

HB

217

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

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

*[Handwritten signatures]*

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*[Handwritten signature]*  
Chairman signature and recommendation

[ ] Committee Backup attached

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

FISCAL NOTE

No. 2

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act relating to purchase of  
foreign securities by PEC.  
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	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

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	-	-	-	-	-	-

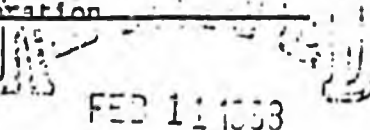
ANALYSIS : (Attach a separate page if necessary)

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)



LEGISLATIVE FINANCE



**Alaska Permanent Fund Corporation**

P.O. Box 4-1000 Juneau, Alaska 99802-4100  
(907) 465-2047 Telex 099-46-323

**P R E S S   R E L E A S E**

**NOTE:** Please run this as a  
guest editorial or commentary  
on your opinion page.

**DATE:** March 17, 1988

**PERMANENT FUND TRUSTEES SEEK SUPPORT  
FOR GLOBAL INVESTING**

**COMMENTARY**

**BY**

**BYRON I. MALLOTT**

**CHAIRMAN, BOARD OF TRUSTEES**

**ALASKA PERMANENT FUND CORPORATION**

The Board of Trustees of the Alaska Permanent Fund Corporation is seeking passage this session of legislation which would allow us to invest a small portion of the Permanent Fund in international stocks and bonds. In this endeavor, we ask also for the support of the people of Alaska.

Global investing is not a recommendation we make lightly. As trustees, our primary responsibility has always been to invest your Permanent Fund conservatively in order to keep it safe for the long term. In today's extremely volatile financial markets, we believe the best way to protect the Fund is to diversify it as widely as possible. We also believe that international investments can help us in that effort, and can help us to keep your savings account safe - and growing.

The trustees are aware that a number of citizens may have concerns about investing the Permanent Fund in foreign securities. To those of you who have such concerns, we ask that you recall a similar proposal we made five years ago. At that time, the trustees sought and received legislative approval to begin investing a portion of the Permanent Fund in the U.S. stock market. Then, as now, there were those who opposed the new investment because they feared it would be too risky, or because they favored increased investments in Alaska. But, let's look at the record.

Investing in the stock market has proven to be a sound decision for the Permanent Fund:

- Stocks have been, since 1982, the Fund's best performing type of investment.
- Just last year, the capital gains realized by the Fund on the sale of common stock added over \$325 million to the Fund's net income (and \$50 to each Alaskan's 1987 dividend).
- Notwithstanding the excellent long-term returns offered by stocks, and despite the fact that the law allows up to 50% of the Fund to be invested in stocks, the trustees have been very conservative, and have never allocated more than 25% of total Fund assets to this relatively risky investment class (we are presently at just under 12%).

\* Even after the crash of last October, as of the end of February 1988, the Fund's stock portfolio was still worth \$184 million more than cost.

As for increasing investments in Alaska, it is clear that, over time, the amount of the Fund the trustees will be able to invest within Alaska will depend on the amount of diversification of the Fund elsewhere. In other words, the greater the diversification of the total portfolio, the less risk created by increasing investments in-state.

Today, there are two very good, fundamental reasons for supporting global investing for the Permanent Fund: (1) it will reduce the Fund's overall risk; and (2) it will increase the Fund's overall return.

These conclusions derive from our study of a number of statistical reports analyzing the performance of the world's financial markets since 1970. The studies are unanimous that inclusion of foreign investments in U.S.-only portfolios, for any significant period of time in the last 17 years, would have added return and reduced risk. The degree of these benefits varies from one study to another depending upon the particular time period used, the countries covered, and the types of investments, but the positive conclusions persist through all of them.

Let's look at the facts:

\* In the last 20 years, the United States' share of the world's total stock market capitalization has shrunk from 67% to 33%, and many economists predict that this percentage will continue to shrink.

\* Besides comprising only one-third of the world's total equity market capitalization, the U.S. now represents less than 45% of the world's total fixed-income (bond) market.

\* In the last 10 years, the U.S. has had the best performing stock market only once. It has been outperformed nine times out of ten by the equity markets in countries such as Germany, Great Britain, Australia, Hong Kong, Japan and Singapore.

\* For the 17-year period, 1970 - 1986, the U.S. stock market earned a compound rate of return of only 8.3% per year compared to 14.2% per year for the combined non-U.S. markets.

\* For the same 17-year period, U.S. fixed-income investments earned only 9.4% compared to 12.0% for the combined non-U.S. markets.

\* More important than the higher returns, at least from the perspective of the Board of Trustees, was the relatively lower volatility experienced by the global investor during this 17-year period. Of the three types of portfolios -- U.S.-only, non-U.S. only, and combined U.S. and non-U.S. -- the safest (least volatility, least risk) was the global portfolio. This reduction of total portfolio risk is achieved by increasing diversification, and it is the main reason the trustees support global investing.

We don't know how the U.S. financial markets will perform compared to international markets over the next 20 years. The past evidence would indicate that we can earn more income for the Fund if we invest a bit in foreign securities, but the past provides no guarantee for the future. Perhaps the returns will be better in the U.S. in the future. We just don't know.

What we do know is that it is a big world out there, and that there are unforeseen dangers. We are all subject, more than ever, to unpredictable global influences on investments. The United States cannot stand apart from the rest of the world as an independent entity, the State of Alaska cannot, and neither can your \$9 billion Permanent Fund.

Prudence dictates that we put in place now well-constructed plans for an uncertain future. Providing for increased diversification through international investments is one sure way to protect the Permanent Fund's and Alaska's future.

Persons interested in receiving additional information on this subject are encouraged to contact our Juneau office. Please write to me or any of the trustees c/o the Alaska Permanent Fund Corporation, P.O. Box 4-1000, Juneau, Alaska 99802. Thank you for your support.

**INTERNATIONAL INVESTMENT**

**STATISTICAL INFORMATION**

Prepared by

William L. Means

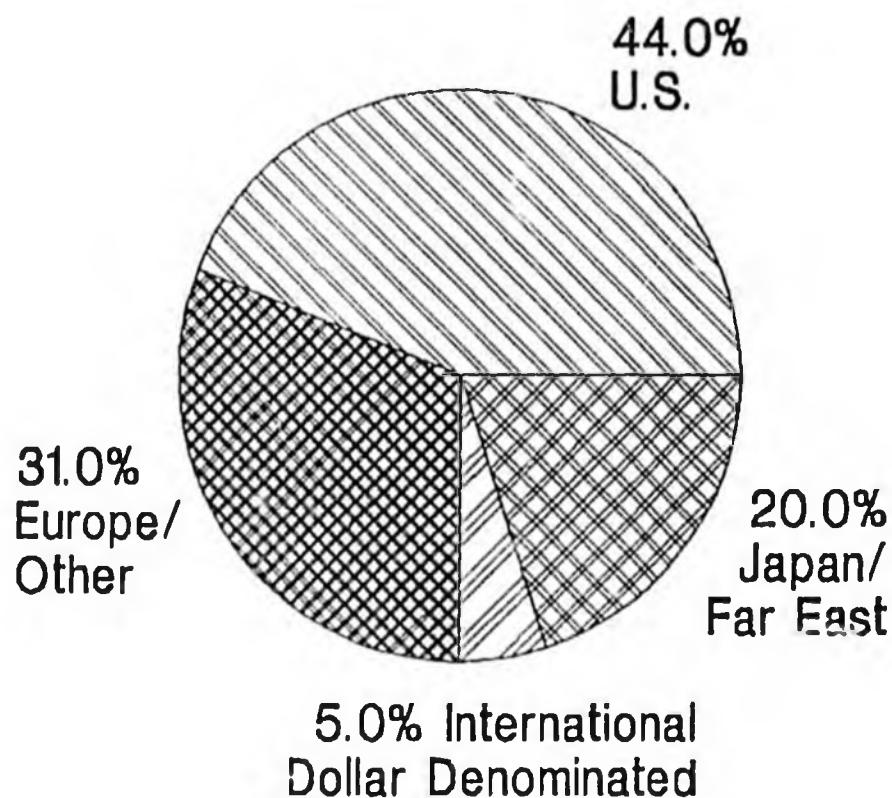
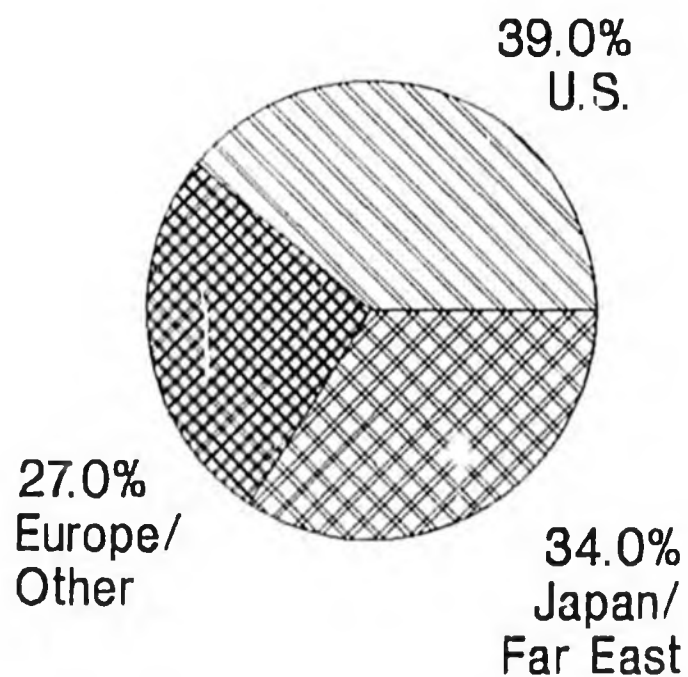
**ALASKA PERMANENT FUND CORPORATION**

February 8, 1988

# 1986 WORLD CAPITAL MARKETS

EQUITIES (\$5.6 Trillion)

BONDS (\$7.4 Trillion)



Source: J.P. Morgan Investment

## TOTAL ANNUAL RETURN (U.S. DOLLARS)

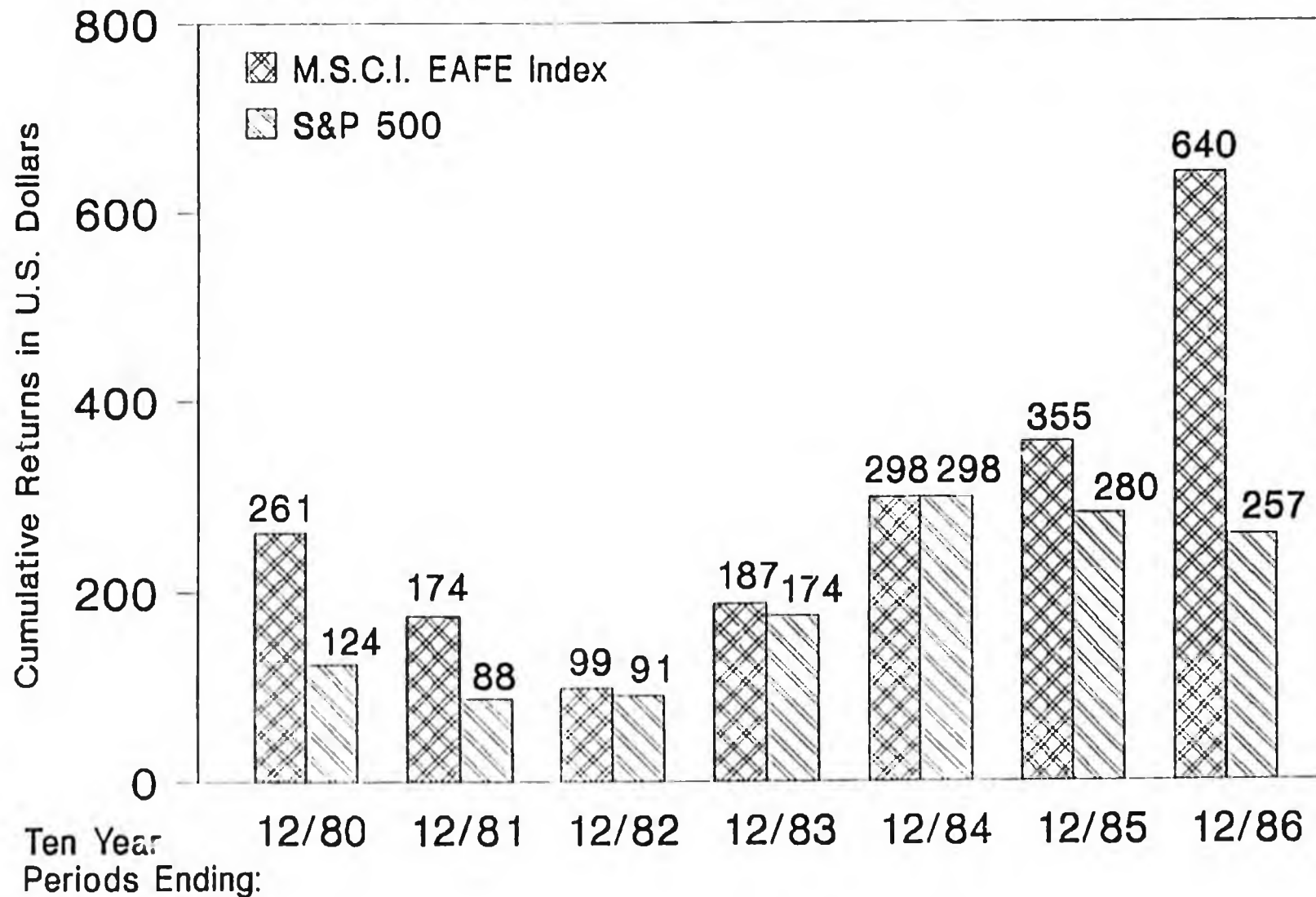
	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<u>S&amp;P 500</u>
1977	25.8	28.7	58.0	11.9	(11.2)	15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.8	18.5	53.3	45.1	20.4	6.5
1979	(2.2)	12.1	22.1	43.6	83.5	(11.9)	28.5	51.8	18.5
1980	(9.1)	(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)	(23.9)	(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)	(44.5)	(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0	(3.0)	24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1	(26.9)	(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9	(22.0)	16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2	(10.7)	18.2

BEST PERFORMER

WORST PERFORMER

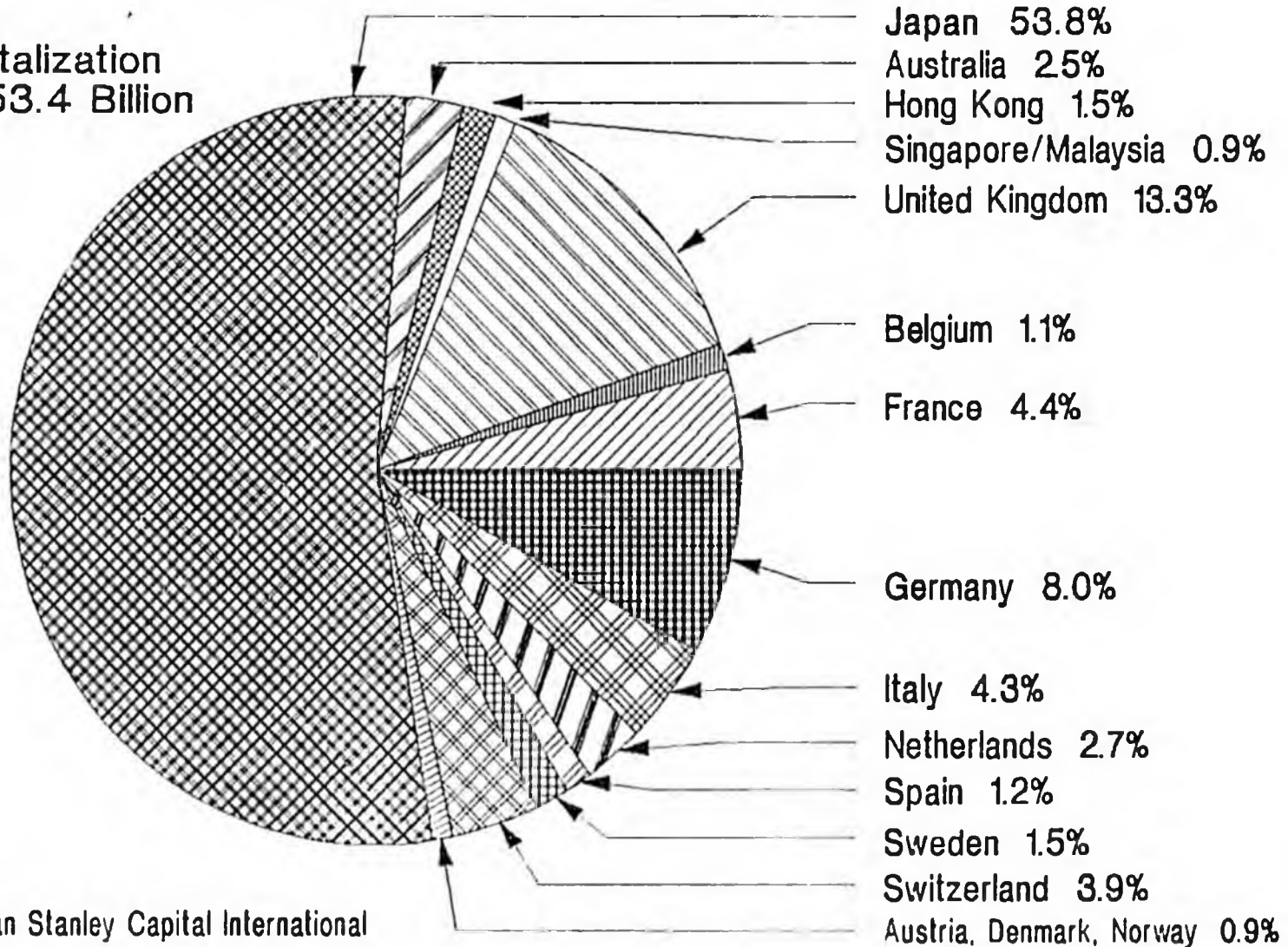
# U.S. INTERNATIONAL EQUITY MARKET PERFORMANCE COMPARISON

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



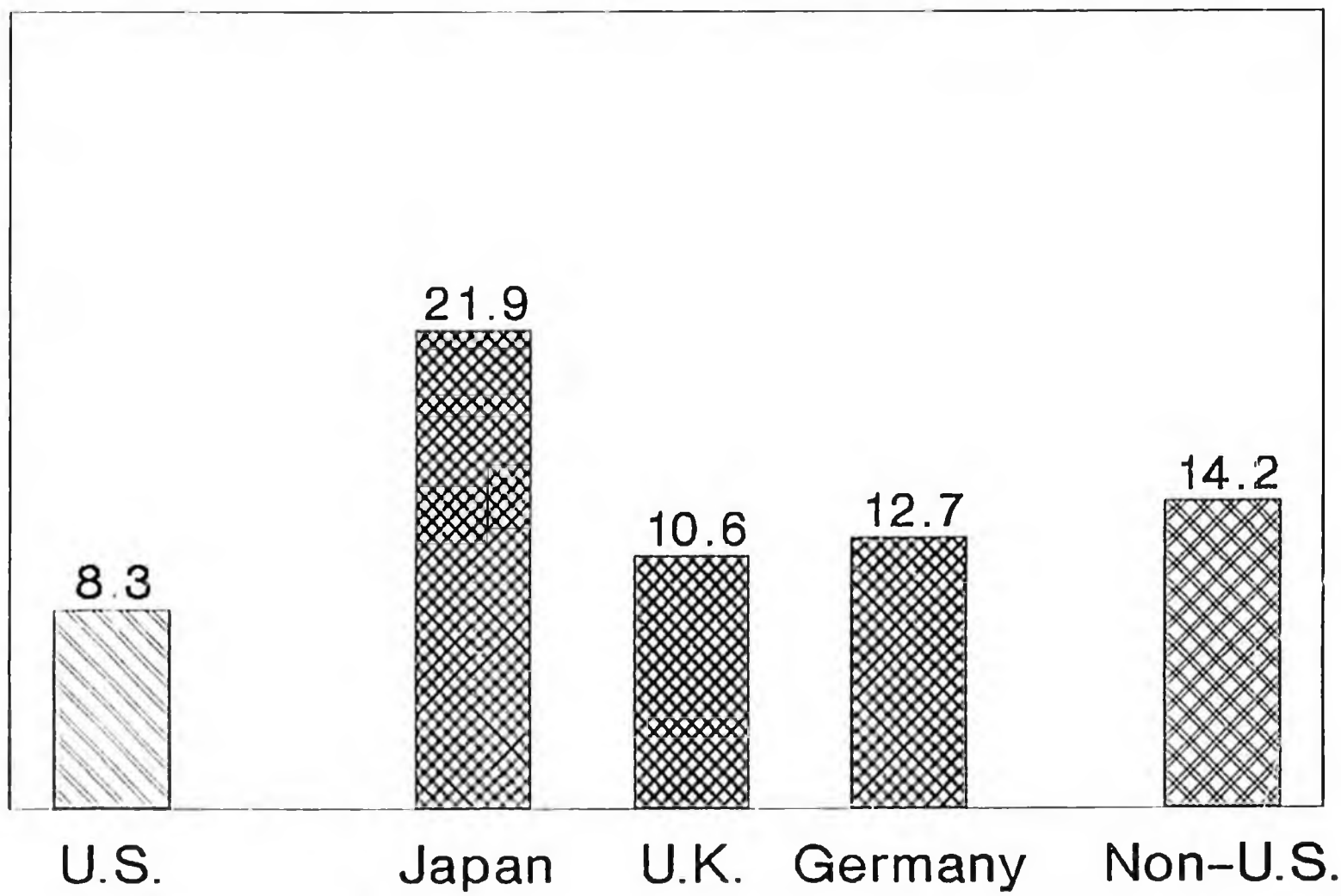
## Components of The MSCI Europe, Australia, Far East (EAFE) Index December 31, 1986

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

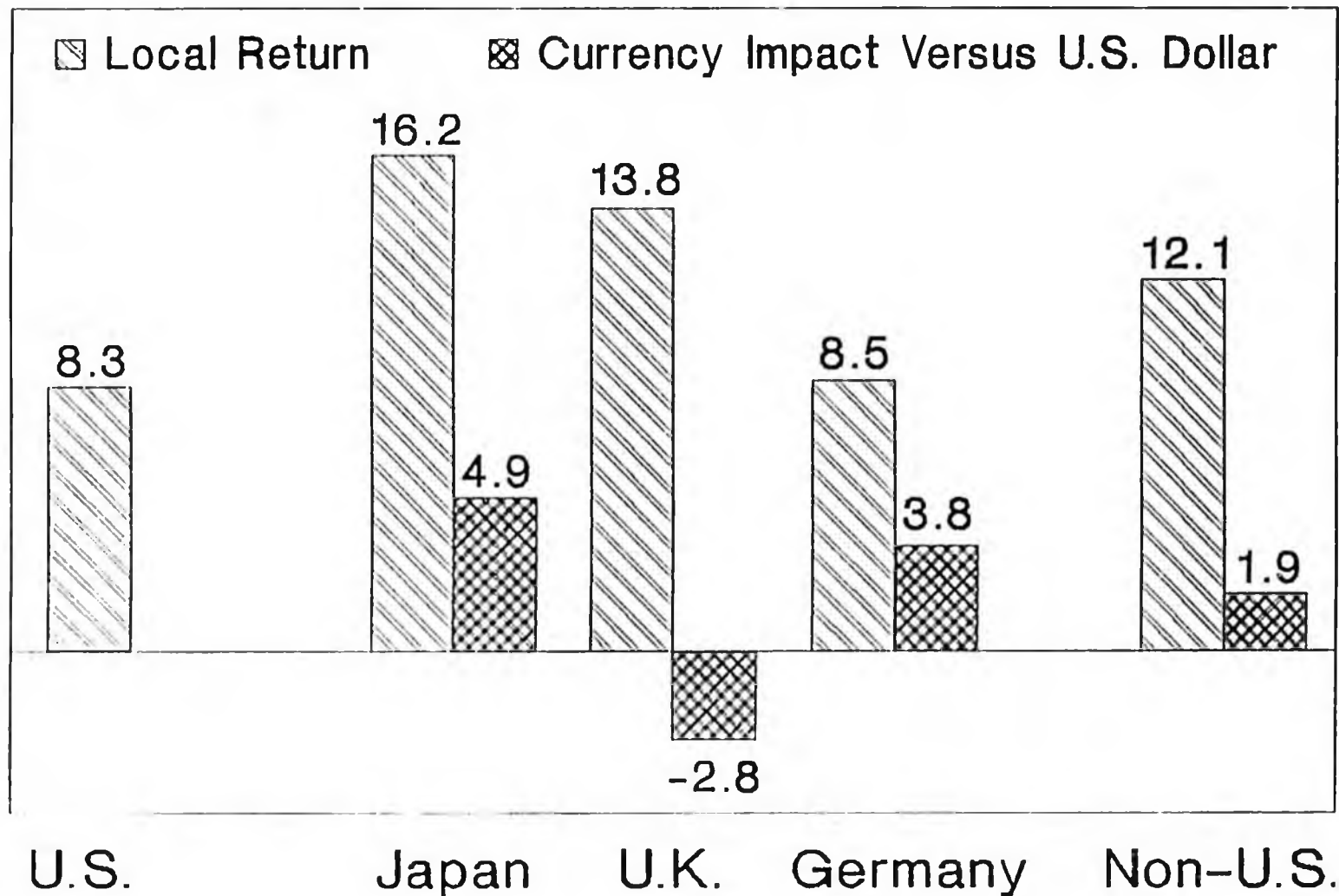


Source: Morgan Stanley Capital International

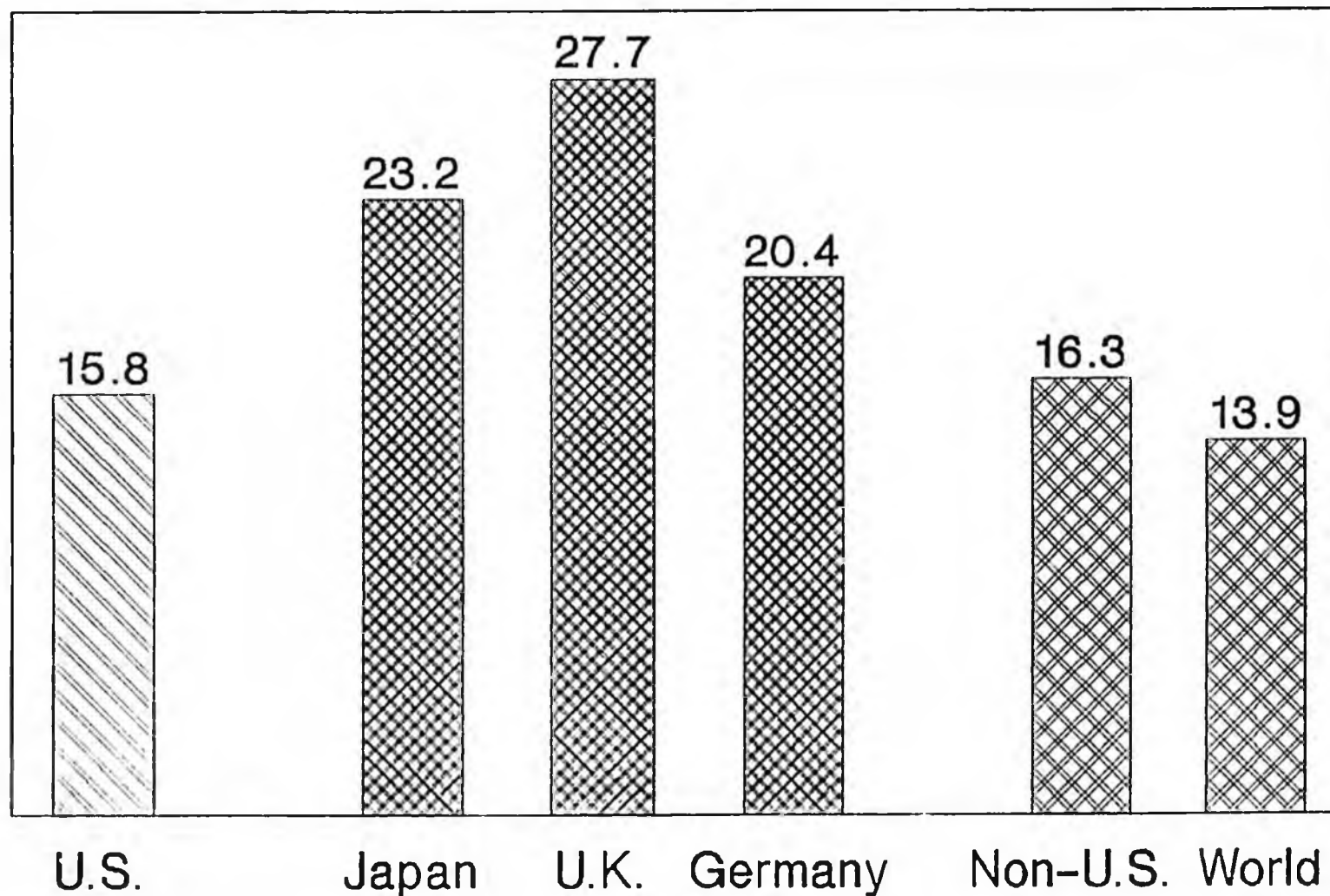
# INTERNATIONAL EQUITY MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



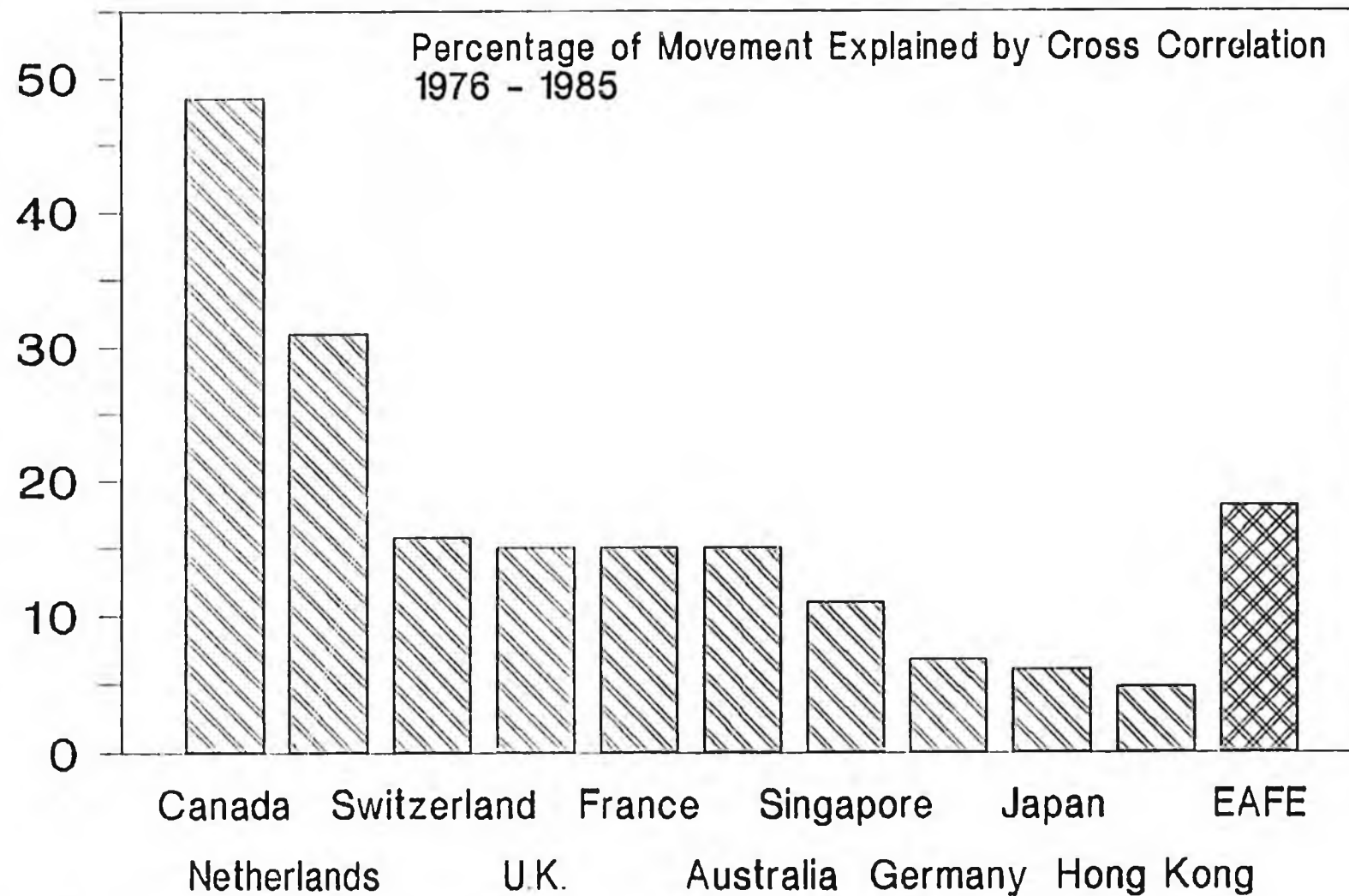
# INTERNATIONAL EQUITY MARKETS ANNUALIZED LOCAL AND CURRENCY RETURNS 1970 - 1986



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

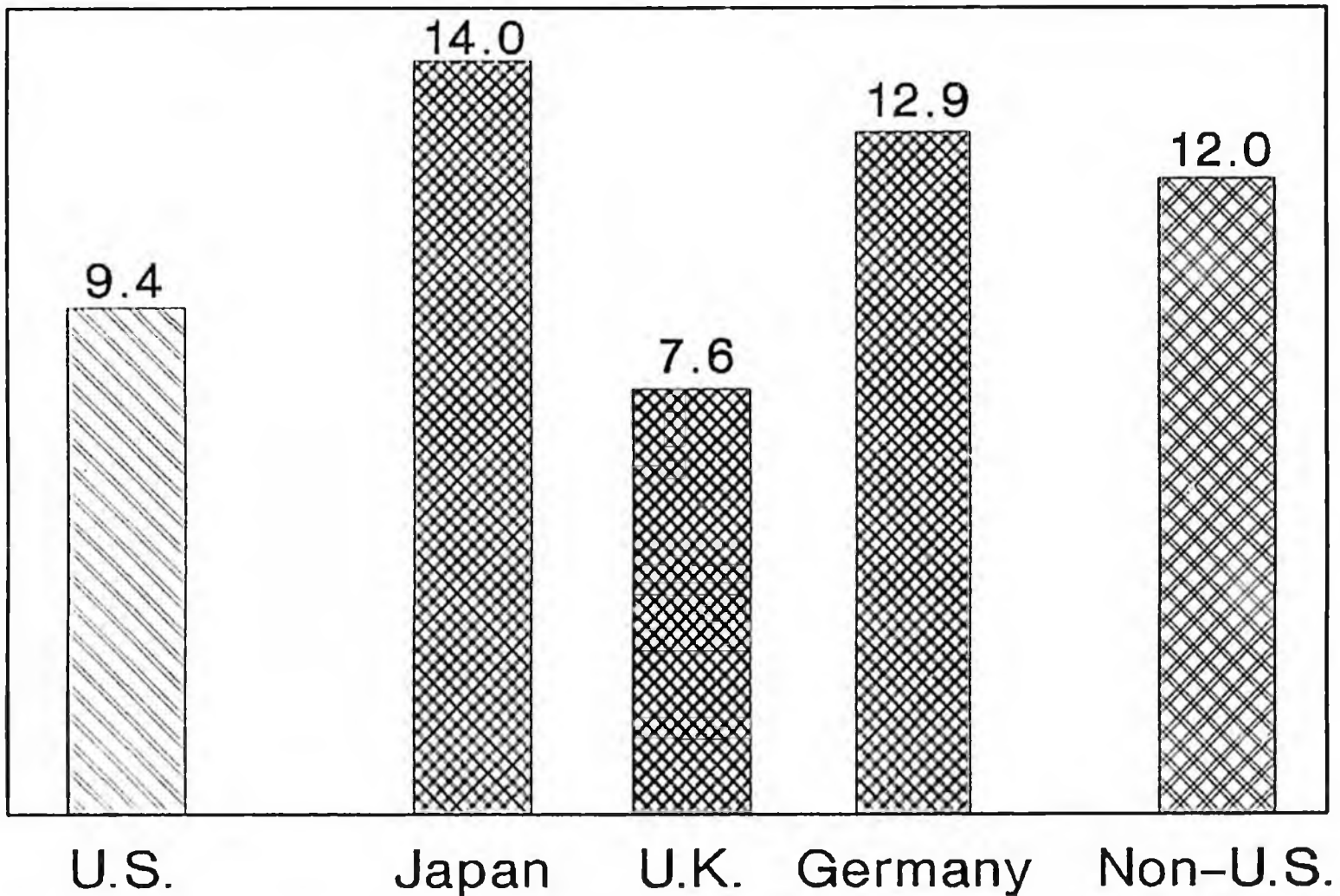


# CORRELATION OF RETURNS BETWEEN U.S. AND MAJOR FOREIGN MARKETS

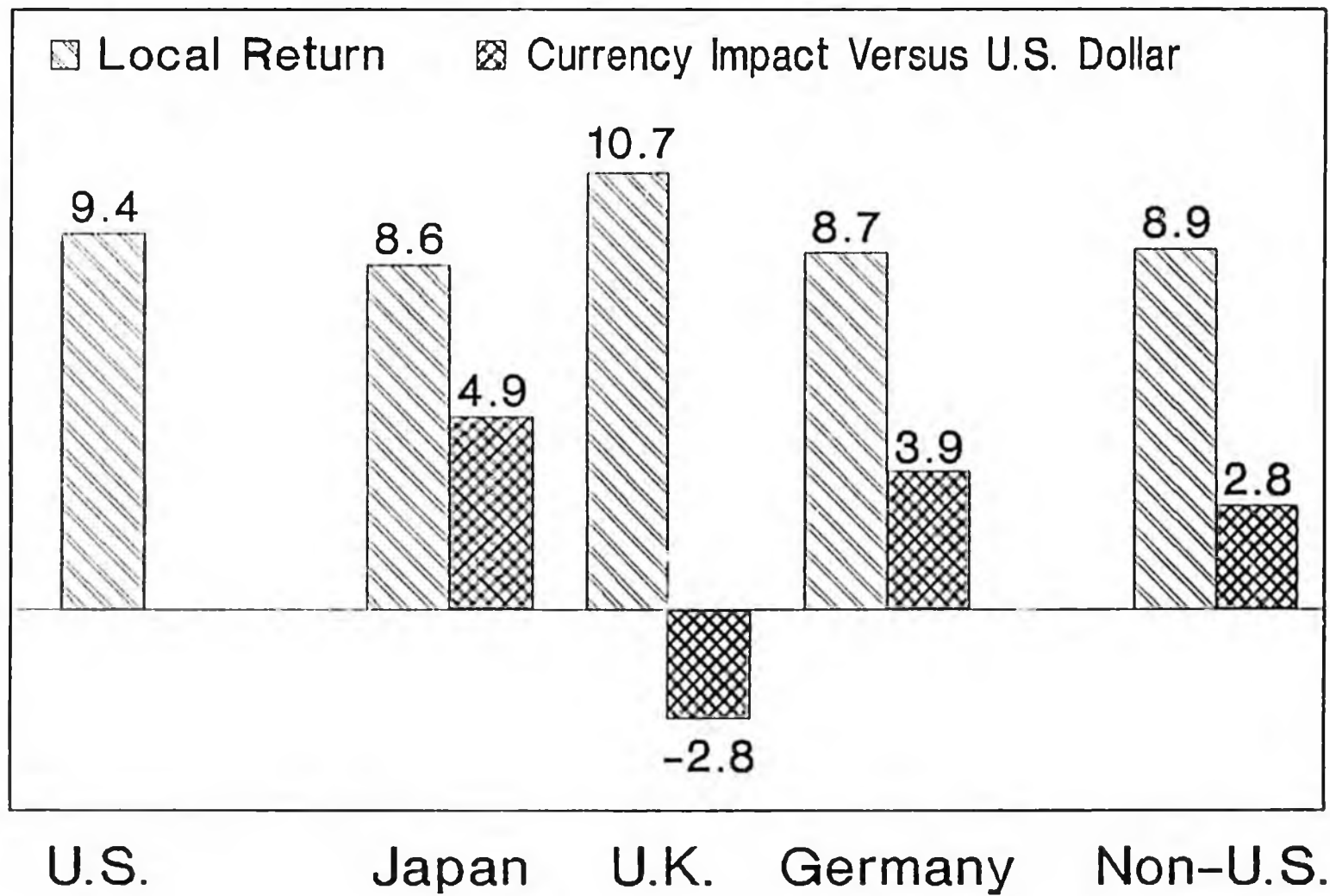


EAFE: Europe, Australia, and Far East Index

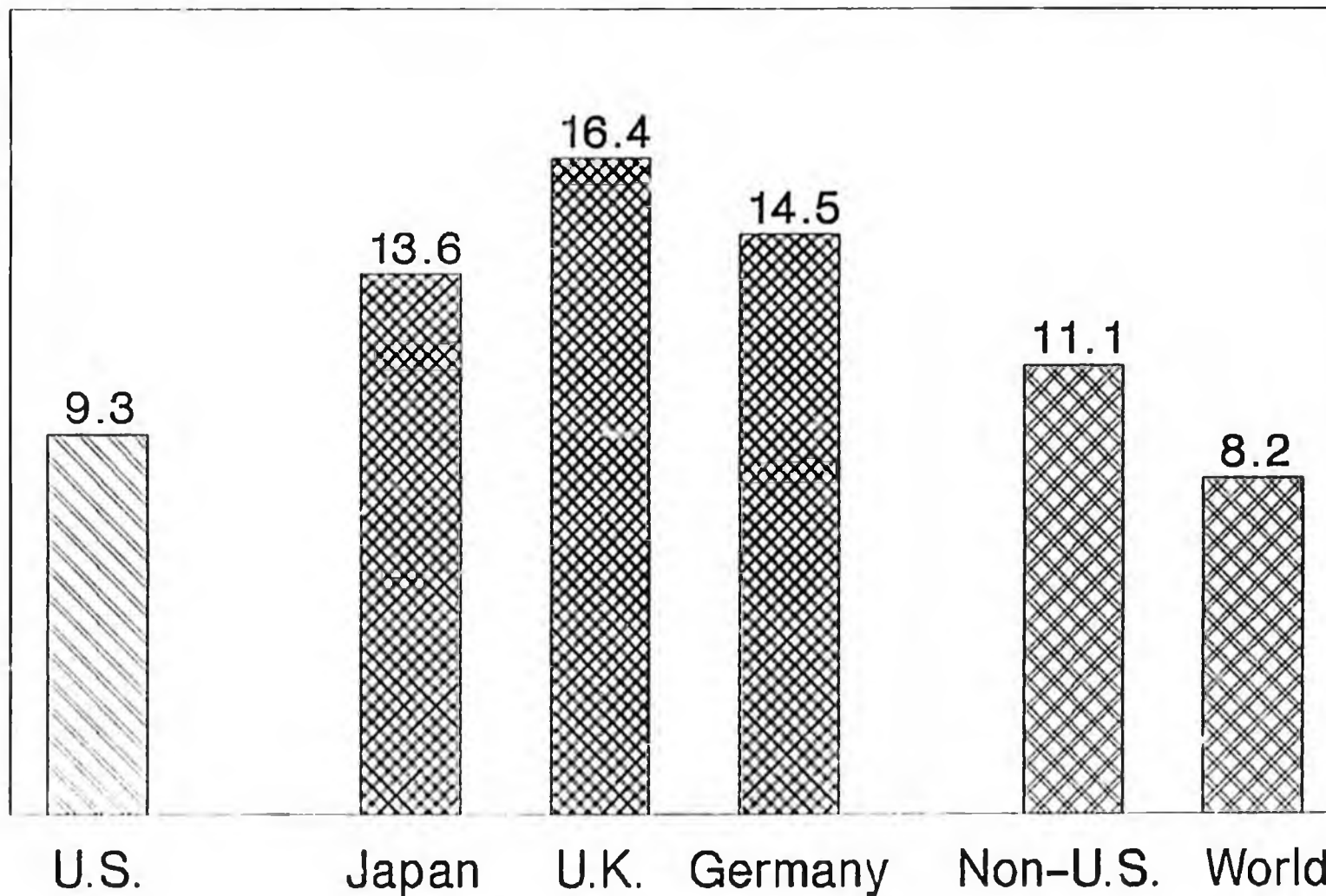
# INTERNATIONAL FIXED INCOME MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



# 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



ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5570 SSTA HB 217 - HB 261

1-13

CSHB 217(Fin)

## CSHB 217(FIN)

Yess: 34 Adams, Barnes, Boucher, Boyer,  
Brown, Cato, Cotten, Davidson,  
Davis, Donley, Ellis, Frank, Goll,  
Gruenberg, Grussendorf, Hanley,  
Herrmann, Hudson, Koponen, Larson,  
Martin, Miller, Navarre, Pearce,  
Pettyjohn, Pourchot, Rieger,  
Shultz, Springer, Sund,  
Swackhammer, Ulmer, Wallis,  
Zawacki

Nays: 5 Furnace, Hoffman, Menard,  
Phillips, Taylor

Excused: 1 Collins

Absent: 0

And so, CSHB 217(Fin) passed the House and was referred to the Chief Clerk for engrossment.

HB 386

The following was read the second time:

## HOUSE BILL NO. 386

"An Act relating to rewards to promote the apprehension and conviction of certain offenders; and providing for an effective date."

with the:

Judiciary Committee report	p. 2333
Zero fiscal note published 2/24/88	p. 2333
Finance Committee report	p. 2556
Zero fiscal note with analysis published 3/14/88	p. 2557

Representative Gruenberg moved and asked unanimous consent that the following committee substitute be adopted in lieu of the original bill:

## CS FOR HOUSE BILL NO. 386 (Judiciary)

"An Act relating to enforcement of alcoholic beverage control laws; and providing for an effective date."

There being no objection, it was so ordered.



ALASKA STATE CHAMBER OF COMMERCE

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

April 7, 1988

The Honorable Mitchell Abood, Chairman  
Senate State Affairs Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Abood:

On Friday, April 8 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 version adopted by the House.

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 House Bill 217 will help us accomplish this.

We recommend its adoption.

Cordially,

  
George Krusz  
President

cc: Senator Uehling  
Senator Hensley  
Senator Josephson  
Senator Fanning