will compare to foreign markets over the next twenty years. The analysis of international markets should be embraced because it can protect a securities portfolio against unforeseen dangers. Uncertainty about the future should be a compelling force leading investors to diversify as widely as possible.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 25, 1987

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

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.

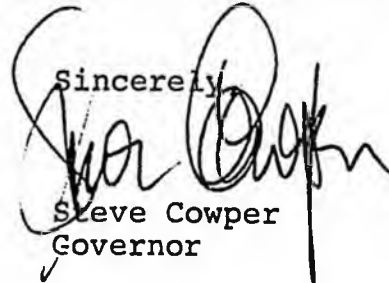
In sec. 2 of the bill, capital and surplus requirements are reduced in recognition of different international accounting conventions. For example, it has been reported in Barron's National Business and Financial Weekly that, if U.S. regulators required U.S. banks to establish a modest 10 percent reserve 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. Jan Faiks

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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,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the word "Sincerely,".

Steve Cowper
Governor