

HB

580

HOUSE COMMITTEE REPORT File

(11)

Date Referred: March 30, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/17/90

The FINANCE Committee considered:

HB 580

HOUSE BILL NO. 580

INVESTMENT OF STATE FUNDS

"An Act relating to management and investment of certain state funds; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with CS HB 580 (FIN) the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS: (Date/Dept)

- fiscal impact REVENUE
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) D/Administrative 3/31/90
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass No Rec Amend

Hoffman

Larson

Swackhammer

Brown

Koponen

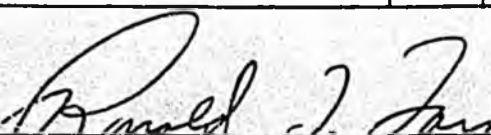
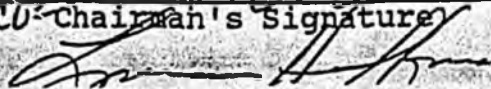
Ulmer

Barnes

Rieger

Wallis

Reed E. Phillips	✓		

 Larson
 Co-Chairman's Signature
 Hoffman

FISCAL NOTE

RECURST:

Revision Date: _____
Title: Management and investment of
certain state funds
Sponsor: House Finance
Requestor: House Finance

Agency Affected: Alaska State Investment Corp.
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	494.6	989.3	989.3	989.3	989.3	989.3
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	7200.9	14474.4	14662.8	14394.2	15189.3	15445.8
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1
TOTAL	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1

POSITIONS:

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

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero. Fiscal years 1991-1996 are the sum of the amounts deleted from the Treasury budget on the attached fiscal note plus estimated common stock management fees for SBS shown on the attached schedule.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350
Date: April 18, 1990

Approved by Commissioner: _____
Agency: Department of Revenue

Date: 4/18/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

FISCAL NOTE

REOURST:

Revision Date: _____
Title: Management and investment of certain state funds
Sponsor: House Finance
Requestor: House Finance

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	(494.6)	(989.3)	(989.3)	(989.3)	(989.3)	(989.3)
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	(7080.2)	(14160.5)	(14160.5)	(14160.5)	(14160.5)	(14160.5)
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
TOTAL	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)

POSITIONS:

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

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero. Fiscal years 1992 through 1996 based on the State Investment Corporation assuming responsibility for trust fund investments January 1, 1991. The amounts are the retirement and endowment funding contained in Treasury's fiscal year 1991 budget. Fiscal year 1991 effect is half of the Treasury fiscal year 1991 budget.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350
Date: April 18, 1990

Approved by Commissioner: _____
Agency: Department of Revenue

Date: 4/18/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

CSHB 580 (Pin)
SBS Investment Management Costs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Liquid Balance	GIC Maturities	Net Contributions	Average Balance	Investment Earnings	Ending Liquid Balance	Stock Management Fees	Custodian Fees	Audit Fees	Performance Measurement Fees	Total Fees
FY91	0	151.1	50.0	100.5	9.0	210.1	53.5	5.2	10.0	12.0	120.7
FY92	210.1	118.9	55.0	297.1	26.7	410.7	276.3	15.6	10.0	12.0	313.9
FY93	410.7	96.3	60.0	488.8	44.0	610.9	454.6	25.7	10.0	12.0	502.3
FY94	610.9	202.9	65.0	744.8	67.0	945.8	692.6	39.1	10.0	12.0	733.7
FY95	945.6	128.7	70.0	1045.1	94.1	1238.6	971.9	54.9	10.0	12.0	1028.8
FY96	1238.6	60.0	75.0	1306.1	117.5	1491.1	1214.7	68.6	10.0	12.0	1285.3

Notes:

1. Column 6, prior year
2. From Division of Retirement & Benefits
3. Treasury Division estimate based on FY 89 contributions
4. Column 1 + (Column 2 + Column 3)/2
5. 9% x Column 4
6. Column 1 + Column 2 + Column 3 + Column 5
7. Column 4 x .31% per contract x 30% asset allocation to common stocks
8. Column 4 x 5.25%/\$1000 per contract
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9 + 10.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Administration
 Title: An Act relating to management and BRU: Centralized Administrative Services
Investment of certain State funds
 Sponsor: Finance Committee Components: Finance
 Requestor: State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

HB 580 does not appear to have any impact on the Division of Finance in its present form. The primary changes appear to be wherever in the Statutes it formerly had "Commissioner of Revenue" it will now have "State Investment Board" and a new section of the statutes has been added to establish a State Investment Board in the Department of Revenue. The board is to manage and invest State funds with the assistance of the Department of Revenue. From discussions with the Department of Revenue, they will be preparing a fiscal note for the impact to them.

Prepared by: Keith Busch, Director *John Thomas State Act.* Phone: 465-2240
 Division: Finance Date: _____
 Approved by Commissioner: Frank S. Baxter Date: 3/15/90
 Agency: Department of Administration

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Original sponsor(s): Finance Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 580 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to management and investment of
7 certain state funds; and providing for an effective
8 date."

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

10 * Section 1. AS 37.10 is amended by adding new sections to read:

11 ARTICLE 5. ALASKA STATE INVESTMENT CORPORATION.

12 - Sec. 37.10.210. ALASKA STATE INVESTMENT CORPORATION. (a) There
13 is established the Alaska State Investment Corporation. The corpo-
14 ration is a public corporation and government instrumentality in the
15 Department of Revenue managed by a board of directors. The purpose of
16 the corporation is to provide professional management and investment
17 of state trust funds and other state funds upon agreement with the
18 managers of those funds.

19 (b) The board consists of seven voting members:

20 (1) one member, nominated by the Teachers' Retirement Board
21 and appointed by the governor, who is a member of the teachers' re-
22 tirement system;

23 (2) one member, nominated by the Public Employees' Retire-
24 ment Board and appointed by the governor, who is a member of the
25 public employees' retirement system;

26 (3) one member, nominated by the Teachers' Retirement Board
27 and by the Public Employees' Retirement Board and appointed by the
28 governor;

29 (4) two public members, appointed by the governor;

1 (5) two professional institutional investors, selected by
2 the other board members.

3 (c) The commissioner of administration and the commissioner of
4 revenue serve on the board as nonvoting members.

5 (d) The members must have recognized competence and wide exper-
6 ience in finance, investments, or other business management-related
7 fields. The professional institutional investors must have recognized
8 competence and wide experience in managing institutional investment
9 portfolios.

10 (e) The members appointed under (b) of this section shall be
11 appointed for staggered terms of three years and may be reappointed to
12 the board.

13 (f) Members of the board serve at the pleasure of the governor.
14 A board member's removal by the governor must be in writing. After a
15 member receives written notice of removal from the governor, the
16 member may not participate in board business and may not be counted
17 for purposes of establishing a quorum.

18 (g) Members serving as professional institutional investors may
19 not hold another compensated state office, position, or employment,
20 either elective or appointive, except as a member of the armed forces
21 of the state.

22 (h) A vacancy on the board shall be promptly filled in the same
23 manner as the seat was originally filled. An appointee to a vacancy
24 holds office for the balance of the unexpired term of the appointee's
25 predecessor. A vacancy on the board does not impair the authority of
26 a quorum of the board to exercise all the powers and perform all the
27 duties of the board.

28 (i) The board shall annually elect a chair from among its mem-
29 bers.

1 (j) Four voting members of the board constitute a quorum for the
2 transaction of business and the exercise of the powers and duties of
3 the board.

4 (k) A board member may not designate another person to serve on
5 the board in the absence of the member.

6 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board
7 shall

8 (1) hold regular and special meetings at the call of the
9 chair or of at least four of the voting members;

10 (2) establish investment policies for the funds for which
11 it is responsible;

12 (3) submit long-range and quarterly investment reports to
13 the Legislative Budget and Audit Committee;

14 (4) report to the governor and the legislature by Septem-
15 ber 30 of each year concerning the investment of state funds including
16 financial and investment policies established by the board;

17 (5) contract with external performance evaluators to review
18 the performance of each fund managed or invested by the corporation
19 and report each year to the board and to the other boards directly
20 responsible for the activities supported by the fund on the fund's
21 condition;

22 (6) engage independent certified public accountants to
23 prepare an annual audit of each of the funds for which the corporation
24 is responsible and to report to the board with the results of the
25 audit.

26 (b) The board may

27 (1) employ outside investment advisors to review investment
28 policies and make recommendations to the board;

29 (2) employ legal counsel;

1 (3) enter into an agreement with the manager of another
2 state fund to assume fiduciary, administrative, or management respon-
3 sibilities for investing the other state fund; an agreement under this
4 paragraph may not be for a term longer than three years but may be
5 renewed;

6 (4) do all acts necessary, convenient, or desirable to
7 carry out the powers expressly granted or necessarily implied in this
8 chapter.

9 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Members of the
10 board and the executive director are subject to the provisions of
11 AS 39.50.

12 (b) If a member of the board or an employee of the corporation
13 acquires, owns, or controls an interest, direct or indirect, in an
14 entity or project in which assets under the control of the corporation
15 are invested, the member shall immediately disclose the interest to
16 the board. The disclosure is a matter of public record and shall be
17 included in the minutes of the board meeting next following the dis-
18 closure.

19 Sec. 37.10.240. REGULATIONS. The board may adopt rules and
20 by-laws after giving reasonable public notice. The board is exempt
21 from the Administrative Procedure Act (AS 44.62).

22 Sec. 37.10.250. COMPENSATION OF BOARD MEMBERS. Members of the
23 board other than members who are state employees receive an honorarium
24 of \$400 for each day spent at a meeting of the board or at a meeting
25 of a subcommittee of the board or at a public meeting as a represen-
26 tative of the board. Members of the board are entitled to per diem
27 and travel allowances as provided for members of state boards and
28 commissions under AS 39.20.180. The board may provide a monthly fee
29 to the professional investor members not to exceed \$1,000. This fee,

1 if any, is in addition to the daily honorarium.

2 Sec. 37.10.260. STAFF. (a) The board shall employ an executive
3 director. The executive director must be qualified by training and
4 experience to manage, administer, and direct the investment of funds.
5 The board shall fix the compensation of the executive director. The
6 executive and administrative functions of the board are vested in the
7 executive director who serves under the supervision of the board. The
8 executive director shall appoint employees of the corporation as
9 necessary.

10 (b) The board shall appoint an investment director to serve
11 under the executive director and to act as assistant director. How-
12 ever, if the office of investment director is vacant, the executive
13 director may temporarily designate the assistant director. The assis-
14 tant director shall act in place of the executive director in the
15 absence or disability of the executive director.

16 (c) The board shall adopt regulations that restrict the execu-
17 tive director, investment directors, other officers, and employees
18 from having financial interest, directly or indirectly, in firms or
19 corporations that provide services to the corporation. Officers and
20 employees of the corporation are subject to AS 39.52.

21 (d) The executive director and each investment director shall
22 file a bond for the faithful performance of duties in the amount and
23 with the sureties as required by the board.

24 (e) Officers and employees of the corporation are members of the
25 exempt service under AS 39.25.110.

26 (f) A deed, contract, or other document that must be executed by
27 or on behalf of the corporation shall be signed by the executive
28 director.

29 Sec. 37.10.270. INSURANCE. The corporation shall protect

1 trusted assets and its own assets, services, and employees by pur-
2 chasing insurance or providing for self-insurance retentions in
3 amounts recommended by the executive director and approved by the
4 board to cover the acts, including fiduciary acts, errors, and omis-
5 sions of its board members, officers, employees, and agents. Insur-
6 ance shall protect the corporation and the state from liability to
7 others and from loss of trusted assets and assets of the corporation.

8 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
9 all properties at any time owned by it, managed by it, or held by it
10 in trust, and the income from those activities, are exempt from all
11 taxes and assessments in the state. All security instruments issued
12 by the corporation and income from them are exempt from all taxes and
13 assessments in the state, including transfer taxes.

14 Sec. 37.10.290. SURETY FOR DEPOSITS WITH BANKS. Banks, trust
15 companies, savings banks, and other persons carrying on a banking
16 business are authorized to give sureties to the corporation. The
17 sureties shall be approved by the corporation to the effect that the
18 banks or banking institutions shall faithfully keep and pay over to
19 the order of or upon the warrant of the corporation or its authorized
20 agent all money deposited with them by the corporation and agreed
21 interest, at the times or upon the demands agreed on with the banks or
22 banking institutions. In lieu of these sureties, a depository bank or
23 other banking institution shall deposit with the corporation or its
24 authorized agent or a trustee as collateral, securities approved by
25 the corporation. The deposits of the corporation may be evidenced by
26 agreements in the form and upon the terms and conditions that are
27 agreed upon by the corporation and the depository banks or banking
28 institutions.

29 Sec. 37.10.300. LIMITATIONS. The corporation may not engage in

1 commercial banking activity or private trust activity. The corpora-
2 tion may not act as a depository or trustee for a private person,
3 association, or corporation. The corporation may not act as a lender
4 to a private person, association, or corporation of money from any
5 source except state funds under management by the corporation.

6 Sec. 37.10.310. LIABILITY. (a) Except with respect to a writ-
7 ten agreement authorized under (b) of this section, a liability in-
8 curred by the corporation shall be satisfied exclusively from the
9 assets or revenue of the corporation and a creditor or other person
10 may not have a right of action against the state because of a debt,
11 obligation, or liability of the corporation. A liability of the
12 corporation may not be satisfied from trust assets unless expressly
13 authorized by law.

14 (b) Notwithstanding any other law to the contrary, the corpora-
15 tion may enter into a written agreement with a Federal Reserve Bank or
16 the board of governors of the Federal Reserve System providing that,
17 to the extent permitted by the contracts, trust agreements, or other
18 fiduciary instruments between the corporation and the Federal Reserve
19 System, the corporation's obligations to the Federal Reserve System
20 shall be guaranteed by the state, and the state expressly waives all
21 defenses of governmental immunity by and on behalf of the corporation
22 and the state with respect to obligations to and from the Federal
23 Reserve System and the state expressly consents to sue and be sued in
24 federal court or in any court of competent jurisdiction. However,
25 this provision does not alter or affect the immunity accorded to state
26 officials and employees under state law.

27 Sec. 37.10.399. DEFINITIONS. In AS 37.10.210 - 37.10.399,
28 unless the context otherwise requires,

29 (1) "board" means the board of directors of the

1 corporation;

2 (2) "corporation" means the Alaska State Investment Corpo-
3 ration.

4 * Sec. 2. AS 14.25.035(d) is amended to read:

5 (d) The commissioner of administration shall report to the board
6 concerning the condition and administration of the system. The re-
7 ports shall be distributed to the members of the system. The Alaska
8 State Investment Corporation [COMMISSIONER OF REVENUE] shall provide
9 reports to the board on the condition and investment performance of
10 the teachers' retirement trust fund and an annual external performance
11 review.

12 * Sec. 3. AS 14.25.180 is amended to read:

13 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The
14 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] is the
15 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund. In managing
16 the fund, the Alaska State Investment Corporation [COMMISSIONER OF
17 REVENUE] shall

18 (1) consider the status of the fund's investments and the
19 system's liabilities on both a current and a probable future basis;

20 (2) determine the appropriate investment objectives for the
21 fund;

22 (3) establish investment policies aimed at achieving the
23 objectives; and

24 (4) act only in regard to the best financial interests of
25 the system's beneficiaries.

26 (b) The Alaska State Investment Corporation [COMMISSIONER OF
27 REVENUE] may invest the fund on the basis of probable total rate of
28 return without regard to the distinction between principal and income
29 or to the generation of income.

1 (c) In carrying out investment duties under this chapter, the
2 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] has the
3 same powers and duties in regard to the teacher's retirement trust
4 fund as are provided in AS 37.10.071, except that the standard of
5 prudence that the corporation [COMMISSIONER] must obey under AS 37.-
6 10.071(c) shall be in regard to the management of large trust invest-
7 ments rather than large investments.

8 * Sec. 4. AS 14.40.400(b) is amended to read:

9 (b) The Alaska State Investment Corporation [COMMISSIONER OF
10 REVENUE] is the fiduciary of the trust fund and shall account for and
11 invest the fund as set out in AS 37.14.110(c), 37.14.160, and 37.14.-
12 170, except that the corporation [COMMISSIONER] shall report the
13 condition and investment performance of the fund to the Board of
14 Regents.

15 * Sec. 5. AS 22.25.048(c) is amended to read:

16 (c) The Alaska State Investment Corporation [COMMISSIONER OF
17 REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the
18 fund and has the same powers and duties under this section in regard
19 to the judicial retirement trust fund as are provided in AS 14.25.180.

20 * Sec. 6. AS 26.05.228(c) is amended to read:

21 (c) The Alaska State Investment Corporation [COMMISSIONER OF
22 REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary of the
23 fund and has the same powers and duties under this section in regard
24 to the fund as are provided under AS 14.25.180.

25 * Sec. 7. AS 36.30.015 is amended by adding a new subsection to read:

26 (f) The board of directors of the Alaska State Investment Corpo-
27 ration shall adopt procedures to govern the procurement of supplies,
28 services, professional services, and construction. The procedures
29 must

1 (1) reflect competitive principles and provide vendors
2 reasonable and equitable opportunities to participate in the procure-
3 ment process; and

4 (2) include procurement methods to meet emergency and
5 extraordinary circumstances.

6 * Sec. 8. AS 36.30.990(1) is amended to read:

7 (1) "agency"

8 (A) means a department, institution, board, commis-
9 sion, division, authority, public corporation, the Alaska Pio-
10 neers' Home, or other administrative unit of the executive branch
11 of state government;

12 (B) does not include

13 (i) [, EXCEPT FOR] the University of Alaska;

14 (ii) [,] the Alaska State Housing Authority;

15 (iii) the [AND] Alaska Railroad Corporation;

16 (iv) the Alaska State Investment Corporation;

17 (v) [IT DOES NOT INCLUDE] a regional Native
18 housing authority created under AS 18.55.996, or a regional
19 electrical authority created under AS 18.57.020;

20 * Sec. 9. AS 37.10.071 is amended to read:

21 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making
22 investments under this section, the fiduciary of a state fund [COMMIS-
23 SIONER OF REVENUE] shall

24 (1) act as official custodian of cash and investments by
25 securing adequate and safe custodial facilities for them;

26 (2) receive all items of cash and investments;

27 (3) collect and deposit the principal of and income from
28 owned or acquired investments;

29 (4) invest and reinvest the assets in accordance with this

1 section;

2 (5) receive and spend appropriations to cover the cost of
3 the exercise of duties under this section;

4 (6) exercise the powers of an owner with respect to the
5 assets;

6 (7) perform all acts, not prohibited by this section,
7 whether or not expressly authorized, that the fiduciary [COMMISSIONER]
8 considers necessary or proper in administering the assets;

9 (8) maintain accounting records in accordance with gener-
10 ally accepted [INVESTMENT] accounting principles;

11 (9) engage an independent certified public accountant to
12 conduct an annual audit of the financial condition and investment
13 transactions;

14 (10) enter into and enforce contracts or agreements con-
15 sidered necessary, convenient, or desirable for the investment pur-
16 poses of this section; and

17 (11) when choosing to acquire or dispose of investments,
18 secure competitive national or international market rates or prices,
19 or the equivalence of those rates or prices in the judgment of the
20 fiduciary [COMMISSIONER].

21 (b) Under this section, the fiduciary of a state fund or the
22 fiduciary's [COMMISSIONER OR THE COMMISSIONER'S] designee may

23 (1) delegate investment, custodial, or depository authority
24 on a discretionary or nondiscretionary basis to officers or employees
25 of the state or to independent firms, banks, or trust companies, by
26 designation through appointments, contracts, or letters or authority;

27 (2) acquire or dispose of investments either directly,
28 indirectly, or through investment pools or trusts, by competitive or
29 negotiated agreements, contracts, or auctions, in public or private

1 markets;

2 (3) concentrate or diversify investments as the fiduciary
3 [COMMISSIONER] considers appropriate to increase the probable total
4 rate of return or to decrease the overall exposure to potentially
5 adverse market value risks;

6 (4) protect the market value or the rate of return of the
7 investments by entering into forward agreements to buy or sell assets
8 at a future date as a hedge against existing held assets or as a
9 precommitment of future cash flows;

10 (5) lend assets, under an agreement and for a fee, against
11 deposited collateral of equivalent market value;

12 (6) borrow assets on a short-term basis, under an agreement
13 and for a fee, against the deposit of collateral consisting of other
14 assets in order to accommodate temporary cash or investment needs;

15 (7) hold investments in bearer or registered form in the
16 name of the state, a fund, or nominees authorized by the fiduciary
17 [COMMISSIONER];

18 (8) utilize consultants, advisors, custodians, investment
19 services, and legal counsel for assistance in investment matters on
20 either a continuing or a limited-term basis and with or without com-
21 pensation;

22 (9) declare records to be confidential and exempt from
23 AS 09.25.110 and 09.25.120 if the records contain information that
24 discloses the particulars of the business or the affairs of a private
25 enterprise, investor, borrower, advisor, consultant, counsel, or
26 manager.

27 (c) In exercising investment, custodial, or depository powers or
28 duties under this section, the fiduciary of a state fund [COMMIS-
29 SIONER] shall exercise the judgment and care under the circumstances

1 then prevailing that an institutional investor of ordinary profession-
2 al prudence, discretion, and intelligence exercises in managing large
3 investments with consideration for the purpose of the fund, the in-
4 vestment objectives, the continuing disposition of the fund's invest-
5 ments, and the probable safety of the capital as well as the probable
6 investment returns.

7 (d) In exercising investment, custodial, or depository powers or
8 duties under this section, the fiduciary or the fiduciary's [COMMIS-
9 SIONER OR A] designee [OF THE COMMISSIONER] is liable for a breach of
10 a duty that is assigned or delegated under this section, or under
11 AS 14.25.180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.-
12 160, 37.14.170, or AS 39.35.080. However, the fiduciary or the [COM-
13 MISSIONER OR THE COMMISSIONER'S] designee is not liable for a breach
14 of a duty that has been delegated to another person if the delegation
15 is prudent under the applicable standard of prudence set out in stat-
16 ute or if the duty is assigned by law to another person, except to the
17 extent that the fiduciary [COMMISSIONER] or designee

18 (1) knowingly participates [PARTICIPATE] in, or knowingly
19 undertakes to conceal, an act or omission of another person, knowing
20 that the act or omission is a breach of that person's duties under
21 this chapter;

22 (2) by failure to comply with this section in the adminis-
23 tration of specific responsibilities, enables another person to commit
24 a breach of duty; or

25 (3) has knowledge of a breach of duty by another person,
26 unless the fiduciary [COMMISSIONER] or designee makes reasonable
27 efforts under the circumstances to remedy the breach.

28 (e) The state shall defend and indemnify the fiduciary [COMMIS-
29 SIONER] or an officer or employee of the state against liability under

1 (d) of this section to the extent that the alleged act or omission was
2 performed in good faith and was prudent under the applicable standard
3 of prudence.

4 (f) In this section, "fiduciary of a state fund" or "fiduciary"
5 ["COMMISSIONER OF REVENUE" OR "COMMISSIONER"] means

6 (1) the commissioner of revenue for investments under
7 [AS 14.25.180 OR] AS 37.10.070; [OR]

8 (2) the Alaska State Investment Corporation for investments
9 under AS 14.25.080; or

10 (3) the person or body provided by law to manage the in-
11 vestments, for investments not subject to AS 14.25.180 or AS 37.10.-
12 070.

13 * Sec. 10. AS 37.14.110(c) is amended to read:

14 (c) The Alaska State Investment Corporation [COMMISSIONER OF
15 REVENUE] shall account for the fund in accordance with generally
16 accepted accounting principles and shall determine the net income of
17 the fund [IN ACCORDANCE WITH INVESTMENT ACCOUNTING PRINCIPLES AND] in
18 a manner that preserves the distinction between principal and income
19 and that excludes capital gains or losses realized on principal. The
20 principal of the fund and the capital gains or losses realized on
21 principal shall be perpetually retained in the fund for investment
22 purposes.

23 * Sec. 11. AS 37.14.140 is amended to read:

24 Sec. 37.14.140. UTILIZATION OF INCOME. The net income of the
25 fund may not be appropriated for a purpose other than the support of
26 the state public school program. The Alaska State Investment Corpo-
27 ration [COMMISSIONER OF REVENUE] shall invest realized net income that
28 has not been appropriated or that has been appropriated but not ex-
29 pended until the income is appropriated and expended.

1 * Sec. 12. AS 37.14.160 is amended to read:

2 Sec. 37.14.160. DUTIES OF THE ALASKA STATE INVESTMENT CORPO-
3 RATION [COMMISSIONER OF REVENUE]. The Alaska State Investment Corpo-
4 ration [COMMISSIONER OF REVENUE] is the treasurer of the trust fund
5 created in AS 37.14.110 and shall

6 (1) exercise the powers and duties established in AS 14.-
7 25.180(c);

8 (2) deposit the principal and income from investments in
9 separate principal and income accounts for the fund;

10 (3) invest and maintain accounting records that distinguish
11 between the principal and income of the fund;

12 (4) provide reports to the board established under AS 37.-
13 14.120 on the condition and investment performance of the fund.

14 * Sec. 13. AS 37.14.170 is amended to read:

15 Sec. 37.14.170. INVESTMENTS. The Alaska State Investment
16 Corporation [COMMISSIONER OF REVENUE] is the fiduciary of the trust
17 fund and shall invest the fund to provide increasing net income over
18 long-term periods to the fund's income beneficiaries. The corporation
19 [COMMISSIONER] may invest the money in the fund on the basis of proba-
20 ble total rate of return to promote the long-term generation of in-
21 come. In managing the trust fund, the corporation [COMMISSIONER]
22 shall

23 (1) consider the status of the fund's capital and the
24 income generated on both a current and a probable future basis;

25 (2) determine the appropriate investment objectives;

26 (3) establish investment policies to achieve the objec-
27 tives; and

28 (4) act only in regard to the financial interests of the
29 fund's beneficiaries.

1 * Sec. 14. AS 37.14.200(c) is amended to read:

2 (c) The net income of the fund shall be determined by the Alaska
3 State Investment Corporation [COMMISSIONER OF REVENUE] in accordance
4 with generally accepted [INVESTMENT] accounting principles. However,
5 the corporation shall preserve [AND IN A MANNER THAT PRESERVES] the
6 distinction between principal and income.

7 * Sec. 15. AS 37.14.210 is amended to read:

8 Sec. 37.14.210. POWERS AND DUTIES OF THE ALASKA STATE INVESTMENT
9 CORPORATION [COMMISSIONER OF REVENUE]. The Alaska State Investment
10 Corporation [COMMISSIONER OF REVENUE] is the fiduciary [TREASURER] of
11 the fund and has the power and duty to:

12 (1) act as official custodian of the cash and investments
13 belonging to the fund by securing adequate and safe custodial facil-
14 ities;

15 (2) receive all items of cash and investments belonging to
16 the fund;

17 (3) collect the principal and income from investments owned
18 or acquired by the fund and deposit the amounts in separate principal
19 and income accounts for the fund;

20 (4) invest and reinvest the assets of the fund as provided
21 in this section and as provided for the investment of funds under
22 AS 14.25.180(c) and AS 37.14.170;

23 (5) exercise the powers of an owner with respect to the
24 assets of the fund;

25 (6) maintain accounting records of the fund in accordance
26 with generally accepted [INVESTMENT] accounting principles; however,
27 the corporation shall preserve the [AND WITH] distinction between the
28 principal and income accounts of the fund;

29 (7) engage an independent firm of certified public

1 accountants to annually audit the financial condition of the fund's
2 investments and investment transactions;

3 (8) enter into and enforce contracts or agreements con-
4 sidered necessary for the investment purposes of the fund;

5 (9) report to the board the condition and investment per-
6 formance of the fund;

7 (10) do all acts, whether or not expressly authorized, that
8 the Alaska State Investment Corporation [COMMISSIONER OF REVENUE]
9 considers necessary or proper in administering the assets of the fund.

10 * Sec. 16. AS 39.30.095(d) is amended to read:

11 (d) If the commissioner of administration determines that there
12 is more money in the fund than the amount needed to pay premiums or
13 benefits for the current fiscal year, the surplus, or so much of it as
14 the commissioner of administration considers advisable, may be in-
15 vested by the Alaska State Investment Corporation [COMMISSIONER OF
16 REVENUE] in the same manner as retirement funds are invested under
17 AS 14.25.180.

18 * Sec. 17. AS 39.25.110(11) is amended by adding a new subparagraph to
19 read:

20 (G) Alaska State Investment Corporation;

21 * Sec. 18. AS 39.30 is amended by adding a new section to read:

22 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. The
23 Alaska State Investment Corporation is the fiduciary of the receipts
24 of the employee benefits program established under AS 39.30.150 -
25 39.30.180 and has the same powers and duties concerning the management
26 and investment in regard to those receipts as are provided under
27 AS 14.25.180.

28 * Sec. 19. AS 39.35.020 is amended to read:

29 Sec. 39.35.020. ADMINISTRATION. The commissioner of

1 administration is responsible for the administration of the system and
2 for carrying out this chapter. In addition the commissioner shall

3 (1) maintain the accounts of the system;

4 (2) make payments for the various purposes specified;

5 (3) submit periodic reports or statements of account that
6 are needed;

7 (4) issue a statement of account to an employee requesting
8 it showing the amount of the employee's contributions to the system;

9 (5) as soon as possible after the close of each fiscal
10 year, and not later than six months after the close of each fiscal
11 year, send to the governor, the legislature, and the board an annual
12 statement on the operations of the system containing

13 (A) a balance sheet;

14 (B) a statement of income and expenditures for the
15 year;

16 (C) a report on an actuarial valuation of its assets
17 and liabilities;

18 (D) a summary of assets held in the pension fund
19 listed by the categories of investment, as provided by the Alaska
20 State Investment Corporation [COMMISSIONER OF REVENUE];

21 (E) other statistical financial data that are neces-
22 sary for a proper understanding of the financial condition of the
23 system and the result of its operations;

24 (6) establish a public employees retirement trust fund in
25 which the assets of the system shall be deposited and held;

26 (7) engage an independent certified public accountant to
27 conduct an annual audit of the system's accounts and the annual report
28 of the system's financial condition and activity;

29 (8) report to the board concerning the condition and

1 administration of the system and distribute the report to the members
2 of the system.

3 * Sec. 20. AS 39.35.080 is amended to read:

4 Sec. 39.35.080. DUTIES OF THE ALASKA STATE INVESTMENT CORPO-
5 RATION [COMMISSIONER OF REVENUE]. The Alaska State Investment Corpo-
6 ration [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND
7 THE] fiduciary of the fund. The corporation [COMMISSIONER] has the
8 same powers and duties established under this chapter in regard to the
9 fund as are provided in AS 14.25.035(d) and 14.25.180.

10 * Sec. 21. AS 39.45.020 is amended by adding a new subsection to read:

11 (d) The Alaska State Investment Corporation shall select the
12 vendor through which participants in the state deferred compensation
13 program are offered investment and benefit choices. The administrator
14 of the state deferred compensation program may request the Alaska
15 State Investment Corporation to substitute for the administrator as
16 fiduciary of the funds held under the state deferred compensation
17 program. If the corporation accepts responsibility for investing the
18 funds under AS 37.10.220(b), the corporation shall comply with AS 39.-
19 45.030.

20 * Sec. 22. AS 39.50.200(b) is amended by adding a new paragraph to
21 read:

22 (50) Alaska State Investment Corporation (AS 37.10.210).

23 * Sec. 23. AS 44.25.020 is amended to read:

24 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue
25 shall

26 (1) enforce the tax laws of the state;

27 (2) collect, account for, have custody of, invest, and
28 manage all state funds and all revenues of the state except revenues
29 incidental to a program of licensing and regulation carried on by

1 another state department and funds managed and invested by the Alaska
2 State Investment Corporation;

3 (3) register cattle brands;

4 (4) supply necessary clerical and administrative services
5 for the Alcoholic Beverage Control Board; and

6 (5) invest and manage the balance of the power development
7 fund in accordance with AS 44.83.386.

8 * Sec. 24. TRANSITION. All litigation, hearings, investigations, and
9 other proceedings pending under a law amended or repealed by this Act, or
10 in connection with functions transferred by this Act, continue in effect
11 and may be continued and completed notwithstanding a transfer, amendment,
12 or repeal provided for in this Act. Orders and regulations issued or
13 adopted under authority of a law amended or repealed by this Act remain in
14 effect for the term issued, or until revoked, vacated, or otherwise mod-
15 ified under the provisions of this Act. All contracts, rights, liabilities
16 and obligations created by or under a law amended or repealed by this Act,
17 and in effect on the effective date of this Act, remain in effect notwith-
18 standing this Act's taking effect. Records, equipment, and other property
19 of agencies of the state whose functions are transferred under this Act
20 shall be transferred commensurate with the provisions of this Act.

21 * Sec. 25. (a) Notwithstanding AS 37.10.210(e), enacted by sec. 1 of
22 this Act, the initial terms of the voting members of the board of directors
23 of the Alaska State Investment Corporation shall be as follows:

24 (1) one member nominated by a state retirement board, one
25 professional investor, and one public member shall serve terms of three
26 years;

27 (2) one member nominated by a state retirement board and one
28 professional investor shall serve terms of two years;

29 (3) one member nominated by a state retirement board and one

1 public member shall serve one-year terms.

2 (b) The board of directors of the Alaska State Investment Corporation
3 may hold organizational meetings as soon as a quorum of the board has been
4 appointed to or selected for the board.

5 * Sec. 26. AS 37.10.210 and 37.10.230 - 37.10.399, enacted by sec. 1 of
6 this Act, and sec. 25 of this Act take effect immediately under AS 01.-
7 10.070(c).

8 * Sec. 27. Except as provided in sec. 26 of this Act, this Act takes
9 effect January 1, 1991.

ADOPTED

AMENDMENT II

OFFERED IN THE HOUSE

BY REP. RIEGER

TO: CSHB 580 ()

Page 2, lines 9 - 11:

Delete "The governor may remove a member of the board from office. A removal by the governor must be in writing and must state the reason for the removal."

Insert "Members of the board serve at the pleasure of the governor. A board member's removal by the governor must be in writing."

The Trust Fund

REALIZING ITS MANAGEMENT POTENTIAL

By Milton B. Barker, Deputy Commissioner
Alaska Department of Revenue.

How well is your retirement fund being managed?

The quality of the fund's management may make a significant difference in the legislated benefits which you will receive when you retire.

In this article, I would like to describe how the Public Employees' Retirement Trust Fund is currently managed as well as possible changes that might be made in that management structure in the future. The changes, which would require legislative action, would better realize and protect the interests of you, the beneficiaries. The changes would involve setting up a corporate form for the fund's management, with a professional board to oversee it.

PRESENT MANAGEMENT

MANAGEMENT RESPONSIBILITIES:

Currently, Alaska Statutes 39.35.080 designate the Commissioner of Revenue as the treasurer of the system and the fiduciary of the fund. As the sole fiduciary, the Commissioner is solely responsible and accountable for the investment of the fund.

The fiduciary for a trust fund, also known as a trustee, is subject to two principal duties under common law—a duty of prudence and a duty of loyalty. The duty of prudence requires the trustee to exercise a degree of care in managing investments that would be used by a person of ordinary prudence in managing their own investments. The duty of loyalty requires the trustee to act only in the best interests of the beneficiaries.

Alaska law has reformulated these duties to higher and more demanding standards and made them specifically applicable to the Public Employees' Retirement Trust Fund. These statutory standards require the fiduciary to exercise the standard of care required of a professional institutional investor managing large investments under a trust relationship and to act only in the best financial interests of the beneficiaries.

LIABILITY OF MANAGERS:

The importance of observing these fiduciary duties is underscored by Alaska Statutes holding the Commissioner, or designee, personally liable for breaches. The Commissioner may delegate investment responsibilities to State officers or employees or to independent firms, banks, or trust companies. Even so, the Commissioner remains potentially liable for knowing participation in, or failure to remedy, breaches by designees who have been delegated investment power.

CURRENT MANAGEMENT PRACTICES:

As permitted by the statutes, the Commissioner has delegated investment responsibilities to both departmental staff and independent firms or financial institutions. State investment officers of the Treasury Division of the Department of Revenue manage fixed income investments. These include corporate and government bonds, money market investments, and real estate mortgages, the latter through financial institutions and mortgage lending companies on contract as seller/servicers.

Domestic and international corporate stock investments are managed by investment adviser firms under contracts which grant them full discretion for investment decisions. Real estate equity investments are managed by real estate adviser firms through pools in which the Public Employees' Retirement Trust Fund has invested along with other tax-exempt funds.

Treasury investment officers are subject to certain professional accreditation requirements and also must conform to "The Code of Ethics and Standards of Professional Conduct" of the Financial Analysts Federation as well as the Alaska Executive Branch Ethics Act.



WEAKNESSES OF PRESENT MANAGEMENT

Unfortunately, there are some serious drawbacks to the current management arrangement.

LACK OF OVERSIGHT BY PROFESSIONALS:

There is no assurance that the Commissioner of Revenue will have a professional background or expertise in investments. Usually those appointed to this position do not. Commissioners during the last two decades have included two lawyers, a former State legislator, banking and corporate executives, and several Department of Revenue personnel on an acting or interim basis.

LACK OF MANAGEMENT CONTINUITY:

Even if the Commissioner had professional qualifications in investments, there is a lack of continuity in the office. At best, the position would normally turn over every eight years, and frequently every four. During the previous administration there were three different commissioners in four years. This can play havoc with management of the fund. The resulting disruptions can be a serious handicap in the context of rapidly changing securities markets and investment opportunities.

LACK OF VISIBILITY AND CLARITY OF TRUST NATURE OF THE FUND:

Finally, there is an ever present temptation for State officials and others to view the fund as a source of salvation for budgetary pressures. This will probably be so as long as the fund is embedded in the State bureaucracy. Within the past year, the Senate's research arm—the Senate Advisory Council—was asked to research such questions as:

✓ What states have underfunded or withdrawn money from their retirement systems?

✓ Is Alaska statutorily permitted to underfund retirement systems?

The Trust Fund - Continued

The temptation to view the fund as State money overlooks the fact that employees and municipal employers are major sources of contributions to the fund. More importantly, as discussed in a previous article, the trust character of the fund means that it can only be used in the interests of fund beneficiaries — you, the employees.

A BETTER WAY

To remedy these imperfections, the Department of Revenue has proposed the establishment by law of an independent corporation to manage investment of the Public Employees' Retirement Trust Fund and other trust funds.

A TRUST FUND — NOT A BUDGETARY SLUSH FUND:

An independent organization would provide greater visibility and clarity of the trust nature of the fund. It would increase public awareness of the requirement to manage the fund solely in the interests of the beneficiaries.

An independent corporate structure also would provide a clear mission for management — to act only with the beneficiary in mind. It would reduce the chances of investment policy being established, the fund or its income being used, or contributions being adjusted, in ways that are not in the best financial interests of the beneficiaries.

PROFESSIONAL MANAGEMENT — NOT POLITICAL MANAGEMENT:

The corporation's board would consist of persons professionally qualified and experienced as trust administrators and institutional investors — not people chosen for their political or policy views.

Oversight by knowledgeable people is absolutely essential to having true

accountability and achieving the best possible performance of the fund. Could an architect, engineer, social worker, dentist, or public relations executive even ask the right questions — much less know if they were getting the right answers?

CONTINUITY — NOT A REVOLVING DOOR:

Staggered terms of office for board members, as well as the more formal procedures of the corporate form of governance, would provide for the continuity in management and policy that is now missing.

TIME FOR A CHANGE — NOW

Alaska is now one of only six states that have sole fiduciaries in charge of their retirement funds. This situation is basically a remnant from the days when the fund was much smaller. Today, the combined Public Employees' and Teachers' trust funds would rank as the 37th largest public pension fund, larger than all but 34 corporate pension funds, larger than the Harvard endowment, and larger than all foundations except the Ford Foundation.

It may be only a matter of time before Alaska restructures its fund management to provide the continuity, accountability, professionalism, and freedom from outside interference that a corporate form and professional board could provide.

REMINDER - Direct Bank Deposits

Are your PERS benefit checks mailed directly to your bank account? If so, notify the PERS right away when there is a change in the bank's address or your account number. This is especially important when a bank merges or closes down the branch office where you do business.

To change your address, just send the PERS a signed request with your name, social security number, new address and account number.



PERS Board Candidates

Continued from page 1

seeking. If a candidate does not receive the majority of votes cast, a runoff election will be held and new ballots will be mailed to PERS members within 10 working days of the date that the first election ballots are tallied.

SEAT A

Vote for no more than one

Susan B. Annis
Bill Digan
Wally Droz
Franklin Terry Elder
John C. Kairis
Bill Mans
Dennis J. Moen
Mary A. Notar
Lucy Odom
Ronald A. Phillips
Robin Quinn-Dowling
Lew Reece
John Seabrook
Thomas E. Shanley
Barbara J. Stocker
John M. Walsh
Bob Ward

SEAT B

Vote for no more than one

Rupe Andrews
Terrence Hayden
Jonathan L. Holland
Michael E. Hurst
Mike Klawitter
Fran's P. Narusch
Cindy Schlaffman
Gene Smith
Roxanne R. Stewart
J. P. "Pat" Wellington

W2-P's

PERS benefit recipients will be mailed a W-2P at the end of January.

If you are receiving PERS benefits, you will need the W-2P to file your federal income tax return. It will show your annual income from the PERS and income tax, if any, withheld during 1989

REMEMBER: Ballots must be received by the division's Juneau Office no later than 5:00 p.m. on February 13, 1990.

Comparison of Pending Legislation
relating to
INVESTMENT OF PUBLIC FUNDS

March 2, 1990
Department of Revenue

<u>PROVISION</u>	<u>Current Law</u>	<u>SB 509</u>	<u>SB 417</u>	<u>SB 197</u>
FUND & MANAGER				
Retirement trust funds University of Alaska Trust Fund Public School Trust Fund General Fund SBS and deferred compensation Permanent Fund	Commissioner of Revenue Commissioner of Revenue Commissioner of Revenue Department of Administration Alaska Permanent Fund Corp.	Alaska State Trust Company Alaska State Trust Company Alaska State Trust Company Department of Administration Alaska Permanent Fund Corp.	State Investment Board State Investment Board State Investment Board State Investment Board Alaska Permanent Fund Corp.	Alaska Permanent Fund Corp. Commissioner of Revenue Alaska Permanent Fund Corp. Commissioner of Revenue Department of Administration Alaska Permanent Fund Corp.
BOARD REPLACES SINGLE PERSON IN CHARGE OF TRUST FUNDS	NO	YES (SBS & deferred compensation at Commissioner of Administration's discretion)	YES	YES except SBS, deferred compensation, & University of Alaska Trust Fund
BOARD REPLACES SINGLE PERSON IN CHARGE OF GENERAL FUND	NO	Commissioner of Revenue's discretion	YES	NO
PROFESSIONAL INVESTORS ON BOARD	NO	YES	NOT REQUIRED	NOT REQUIRED
BENEFICIARY REPRESENTATIVES ON BOARD	NO	YES	YES	NO
SEPARATE CORPORATION FOR TRUST & GENERAL FUND INVESTMENTS	NO	YES (SBS & deferred compensation at Commissioner of Administration's discretion, General Fund at Commissioner of Revenue's discretion)	NO	YES except for SBS, deferred compensation, University of Alaska Trust Fund, & general fund
ACCESS TO FEDERAL RESERVE SERVICES	NO	YES	NO	NO
TRUST & GENERAL FUND INVESTMENTS SUBJECT TO:				
State Procurement Code	Delegations excepted	NO	Delegations excepted	Delegations excepted
Executive Budget Act	YES	NO	YES	YES
Administrative Procedures Act	YES	NO	YES	YES
Public Meetings Law	YES	YES with exceptions	YES	YES
Public Records Law	YES	YES with exceptions	YES	YES
Executive Branch Ethics Act	YES	NO	YES	YES
Personnel Code	NO except SBS & deferred compensation	NO	NO	NO except SBS & deferred compensation
		(SBS & deferred compensation at Commissioner of Administration's discretion)		

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

M E M O R A N D U M

Item 4
AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

DATE: January 3, 1990

TO: Chairman Jalmar Kerttula and Members
of the Legislative Budget and Audit Committee

FROM: Randy Welker *Randy*
Legislative Auditor

RE: Supplemental Benefits System Investment Management

We recently inquired into the Department of Administration, Division of Retirement and Benefits' (DRB) investment strategy for the supplemental benefits systems (SBS) funds. We noted that present investment procedures include investing SBS funds exclusively in guaranteed investment contracts (GICs) with insurance companies. Currently, the SBS investment portfolio consists of GICs with seven carriers amounting to approximately \$540 million.

Apparently, this investment strategy was developed during the infancy of the SBS program by DRB and their actuary. No legal conditions or guidance for investing exist in law or regulation. For the most part, GIC's are not backed by federal insurance or other guarantees but are supported by the financial strength and quality of assets of the insurer.

In reviewing the details of the portfolio it was noted that Executive Life Insurance Company holds about 28% (\$152 million) of total SBS assets and that two companies hold over 50% of total assets. Of some concern is Executive Life's own investment strategy. They are known in the investment community as a major purchaser of high yield fixed-income instruments also known as "junk" bonds. A November 14, 1989 article in the Wall Street Journal indicated that 44% of Executive Life's cash and invested assets were made up of junk bonds while the average insurance company holds only 4% to 5% of their assets in high yield instruments.

We requested the Treasury Division in the Department of Revenue to provide us with an analysis of current DRB investment practices. This review is attached and expresses some concerns over the lack of a basic investment plan. It also notes that as a result of the recent fall in the junk bond market, that although Executive Life has held high ratings from Moody's, Best's, and Standard and Poor's insurance rating services, Moody's has placed the insurance company's claims-paying rating on review.

January 3, 1990

According to DRB, they have included in their FY 90 management plan an investigation of their current investment practices. We were told they have contracted with a consultant to review current SBS program investing strategy.

We would recommend that, on a short-term basis, DRB consider the diversification aspects of allowing too few insurance companies to hold large amounts of SBS funds. Also, as pointed out in the Treasury Division's analysis, Executive Life should be monitored in the event their financial condition should deteriorate. Future GIC purchases should involve more scrutiny of the quality of the bidder's assets and financial dealings in the investment markets.

On a long-term basis, we recommend that the Legislature and Executive Branch consider including the SBS and Deferred Compensation programs' investment activities with public employee retirement funds currently under the management of the Department of Revenue. As you recall in our June 19, 1989 report to the Legislative Budget and Audit Committee entitled, "A Special Report On The Department Of Revenue, Treasury Division, Public Employees' And Teachers' Retirement Funds," we recommended that legislation should be introduced to establish a "Board of Trustee" structure that would play an active role in management and investment oversight of the retirement funds. Statutory inclusion of the investment of SBS and Deferred Compensation funds could be incorporated into this proposed legislation.

If you have any questions or need additional information, please contact me at 465-3830.

Attachment

THE TRUST FUND

Realizing its Management Potential

by Milton B. Barker
Deputy Commissioner
Alaska Department of Revenue

How well is your retirement fund being managed? The quality of the fund's management may make a significant difference in the legislated benefits which you will receive when you retire.

In this article, I would like to describe how the Public Employees' Retirement Trust Fund is currently managed as well as possible changes that might be made in that management structure in the future. The changes, which would require legislative action, would better realize and protect the interests of you, the beneficiaries. The changes would involve setting up a corporate form for the fund's management, with a professional board to oversee it.

PRESENT MANAGEMENT

Management Responsibilities

Currently, Alaska Statutes 39.35.080 designate the Commissioner of Revenue as the treasurer of the system and the fiduciary of the fund. As the sole fiduciary, the Commissioner is solely responsible and accountable for the investment of the fund.

The fiduciary for a trust fund, also known as a trustee, is subject to two principal duties under common law -- a duty of prudence and a duty of loyalty. The duty of prudence requires the trustee to exercise a degree of care in managing investments that would be used by a person of ordinary prudence in managing their own investments. The duty of loyalty requires the trustee to act only in the best interests of the beneficiaries. Alaska law has reformulated these duties to higher and more demanding standards and made them specifically applicable to the Public Employees' Retirement Trust Fund. These statutory standards require the fiduciary to exercise the standard of care required of a professional institutional investor managing large investments under a trust relationship and to act only in the best financial interests of the beneficiaries.

Liability of Managers

The importance of observing these fiduciary duties is underscored by Alaska Statutes holding the Commissioner, or designee, personally liable for breaches. The Commissioner may delegate investment responsibilities to State officers or employees or to independent firms, banks, or trust companies. Even so, the Commissioner remains potentially liable for knowing participation in, or failure to remedy, breaches by designees who have been delegated investment power.

Current Management Practices

As permitted by the statutes, the Commissioner has delegated investment responsibilities to both departmental staff and independent firms or financial institutions. State investment officers of the Treasury Division of the Department of Revenue manage fixed income investments. These include corporate and government bonds, money market investments, and real estate mortgages, the latter through financial institutions and mortgage lending companies on contract as seller/servicers. Domestic and international corporate stock investments are managed by investment adviser firms under contracts which grant them full discretion for investment decisions. Real estate equity investments are managed by real estate adviser firms through pools in which the Public Employees' Retirement Trust Fund has invested along with other tax-exempt funds.

Treasury investment officers are subject to certain professional accreditation requirements and also must conform to "The Code of Ethics and Standards of Professional Conduct" of the Financial Analysts Federation as well as the Alaska Executive Branch Ethics Act.

WEAKNESSES OF PRESENT MANAGEMENT

Unfortunately, there are some serious drawbacks to the current management arrangement.

Lack of Oversight by Professionals

There is no assurance that the Commissioner of Revenue will have a professional background or expertise in investments. Usually those appointed to this position do not. Commissioners during the last two decades have included two lawyers, a former State legislator, banking and corporate executives, and several Department of Revenue personnel on an acting or interim basis.

Lack of Management Continuity

Even if the Commissioner had professional qualifications in investments, there is a lack of continuity in the office. At best, the position would normally turn over every eight years, and frequently every four. During the previous administration there were three different commissioners in four years. This can play havoc with management of the fund. The resulting disruptions can be a serious handicap in the context of rapidly changing securities markets and investment opportunities.

Lack of Visibility and Clarity of Trust Nature of the Fund

Finally, there is an everpresent temptation for State officials and others to view the fund as a source of salvation for budgetary pressures. This will probably be so as long as the fund is embedded in the State bureaucracy. Within the past year, the Senate's research arm -- the Senate Advisory Council -- was asked to research such questions as:

1. What states have underfunded or withdrawn money from their retirement systems?
2. Is Alaska statutorily permitted to underfund retirement systems?

The temptation to view the fund as State money overlooks the fact that employees and municipal employers are major sources of contributions to the fund. More importantly, as discussed in a previous article, the trust character of the fund means that it can only be used in the interests of fund beneficiaries -- you, the employees.

A BETTER WAY

To remedy these imperfections, the Department of Revenue has proposed the establishment by law of an independent corporation to manage investment of the Public Employees' Retirement Trust Fund and other trust funds.

A Trust Fund -- Not a Budgetary Slush Fund

An independent organization would provide greater visibility and clarity of the trust nature of the fund. It would increase public awareness of the requirement to manage the fund solely in the interests of the beneficiaries. An independent corporate structure also would provide a clear mission for management -- to act only with the beneficiary in mind. It would reduce the chances of investment policy being established, the fund or its income being used, or contributions being adjusted, in ways that are not in the best financial interests of the beneficiaries.

Professional Management -- Not Political Management

The corporation's board would consist of persons professionally qualified and experienced as trust administrators and institutional investors -- not people chosen for their political or policy views. Oversight by knowledgeable people is absolutely essential to having true accountability and achieving the best possible performance of the fund. Could an architect, engineer, social worker, dentist, or public relations executive even ask the right questions -- much less know if they were getting the right answers?

Continuity -- Not a Revolving Door

Staggered terms of office for board members, as well as the more formal procedures of the corporate form of governance, would provide for the continuity in management and policy that is now missing.

TIME FOR CHANGE -- NOW

Alaska is now one of only six states that have sole fiduciaries in charge of their retirement funds. This situation is basically a remnant from the days when the fund was much smaller. Today, the combined Public Employees' and Teachers' trust funds would rank as the 37th largest public pension fund, larger than all but 34 corporate pension funds, larger than the Harvard endowment, and larger than all foundations except the Ford Foundation. It may be only a matter of time before Alaska restructures its fund management to provide the continuity, accountability, professionalism, and freedom from outside interference that a corporate form and professional board could provide.

PUBLIC EMPLOYEES' AND TEACHERS' RETIREMENT BOARDS

Joint Resolution Regarding Legislation
Creating an Alaska State Public Pension Trust Company

WHEREAS, the Public Employees' Retirement System ("PERS") Board is authorized by AS 39.35.040(3) to consider and adopt resolutions regarding revisions of Chapter 39.35 of the Alaska Statutes;

WHEREAS, the Teachers' Retirement System ("TRS") Board is authorized by AS 14.25.035(e) to consider and adopt resolutions regarding revisions of Chapter 14.25 of the Alaska Statutes;

WHEREAS, the PERS and TRS Boards have reviewed and considered a proposal to establish an Alaska State Public Pension Trust Company (the "Public Pension Trust Company");

WHEREAS, the Public Pension Trust Company would give visibility to and strengthen the trust status of the PERS, TRS, and other pension trust funds, providing a corporate shield for the management of pension trust fund assets in the interests of beneficiaries and providing a clear mission to management in carrying out fiduciary responsibilities;

WHEREAS, the Public Pension Trust Company would increase accountability, continuity, and public disclosure for the investment management of the funds by:

- a) establishing a board of directors in place of a single individual as fiduciary;
- b) incorporating representatives of beneficiaries and professional trust administrators and investment managers on the company's board; and
- c) providing for the exercise of fiduciary powers through the forum of regularly scheduled public meetings rather than administrative actions;

WHEREAS, the Public Pension Trust Company would facilitate the prudent maximization of pension trust fund earnings by providing management the necessary authority to compete fully with other highly professional institutional investors in the dynamic capital markets and economies of the world;

WHEREAS, the Public Pension Trust Company would make possible direct access to various Federal Reserve System services, including safekeeping and clearance of U.S. Treasury securities, wire transfers, and warrant redemption activities, which would significantly increase the security of PERS and TRS investments and the efficiency of their processing, reduce costs for intermediary custodian bank services, and increase PERS and TRS net earnings; and

WHEREAS, the improvement in investment earnings that can be expected as a result of establishing a Public Pension Trust Company would be of great importance to PERS and TRS beneficiaries and employers as State petroleum revenues decline.

BE IT HEREBY RESOLVED by the PERS and TRS Boards that while the PERS and the TRS Boards have reviewed drafts or versions of legislation on the subject of a trust company or similar independent entity but do not yet endorse any one particular draft or version, the Boards support introduction, passage, and enactment into law of legislation which would provide for the establishment of a separate State corporation which would have, as its sole responsibility, the investment management of State public pension trust funds and which would be governed by a board of directors that includes representatives of trust beneficiaries and professionals in the field of investment management; and

BE IT FURTHER RESOLVED that the corporation should have the necessary independence and authority to fully realize its potential in managing investments, including the ability to determine its budget, staff compensation, and procurement procedures, and to access Federal Reserve services; and

BE IT FURTHER RESOLVED that the PERS and TRS Boards request an opportunity to appear or participate through representatives in legislative proceedings concerning the Public Pension Trust Company concept.

DATED this 31 day of JANUARY, 1990.

PUBLIC EMPLOYEES' RETIREMENT BOARD

By: C. R. "Steve" Häfling
C. R. "Steve" Häfling
Chairman

TEACHERS' RETIREMENT BOARD

By: Charles M. Arteaga
Charles M. Arteaga
Chairman

Comparison of Pending Legislation
relating to
INVESTMENT OF PUBLIC FUNDS

March 2, 1990
Department of Revenue

<u>PROVISION</u>	<u>Current Law</u>	<u>SB 509</u>	<u>SB 417</u>	<u>SB 197</u>
FUND & MANAGER				
Retirement trust funds University of Alaska Trust Fund Public School Trust Fund General Fund SBS and deferred compensation Permanent Fund	Commissioner of Revenue Commissioner of Revenue Commissioner of Revenue Commissioner of Revenue Department of Administration Alaska Permanent Fund Corp.	Alaska State Trust Company Alaska State Trust Company Alaska State Trust Company Alaska State Trust Company Department of Administration Alaska Permanent Fund Corp.	State Investment Board State Investment Board State Investment Board State Investment Board State Investment Board Alaska Permanent Fund Corp.	Alaska Permanent Fund Corp. Commissioner of Revenue Alaska Permanent Fund Corp. Commissioner of Revenue Department of Administration Alaska Permanent Fund Corp.
BOARD REPLACES SINGLE PERSON IN CHARGE OF TRUST FUNDS	NO	YES (SBS & deferred compensation at Commissioner of Administration's discretion)	YES	YES except SBS, deferred compensation, & University of Alaska Trust Fund
BOARD REPLACES SINGLE PERSON IN CHARGE OF GENERAL FUND	NO	Commissioner of Revenue's discretion	YES	NO
PROFESSIONAL INVESTORS ON BOARD	NO	YES	NOT REQUIRED	NOT REQUIRED
BENEFICIARY REPRESENTATIVES ON BOARD	NO	YES	YES	NO
SEPARATE CORPORATION FOR TRUST & GENERAL FUND INVESTMENTS	NO	YES (SBS & deferred compensation at Commissioner of Administration's discretion, General Fund at Commissioner of Revenue's discretion)	NO	YES except for SBS, deferred compensation, University of Alaska Trust Fund, & general fund
ACCESS TO FEDERAL RESERVE SERVICES	NO	YES	NO	NO
TRUST & GENERAL FUND INVESTMENTS SUBJECT TO:				
State Procurement Code	Delegations excepted	NO	Delegations excepted	Delegations excepted
Executive Budget Act	YES	NO	YES	YES
Administrative Procedures Act	YES	NO	YES	YES
Public Meetings Law	YES	YES with exceptions	YES	YES
Public Records Law	YES	YES with exceptions	YES	YES
Executive Branch Ethics Act	YES	NO	YES	YES
Personnel Code	NO except SBS & deferred compensation	NO (SBS & deferred compensation at Commissioner of Administration's discretion)	NO	NO except SBS & deferred compensation

Senate Bill 509
Bill Analysis
for
An Act establishing the Alaska State Trust Company

This Act places the investment management of the Public Employees', Teachers', Judicial, and Military Retirement Trust Funds, the University of Alaska Trust Fund, and the Public School Trust Fund, and the Alaska Children's Trust Fund under an Alaska State Trust Company rather than the Commissioner of Revenue. It also would allow for the trust company to manage the state's general fund investments under contract with the Commissioner of Revenue, as well as provide investment or cash management services to municipalities or public agencies.

Section 1 of the bill contains Legislative findings and policy.

Section 2 of the bill establishes the Alaska State Trust Company by adding a new Chapter 36 to Alaska Statutes. This new chapter contains the following sections:

- Section 010: Creates the company within the Department of Revenue.
- Section 020: Establishes a seven member board of directors including two unaffiliated members who are professional trust administrators and two who are chief investment officers.
- Section 030: Establishes duties of the board that include selection of key management personnel, approval of budgeted charges, approval of general investment policy, approval of trust agreements, and general oversight of operations, including reviewing custody arrangements, investment performance, financial reports, and audits.
- Section 040: Establishes procedures for board meetings and actions, including public meetings at least quarterly, provisions for executive sessions, and a requirement for four affirmative votes including at least two of the unaffiliated members in order to take action.
- Section 050: Provides for committees of the board, including the establishment of an audit, a budget, a personnel, and an investment committee.
- Section 060: Provides for compensation for unaffiliated board members at competitive rates determined by an independent survey.
- Section 070: Provides for company management personnel, including the establishment of a chief executive officer, chief investment officer and auditor hired under contract.
- Section 080: Vests the exercise of company powers under section 090 generally with management and specifies management responsibilities.
- Section 090: Establishes general corporate powers including the powers to manage trust or other funds of the State or its municipalities and agencies and to utilize various Federal Reserve System services.
- Section 100: Prohibits commercial banking or private trust activity by the company, both to fulfill the legislative policy stated in section 1 and to qualify for Federal Reserve System services.
- Section 110: Provides for allocation of any net income first, to build an operating account and second, to pay back trust or other funds charged.
- Section 120: Provides for management determination of the company's budget and proportional charges to funds under management to pay budgeted expenses, with a ceiling on such charges.

- Section 130: Absolves the State from liability with respect to the company except for use of Federal Reserve services. Denies governmental immunity to both the company and State with respect to Federal Reserve services. Permits indemnification by the company of its directors and employees unless actions were in bad faith, outside the scope of duties, or imprudent.
- Section 140: Requires insurance for both liability to others as well as loss to the company's own assets or assets under management.
- Section 150: Exempts the corporation from all taxes.
- Section 160: Permits depository institutions to collateralize company deposits.
- Section 170: Requires an annual report and audit.
- Section 180: Prohibits political activities by the company and requires reporting of improper attempts at outside influence to the Attorney General.
- Section 190: Provides for public information with listed exceptions.
- Section 200: Contains exemptions from
- (1) Banks and Financial Institutions AS 6
 - (2) State Procurement Code AS 36.30
 - (3) Fiscal Procedures Act AS 37.05
 - (4) Executive Budget Act AS 37.07
 - (5) Custodians of State Funds (Article 1 of Public Funds chapter) AS 37.10.010-37.10.060
 - (6) Financial aid to corporations by state or political subdivision AS 37.10.085
 - (7) Miscellaneous Provisions (lapsing of appropriations) AS 37.25
 - (8) Public Officers and Employees AS 39
 - (9) Administrative Procedure Act provisions regarding regulations AS 44.62.040-44.62.300
 - (10) Claims against the State AS 44.77
 - (11) State as party to actions AS 44.80.010
- Section 210: Makes conflicting laws inapplicable.
- Section 900: Definitions

The succeeding sections of the bill amend existing statutes to substitute the trust company for the commissioner of revenue with respect to:

- Section 3: reports to the Teachers Retirement Board
- Section 4: management and investment of the Teachers Retirement Trust Fund
- Section 5: management and investment of the University of Alaska Trust Fund
- Section 6: management and investment of the Judicial Retirement Trust Fund
- Section 7: management and investment of the Military Retirement Trust Fund
- Section 8: exemption from the Procurement Code for funds to be managed by the trust company
- Section 9: general investment powers and duties

- Section 10: determination of net income of the Public School Trust Fund
- Section 11: membership on the Public School Fund Advisory Board
- Section 12: investment of Public School Trust Fund net income
- Section 13-14: management and investment of the Public School Trust Fund
- Section 15: determination of net income of the Alaska Children's Trust Fund
- Section 16: management and investment of the Alaska Children's Trust Fund
- Section 17: reimbursement for costs of the Alaska Children's Trust Fund
- Section 18: providing a summary of assets for the Public Employees' Retirement Trust Fund
- Section 19: management and investment of the Public Employees' Retirement Trust Fund
- Section 20: Transitional provisions including those for election of the first four unaffiliated directors

Section 21 and 22 of the bill contain effective dates providing creation of the trust company one year in advance of the date it must assume responsibilities. The amendments to existing statutes incorporate a few other amendments all of which are technical with the exception of a slight broadening in Section 8 of exemptions from the Procurement Code relating to investment actions.

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

Item 5

A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

June 19, 1989

Audit Control Number

04-4345-89-S

Commissioner, Department of
Revenue

Hugh Malone

Deputy Commissioner, Department
of Revenue

Milton B. Barker

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

June 19, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

Audit Control Number

04-4345-89-S

The purpose of this audit is to examine the accounting and oversight of the Public Employees' and Teachers' Retirement Funds administered by the Department of Revenue, Treasury Division.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. The audit approach is discussed in the Report Objectives, Scope, and Methodology section of this report. The audit results may be found in the Findings and Recommendations section.

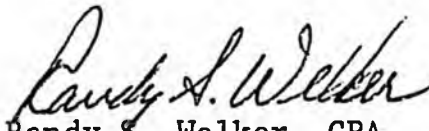

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we reviewed the Public Employees' and Teachers' Retirement Funds. The purpose was to review accounting procedures used for the retirement funds' foreign investment portfolio and to ascertain the extent of investment oversight the retirement funds are subject to.

The policy and audit approach utilized by the Division of Legislative Audit for special and performance reports can best be described as "audit by exception." This methodology focuses the audit effort on areas of an auditee's operation that have been identified by a preliminary survey as having a high degree of probability for needing improvements.

Therefore, by design, finite audit resources are used to identify where and how improvement can be made, and little time is devoted to reviewing well-run operations or programs. Consequently, this report highlights those areas needing improvement and does not emphasize those operations and programs that are properly functioning.

Discussion of the objectives, scope, and methodology of our review follows.

OBJECTIVES

In response to public allegations about mismanagement of the retirement funds and "deceptive accounting practices," the Legislative Budget and Audit Committee requested a review of certain management practices of the Public Employees' and Teachers' Retirement Funds.

The first objective of our review was to determine the type of management and investment oversight provided over the operations of the retirement funds.

The second objective was to ascertain the management and investment oversight styles applied to other similar funds.

Our third objective was to determine if proper accounting practices were applied to the funds' foreign investments.

Finally, we identified the various rates of returns earned by the retirement funds and the Permanent Fund, and we reviewed the cost of managing and investing those funds.

SCOPE AND METHODOLOGY

We met with officials of the Department of Revenue, Treasury Division, including the deputy commissioner, chief investment officer, other investment officers, and the state

comptroller; the director of the Division of Risk Management; officials of the Alaska Permanent Fund Corporation; certified public accountants under contract with the Treasury Division; and a member of the brokerage community.

We also reviewed various reference materials and publications; reports, and supporting documentation, prepared by the Senate Advisory Council; fund performance evaluation reports prepared for the retirement funds and the Alaska Permanent Fund; and, various literature provided by other states on their retirement funds.

Additionally, we prepared and distributed a questionnaire to all other states inquiring about certain aspects of their public employees retirement funds.

We also engaged a consultant, who as a former employee of Merrill Lynch had past experience in evaluating the performance of the Public Employees' and Teachers' Retirement systems, to assist us in interpreting the externally prepared performance reports on the retirement funds and the Permanent Fund.

ORGANIZATION AND FUNCTION

The Department of Revenue, Division of Treasury (Treasury) is responsible for, and has sole discretion over, the prudent investment and management of the Public Employees' Retirement Fund (PERS) and the Teachers' Retirement Fund (TRS).

Chapter 141, SLA 1988 amended PERS and TRS statutes by designating the funds as retirement trust funds and appointing the commissioner of Revenue as treasurer of the retirement systems and fiduciary of the funds. Under the amending legislation, the commissioner of Revenue shall:

1. Consider the status of the funds' investments and the system's liabilities on both a current and a probable future basis.
2. Determine the appropriate investment objectives for the funds.
3. Establish investment policies aimed at achieving the objectives.
4. Act only in regard to the best financial interests of the system's beneficiaries.

The amendments also repealed the "legal list" of investments the retirement funds were restricted to and placed upon the commissioner of Revenue, or his designee, the responsibility of fund fiduciary. Treasury also employs external investment managers who manage a substantial portion of the retirement funds.

Additionally, there are two boards which oversee the administrative aspects of the retirement systems. The Public Employees' Retirement Board is composed of five members, three of whom are members of the Department of Administration personnel board and two who are members of the system and elected by the membership of the system. The Teachers' Retirement Board consists of five members appointed by the governor. Both boards are mostly administrative in nature, being responsible for governing the regulatory aspects of the retirement systems.

The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

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FUND COMPARISONS AND DISCUSSION:
PUBLIC EMPLOYEES' RETIREMENT FUND, TEACHERS'
RETIREMENT FUND, and ALASKA PERMANENT FUND

BACKGROUND

There is no validity to the statement that "a fund is a fund" as each fund has its own unique characteristics. Although funds such as those set up as trusts and endowments may have few obvious differences, there are deeper, less clearly defined differences such as fund objectives, philosophy over fund management, and investment styles. A slight difference in fund objectives and philosophy may, and usually does, result in different investment styles and, therefore, differing returns on investment. The varied fund management styles and investment philosophies create a danger in across-the-board rate of return comparisons and forming conclusions drawn from those comparisons. There are several ways of assessing investment results. It is not, for example, appropriate to compare the results of funds with very different objectives or constraints. Funds with different types and mixes of investments are also difficult to compare directly. To properly assess investment results, comparisons must reflect similar objectives, constraints, opportunities, and all things that go into the investment process.

The Alaska Permanent Fund, while not legally defined as one, is in all probability a trust fund like the Public Employees' (PERS) and Teachers' (TRS) Retirement Funds. The Alaska Permanent Fund Corporation (PFC) holds the Permanent Fund out as a "Public Trust Investing for Alaska's Future," has a Board of Trustees, and is intent on earning revenue for beneficiaries while preserving principal. The obvious similarities between PERS/TRS and the Permanent Fund end here - at considering both funds as trusts.

PFC has chosen a more cautious, less risky approach towards its investments. In an informational pamphlet dated May 1989, PFC stated:

The Fund invests its assets to earn income. To minimize the risk that Fund assets could be destroyed by bad investment decisions, the Fund is invested very conservatively. Indeed, the primary emphasis in all Fund decision-making is maintaining the safety of principal. The maximizing return on investment is the secondary consideration.

This contrasts to the Department of Revenue, Division of Treasury (Treasury) investment philosophy of the PERS/TRS which has been stated as:

The most important characteristic of the funds for investment policy purposes is their perpetual nature and, in the case of the Public Employees' Retirement System, the long number of years before it will encounter any net outflows (probably 15 to 20 years). A long time span accommodates investments which should enjoy higher returns over the long-run, although they may be slow to materialize, or be erratic in the short-run, and it allows greater use of investments which may have substantial market valuation risks. This characteristic expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments.

The PERS/TRS has opted for more growth through a higher asset allocation to equities. To achieve that end, PERS/TRS follows an investment technique known as active management versus a passive management investment style. Passive management is a term used to describe an investment strategy that attempts to follow a predefined market index, such as the Standard and Poor's (S&P) 500, and fashions the portfolio to mirror the results of that index. Passive management follows a process of rebalancing the portfolio to reflect the index, not necessarily to enhance or maximize a return. Active management, on the other hand, involves portfolio management that is involved in the active investment process of buying and selling in an attempt to enhance the portfolio's performance. The active management strategy can be characterized as continually monitoring the market to determine what is the best selection of investment to produce the best returns within a predetermined set of risk parameters.

PFC is legally limited in its investment diversification by statute which defines a specific "list" of permitted investments. The Treasury did have investment limitations, but the statutory restrictions were repealed by Chapter 41, SLA 1988. This allows Treasury more investment flexibility. With this flexibility, Treasury can assume additional risk, and theoretically achieve higher returns for the PERS/TRS Funds.

ASSET ALLOCATION

An informative way to examine the assumed risk is to analyze the asset allocations of the various funds. At March 31, 1989, the various funds' holdings were (stated in percentage of portfolio at market values):

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Equities (1)	32.8%	34.9%	12.9%
Fixed Income	54.7%	51.3%	77.6%
Real Estate	6.4%	6.0%	5.6%
Other (2)	6.1%	7.8%	3.9%

(1) includes domestic and foreign equity holdings of the PERS and TRS. PFC does not yet invest in foreign markets.

(2) includes mortgages, cash, and interest and dividends receivable.

As can be seen, the PERS/TRS Funds hold 2.5-to-3 times more equity than does PFC. Conversely, PFC holds 1.5 times more fixed income investments than does the PERS/TRS Funds.

By their nature, equities have more risk than fixed income (debt) investments. As mentioned earlier, theoretically the riskier the investment, the higher the potential rate of return.

FUND PERFORMANCE

This section and the following section ("Other Rate of Return Data") present statistical data which show various rates of return earned not only by the PERS/TRS and Permanent Fund but other interest-bearing investments. As noted above, and throughout the report, direct comparisons between these funds and other investments are not practical for assessing how one fund "performed or out performed" another fund. This is mainly due to the differences in purpose, goals, and philosophy of each particular fund. However, the presentations provided here are done so for the benefit of interested parties who can review the returns earned by the funds and relate those to other commonly known investments.

It has been alleged that Treasury managed PERS/TRS Funds are among the worst performers within the universe of funds used for performance measurement and comparison (see Recommendation No. 2). While the allegations themselves are substantially accurate in the context they were submitted, the facts must be kept in perspective in light of the long-term nature of the retirement funds. The allegations were made from looking at just one, short period of time that the PERS/TRS funds were evaluated. One must be careful about the period of time used for measurement as investment results measured over short periods of time are very misleading. The best results today may be the worst tomorrow. What matters is consistent, long-term results.

With the above thoughts in mind, the PERS, TRS, and PFC performance can be reviewed together with returns of other, although non-comparable, commonly known investments.

Total rate of return (time-weighted) is a useful technique that is widely accepted for comparing investment results. It combines current yield plus changes in current market values for determining a portfolio's investment rate of return.

Total rate of return (time-weighted) for PERS, TRS, and PFC is shown below:

TIME-WEIGHTED TOTAL RATES OF RETURN(%)
AS OF JUNE 30, 1988 and DECEMBER 31, 1988 (a)
(unaudited)

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Year ending 6/30/88	3.79	3.76	5.3
Two years	7.46	7.85	6.5
Three years	13.80	13.37	11.8
Four years	15.02	14.62	(1)
Five years	(2)	(2)	13.1
Year ending 12/31/88	11.65	11.93	8.5
Two years	6.48	6.44	5.9
Three years	10.72	10.20	9.3
Four years	13.72	13.31	(1)
Five years	(2)	(2)	12.9

(a) source: PERS/TRS information obtained from Department of Revenue, Treasury Division internally calculated time-weighted rates of return. PFC information obtained from externally evaluated SEI Large Plan Report. Percentages presented are annualized time-weighted rates of return.

(1) four-year data not available for PFC from SEI external reports.

(2) five-year data not available for PERS/TRS for years ending June 30 and December 31, 1988.

As can be seen, the PERS/TRS Funds time-weighted rate of return generally exceeds that of the PFC. This is probably a reflection of the additional risk the retirement funds assume versus the more conservative approach taken by the PFC in its investments and asset allocation.

Another performance measurement would be reviewing the return of segments of the PERS/TRS and PFC portfolios; for example, reviewing PERS/TRS and PFC domestic equity investments to the S&P 500 or the fixed income investments to the Shearson Lehman Bond Index (SL-BONDS). Such an analysis would show:

PERS/TRS/PFC EQUITY AND FIXED INCOME TIME-WEIGHTED RETURNS
COMPARED TO SPECIFIC MARKET INDICES
ANNUALLY-COMPOUNDED RATES OF RETURN
FOR YEARS ENDING DECEMBER 31, 1988 (a)
(unaudited)

DOMESTIC EQUITIES

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	18.21	9.75	12.98	17.38	(1)
TRS	18.21	10.04	12.95	17.27	(1)
PFC	15.50	11.10	13.50	(2)	15.00
S&P 500	16.80	10.90	13.40	17.80	15.30

FIXED INCOME

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	8.73	5.14	9.37	12.33	(1)
TRS	9.10	5.01	8.58	11.71	(1)
PFC	7.20	4.30	8.10	(2)	12.10
SL-BONDS	7.60	4.90	8.40	11.50	12.20

(a) source: Dept. of Revenue, Division of Treasury internally calculated time-weighted rates of return; PFC externally evaluated SEI Large Plan Report; and, independent sources of market indices.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The above analysis shows that for the most part PERS/TRS and PFC achieved a competitive return on its domestic equity investments compared to the S&P 500 index. PERS/TRS fixed income investments outperformed the Shearson Lehman Bond Index in each of the four years compared above. PFC also achieved a competitive return on its fixed income holdings when compared to the bond index.

Another informative comparison is reviewing the annual (each year standing on its own, unlike the cumulative returns used in the previous comparisons) rate of return and how that return fits into the universe of funds used for comparative purposes.

PERS/TRS/PFC
ANNUAL RATES OF RETURN AT MARKET VALUES
AND PERCENT RANKING IN COMPARATIVE UNIVERSE (a)

	<u>1984</u>		<u>1985</u>		<u>1986</u>		<u>1987</u>		<u>1988</u>	
	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>
<u>Equities</u>										
PERS	-15.1	100	28.8	63	37.5	38	17.7	96	-5.4	23
TRS	-15.1	100	28.8	63	37.5	38	18.5	90	-5.2	22
PFC	- 9.6	28	30.6	46	37.2	59	24.8	27	-6.4	55
<u>Fixed Income</u>										
PERS	1.1	55	27.9	65	22.9	3	5.0	59	7.6	51
TRS	0.8	57	28.2	61	23.4	1	4.3	79	8.8	3
PFC	4.4	56	27.2	12	20.5	25	4.3	91	7.0	71

(a) source: PERS/TRS data from SEI report for quarter ending 6/30/88. PFC data from SEI large plan report for period ending 6/30/88.

The rates of return above are based on the market value of the equity and fixed income portfolios and includes unrealized gains. PERS/TRS rankings are based on a comparison with a universe of approximately 30 large state retirement funds. PFC rankings are based on a universe comparison of 63 funds. The "rank" describes (using percentages) how the fund performed in relation to the other funds of the universe. For example, a rank of 100 indicates the fund had the lowest performance and 99% of the universe performed better. Conversely, a rank of 1 indicates the fund performed the best and 99% of the universe achieved lower returns. A rank of 55 indicates the fund performed near the median (50%), and that 45% of the universe performed worse while 54% achieved better returns.

OTHER RATE OF RETURN DATA

While not truly comparable, investment fund returns can be reviewed against other fixed income returns.

PERS/TRS/PFC ANNUAL REALIZED (NOMINAL) RATES OF RETURN
COMPARED TO OTHER FIXED RATE RETURNS (a)
(unaudited)

YEAR	Realized Rate of Return(%)			Fixed Rates of Return(%)		
	PERS	TRS	PFC	SBS(1)	DCP(1)	CD(1)
1980	9.54	10.41	11.29	10.40	n/a	12.91
1981	10.73	11.02	16.00	10.75	n/a	15.91
1982	8.52	6.98	15.10	12.35	n/a	12.04
1983	11.09	11.32	12.76	12.55	n/a	8.96
1984	10.66	9.47	10.89	12.00	n/a	10.17
1985	9.96	9.84	11.61	11.80	n/a	7.97
1986	13.16	13.12	14.36	11.87	9.30	6.62
1987	13.98	13.94	13.37	11.54	9.08	6.74
1988	8.20	8.20	9.01	11.00	9.93	7.58

(a) source: Division of Legislative Finance; Department of Administration, Division of Retirement and Benefits.

(1) SBS - State Supplemental Benefit System
DCP - State Deferred Compensation Plan
CD - Certificates of Deposit

n/a - not available

The comparisons above are not an accurate measurement of determining how PERS/TRS or PFC is performing in comparison to other funds or instruments. While it does demonstrate differing returns by different investing funds or instruments, it does not indicate nor provide a basis for comparing how similarly designed funds invested in similar securities are performing. Each of these funds or instruments, with the exception of PERS/TRS, have different objectives and goals and, therefore, have varying investment strategies and policies.

Also, the schedule above presents a different picture than the prior example. Here, annual realized (nominal) rates of return are presented. Realized rates of return do not include changes in market value and, therefore, are not usually used for comparing performance. In this schedule, PFC outperforms PERS/TRS in all but one annual period presented. This compares to the previous time weighted presentation that shows PERS/TRS outperforming PFC in all but one period presented. This exemplifies how, depending on a desired outcome, rate of returns can be used to make a point. Since PERS/TRS are pensions funds, their return

analyses should be based on a long-term view, not just how the funds performed in any one annual period.

Another review of returns can be made between the retirement funds and other market indices. Like the above, the returns are not truly comparable. Market indices reflect returns for certain investments, whereas the PERS/TRS and PFC Funds results reflect a total return on a balanced portfolio of many types of investments. For example, the Standard and Poor's 500 (S&P 500) index reflects returns on equities only; the 91 day Treasury Bill index (T-BILL) reflects short-term fixed income investments; and, the Shearson Lehman bond index (SL-BONDS) reflects returns on bond investments.

PERS/TRS/PFC TIME-WEIGHTED TOTAL RATES OF RETURN
COMPARED TO MARKET INDICES ANNUALLY-COMPOUNDED

RATES OF RETURN(%)
AS OF DECEMBER 31, 1988 (a)
(unaudited)

	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>5 Years</u>
PERS	11.6	6.5	10.7	13.7	(1)
TRS	11.9	6.4	10.2	13.3	(1)
PFC	8.5	5.9	9.3	(2)	12.9
S&P 500	16.8	10.9	13.4	17.8	15.3
T-BILL	6.7	6.0	6.0	6.5	7.1
SL-BONDS	7.6	4.9	8.4	11.5	12.2

(a) source: Department of Revenue, Division of Treasury, and independent sources of market indices. PFC data from 12/31/88 Large Plan Report.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The misleading nature of drawing conclusions solely from this analysis must be emphasized. For example, for the three years ending December 31, 1988 the S&P 500 had achieved an annualized return of 13.4%; contrasted to PERS, TRS, and PFC returns of 10.7%, 10.2%, and 9.3% respectively. The S&P 500 is an index that measures only equities traded on the exchanges. The PERS/TRS and PFC portfolios not only contain stocks but also bonds, other fixed income securities, and real estate. Additionally, PERS/TRS holds investments in foreign equities, whereas the S&P 500 reflects only domestic equity.

PERS/TRS and PFC may have achieved a return on its equity portfolio competitive to that of the S&P 500. However, fluctuations in bond, other fixed income, and real estate

investments may have affected the overall total portfolio rate of return. Therein lies the danger of relying solely on a comparison of fund performance to any one market index.

COST OF MANAGING AND INVESTING PERS/TRS AND PFC FUNDS

It has been alleged that the cost of administering the PERS/TRS Funds are "out of control" compared to the PFC. In reviewing the cost of administering the retirement funds versus the Permanent Fund the facts must again be kept in perspective and require closer scrutiny before drawing conclusions, similar to the closer analysis needed when comparing PERS/TRS and PFC rates of return.

The Department of Revenue, Treasury Division is responsible for, among other functions, the investment and management of the State of Alaska general investment fund; AHFC pledged fund; international airports construction fund; international airports revenue fund; state mortgage insurance fund; public employees' retirement trust fund; teachers' retirement trust fund; judicial retirement trust fund; military retirement trust fund; public school trust fund; and the University of Alaska trust fund. Also, the division is responsible for state cash management, debt management, and investment accounting.

By far the largest cost centers in the management of the PERS/TRS Funds are personal services (salaries) and contractual fees.

It has been alleged that it takes between 25-to-27 positions to manage the PERS/TRS Funds as compared to the PFC requiring 16 positions to manage their portfolio.

The 25-to-27 positions referred to above represents the total staffing of the Treasury Division. These positions do many tasks, as discussed above. Not all of those positions have duties related to the PERS/TRS Funds. We examined the job descriptions of employees in the Treasury Division and verified those descriptions with some employees through personal interviews. We also identified salary and benefits costs for each of the Treasury Division employees and for the division in total.

We have calculated that Treasury utilizes a full-time equivalent (FTE) staffing of 11.3 positions to manage, invest, and account for the PERS/TRS Funds in fiscal year 1988 at a cost of \$655,273. These positions are responsible for executive management, asset accounting, portfolio management, real estate investments, and cash management as it relates to the PERS/TRS Funds. This compares to the fiscal year 1988 PFC staffing of 16 positions at a cost of \$863,000.

Contractual fees comprise the largest cost of managing the PERS/TRS and PFC Funds. These costs consist of payments made for the services of professional money managers, external performance analysis, external auditors, consultants, and custody and safekeeping fees.

PERS/TRS fiscal year 1988 contractual payments amounted to \$4,841,564 compared to PFC expenditures of \$3,428,000. PERS/TRS incurs expenses that the PFC does not. PERS/TRS, being two separate funds, has increased costs for services such as investment processing, external auditors, and the external performance analysis. The retirement funds also incur additional costs due to PERS/TRS higher asset allocation to equities which, under an active investment strategy, necessitates additional trade costs and because PERS/TRS invests in foreign equities which require higher fees than does a domestic equity. PFC does not invest in the foreign markets, has a smaller asset allocation to domestic equity, and utilizes an index equity portfolio resulting in reduced management fees. As the PFC moves into the foreign markets and reevaluates asset allocation, one would expect to see an increase in their management fees.

The industry evaluates management and funds costs on a "basis point" system. A "basis point" reflects the cost to manage \$1,000. We performed a "basis point" cost evaluation of the PERS/TRS and PFC Funds, as follows:

	<u>PERS/TRS</u>	<u>PFC</u>
Personal Services	1.90	.88
Travel	.05	.15
Contractual	14.02	3.48
Other (capital outlay, communications, rent, depreciation)	.08	.67
<u>Total "Basis Point"</u> <u>cost per \$1,000</u>	<u>16.05</u>	<u>5.18</u>

As can be seen, the cost of PERS/TRS contractual is approximately four times that of the PFC. This reflects the additional costs PERS/TRS incurs due to its higher allocation to domestic equities, investment in foreign equities, the increased costs for identical services since these are two separate funds, and the economies of scale inherent in a large fund such as the PFC.

We do not feel a simple analysis with an allegation that PERS/TRS costs three times more to manage than the PFC is justified. A closer review shows valid reasons why PERS/TRS Funds are more expensive to manage than the PFC fund.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

A Board of Trustees concept or structure should be established that has broad powers and can exercise an active role in the management and investment oversight of the PERS and TRS Funds.

At present, the PERS and TRS boards (nor any other body) have minimal, if any, investment and management oversight responsibility over the nearly \$3.5 billion of retirement fund assets invested and managed by Treasury. What little investment oversight authority the boards may have had was eliminated by amending legislation in 1987/1988.

Currently the PERS and TRS boards are mostly administrative in nature, handling the administrative aspects of the retirement systems. The boards have no authority to direct or establish investment policy or guidance nor do they have the ability to effectively object to a direction the funds may be heading and enforce an alternative.

We believe the State and other governmental employers, fund beneficiaries, and active participants would be better served by a restructuring of the current PERS and TRS boards and the process of reporting to those boards.

We conducted a survey of all states' public employees' and teachers' retirement systems and discovered that Alaska PERS and TRS Funds investment management oversight is severely lacking when compared to other larger, older, more experienced funds.

An overwhelming number of respondents to our survey have an investment oversight function that rests with an independent body apart from the investment activity itself. This oversight authority is vested in authoritative retirement boards, boards of trustees (ranging from 3 to 4 and up to 16 members), investment committees and councils (usually a subcommittee of a board of trustees), or a statewide investment commission or board. We believe a similar structure is warranted for the PERS and TRS Funds.

The PERS and TRS statutes should be rewritten to allow, and the boards should be restructured to accept, a new, stronger investment management oversight responsibility. We recommend that:

1. The current PERS and TRS boards be consolidated into one overall board of trustees. The board of trustees should be structured so that individuals with the necessary and appropriate expertise are appointed, as well as PERS and TRS beneficiaries and active participants. Additionally, Treasury officials and, barring

constitutional prohibitions, members of the legislature should be active participants on the board.

2. Subcommittees of the board of trustees could be established to handle the respective administrative duties of the PERS and TRS Funds.
3. The board of trustees should be vested with the authority to employ outside investment advisors to review investment policies and make recommendations; to establish investment policies; to engage the independent certified public accountants for the funds' audits and have results reported directly to the board; to contract with external performance evaluators who would report directly to the board; and to review Treasury investment and asset allocation decisions.

A Board of Trustees with overlapping and staggering appointments will also provide continuity from one administration to another. Retirement funds such as the PERS and TRS are perpetual in nature. They are considered to exist forever. As such, a continuity in management is required, one that can provide the historical perspective of past actions and effects. The nature of the political environment is quite opposite. Administrations come and go, as do the political appointees that make the decisions that affect the retirement funds. Presently, the commissioner of Revenue, an appointed position, is the fiduciary of the retirement funds. A political appointment of two or four years pales in comparison to the longevity of the retirement funds. A "changing of the guard" every two-to-four years does not provide the needed continuity in fund administration. An independent board of trustees, with oversight authority, would provide the needed oversight and continuity over these funds.

It has been argued that since the PERS and TRS Funds are designated as trusts and the commissioner of Revenue is designated fiduciary of the funds, that the boards cannot and will not accept the fiduciary responsibility of managing the funds.

In our discussions with PERS and TRS board chairpersons we learned that the boards do want to assume more investment oversight responsibility over the funds but at present do not have the statutory ability to do so.

It has also been stated that the boards would not accept the liability associated with acting as a fund fiduciary. According to the Division of Risk Management of the Department of Administration, the PERS and TRS boards are currently covered by the Directors and Officials liability protection policy. This coverage, in the amount of \$100 million (with a \$5 million self-insured clause), covers any board or

commission that is created by law and that the policy coverage would extend to any actions taken by the boards or commissions that are within its official duties. At present, the commissioner of Revenue, as fiduciary, is similarly covered by this policy. Additionally, the director of Risk Management stated that if the funds incur a loss due to a breach of fiduciary duty, the Directors and Officers liability insurance policy may make funds whole, depending on the circumstances, if the payments are a legal liability. Based on the above, it is our opinion that the insurance coverage presently available to the commissioner of Revenue is likewise available to the current PERS and TRS boards and would be available to a duly created board of trustees acting in the capacity of fund fiduciary.

Therefore, we recommend that the administration and the legislature establish a board of trustees concept or structure to provide investment oversight on the Treasury investment operations, particularly the PERS and TRS Funds. Some members of the board of trustees should have the necessary professional skills. Other members should represent fund beneficiaries, active fund members, the Treasury, and, barring constitutional prohibitions, the legislature. The board of trustees should have the authority to contract for audits, external performance evaluations, and professional advice. Additionally, the board of trustees should review on an ongoing basis Treasury's implementation of investment policy and asset allocations.

Recommendation No. 2

The entire portfolio of the PERS and TRS Funds should be subjected to an external performance review. Also, the external performance reports should be presented directly to the boards and should be in a complete, understandable, and acceptable format according to industry patterns and customs.

Presently, the PERS and TRS performance evaluation analyses conducted by an independent evaluation service do not review the entire retirement funds portfolios; are not in the usual and customary format; do not contain the usual and customary presentations; and do not compare the PERS and TRS Funds with an acceptably large enough universe of other funds.

We found it difficult to glean information on the PERS and TRS Funds operating results from the performance evaluation reports prepared by the external fund performance contractors. To assist us in understanding those performance reports, we contracted with the individual who had analyzed PERS and TRS Fund performance in the past.

Our contractor had similar difficulty in understanding the performance reports as presented. We subsequently discovered that the difficulty in understanding the reports and

determining fund performance lied not with the reader, but with the unconventional format that the PERS and TRS Funds results were presented.

According to representatives of SEI (Treasury's performance reporting contractor) the State's chief investment officer had instructed SEI to prepare the performance reports according to his own design. This format per our contractor causes confusion and difficulty in analyzing fund results. It is interesting that even SEI, the firm who prepared the reports according to Treasury's custom design, finds them difficult to understand. If people knowledgeable in this area find the performance reports difficult to read and analyze, we wonder how members of the PERS and TRS boards and interested beneficiaries and active participants can determine how their funds are performing.

Another area that our contractor found unique was the abbreviated form of the performance reports. The reports do not include a number of standard comparisons, analyses, and graphic presentations. These presentations assist in understanding the fund performance and how they compare to other funds. For example, the performance reports have no presentations of asset growth summaries; total plan rates of return; cumulative rates of return for market cycles (falling markets and rising markets); reward versus risk analysis; equity and bond purchases and sales turnover analysis; equity portfolio profiles (showing capitalization of investees, dividend yields, price/earning ratios, return on net worth, earnings growth rates, market/book ratios); diversification and rate of return by industry sectors; and other graphic and numerical presentations. It is argued that this type of information is of little value in establishing investment policy and asset allocation. However, all these analyses combined assist in formulating an informed judgement as to how the retirement funds are performing by interested parties other than those responsible for investment policy and asset allocation. These analyses, and many others, are used by the Permanent Fund Corporation Board of Trustees to review the performance of the Permanent Fund. These types of analyses are not report cards on a fund, but rather a presentation of how one particular fund is performing compared to other funds competing for a return on investment.

Other areas of the PERS and TRS performance reports identified as lacking are that a total plan analysis is not performed on the entire portfolio and that the universe of funds used for performance comparison is too limited.

The major benefit of an external performance evaluation is the identification of how one particular fund is performing and how it compares to other funds (known as the "fund universe"). To have a thorough evaluation/comparison, the

entire portfolio must be externally evaluated. Presently, the PERS and TRS portfolio does not have an externally generated total plan rate of return analysis because the funds' real estate investments and foreign investments are not taken into consideration. Most respondents to our survey indicate their entire portfolios are externally evaluated. Most of those funds also have investments in equities, fixed income, some foreign investments, real estate, mortgages, leveraged buyouts, and venture capital.

The PERS and TRS Funds are compared to a fund universe consisting of only 28 other funds. This contrasts to the Permanent Fund's evaluation which compares itself to a balanced fund population (where the funds have at least 5% invested in equities and 5% in bonds) of 910 funds and a Large Plan Report of 63 funds. We believe the PERS and TRS Funds comparison is too restrictive and should be enlarged. Comparing fund performance to a larger fund universe would provide a better indication of how the PERS and TRS Retirement Funds are performing compared to other funds.

We recommend that the entire PERS and TRS Funds be externally evaluated thereby generating a total plan rate of return; that the evaluations be performed and reported in the standard informative formats with all appropriate graphic and numerical presentations; that these reports should be presented directly to the boards; and that the PERS and TRS Funds be compared against an acceptable fund universe.

The boards and/or Treasury should provide as much information as possible to the beneficiaries, active members, executive and Legislative branches, and the public that is clear and direct. By doing so, it would enhance public accountability.

Recommendation No. 3

The Department of Revenue, Treasury Division (Treasury) should follow generally accepted accounting principles in its accounting of investments for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Funds.

Treasury does not account for PERS and TRS foreign equity investments in accordance with industry generally accepted accounting principles.

The term "generally accepted accounting principles" (GAAP) as used in reporting results of operations on the financial statements refers to a body of theory and practice developed by the accounting profession in association with industry and other organizations that may be impacted by the adoption of standards which include not only accounting principles and practices but also the methods of applying them. GAAP

is a technical accounting term encompassing a common set of accounting concepts, standards, and procedures necessary in order to render financial statements comparable between enterprises and between accounting periods. Without adherence to GAAP, users of financial statements would have no uniform standard for judging the presentation of financial position, results of operations, and changes in financial position in those financial statements.

A user of financial statements expects those statements to present fairly, clearly, and completely the economic facts of the existence and operation of an enterprise on a consistent and comparable basis. A departure from GAAP results in financial statements that may not meet the user's criteria and will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements. Treasury realizes the importance of an unqualified audit opinion. Treasury, in Appendix J of its General Investment Policies, requires an applicant for commercial real estate loans to submit audited financial statements that contain unqualified audit opinions. The presentation of PERS and TRS financial statements by Treasury are departures from GAAP.

Treasury does not properly account for and report investment transactions occurring in the PERS and TRS foreign investment portfolio. Treasury did properly account for and report on its foreign portfolio activities through fiscal year 1987; however, in fiscal year 1988, a departure from GAAP was made, with which we do not agree is appropriate or justifiable.

An important element of a financial statement, and a framework of modern accounting, is the presentation of the historical cost of assets, including investments.

Treasury forwards funds to its London-based foreign managers. These managers then invest in foreign equities. The amount of the funds transferred to the foreign managers is recorded as the cost of the PERS and TRS investment in foreign equities. When the foreign equities are subsequently sold by the foreign managers, the amount received from the sale, which may include a gain on the sale, is usually reinvested in foreign equities. Contrary to GAAP, the reinvestment of proceeds from the sale of the equities are not recorded in the accounting records and the cost basis of the foreign portfolio is not adjusted to properly reflect the new cost basis of the retirement funds' investments. This accounting treatment was implemented over the initial written objections of the state comptroller. The sale, gain, and reinvestment of funds should be accrued and recorded in the accounting records at the date of the transaction in accordance with generally accepted accounting principles.

This irregular accounting treatment causes a material understatement of the cost basis that PERS and TRS has invested in foreign equity holdings. The understated cost as presented in the PERS and TRS financial statements is misleading to the average reader who is not aware of the non-GAAP accounting treatment accorded these transactions by Treasury.

In their June 30, 1988 balance sheet, Treasury shows the cost and market value of PERS and TRS foreign portfolio as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$77,847,000	\$138,421,000
TRS	51,756,000	91,246,000

At first glance, a reader of the financial statements would think that PERS and TRS had generated a \$60,574,000 and \$39,490,000 (respectively) market gain.

However, had GAAP been applied to the accounting of the foreign portfolio, cost and market value would have been presented as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$134,626,000	\$138,421,000
TRS	88,711,000	91,246,000

Under GAAP, foreign portfolio market gains for the PERS and TRS Funds would have been \$3,795,000 and \$2,535,000, respectively. As reflected in the financial statements, PERS and TRS market gains are overstated by approximately 1,500 percent.

The Treasury Division, chief investment officer has stated that this accounting treatment is necessary because of "investment accounting principles," "fiduciary law," and "the IRS code." None of those references, even if they do address this issue, override GAAP and Alaska state law in these circumstances.

Alaska Statute 37.05.150 states, in part, "The accounting system must be in accordance with accepted principles of governmental (fund) accounting" Generally accepted governmental accounting principles are embodied in the Governmental Accounting, Auditing, and Financial Reporting publication prepared by the Government Finance Officers Association. In this handbook of governmental accounting, the jurisdiction of the Governmental Accounting Standards Board (GASB) is defined as "The GASB will establish standards for activities and transactions of state and local governmental entities" The handbook further defines

the hierarchy of GAAP for financial statements issued by state and local governmental units. This hierarchy is:

1. Pronouncements of the GASB are to be followed for accounting and reporting by state and local governmental units.
2. In the absence of a GASB pronouncement regarding accounting treatment, pronouncements of the Financial Accounting Standards Board (FASB) are to be followed.
3. Pronouncements of bodies composed of expert accountants that follow a due process procedure. This category includes audit and accounting guides and statements of position issued by the American Institute of Certified Public Accountants.
4. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application of pronouncements to specific circumstances.

Since GASB is silent regarding the treatment of foreign investments, pronouncements of the FASB must be followed. In this case, generally accepted accounting principles established by the FASB, and its predecessor the Accounting Principles Board, should be followed by the Treasury Division.

We recommend that Treasury account for and report on the PERS and TRS Funds, including its foreign portfolio activity, in accordance with generally accepted accounting principles.

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

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RECEIVED
AUG 23 1989

LEGISLATIVE
AUDIT

Dear Mr. Welker:

I have reviewed the Division of Legislative Audit's preliminary report entitled "A Special Report on the Department of Revenue Treasury Division Public Employees' and Teachers' Retirement Funds".

At your request, I offer the following comments:

1. With regard to the discussion of realized returns on page eleven, I would like to point out:
 - a. The Financial Analysts Federation has endorsed the enclosed "Performance Presentation Standards". These standards are the first and only such standards in the industry for guidance on how to calculate and report investment performance. Section V.B. specifies that the use of total return, including income and capital appreciation, is mandatory in the presentation of investment performance data. Realized rates-of-return, as pointed out in your report, do not include unrealized capital appreciation.
 - b. Realized returns are relevant for a fund which has net cash flow requirements during the period being measured; in the case of retirement funds, a net cash flow from investments is not estimated by the funds' actuary to be required generally before FY 2005. See the enclosed "PERS and TRS Financial Projections", February 21, 1989, Mercer Meidinger Hansen. Sensitivity analyses in the projections indicate there may be some chance that a small portion of TRS investment earnings (no more than one-tenth) will be needed as cash to cover benefit payments after FY 1991;
 - c. The timing of actual realization of unrealized gains is at a fund manager's discretion and may be affected by a fund's cash flow requirements. Thus, realized returns may reflect not only investment policy, as shaped by cash flow requirements, and a portion of investment returns, but also asset liquidation decisions prompted by cash flow needs.

2. On page 12, as your report points out, there are difficulties in comparing total fund returns to market indices for individual classes of investments. The most appropriate comparison would be to an average of the relevant indices weighted by the asset allocations of a fund. This would be similar to the approach prescribed by the Financial Analysts Federation in section V.I.6.a. of their "Performance Presentation Standards" (enclosed) for comparing results of balanced accounts managed by investment advisors.
3. I am in basic agreement with Recommendation No. 1. There are obviously many issues to be considered in trying to develop the best possible structure for governance of PERS and TRS investment management. The Department of Revenue would be happy to work with Legislative members or bodies in developing legislation to reform the structure.

To address these same concerns, the Department has developed a proposal to create an independent trust company. The proposed structure would provide for the investment management of other State retirement and endowment trust funds, as well as PERS and TRS. It also would greatly improve State cash management procedures by allowing direct access to certain Federal Reserve System services, rather than through an intermediary custodian bank.

The Department's proposal has been endorsed by resolutions of the PERS and TRS boards and has been reviewed by the State's fiduciary counsel, Willkie, Farr & Gallagher.

There is one issue addressed in your report to which I should respond. The discussion of liability for fiduciary acts on page 17 does not take account of AS 37.10.071(d) and (e) which make fiduciaries personally liable and extends state indemnification of their liability only insofar as their actions are prudent, even though insurance would cover all fiduciary acts whether prudent or not. These statutory provisions were adopted to assure the most careful adherence by fiduciaries to the dictates of prudence. I do not concur with the suggestion that board members be allowed to avail themselves of the State's insurance coverage of liability for fiduciary acts when those acts fail to meet the statutory standard of professional prudence contained in AS 37.10.071(c).

4. I am in agreement with portions of Recommendation No. 2. My specific comments are:
 - a. I agree that performance reports should cover the total fund and include cumulative rates-of-return, a reward versus risk analysis, and relevant graphics. The Department has awarded a new contract for outside performance measurement services that includes such information. The first reports under the new contract will be available following the end of the first quarter of fiscal year 1990.

- b. I do not feel that other detailed analyses, mostly of individual manager portfolios, recommended in your report are useful either in establishing investment policy and asset allocations or evaluating manager or fund performance. Performance measurement data needs to be confined to comparative information that focuses on the bottom line -- rates-of-return -- and the critical policy variables -- asset allocation, bond maturity, and bond quality -- that contribute to it. The worst thing to do, if trying to ensure accountability, is to inundate fiduciaries with so much data that they can't see the forest for the trees or have time to adequately review the more critical information.
- c. If there are particular problems with the format of the report, the audit should identify them and I would be happy to consider changes. As part of the new performance measurement contract the Department will obtain any specific suggestions the contractor has for revising the format. However, the Department will not relieve the contractor of the obligation of supplying the reports in the format specified by the Department if revisions to the format decrease the report's intelligibility or appear to be for the convenience of the contractor. There is no industry standard for most of the presentations in these reports, the only possible exception being certain basic information set out in Tables I and II of the enclosed "Performance Presentation Standards" which no firm has yet adopted. Various performance measurement firms have various formats. Each has its own "standard" format and is reluctant to provide custom reports as required by the Department due to the extra time and expense involved.
- d. I agree that comparing performance to a larger universe is desirable, provided that, as your report stresses in several other places, the comparisons are meaningful. Under the circumstances it is not clear that the contractor can provide any larger universe that would be meaningful. The contractor, SEI Corporation, had the largest universes specified by the Department of the two firms responding to the RFP for these services. As part of the new contract, the Department will obtain the advice of the contractor on whether the universes can be meaningfully expanded.

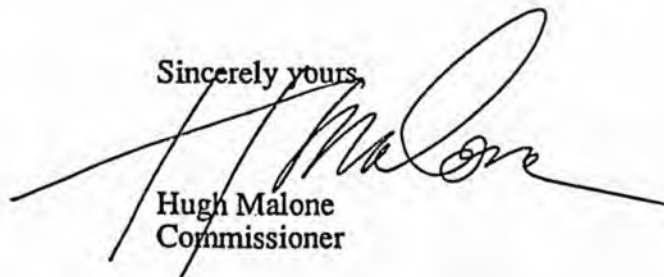
The PERS and TRS funds are compared to two universes consisting of pension funds over \$500 million -- one State pension funds, the other corporate. These universes were established to provide more meaningful comparisons than a universe including many small pension plans. Small plans for the most part operate under more restrictive constraints, have less diversification into the various asset classes represented in PERS and TRS, and are less likely to have professional management. As pointed out on page 5 of your report, similarity in objectives, constraints, opportunities, and resources are critical to achieving valid comparisons.

Randy S. Welker, CPA
August 22, 1989
Page 4

Not unexpectedly, larger plans generally seem to have superior investment returns as indicated by the enclosed "EXHIBIT 7" prepared by SEI. The segregation of corporate and state plans is useful because their significant difference in asset allocations to equities, which results in significantly higher returns for corporate plans, focuses attention on this critical policy variable.

5. The Department will comply with Recommendation 3, beginning with its audited financial statements for fiscal year 1989. However, I would like to make three comments:
 - a. The statements on page 19 and 20 that Treasury does not account for foreign equity investments properly or in accordance with generally accepted accounting principles are overly broad. Treasury does account for foreign equity investments in accordance with generally accepted accounting principles, with the exception of its treatment of historical cost and the point of realization of foreign gains or losses. Treasury's statement of market value and total investment income for foreign equities is in accordance with generally accepted accounting principles. As stated by Ernst & Whinney in their annual audit of Treasury investments, the "differences would have no effect on total investment income".
 - b. The departure from GAAP and its effects are fully disclosed in Treasury's financial statements. Your report should acknowledge this. The statement on page 20 that "A departure from GAAP...will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements." may leave the reader with the impression that Treasury did not make this disclosure.
 - c. The departure from GAAP was based on consideration of a number of issues. These issues were fully discussed by Treasury staff and its independent auditors. The decision was personally reviewed by me. The issues are summarized in the enclosed memo of November 1, 1988. The report's failure to address the issues contained in the memo, which was provided to Legislative Audit, and its failure to acknowledge the Department's review of the issue may leave the reader with the impression that the departure was made arbitrarily or capriciously. In fact, the issues involved are very "close" as to what is the best accounting treatment. This is reflected in the fact that FASB-52, which is the accounting principle at issue here, was highly controversial and was adopted by the Financial Accounting Standards Board only by a 4-3 vote.

Sincerely yours



Hugh Malone
Commissioner

HM/MBB/ph

encls.

PERFORMANCE PRESENTATION STANDARDS

Presented by the Committee for
Performance Presentation Standards

Claude Rosenberg, Jr., Chairman
R.H. Jeffrey
Robert Kirby
Dean LeBaron
John J.F. Sherrerd

Endorsed by the
Financial Analysts Federation

January 12, 1989

I. The FAF has endorsed the following standards for investment management performance presentation. Up to now, this all-important subject has been given insufficient attention; as a result, investment advisers (despite registration with the SEC) have been left to follow their own standards, which have been varied, uneven, and, in some instances, outright irresponsible and dishonest. If the investing public is to be treated fairly, and if the investment management industry is to represent the highest ethical and moral standards, a fair and understandable policy should be followed. The standards recommended earlier have been endorsed by the FAF Board of Directors after consideration of comments from its membership (which includes investment advisers, brokers, consultants, academicians and other interested parties).

II. The overall philosophy underlying these standards is the need for full disclosure of investment performance data to clients and client prospects. Certain statistics and presentation data have been delineated as requirements; but the main theme is that investment managers may present any reasonable statistics provided that their derivation, and particularly any exclusions therefrom, are highlighted and made abundantly clear.

III. Parties affected by these standards.

These standards are directed to "investment managers," which obviously includes all registered investment advisers, but the

standards also apply to other organizations and individuals, such as:

A. Stock brokers acting as "portfolio managers" for clients, particularly those who charge separate (from normal commissions) fees for their management services.

B. Mutual funds, where certain regulatory presentation practices can be deceptive (but which exist under different jurisdictions).

C. Consultants, where it is recommended that similar standards be set by a separate FAF Committee.

IV. While clients and client prospects are encouraged to make extensive qualitative judgments of investment managers, these FAF guidelines concentrate on the quantitative—on a complete, accurate and fair presentation of investment performance data.

V. Performance Calculation.

A. Time-weighted performance calculation is the mandatory methodology, since it represents the only practical method for comparing manager results over time.

B. Total return, including income and capital appreciation, is also mandatory.

V. Performance Calculation (Continued)

C. To allow for the most efficient judgment of manager efficiency and client investment returns, results should be presented before fees so long as the manager's fee schedule is included with performance presentation.

D. Managers and new clients should agree in advance on the starting date for performance calculation.

1. This starting date should be part of the Management Agreement and calculations should conform to such agreed-to date.

2. Since the precise starting date for managed funds is not always definite (due to legal problems, delay of receipt of funds, etc.), it is recommended that a specified period (i.e., 30 days after funds have become available for investment) be set as inception for performance calculation. Again, the time period will vary from manager to manager, dependent on manager style or client preference; but agreement in advance between manager and new client eliminates potential confusion and sets a consistent standard.

E. Computational Standards.

1. Portfolios should be valued at least quarterly. Monthly valuation (and linking) is the preferred frequency where practical.

2. A time-weighted return formula which minimizes the effect of contributions and withdrawals must be utilized. Daily accounting for contributions and withdrawals is the preferred method.

3. When a contribution (or withdrawal) is significant (e.g., over 10%) in relation to the latest calculation of market value, a portfolio is best revalued on the date of the contribution (or withdrawal) in order to reduce possible distortion.

4. Investment income should be included on a full accrual basis (as opposed to cash basis).

F. Performance results for any one asset class (such as equities) should include cash equivalents and any other securities (e.g., convertible securities in an equity portfolio) held by the manager in place of that asset.

V. Performance Calculation, Paragraph F.
(Continued)

1. If managers present performance results for any particular asset class excluding cash or other securities used by the manager in place of the asset class, performance with cash and the other securities should likewise be presented along with a statement that results so presented conform to FAF standards.

G. Compound annualized performance returns should be presented for all periods covered in presentation.

H. Exclusions from account performance calculations and presentation should be clearly stated.

1. Complete information on inclusions and exclusions of data should be presented, as per attached Tables I and II.

a. Managers should provide the percentages of their inclusions and exclusions to prospects. Thus, if the presented data constitutes 85% of the asset class (e.g., equities) managed, with 15% excluded, this should be so stated. If the presented data constitutes 50% of a particular type of in-

vesting within that asset class (e.g., small-to-medium capitalization equities), this should also be stated.

b. Examples of such exclusions might include:

Special category investments, such as assets not carrying full discretionary power within a manager's business in which other accounts are normally discretionary.

Client assets not being charged a fee, within a manager's business which is normally fee-based. As indicated throughout Section VIII., the performance of all fee-based accounts should be accounted for in manager measurement and presentation.

I. *Balanced accounts.*

1. *Balanced accounts, with both equity and fixed income assets, should be separated into two distinct equity and fixed income categories. Each such category should be assigned its own cash balances so that the performance of each*

V. Performance Calculation, Paragraph I.
Number 1. (Continued)

investment class will include returns specifically reflecting the use of cash equivalents and other substitutions. While managers may be able to supply sufficient risk and volatility information on each investment class to allow clients to make a reasonable judgment of results as if cash had been included, the information content from the separation of balanced portfolios into distinct asset "pots" (each with its own cash equivalent or substitute holdings) is too valuable to leave to manager choice.

2. Assuming that the balanced account manager's assignment from the client is to periodically change the asset mix, managers altering the ratios between equities and fixed income should make bookkeeping transfers of cash from one category to the other. Accounting for such transfers should, of course, be based on the specific cash transfer dates.

3. Performance results from balanced accounts should, therefore, include the following:

a. Equities, including cash or substitute securities designated for potential investment in equities.

b. Fixed income, including cash or substitute securities designated for potential investment in fixed income.

c. Total account.

4. 3.a. and 3.b. results should be compared against their respective, comparable indexes, as if they were separate equity and fixed income accounts.

5. While separating the parts of a balanced account as recommended provides valuable insights into the capabilities of managers in each distinct asset class, the most significant performance criterion is still the combined, total account results.

6. Results for the total account are best compared against equity and fixed income proportions that reflect client objectives/guidelines; these proportions should be agreed to in advance by client and manager.

a. Comparative performance should then be calculated by apportioning the returns from each of the indexes chosen to represent each asset class to the agreed-to

V. Performance Calculation, Paragraph I. Number 6. (Continued)

percentage bogey for that asset class. Assume, therefore, that client and manager have agreed to a balanced account risk posture of 60% equities and 40% fixed income. The comparative indexes used for equities (assume the S&P 500) should be weighted at 60%, while the appropriate fixed-income indexes (assume the Shearson/Lehman Corporate/Govt. Index) should be weighted at 40%, producing a number against which the total account performance return should be compared.

J. *In addition to actual results, performance for accounts utilizing leverage should be calculated and presented as if they had been made for all-cash (no leverage).*

VI. *Indexes used for performance comparisons.*

A. *Managers should explain in advance any indexes used for performance comparisons to clients and prospects. These indexes should parallel the risk or investment styles the client account is expected to track.*

B. *Comparisons with specific measures (e.g., real returns adjusted for inflation, riskless returns from T-Bills, etc.) may be used so long as FAF standards on other factors, as presented herein, are followed.*

VII. *Treatment of convertible securities.*

A. *Convertible securities should normally be included in equity performance, unless manager and client agree in advance to their inclusion in fixed income. If convertibles are subsequently shifted from equity segments to fixed income, or vice versa, clients should be notified at the time of such shifting.*

VIII. *Formation and presentation of composite performance results by managers.*

A. *All managers should construct and present accurate composites of investment performance. Rules for such composites include:*

1. *Managers should compile and present such results for as long a period of time as accurate accounting can be accomplished, no less than 10 years if possible and up to 20 if practical.*

2. *Management organizations in business for less than 20 years should include results from the very first full calendar year since their inception.*

VIII. Formation and presentation of composite performance results by managers, Paragraph A.
(Continued)

3. *Each and every year of such results should be presented to prospective clients, unless specific requests are for different periods.*

4. *Results presented to client prospects should be shown both for individual years and cumulative periods, as indicated in attached Table I.*

5. *All client accounts should be included for whatever period such accounts were under management; portions of periods under management (i.e., managers choosing inclusion of portions) is prohibited.*

6. *Clients' accounts no longer under management should be included in composite(s). So-called "survivor" performance results are to be avoided.*

7. *Changes in a manager firm's organization should not lead to an altering of composite results. Results achieved by an organization are the organization's responsibility; changes in personnel do not constitute a justifiable reason to alter composite performance results.*

8. *Managers are encouraged to construct separate composites where valid reasons exist for doing so. A differentiation between taxable versus nontaxable accounts; fully discretionary versus not-fully-discretionary; and other categories which entail varied investment styles, controls, or risks constitute valid reasons for separate composites. As indicated in Paragraph 9.d. below, however, managers should list all of their composites, with performance figures and other pertinent information on each, whenever performance results are presented. Any and all exclusions from any presentation of performance results should be clearly stated.*

9. *Composite performance calculation and presentation should be weighted by account sizes. A median of unweighted results may also be presented, but this should be accompanied by results weighted by account size, along with the statement that the latter is the recommended procedure as set by the FAF.*

VIII. Formation and presentation of composite performance results by managers, Paragraph A, Number 9. (Continued)

Managers should also clearly delineate the following:

a. The number of client relationships included in each (and all) composite(s);

b. The total size of the composite for the beginning (January 1) and end of each year;

c. The weighted average size of accounts constituting the composite.

d. As indicated above, information on all excluded assets from any composite presentation should be presented.

10. Fixed income and equity portions of balanced accounts should be included in their respective equity and fixed income composites, provided they conform to Section V., Paragraph I. above on balanced account calculations.

11. Balanced account composites should include only those accounts where the manager has

discretion over changes from one asset to another. If the client has set balanced limits from which the manager should not deviate, the segregated assets (with their respective cash positions) should be included only with their like asset composite. (Example: Client gives Manager \$6 million for bond management and \$4 million for stock management, with no changes in mix to be made by Manager. The \$6 million should be added to the Manager's bond composite and \$4 million added to Manager's stock composite—nothing to be included in Manager's balanced account composite.)

12. Since performance results will be reported to clients along with either actual or average fee information (See Section V., Paragraph C.), composite figures should likewise contain sufficient information to enable clients and prospects to compute performance on both a pre- and post-fee basis.

13. Managers should indicate typical indexes against which any and all composites are normally judged by respective clients. Thus, a manager's equity composite which includes accounts with both large and small capitalization equities of comparable weighted size

VIII. Formation and presentation of composite performance results by managers, Paragraph A, Number 13. (Continued)

to the S&P 500 should be compared against the S&P 500, while a small-to-medium capitalization stock composite should be compared against NASDAQ, Russell 3000, etc. An account with, for example, 50% of its total in small-to-medium capitalization stocks and 50% in large capitalization stocks should be compared against similar-weighted separate indexes, rather than against either one of the two.

14. *Composites should follow the same treatment of returns with and without cash as indicated in Section V., Paragraph F.*

15. *Presentation of risk measurements such as Alpha, Beta and Standard deviation for individual account returns within any composite is encouraged.*

16. *Other pertinent information for use in performance analysis should be added to composite presentations. For example, managers are encouraged to include (for each period) average market capitalization of stocks held, average quality and duration of bond holdings, etc.*

B. *Table II provides a sample recommended format for composite performance presentation to client prospects and consultants. Table II should accompany the specific performance results as presented in Table I.*

IX. Verification of composites.

A. *Audited composite and other performance figures are encouraged. At the very least, managers presenting performance data should make a positive written statement that full disclosure of assets included and excluded has been made and that calculations conform to FAF standards. Any deviations from these FAF standards should be specifically stated.*

B. *The principles of these FAF performance presentation standards should apply to all individuals and organizations serving investment management functions. Consultants are likewise encouraged to adopt similar standards and principles in reporting performance data.*

X. *Table III is a checklist for managers and clients—to assure proper conformance to the standards presented above.*

TABLE I

XYZ Capital Management: Actual and Annualized Equity Performance Versus S&P 500
Category of Accounts: Tax-Exempt Client Portfolios
Annualized Percentage Returns for N Years Through Year X

Year	Standard Deviation ⁽⁹⁾	Actual Return (%)	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6 Yrs.	7 Yrs.	8 Yrs.	9 Yrs.	10 Yrs.	11 Yrs.	12 Yrs.	13 Yrs.	14 Yrs.	15 Yrs.	16 Yrs.	17 Yrs.
'87	1.2%	10.72 5.24	14.30 11.75	19.80 18.05	15.51 15.00	16.07 16.47	17.47 17.30	14.28 13.82	17.58 16.00	18.19 16.29	17.39 15.28	15.06 13.03	15.08 13.90	15.44 15.55	12.75 11.88	10.78 9.88	13.25 10.42	12.25 10.65
'86	3.0%	17.99 18.67	24.62 25.04	17.15 18.45	17.44 19.46	18.87 19.87	14.89 15.33	18.59 17.62	19.16 17.75	18.15 16.45	15.51 13.84	15.48 14.73	15.84 16.45	12.91 12.41	10.79 10.21	11.84 10.78	12.35 11.00	
'85	1.9%	31.61 31.75	16.73 18.34	17.26 19.72	19.09 20.18	14.28 14.66	18.70 17.45	19.32 17.61	18.17 16.18	15.23 13.32	15.24 14.34	15.64 16.25	12.50 11.90	10.25 9.59	11.41 10.24	11.99 10.50		
'84	3.0	3.54 6.29	10.68 14.13	15.18 16.55	10.31 10.75	16.27 14.78	17.40 15.42	16.36 14.11	13.34 11.21	13.55 12.55	14.17 14.31	10.91 10.25	8.64 7.92	9.99 8.73	10.70 9.12			
'83	2.8%	18.32 22.55	21.49 22.05	12.67 12.28	19.69 17.01	20.38 17.34	18.66 15.48	14.80 11.92	14.86 13.36	15.40 15.79	11.67 10.66	9.11 8.07	10.55 8.94	11.27 9.34				
'82	6.8%	24.75 21.54	9.94 7.47	20.15 15.21	20.90 16.07	18.72 14.11	14.24 10.25	14.27 12.10	15.04 14.98	10.95 9.41	8.23 6.72	9.87 7.78	10.70 8.31					
'81	3.5%	- 3.10 - 4.97	17.92 12.18	19.65 14.29	17.26 12.32	12.24 8.12	12.74 10.61	13.72 14.06	9.34 7.98	6.54 5.19	8.48 6.49	9.51 7.18						
'80	4.4%	43.50 32.42	32.96 25.35	24.95 18.75	16.44 11.66	16.20 14.02	16.80 17.60	11.24 9.96	7.81 6.53	9.85 7.35	10.86 8.48							
'79	3.1%	23.19 18.65	16.60 12.46	8.61 5.29	10.23 9.83	12.08 14.83	6.63 6.61	3.49 3.27	6.24 5.12	7.72 6.10								
'78	2.4%	10.37 6.59	1.98 - 0.53	6.22 7.04	9.47 13.90	3.59 4.36	0.53 0.91	4.02 3.31	5.93 4.63									
'77	2.4%	- 5.77 - 7.17	4.21 7.26	9.17 16.44	1.96 3.80	-1.33 -0.19	2.99 2.78	5.31 4.35										
'76	2.5%	15.24 23.94	17.51 30.42	4.67 7.74	- 0.19 1.64	4.84 4.89	7.29 6.40											
'75	2.9%	19.82 37.23	- 0.24 0.46	- 4.85 - 4.87	2.39 0.60	5.76 3.21												
'74	3.0%	-16.94 -26.46	-15.21 -20.80	-2.83 - 9.28	2.51 - 3.89													
'73	2.7%	-13.45 -14.69	5.10 0.75	9.96 5.08														
'72	3.2%	27.62 19.00	23.94 16.62															
'71	3.1%	20.37 14.30																

**XYZ CAPITAL MANAGEMENT COMPOSITE
OF ALL CLIENTS (BOLD)**

S&P 500 INDEX

Characteristic Line⁽¹⁰⁾

Beta = .89

Annual Alpha = +2.6%

R² = 90.3%

This performance presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated 1988).

In addition to the information presented herein, such standards include:

- 1) Returns from all cash reserves and equivalents and/or bonds used by the manager in place of equities are included in performance calculations.
- 2) Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- 3) No selective periods of performance have been utilized. Results from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- 4) The composite calculation has been appropriately weighted for the size of each account.
- 5) Results are presented before management and related custodial fees. XYZ Capital fee schedule is attached.
- 6) Convertible securities have been included in these equity results.
- 7) No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- 8) The figures have been audited as of 3/3/88 (statement attached).
- 9) Approximately one-third of all portfolios had returns equal to the composite "actual return" +/- one standard deviation.
- 10) The Characteristic Line is a regression of manager composite performance versus S&P 500 over the full performance history (17 years).

TABLE II

XYZ Capital Management Equity Account Summary
Category: Tax-Exempt Client Portfolios

Year	Composite Assets (\$000)		% Equiv. Equity Assets ⁽⁹⁾	% XYZ's Total Equities Managed	# of Clients	Average Account Size (\$000)	Median Account Size (\$000)
	Reg. Yr.	Yr. End					
1987	5,506,550	5,881,173	100%	96%	65	80,580	40,813
1986	4,456,012	5,506,550	100	90	62	77,557	28,726
1985	3,463,639	4,464,521	100	92	57	65,655	38,975
1984	3,253,627	3,439,790	100	93	55	52,118	25,926
1983	2,486,902	3,253,627	100	91	56	48,562	20,608
1982	1,840,726	2,480,465	100	89	52	42,042	20,933
1981	1,749,541	1,840,726	100	90	51	31,737	19,262
1980	1,133,875	1,749,541	100	91	45	35,705	26,285
1979	850,993	1,133,875	100	92	42	23,622	12,882
1978	645,561	850,993	100	90	41	18,500	11,268
1977	677,257	645,561	100	85	42	14,345	7,510
1976	540,736	677,257	100	87	44	13,822	7,588
1975	343,959	540,736	100	88	43	11,265	6,058
1974	317,764	343,959	100	90	40	8,000	4,801
1973	179,007	317,764	100	98	33	8,362	6,795
1972	78,626	179,007	100	98	21	7,459	1,997
1971	28,205	78,626	100	98	14	4,914	927

This composite presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated , 19).

In addition to the information presented herein, such standards include:

- 1) All cash reserves and equivalents and/or bonds used by the manager in place of equities are included in composite presentations.
- 2) Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- 3) No selective periods for presentation have been utilized. Data from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- 4) The composite calculation has been appropriately weighted for the size of each account.
- 5) Results are presented before management and related custodial fees. The average fee charged for each period appears in the presentation.
- 6) Convertible securities have been included in these equity composites.
- 7) No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- 8) The data have been audited as of 3/3/88 (statement attached).
- 9) Percentage of "equivalent" equity assets means the amount (%) of accounts represented which share very comparable investment guidelines and risks.

Table III

*FAF Investment Manager Performance
Presentation Standards Checklist*

Following is a checklist for investment managers, their clients and prospects, and for consultants—to assure proper conformance to the Financial Analyst Federation "Performance Presentation Standards of January 12, 1989."

I. Performance calculations.

- A. *Performance results have been calculated on a time-weighted basis.*
- B. *Returns combine income and current market valuations (thus, presenting so-called total returns).*
- C. *Manager fee levels have been disclosed along with performance records so that after-fee results can be measured.*
- D. *Performance results of broad security classes such as equities or fixed income have been calculated with cash or substitute securities included. If cash has been excluded in the calculations, returns with cash have also been presented, along with the statement that FAF standards consider performance with cash as most representative of managerial results and most representative for comparisons with other managers.*

E. *All exclusions from performance calculations and presentation by manager have been disclosed.*

F. *The method of linking interim performance results (daily, monthly, quarterly) has been explained. (FAF standard is for monthly linking.)*

G. *Balanced account performance.*

1. *Manager has assigned cash and substitute securities to the specific asset category to which it belongs, thereby allowing a clear division of the performance record for each asset managed.*

2. *If cash and substitute securities are not assigned to a separate asset, comparisons should not be made against other managers' performance figures for assets where cash returns have been included.*

3. *Manager has supplied information on risk, volatility and/or other measures which allow for reasonable performance evaluation.*

H. *Convertible securities have been consistently assigned to either equities or fixed income, and have not been shifted without notice being given to clients concurrent or prior to such shift.*

J. *Managers have provided the indexes against which their submitted performance records have normally been compared.*

K. *If managers' assets have been leveraged, and performance returns calculated on this basis, results on an all-cash (unleveraged) basis have been provided.*

II. *Investment manager composites of performance results.*

A. *Manager has submitted a composite of all accounts managed for each period submitted; the composite includes results from any and all accounts no longer clients of the firm.*

B. *If a manager has separate composites, all have been submitted. A prospect should be able to account for the performance of all of the manager's assets managed.*

C. *Composites are not "survivors only" compilations; they include results of all accounts ever managed, including those of clients no longer with the firm.*

D. *All performance results contained in the composite include cash and substitutable securities, as per I.D. above.*

E. *All individual years and cumulative performance results for all periods have been supplied. The composite covers every year of the past 10 years, along with longer term results if the manager has been in business this long.*

F. *Compound annualized returns have also been provided for all periods.*

G. *A clear statement from manager indicates that no selectivity of account results for partial periods exists.*

H. *Composite or other data have not been altered for reasons of personnel changes or any other reasons.*

I. *Composite results are:*

1. *Weighted for the dollars under management (the FAF standard).*

2. *Presented on a median (unweighted) basis (recommended only as additional information, not as the primary disclosure).*

- J. *Data includes:*
 - 1. *Number of client relationships in the composite.*
 - 2. *Assets under management for each period.*
 - 3. *Average and median size of accounts in the composite have been presented.*
 - 4. *Assets included in the composite presented are shown as a percentage of the manager's total accounts which share very comparable investment guidelines and risks; and as a percentage of the manager's total funds under management. All clients and related performance data for this asset type can be accounted for.*
- K. *Fee information is clear, so that pre- and post-fee results can be determined.*
- L. *Composites include typical indexes against which manager has been judged.*
- M. *Alpha, Beta, Standard Deviation of Returns and other measures of risk, quality, variability, etc. within the composite for each year have been indicated.*

- N. *Other information provided:*

III. *Verification of performance data.*

- A. *Results have been audited by reputable auditors.*
- B. *Results are not audited, but include statements that calculations and presentation of individual accounts and composites conform to FAF performance presentation standards.*
- C. *Neither of A. or B. above.*

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

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WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

February 21, 1989

Mr. James R. Wilson
Statement Investment Officer
State of Alaska
Department of Revenue
Treasury Division
P.O. Box SB
Juneau, AK 99811

Re: PERS and TRS Financial Projections

Dear Jim:

Enclosed you will find our actuarial projections of financial results for both PERS and TRS for the next 15 years. As always, care should be exercised in using these long-term financial projections.

For both PERS and TRS, we provide projections based upon four different sets of actuarial assumptions. The first table for each retirement system is based upon the current actuarial assumption which assumes an investment return rate of 9% per year and salary increases of 6.5% for the first five years of employment and 5.5% for later years of employment. Then, for each retirement system, we provide three additional projections. The first one assumes a 1% higher investment return with no change in the salary increase assumption; the second one assumes no change in the investment assumption but a 1% lower rate of salary increase assumption; the last one, which provides the most optimistic scenario, bases its projections upon a 1% higher rate of investment return with the 1% lower salary increase assumption.

For both PERS and TRS, there were actuarial losses during FY88. These losses led to lower funding ratios and increases in employer contribution rates. There were three major deviations from actuarial assumptions during the year. Of greatest importance was the substantial increase in the monthly premiums for retiree medical insurance. The monthly rate is currently \$250 per month per benefit recipient. After a few years of declining retiree medical insurance premiums, the rates have once again shot skyward.

There were actuarial losses from less-than-anticipated investment return rates during the year. Even with the three-year smoothing approach used on valuation assets, the dramatic drop in equity values on October 19, 1987 still had an affect on the total investment performance for the year. Based upon valuation assets, both PERS and TRS had investment performance rates during the year which were about 3% less than our 9% interest assumption.

William M. Mercer Meidinger Hansen, Incorporated

Mr. James R. Wilson
February 21, 1989
Page Two

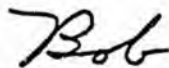
Partially dampening the affects of these two actuarial losses were the less-than-anticipated salary increases during the year. Both PERS and TRS experienced actuarial gains in this area.

The projections this year, when compared with last year's projections, all show slightly lower funding ratios and slightly higher employer contributions at all durations. More than anything else, this reflects the impact of the higher cost of post-retirement medical insurance. Also, this year's projections include additional employer contributions for the Retirement Incentive Program.

Summary

Despite actuarial gains from less-than-anticipated salary increases during FY88, actuarial losses from a dramatic rise in retiree medical insurance premiums, as well as less-than-anticipated investment performance, led to a decrease in funding ratios for both PERS and TRS. Nevertheless, both plans are still extremely well funded and are projected to remain so in the ensuing years.

Sincerely,



Robert F. Richardson, ASA, EA, MAAA
Principal

RFR:js

Table 1
State of Alaska 1988
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				Ending Asset Valuation			
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							
	Total Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Contribs		Benefit Payments	Net Contribs	Investment Earnings
1988	1,331,905	1,348,677	(16,772)	413,556	59,004	37,085	96,839	78,902	17,987	126,075	1,475,967
1989	1,475,967	1,482,362	(6,395)	438,535	59,519	39,723	99,242	83,548	15,694	139,521	1,631,182
1990	1,631,182	1,628,457	2,725	465,022	57,897	38,667	96,564	88,385	8,179	153,781	1,793,142
1991	1,793,142	1,784,918	8,224	493,110	57,715	37,723	95,438	93,429	2,009	168,735	1,963,887
1992	1,963,887	1,952,792	11,094	522,893	60,979	39,897	100,876	98,692	2,183	184,802	2,150,872
1993	2,150,872	2,136,494	14,378	554,476	64,410	42,196	106,614	104,192	2,421	202,398	2,355,692
1994	2,355,692	2,337,571	18,121	587,967	68,040	44,627	112,667	109,945	2,722	221,675	2,580,089
1995	2,580,089	2,557,711	22,378	623,480	71,855	47,197	119,052	114,812	4,240	242,848	2,827,177
1996	2,827,177	2,799,971	27,206	661,138	75,870	49,916	125,786	125,013	773	265,931	3,093,880
1997	3,093,880	3,061,206	32,675	701,071	80,095	52,791	132,886	129,756	3,130	291,120	3,388,130
1998	3,388,130	3,349,291	38,839	743,415	84,542	55,830	140,372	138,434	1,938	318,741	3,708,810
1999	3,708,810	3,663,024	45,786	788,318	89,218	59,124	148,342	146,321	2,021	348,904	4,059,735
2000	4,059,735	4,006,144	53,591	835,932	94,136	62,695	156,831	151,330	5,501	382,066	4,447,302
2001	4,447,302	4,384,959	62,343	886,422	99,307	66,482	165,789	155,844	9,944	418,716	4,875,962
2002	4,875,962	4,803,804	72,158	939,962	104,740	70,497	175,237	165,218	10,019	459,035	5,345,017
2003	5,345,017	5,261,848	83,169	996,736	110,445	74,755	185,200	172,835	12,366	503,255	5,860,638

* Surpluses reduce employer contributions over 5 years
* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	9.00%
1989	99.6	13.57%	9.06%	22.63%	19.05%	1.01%	9.00%
1990	100.2	12.45%	8.32%	20.77%	19.01%	0.48%	9.00%
1991	100.5	11.70%	7.65%	19.35%	18.95%	0.11%	9.00%
1992	100.6	11.66%	7.63%	19.29%	18.87%	0.11%	9.00%
1993	100.7	11.62%	7.61%	19.23%	18.79%	0.11%	9.00%
1994	100.8	11.57%	7.59%	19.16%	18.70%	0.11%	9.00%
1995	100.9	11.52%	7.57%	19.09%	18.41%	0.16%	9.00%
1996	101.0	11.48%	7.55%	19.03%	18.91%	0.03%	9.00%
1997	101.1	11.42%	7.53%	18.95%	18.51%	0.10%	9.00%
1998	101.2	11.37%	7.51%	18.88%	18.62%	0.05%	9.00%
1999	101.2	11.32%	7.50%	18.82%	18.56%	0.05%	9.00%
2000	101.3	11.26%	7.50%	18.76%	18.10%	0.13%	9.00%
2001	101.4	11.20%	7.50%	18.70%	17.58%	0.21%	9.00%
2002	101.5	11.14%	7.50%	18.64%	17.58%	0.20%	9.00%
2003	101.6	11.08%	7.50%	18.58%	17.34%	0.22%	9.00%

Table 2
State of Alaska IRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)							Ending Asset Valuation
	--Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus* (Deficit)	-----Flow Total Employer Salaries		Amounts During Following Employee Contribs		12 Months----- Total Benefit Payments		Net Contribs	
1988	1,331,708	1,348,677	(16,772)	413,556	59,004	37,885	96,889	78,902	17,987	140,749	1,490,641
1989	1,490,641	1,482,362	8,279	438,535	57,237	39,723	96,960	83,548	13,413	157,188	1,661,242
1990	1,661,242	1,628,457	32,785	465,022	55,090	38,667	93,757	88,385	5,372	174,699	1,841,313
1991	1,841,313	1,784,918	56,394	493,110	53,216	37,723	90,939	93,429	(2,490)	193,213	2,032,036
1992	2,032,036	1,952,792	79,244	522,893	54,614	39,897	94,511	98,692	(4,181)	213,155	2,241,009
1993	2,241,009	2,136,494	104,515	554,476	56,000	42,196	98,195	104,192	(5,997)	235,006	2,470,018
1994	2,470,018	2,337,571	132,448	587,967	57,363	44,627	101,989	109,945	(7,956)	258,954	2,721,016
1995	2,721,016	2,557,711	163,306	623,480	58,692	47,197	105,890	114,812	(8,922)	285,261	2,997,355
1996	2,997,355	2,799,771	197,384	661,138	59,976	49,916	109,892	125,013	(15,122)	313,966	3,296,199
1997	3,296,199	3,061,206	234,994	701,071	61,199	52,791	113,990	129,756	(15,766)	345,313	3,625,746
1998	3,625,746	3,349,291	276,455	743,415	62,349	55,830	118,180	138,434	(20,254)	379,691	3,985,182
1999	3,985,182	3,663,024	322,159	788,318	63,406	59,124	122,530	146,321	(23,791)	417,255	4,378,646
2000	4,378,646	4,006,144	372,501	835,932	64,351	62,695	127,046	151,330	(24,284)	458,544	4,812,905
2001	4,812,905	4,384,759	427,946	886,422	65,161	66,482	131,643	155,844	(24,202)	504,145	5,292,848
2002	5,292,848	4,803,804	489,044	939,962	65,804	70,497	136,302	165,218	(28,917)	554,303	5,818,235
2003	5,818,235	5,261,848	556,386	996,736	66,248	74,755	141,003	172,835	(31,831)	609,323	6,395,726

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----			--As % of Assets--		
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	10.00%
1989	100.6	13.05%	9.06%	22.11%	19.05%	0.85%	10.00%
1990	102.0	11.85%	8.32%	20.16%	19.01%	0.31%	10.00%
1991	103.2	10.79%	7.65%	18.44%	18.95%	-0.13%	10.00%
1992	104.1	10.44%	7.63%	18.07%	18.87%	-0.20%	10.00%
1993	104.9	10.10%	7.61%	17.71%	18.79%	-0.26%	10.00%
1994	105.7	9.76%	7.59%	17.35%	18.70%	-0.31%	10.00%
1995	106.4	9.41%	7.57%	16.98%	18.41%	-0.31%	10.00%
1996	107.0	9.07%	7.55%	16.62%	18.91%	-0.48%	10.00%
1997	107.7	8.73%	7.53%	16.26%	18.51%	-0.46%	10.00%
1998	108.3	8.39%	7.51%	15.90%	18.62%	-0.53%	10.00%
1999	108.8	8.04%	7.50%	15.54%	18.56%	-0.57%	10.00%
2000	109.3	7.70%	7.50%	15.20%	18.10%	-0.53%	10.00%
2001	109.8	7.35%	7.50%	14.85%	17.58%	-0.48%	10.00%
2002	110.2	7.00%	7.50%	14.50%	17.58%	-0.52%	10.00%
2003	110.6	6.65%	7.50%	14.15%	17.34%	-0.52%	10.00%

Table 3
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)				Ending Asset Valuation			
	--Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus* (Deficit)	-----Flow Amounts During Following 12 Months----- Total Employer Salaries Contribs					Employee Contribs	Total Benefit Payments	Net Investment Earnings
1988	1,331,905	1,348,677	(16,772)	409,656	58,541	37,584	96,126	78,590	17,536	126,055	1,475,495
1989	1,475,495	1,476,121	(626)	430,303	57,181	39,090	76,272	82,889	13,383	139,373	1,628,251
1990	1,628,251	1,614,564	13,687	451,990	55,328	37,668	92,995	87,343	5,653	153,391	1,787,295
1991	1,787,295	1,761,762	25,532	474,770	53,923	36,320	90,243	91,961	(1,718)	168,018	1,953,594
1992	1,953,594	1,918,539	35,056	498,699	55,872	38,051	93,922	96,757	(2,834)	183,608	2,134,368
1993	2,134,368	2,089,059	45,309	523,853	57,895	39,864	97,759	101,741	(3,982)	200,558	2,330,944
1994	2,330,944	2,274,591	56,353	550,234	59,995	41,763	101,757	106,927	(5,169)	218,993	2,544,767
1995	2,544,767	2,470,514	68,252	577,966	62,172	43,752	105,924	111,171	(5,247)	239,099	2,778,619
1996	2,778,619	2,697,541	81,078	607,096	64,429	45,836	110,265	120,690	(10,425)	260,860	3,029,054
1997	3,029,054	2,934,142	94,912	637,693	66,766	48,018	114,784	124,686	(9,901)	284,437	3,303,589
1998	3,303,589	3,193,767	109,822	669,833	69,185	50,304	119,490	132,547	(13,057)	310,115	3,600,647
1999	3,600,647	3,474,741	125,906	703,592	71,687	52,769	124,456	139,543	(15,087)	337,962	3,923,522
2000	3,923,522	3,780,270	143,252	739,053	74,272	55,429	129,701	143,580	(13,879)	368,383	4,278,026
2001	4,278,026	4,116,064	161,962	776,302	76,943	58,223	135,165	147,035	(11,869)	401,814	4,667,971
2002	4,667,971	4,485,809	182,162	815,427	79,696	61,157	140,853	155,255	(14,402)	438,375	5,091,944
2003	5,091,944	4,887,949	203,995	856,525	82,531	64,239	146,771	161,618	(14,847)	478,229	5,555,326

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.29%	9.17%	23.46%	19.18%	1.25%	9.00%
1989	100.0	13.29%	9.08%	22.37%	19.26%	0.86%	9.00%
1990	100.8	12.24%	8.33%	20.57%	19.32%	0.33%	9.00%
1991	101.4	11.36%	7.65%	19.01%	19.37%	-0.09%	9.00%
1992	101.8	11.20%	7.63%	18.83%	19.40%	-0.14%	9.00%
1993	102.2	11.05%	7.61%	18.66%	19.42%	-0.18%	9.00%
1994	102.5	10.90%	7.59%	18.49%	19.43%	-0.21%	9.00%
1995	102.8	10.76%	7.57%	18.33%	19.23%	-0.20%	9.00%
1996	103.0	10.61%	7.55%	18.16%	19.88%	-0.36%	9.00%
1997	103.2	10.47%	7.53%	18.00%	19.55%	-0.31%	9.00%
1998	103.4	10.33%	7.51%	17.84%	19.79%	-0.38%	9.00%
1999	103.6	10.19%	7.50%	17.69%	19.83%	-0.40%	9.00%
2000	103.8	10.05%	7.50%	17.55%	19.43%	-0.34%	9.00%
2001	103.9	9.91%	7.50%	17.41%	18.94%	-0.27%	9.00%
2002	104.1	9.77%	7.50%	17.27%	19.04%	-0.30%	9.00%
2003	104.2	9.64%	7.50%	17.14%	18.87%	-0.28%	9.00%

Table 4
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)			Ending				
	Valuation Total Assets	Amounts on Accrued Liability	July 1-- Surplus* (Deficit)	Flow Amounts During Following 12 Months--			Investment				
			Total Salaries	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Earnings	Asset Valuation	
1988	1,331,905	1,348,677	(16,772)	409,656	58,541	37,584	96,126	78,590	17,536	140,727	1,490,167
1989	1,490,167	1,476,121	14,046	430,303	55,722	39,090	94,812	82,889	11,923	157,064	1,659,155
1990	1,659,155	1,614,564	44,590	451,990	52,441	37,668	90,109	87,343	2,766	174,350	1,836,270
1991	1,836,270	1,761,762	74,508	474,770	49,349	36,320	85,669	91,961	(6,293)	192,494	2,022,472
1992	2,022,472	1,918,539	103,933	498,699	49,439	38,051	87,489	96,757	(9,267)	211,896	2,225,101
1993	2,225,101	2,089,059	136,042	523,833	49,421	39,864	89,284	101,741	(12,456)	233,013	2,445,657
1994	2,445,657	2,274,591	171,066	550,234	49,281	41,763	91,044	106,927	(15,883)	256,000	2,685,773
1995	2,685,773	2,476,514	209,259	577,966	49,003	43,752	92,755	111,171	(18,417)	281,085	2,948,442
1996	2,948,442	2,697,541	250,901	607,096	48,568	45,836	94,404	120,690	(26,286)	308,272	3,230,428
1997	3,230,428	2,934,142	296,286	637,693	47,958	48,018	95,976	124,686	(28,709)	337,760	3,539,479
1998	3,539,479	3,193,767	345,711	669,833	47,154	50,304	97,458	132,547	(35,089)	369,891	3,874,281
1999	3,874,281	3,474,741	399,540	703,592	46,130	52,769	98,900	139,543	(40,643)	404,767	4,238,405
2000	4,238,405	3,780,270	458,135	739,053	44,863	55,429	100,292	143,580	(43,288)	442,868	4,637,985
2001	4,637,985	4,116,064	521,921	776,302	43,324	58,223	101,546	147,035	(45,488)	484,714	5,077,211
2002	5,077,211	4,485,809	591,402	815,427	41,475	61,157	102,632	155,255	(52,624)	530,476	5,555,063
2003	5,555,063	4,887,949	667,114	856,525	39,277	64,239	103,517	161,618	(58,101)	580,377	6,077,339

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	--As % of Salaries--				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.29%	9.17%	23.46%	19.18%	1.25%	10.00%
1989	101.0	12.95%	9.08%	22.03%	19.26%	0.76%	10.00%
1990	102.8	11.60%	8.33%	19.94%	19.32%	0.16%	10.00%
1991	104.2	10.39%	7.65%	18.04%	19.37%	-0.33%	10.00%
1992	105.4	9.91%	7.63%	17.54%	19.40%	-0.44%	10.00%
1993	106.5	9.43%	7.61%	17.04%	19.42%	-0.53%	10.00%
1994	107.5	8.96%	7.59%	16.55%	19.43%	-0.62%	10.00%
1995	108.4	8.48%	7.57%	16.05%	19.23%	-0.66%	10.00%
1996	109.3	8.00%	7.55%	15.55%	19.08%	-0.85%	10.00%
1997	110.1	7.52%	7.53%	15.05%	19.55%	-0.85%	10.00%
1998	110.8	7.04%	7.51%	14.55%	19.79%	-0.95%	10.00%
1999	111.5	6.56%	7.50%	14.06%	19.83%	-1.00%	10.00%
2000	112.1	6.07%	7.50%	13.57%	19.43%	-0.98%	10.00%
2001	112.7	5.58%	7.50%	13.08%	18.94%	-0.94%	10.00%
2002	113.2	5.09%	7.50%	12.59%	19.04%	-0.99%	10.00%
2003	113.6	4.59%	7.50%	12.09%	18.87%	-1.00%	10.00%

Table 5
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)							Ending Asset Valuation
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Benefit Contribs	Benefit Payments	Net Contribs	Investment Earnings	
1988	2,098,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	200,702	2,384,364
1989	2,384,364	2,511,963	(127,597)	1,002,222	126,601	68,452	195,053	106,870	88,183	228,218	2,700,764
1990	2,700,764	2,801,804	(101,039)	1,062,756	123,924	72,586	196,510	116,504	80,006	257,607	3,038,378
1991	3,038,378	3,118,259	(79,881)	1,126,946	122,858	76,970	199,829	125,883	73,946	289,087	3,401,411
1992	3,401,411	3,464,631	(63,221)	1,195,014	125,211	81,619	206,831	135,955	70,875	323,092	3,795,378
1993	3,795,378	3,843,567	(48,189)	1,267,193	128,328	86,549	214,877	148,046	66,832	359,963	4,222,172
1994	4,222,172	4,256,607	(34,435)	1,343,731	132,148	91,777	223,925	160,809	63,116	399,936	4,685,224
1995	4,685,224	4,706,881	(21,658)	1,424,893	136,626	97,320	233,946	175,544	58,402	443,273	5,186,899
1996	5,186,899	5,196,490	(9,591)	1,510,956	141,724	103,198	244,922	191,787	53,135	490,219	5,730,253
1997	5,730,253	5,728,256	1,997	1,602,218	147,698	109,431	257,130	209,342	47,788	541,081	6,319,122
1998	6,319,122	6,305,512	13,610	1,698,992	155,546	116,041	271,587	228,844	42,743	596,237	6,958,102
1999	6,958,102	6,931,281	26,820	1,801,611	163,784	123,050	286,834	247,363	39,471	656,186	7,653,758
2000	7,653,758	7,611,981	41,776	1,910,428	172,431	130,482	302,913	269,379	33,534	721,345	8,408,636
2001	8,408,636	8,349,986	58,650	2,025,818	181,505	138,363	319,869	293,243	26,625	792,030	9,227,292
2002	9,227,292	9,149,673	77,619	2,148,178	191,027	146,721	337,748	318,446	19,302	868,695	10,115,290
2003	10,115,290	10,016,415	98,874	2,277,928	201,018	155,582	355,601	344,013	12,587	951,909	11,079,787

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Benefit Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	93.0	13.60%	6.83%	20.43%	10.35%	4.27%	9.00%
1989	94.9	12.63%	6.83%	19.46%	10.66%	3.48%	9.00%
1990	96.4	11.66%	6.83%	18.49%	10.96%	2.80%	9.00%
1991	97.4	10.90%	6.83%	17.73%	11.17%	2.30%	9.00%
1992	98.2	10.48%	6.83%	17.31%	11.38%	1.97%	9.00%
1993	98.7	10.13%	6.83%	16.96%	11.68%	1.67%	9.00%
1994	99.2	9.83%	6.83%	16.66%	11.97%	1.42%	9.00%
1995	99.5	9.59%	6.83%	16.42%	12.32%	1.19%	9.00%
1996	99.8	9.38%	6.83%	16.21%	12.69%	0.98%	9.00%
1997	100.0	9.22%	6.83%	16.05%	13.07%	0.79%	9.00%
1998	100.2	9.16%	6.83%	15.99%	13.47%	0.65%	9.00%
1999	100.4	9.09%	6.83%	15.92%	13.73%	0.54%	9.00%
2000	100.5	9.03%	6.83%	15.86%	14.10%	0.42%	9.00%
2001	100.7	8.96%	6.83%	15.79%	14.48%	0.30%	9.00%
2002	100.8	8.89%	6.83%	15.72%	14.82%	0.20%	9.00%

Table 6
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				Ending Asset Valuation			
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Benefit Payments	Net Contribs	Investment Earnings		
1988	2,088,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	224,047	2,407,708
1989	2,407,708	2,511,963	(104,255)	1,002,222	121,095	68,452	189,547	106,870	82,677	256,943	2,747,328
1990	2,747,328	2,801,804	(54,475)	1,062,756	112,941	72,586	185,527	116,504	69,024	291,921	3,108,273
1991	3,108,273	3,118,259	(9,987)	1,126,946	106,373	76,970	183,343	125,883	57,460	329,242	3,494,974
1992	3,494,974	3,464,631	30,343	1,195,014	107,466	81,619	189,085	135,955	53,130	369,629	3,917,733
1993	3,917,733	3,843,567	74,166	1,267,193	110,035	86,549	196,584	148,046	48,539	413,789	4,380,060
1994	4,380,060	4,256,607	123,453	1,343,731	112,496	91,777	204,273	160,809	43,464	462,080	4,885,604
1995	4,885,604	4,706,881	178,722	1,424,893	114,826	97,320	212,146	175,544	36,602	514,818	5,437,024
1996	5,437,024	5,196,490	240,533	1,510,956	116,996	103,198	220,195	191,787	28,408	572,308	6,037,739
1997	6,037,739	5,728,256	309,483	1,602,218	118,980	109,431	228,411	209,342	19,070	634,916	6,691,725
1998	6,691,725	6,305,512	386,213	1,698,992	120,746	116,041	236,787	228,844	7,943	703,028	7,402,696
1999	7,402,696	6,931,281	471,415	1,801,611	122,260	123,050	245,310	247,363	(2,053)	777,180	8,177,824
2000	8,177,824	7,611,981	565,842	1,910,428	123,485	130,482	253,967	269,379	(15,412)	857,901	9,020,312
2001	9,020,312	8,349,986	670,326	2,025,818	124,377	138,363	262,740	293,243	(30,503)	945,608	9,935,417
2002	9,935,417	9,149,673	785,743	2,148,178	124,891	146,721	271,611	318,446	(46,834)	1,040,877	10,929,459
2003	10,929,459	10,016,415	913,044	2,277,928	124,977	155,582	280,560	344,013	(63,454)	1,144,421	12,010,426

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	93.0	13.60%	6.83%	20.43%	10.35%	4.25%	10.00%
1989	95.8	12.08%	6.83%	18.91%	10.66%	3.22%	10.00%
1990	98.1	10.63%	6.83%	17.46%	10.96%	2.36%	10.00%
1991	99.7	9.44%	6.83%	16.27%	11.17%	1.75%	10.00%
1992	100.9	8.99%	6.83%	15.82%	11.38%	1.44%	10.00%
1993	101.9	8.68%	6.83%	15.51%	11.68%	1.17%	10.00%
1994	102.9	8.37%	6.83%	15.20%	11.97%	0.94%	10.00%
1995	103.8	8.06%	6.83%	14.89%	12.32%	0.71%	10.00%
1996	104.6	7.74%	6.83%	14.57%	12.69%	0.50%	10.00%
1997	105.4	7.43%	6.83%	14.26%	13.07%	0.30%	10.00%
1998	106.1	7.11%	6.83%	13.94%	13.47%	0.11%	10.00%
1999	106.8	6.79%	6.83%	13.62%	13.73%	-0.03%	10.00%
2000	107.4	6.46%	6.83%	13.29%	14.10%	-0.18%	10.00%
2001	108.0	6.14%	6.83%	12.97%	14.48%	-0.32%	10.00%
2002	108.6	5.81%	6.83%	12.64%	14.82%	-0.45%	10.00%

Table 7
State of Alaska PERB
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)					Flow Amounts During Following 12 Months		Ending Asset Valuation
	--Valuation Amounts on July 1-- Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contrihs	Employee Contrihs	Total Contrihs	Benefit Payments	Net Contrihs	Investment Earnings	
1988	2,088,428	2,246,583	(158,155)	934,223	127,717	63,944	191,661	97,502	94,159	200,654	2,383,240
1989	2,383,240	2,497,668	(114,428)	983,408	121,758	67,167	108,925	106,061	82,864	227,873	2,693,977
1990	2,693,977	2,770,007	(76,030)	1,032,972	115,276	70,552	185,828	115,134	70,694	256,550	3,021,221
1991	3,021,221	3,065,357	(44,136)	1,085,034	110,559	74,108	184,666	123,829	60,837	286,884	3,368,942
1992	3,368,942	3,386,586	(17,645)	1,139,719	109,358	77,843	187,201	133,080	54,121	319,284	3,742,347
1993	3,742,347	3,735,867	6,480	1,197,161	109,893	81,766	191,659	144,194	47,465	354,104	4,143,915
1994	4,143,915	4,114,220	29,696	1,257,498	113,294	85,887	199,181	155,808	43,373	391,687	4,578,975
1995	4,578,975	4,524,205	54,770	1,320,876	116,802	90,216	207,017	169,199	37,818	432,354	5,049,148
1996	5,049,148	4,967,303	81,845	1,387,448	120,417	94,763	215,180	183,882	31,298	476,281	5,556,726
1997	5,556,726	5,445,658	111,069	1,457,376	124,142	99,539	223,681	199,637	24,044	523,692	6,104,462
1998	6,104,462	5,961,862	142,600	1,530,827	127,977	104,556	232,532	217,073	15,460	574,820	6,694,743
1999	6,694,743	6,518,135	176,608	1,607,981	131,922	109,825	241,747	233,228	8,519	630,024	7,333,285
2000	7,333,285	7,120,015	213,270	1,689,023	135,978	115,360	251,338	252,553	(1,214)	689,641	8,021,712
2001	8,021,712	7,768,923	252,789	1,774,150	140,144	121,174	261,319	273,361	(12,043)	753,900	8,763,570
2002	8,763,570	8,468,197	295,372	1,863,567	144,420	127,282	271,702	295,108	(23,406)	823,160	9,563,325
2003	9,563,325	9,222,083	341,242	1,957,491	148,806	133,697	282,502	316,776	(34,274)	897,888	10,426,939

* Surpluses reduce employer contributions over 5 years
* Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contrihs	Employee Contrihs	Total Contrihs	Benefit Payments	Net Contrihs	Investment Earnings
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.22%	9.00%
1989	95.4	12.38%	6.83%	19.21%	10.79%	3.27%	9.00%
1990	97.3	11.16%	6.83%	17.99%	11.15%	2.48%	9.00%
1991	98.6	10.19%	6.83%	17.02%	11.41%	1.91%	9.00%
1992	99.5	9.60%	6.83%	16.43%	11.68%	1.53%	9.00%
1993	100.2	9.18%	6.83%	16.01%	12.04%	1.21%	9.00%
1994	100.7	9.01%	6.83%	15.84%	12.39%	1.00%	9.00%
1995	101.2	8.84%	6.83%	15.67%	12.81%	0.79%	9.00%
1996	101.6	8.68%	6.83%	15.51%	13.25%	0.59%	9.00%
1997	102.0	8.57%	6.83%	15.35%	13.70%	0.41%	9.00%
1998	102.4	8.36%	6.83%	15.19%	14.18%	0.24%	9.00%
1999	102.7	8.20%	6.83%	15.03%	14.50%	0.12%	9.00%
2000	103.0	8.05%	6.83%	14.88%	14.95%	-0.02%	9.00%
2001	103.3	7.90%	6.83%	14.73%	15.41%	-0.14%	9.00%
2002	103.5	7.75%	6.83%	14.58%	15.84%	-0.26%	9.00%

Table 8
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)							
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							Ending
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contrihs	Employee Contrihs	Total Contrihs	Benefit Payments	Net Contrihs	Investment Earnings	Asset Valuation
1988	2,088,428	2,246,583	(158,155)	936,223	127,717	63,944	191,661	97,502	94,159	223,993	2,406,579
1989	2,406,579	2,497,668	(91,089)	983,408	116,253	67,167	183,420	106,061	77,359	256,559	2,740,497
1990	2,740,497	2,770,007	(29,509)	1,032,972	104,304	70,552	174,856	115,134	59,722	290,738	3,090,957
1991	3,090,957	3,065,357	25,601	1,085,034	97,758	74,108	171,865	123,829	48,036	326,952	3,465,946
1992	3,465,946	3,386,586	79,360	1,139,719	97,784	77,843	175,627	133,080	42,547	366,052	3,874,544
1993	3,874,544	3,735,867	138,678	1,197,161	97,546	81,766	179,312	144,194	35,118	408,583	4,318,246
1994	4,318,246	4,114,220	204,026	1,257,498	97,012	85,887	182,899	155,808	27,091	454,770	4,800,107
1995	4,800,107	4,524,205	275,902	1,320,876	96,149	90,216	186,364	169,199	17,165	504,869	5,322,142
1996	5,322,142	4,967,303	354,838	1,387,448	94,921	94,763	189,683	183,882	5,801	559,115	5,887,058
1997	5,887,058	5,445,658	441,400	1,457,376	93,290	99,539	192,829	199,637	(6,808)	617,801	6,498,050
1998	6,498,050	5,961,862	536,188	1,530,827	91,217	104,556	195,773	217,073	(21,300)	681,230	7,157,981
1999	7,157,981	6,518,135	639,846	1,607,981	88,657	109,825	198,482	233,228	(34,746)	749,851	7,873,085
2000	7,873,085	7,120,015	753,070	1,689,023	85,562	115,360	200,923	252,553	(51,630)	824,092	8,645,548
2001	8,645,548	7,768,923	876,625	1,774,150	81,880	121,174	203,055	273,361	(70,307)	904,267	9,479,508
2002	9,479,508	8,468,197	1,011,311	1,863,567	77,554	127,282	204,836	295,108	(90,272)	990,835	10,380,071
2003	10,380,071	9,222,083	1,157,988	1,957,491	72,524	133,697	206,221	316,776	(110,556)	1,084,380	11,353,895

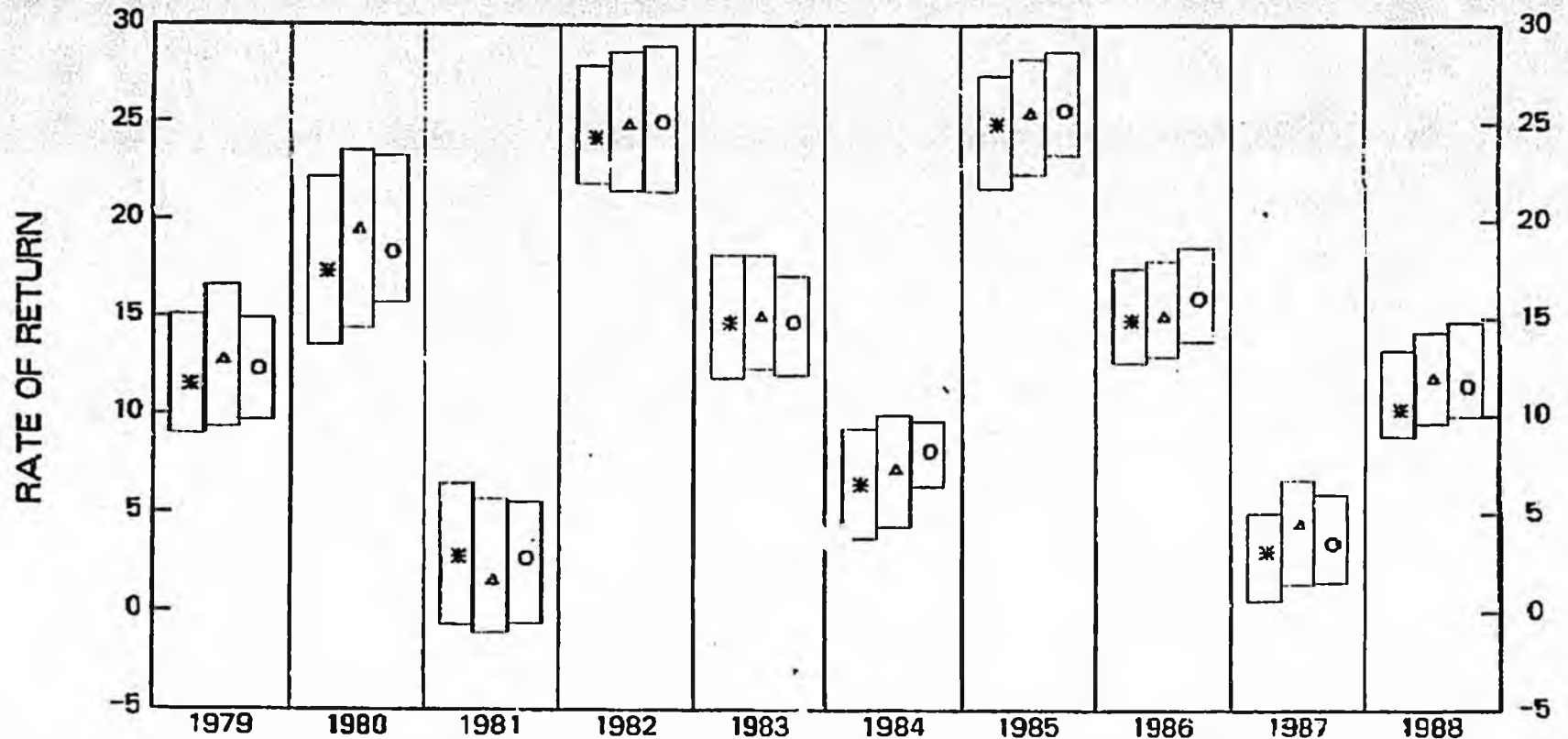
* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contrihs	Employee Contrihs	Total Contrihs	Benefit Payments	Net Contrihs	Investment Earnings
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.20%	10.00%
1989	96.4	11.82%	6.83%	18.65%	10.79%	3.02%	10.00%
1990	98.9	10.10%	6.83%	16.93%	11.15%	2.05%	10.00%
1991	100.8	9.01%	6.83%	15.84%	11.41%	1.47%	10.00%
1992	102.3	8.58%	6.83%	15.41%	11.68%	1.16%	10.00%
1993	103.7	8.15%	6.83%	14.98%	12.04%	0.86%	10.00%
1994	105.0	7.71%	6.83%	14.54%	12.39%	0.60%	10.00%
1995	106.1	7.28%	6.83%	14.11%	12.81%	0.34%	10.00%
1996	107.1	6.84%	6.83%	13.67%	13.25%	0.10%	10.00%
1997	108.1	6.40%	6.83%	13.23%	13.70%	-0.11%	10.00%
1998	109.0	5.96%	6.83%	12.79%	14.18%	-0.31%	10.00%
1999	109.8	5.51%	6.83%	12.34%	14.50%	-0.46%	10.00%
2000	110.6	5.07%	6.83%	11.90%	14.95%	-0.63%	10.00%
2001	111.3	4.62%	6.83%	11.45%	15.41%	-0.78%	10.00%
2002	111.9	4.16%	6.83%	10.99%	15.84%	-0.91%	10.00%

TOTAL FUND: RATES OF RETURN BY ASSET SIZE

FOR PERIODS ENDING DECEMBER 31.



BARS REPRESENT THE RANGE OF RETURNS BETWEEN THE FIRST AND THIRD QUARTILE

ANNUAL MEDIAN RETURNS

	(*)	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
UNDER \$10 MILLION	(*)	11.7	17.5	3.0	24.4	14.9	6.6	25.1	15.0	3.2	10.5
\$10 TO \$50 MILLION	(Δ)	12.9	19.6	1.7	25.0	15.1	7.3	25.6	15.2	4.6	12.0
OVER \$50 MILLION	(○)	12.5	18.5	2.8	25.2	14.9	8.3	25.8	16.1	3.7	11.7

ANNUALIZED LINKED MEDIAN RETURNS

	1979-88	1980-88	1981-88	1982-88	1983-88	1984-88	1985-88	1986-88	1987-88	1988
UNDER \$10 MILLION	12.9	13.1	12.5	14.0	12.3	11.8	13.2	9.4	6.8	10.5
\$10 TO \$50 MILLION	13.6	13.7	13.0	14.7	13.1	12.7	14.1	10.5	8.2	12.0
OVER \$50 MILLION	13.7	13.8	13.3	14.8	13.2	12.9	14.0	10.4	7.6	11.7

MEMORANDUM

STATE OF ALASKA

DEPARTMENT OF REVENUE

TO: The Honorable Hugh Malone
Commissioner of Revenue

FROM: Milton B. Barker *MB*
Deputy Commissioner

DATE: November 1, 1988

SUBJECT: Foreign Equity
Investment
Accounting

End-of-period valuation reports in investment accounting are computed based on reported market values for marketable securities. If the investments and the domicile of the investor are in the same country (and, therefore, denominated in the same currency), then the books of account are probably kept in the country's currency. However, if the investments are located in another country and are denominated and traded in a foreign currency, then the market valuation at the end of a period is denominated in the foreign currency. In order to provide a valuation report in terms of the investor's domestic currency and books of account, the foreign denominated value is converted to domestic value by applying the momentary foreign exchange rate prevailing at the end of the period between the domestic currency and the foreign currency. This is an entirely appropriate methodology for valuation reports, but it is not appropriate for reporting foreign investment activity or for recording foreign investment transactions on the investor's domestic books of account.

If investments are made in different countries having different currencies, then purchases, sales, gains, losses, and income transactions should not be converted into U.S. dollar books of account. The value is not fixed in terms of U.S. dollars and will not become fixed until the foreign currency is sold and the proceeds are used to buy U.S. dollars which are repatriated. When the U.S. dollars are repatriated, that is when events should be recognized on the U.S. dollar books of account.

Over the last five years the retirement funds have been investing in foreign markets through our two contract managers, Citibank and Morgan Guaranty, both of London, England. The funds' domestic book values should reflect the amount of U.S. dollars we advanced to the managers for investment purposes and not foreign transactions which are arbitrarily valued at a presumably appropriate exchange rate somewhere near that point in time. By attempting to convert all foreign investment activity into recordable U.S. dollar equivalents, we are essentially marking up the funds' book values to market values (albeit on a lagging basis). Such actions destroy the historical nature of book value in keeping track of the net U.S. dollar amount which was invested in the securities, creates a book value which is inconsistent with the other book values on the domestic books of account, and misleads users of the data.

The foreign investing through managers is analogous to buying stock in a single foreign company or a mutual fund. The book value is the U.S. dollars used to acquire the stock. If the company or mutual fund buys or sells some

The Honorable Hugh Malone
Page 2
November 1, 1988

of its assets, it does not affect book value. If the company or mutual fund retains income for investment in the business or fund or uses it to buy other assets, it does not change book value. The only things which could change book value would be investing more U.S. dollars to buy more of the stock or selling some of the stock for foreign currency and then exchanging the foreign currency for U.S. dollars. The fact that the book value of the company's assets are increasing or decreasing does not change the book value of the retirement funds' investment. It does, however, change the market values.

Even dividend or interest income earned in foreign currencies should not be ascribed as U.S. dollar income. As long as the income remains in foreign currency investments, its amount in U.S. dollar terms is not fixed and varies with each transitory change in the exchange rates. If the income is remitted in U.S. dollars, then its amount is fixed and then we can recognize it as U.S. dollar income on accounting reports.

Attached is Chapter 16 of the Miller Comprehensive GAAP Guide 1988 which discusses FASB-52, the statement of the Financial Accounting Standards Board that establishes generally accepted accounting principles for foreign operations and exchange. FASB-52 requires recognition in U.S. dollars of the book value of the income, gains, and losses realized in foreign currencies but not converted into U.S. dollars.

There are several aspects of FASB-52 that suggest this is a less than satisfactory treatment of the accounting problem.

1. For one thing, FASB-52 was highly controversial and was adopted by only a 4-3 vote.
2. Significantly, any foreign currency exchange gain or loss that results from translating (but not converting) income, gains, and losses realized in foreign currencies into U.S. dollars is not recorded as income on the U.S. dollar books of account, but is instead to be posted directly to a separate component of shareholder equity and realized as income only on partial or complete liquidation of the foreign investment. This seems rather arbitrary since not only the gain or loss component but also the original book value of the investment is just as much at risk to fluctuations in foreign exchange rates.
3. Along these lines, it is interesting to note that on page 22 Miller suggests that if it is not possible to compute meaningful exchange rates (in his examples, owing to foreign strife or exchange restrictions), "it is best to include earnings of a foreign operation only to the extent that cash has been received in unrestricted funds." Similarly, on page 24 Miller states "disclosure of exchange rate changes. . . that occur subsequent to the balance sheet date should be disclosed, if the effects are material." Given that the retirement funds investments are of a

The Honorable Hugh Malone
Page 3
November 1, 1988

long-term nature, the exchange rate as of the balance sheet date is not meaningful. Partial or complete liquidations of these foreign investments are highly infrequent.

Perhaps the basic problem is that FASB-52 is oriented toward business activities in foreign countries that generate liabilities in foreign currencies. (The second model which FASB-52 addresses (page 4), a business which conducts operations in U.S. dollars, is certainly not relevant.) The retirement systems are a misfit in that they operate in foreign currencies yet all their liabilities are in U.S. dollars. Indeed, this would be true of any foreign investment, as opposed to business, activity. The examples and language of FASB-52 do not explicitly address investment activities.

MBB/gb

Attachments

**ANNUAL RATES OF RETURN (a)
ON EXTERNALLY MANAGED EQUITIES
OF ALASKA RETIREMENT FUNDS**

MANAGER AND INCEPTION DATE	03-31-89	06-30-88	Inception
	to	to	to
	06-30-89	06-30-89	06-30-89
MANAGER	MANAGER	MANAGER	MANAGER
R of R	R of R	R of R	R of R
R.E. Equity Managers:			
Aetna (09-30-80)	N/A	4.77% (b)	6.19% (b)
Hancock (09-30-80)	N/A	-0.42 (b)	3.24 (b)
Equitable (12-31-80)	8.67	8.00	8.39
Sentinel (03-05-84)	N/A	6.54 (b)	7.02 (b)
JMB (04-12-84)	3.49	11.57	8.92
Morgan (06-01-84)	10.50	9.27	12.08
Karsten (12-26-84)	N/A	4.82 (b)	6.74 (b)
Group Average		7.64%	7.54%
Domestic Equity Managers:			
Alger (06-14-84)	47.58%	10.12%	10.81%
Invesco (06-14-84)	33.64	1.90	13.88
Lehman (06-14-84)	32.09	18.99	17.27
IDS (01-12-89)	37.24	28.21	28.21
Loomis, Sayles (01-12-89)	31.37	31.31	31.31
Miller Anderson (01-12-89)	26.20	27.74	27.74
United Capital (01-12-89)	27.35	22.13	22.13
Active Group Average*	32.51%	17.69%	15.06%
State Street (07-13-88)	29.21	17.40	17.40
Treasury (11-02-87)	11.22	8.56	7.98
Domestic Group Average	32.24%	17.59%	15.15%
International Equity Managers:			
Citicorp (11-01-83)	-18.59	7.77	24.83
Morgan Guaranty (11-01-83)	-7.71	10.74	25.56
Group Average	-13.27%	9.26%	25.20%
ALL EQUITY MANAGER AVERAGE		14.55%	15.08%

* - Not net of fees of approximately .31%.

a - Pure internal rate of return weighted by amount and date of deposits.

b - Used 03-31-89 value because 06-30-89 was not available.

Portfolio Management, Treasury Division
August 16, 1989

ANNUAL RATES OF RETURN (a)
ON INTERNALLY MANAGED FIXED INCOME INVESTMENTS
AND ON THE TOTAL FUNDS OF ALASKA RETIREMENT FUNDS
Fiscal Years 1985 through June 30, 1989

	<u>Fiscal Year 1989</u>		<u>Fiscal Year 1988</u>		<u>Fiscal Year 1987</u>		<u>Fiscal Year 1986</u>		<u>Fiscal Year 1985</u>		<u>Fiscal Year 1985 Through June 30, 1989</u>	
	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>
R. E. Mortgages	9.08%	11.81%	10.63%	8.60%	13.38%	4.05%	11.74%	17.96%	13.05%	26.61%	12.07%	16.45%
Bonds and Reserves (b)	<u>9.68</u>	<u>15.04</u>	<u>9.48</u>	<u>7.67</u>	<u>10.43</u>	<u>4.87</u>	<u>11.61</u>	<u>23.24</u>	<u>9.75</u>	<u>29.65</u>	<u>10.14</u>	<u>15.18</u>
Total Fixed Income	9.62%	14.72%	9.63%	7.79%	10.98%	4.71%	11.64%	21.67%	10.83%	28.62%	10.55%	15.44%
Total Equities	<u>14.55%</u>	<u>14.55%</u>	<u>-5.12%</u>	<u>-5.12%</u>	<u>20.39%</u>	<u>20.39%</u>	<u>37.80%</u>	<u>37.80%</u>	<u>21.54%</u>	<u>21.54%</u>	<u>15.08%</u>	<u>15.08%</u>
TOTAL FUND	<u>11.58%</u>	<u>14.65%</u>	<u>2.73%</u>	<u>1.93%</u>	<u>14.94%</u>	<u>10.90%</u>	<u>19.74%</u>	<u>26.59%</u>	<u>13.27%</u>	<u>26.84%</u>	<u>12.14%</u>	<u>15.31%</u>

a - Internal rates of return under simplifying assumption of mid-month flows for fixed income investments.

b - Net of gains, losses, and amortizations.

c - Cost returns for fixed income investments; but market returns on equities. The returns for total fund approximate actuary's calculation of returns.

Portfolio Management, Treasury Division
August 18, 1989

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Management and investment of certain State funds
Sponsor: House Finance
Requestor: House State Affairs

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	120.7	313.9	502.3	733.7	1028.8	1285.3
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	120.7	313.9	502.3	733.7	1028.8	1285.3
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER (SBS)	120.7	313.9	502.3	733.7	1028.8	1285.3
TOTAL	120.7	313.9	502.3	733.7	1028.8	1285.3

POSITIONS:

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

ANALYSIS: Fiscal year 1990 effect is zero.

See attached analysis

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: March 20, 1990

Approved by Commissioner: [Signature]
Agency: Department of Revenue

Date: 3/20/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

HB 580
SBS Investment Management Costs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Liquid Balance	GIC Maturities	Net Contributions	Average Balance	Investment Earnings	Ending Liquid Balance	Stock Management Fees	Custodian Fees	Audit Fees	Performance Measurement Fees	Total Fees
FY91	0	151.1	50.0	100.5	9.0	210.1	93.5	5.2	10.0	12.0	120.7
FY92	210.1	118.9	55.0	297.1	26.7	410.7	276.3	15.6	10.0	12.0	313.9
FY93	410.7	96.3	60.0	488.8	44.0	610.9	454.6	25.7	10.0	12.0	502.3
FY94	610.9	202.9	65.0	744.8	67.0	945.8	692.6	39.1	10.0	12.0	733.7
FY95	945.8	128.7	70.0	1045.1	94.1	1238.6	971.9	54.9	10.0	12.0	1028.8
FY96	1238.6	60.0	75.0	1306.1	117.5	1491.1	1214.7	68.6	10.0	12.0	1285.3

Notes:

1. Column 6, prior year
2. From Division of Retirement & Benefits
3. Treasury Division estimate based on FY 89 contributions
4. Column 1 + (Column 2 + Column 3)/2
5. 9% x Column 4
6. Column 1 + Column 2 + Column 3 + Column 5
7. Column 4 x .31% per contract x 30% asset allocation to common stocks
8. Column 4 x 5.25¢/\$1000 per contract
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9 + 10.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Administration
 Title: An Act relating to management and BRU: Centralized Administrative Services
investment of certain State funds
 Sponsor: Finance Committee Components: Finance
 Requestor: State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

HB 580 does not appear to have any impact on the Division of Finance in its present form. The primary changes appear to be wherever in the Statutes it formerly had "Commissioner of Revenue" it will now have "State Investment Board" and a new section of the statutes has been added to establish a State Investment Board in the Department of Revenue. The board is to manage and invest State funds with the assistance of the Department of Revenue. From discussions with the Department of Revenue, they will be preparing a fiscal note for the impact to them.

Prepared by: Keith Busch, Director *John Thomas State Act.* Phone: 465-2240
 Division: Finance Date: _____
 Approved by Commissioner: Frank S. Baxter *Frank S. Baxter* Date: 3/15/90
 Agency: Department of Administration

Distribution (by preparer):

Changes in 593 CSNA580 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 5/7/90

would continue through 1990.

Changes in 525 CS 580 (SA)
 have no fiscal impact.
 This fiscal note is
 appropriate.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Alaska State Investment Corp
 Title: Establishing Alaska State BRU: _____
Investment Corporation
 Sponsor: Senate State Affairs Components: _____
 Requestor: Senate State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	494.6	989.3	989.3	989.3	989.3	989.3
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	7200.9	14474.4	14662.8	14894.2	15189.3	15445.8
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1
TOTAL	7695.5	15463.7	15652.1	15883.5	16178.6	16435.1

POSITIONS:

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

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero. Fiscal years 1991-1996 are the sum of the amounts deleted from the Treasury budget on the attached fiscal note plus estimated common stock management fees for SBS shown on the attached schedule.

Prepared By: Milt Barker MB Phone: 465-2350
 Division: Treasury Date: April 30, 1990
 Approved by Commissioner: William R. Parker for Date: _____
 Agency: Department of Revenue

Distribution (by preparer):

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

Changes in SCS CS HB 580 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 5/7/90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Department of Revenue
 Title: Estab'ishing Alaska State
Investment Corporation BRU: Treasury
 Sponsor: Senate State Affairs Components: _____
 Requestor: Senate State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	(494.6)	(989.3)	(989.3)	(989.3)	(989.3)	(989.3)
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	(7080.2)	(14160.5)	(14160.5)	(14160.5)	(14160.5)	(14160.5)
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)
TOTAL	(7574.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)	(15149.8)

POSITIONS:

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

ANALYSIS: attach a separate page for analysis. Fiscal year 1990 effect is zero. Fiscal years 1992 through 1996 based on the State Investment Corporation assuming responsibility for trust fund investments January 1, 1991. The amounts are the retirement and endowment funding contained in Treasury's fiscal year 1991 budget. Fiscal year 1991 effect is half of the Treasury fiscal year 1991 budget.

Prepared By: Milt Barker *MTB*
 Division: Treasury

Phone: 465-2350
 Date: April 30, 1990

Approved by Commissioner: *Walter J. Barker for*
 Agency: Department of Revenue

Date: _____

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Changes in SCS CSNA580 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 5/1/90 *MM*

Fiscal Note Analysis
SCS HB 580 (SA)
SBS Investment Management Costs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Liquid Balance	GIC Maturities	Net Contributions	Average Balance	Investment Earnings	Ending Liquid Balance	Stock Management Fees	Custodian Fees	Audit Fees	Performance Measurement Fees	Total Fees
FY91	0	151.1	50.0	100.5	9.0	210.1	93.5	5.2	10.0	12.0	120.7
FY92	210.1	118.9	55.0	297.1	26.7	410.7	276.3	13.6	10.0	12.0	313.9
FY93	410.7	96.3	60.0	488.8	44.0	610.9	454.6	25.7	10.0	12.0	502.3
FY94	610.9	202.9	65.0	744.8	67.0	945.8	692.6	39.1	10.0	12.0	733.7
FY95	945.8	128.7	70.0	1045.1	94.2	1238.6	972.9	54.9	10.0	12.0	1028.8
FY96	1238.6	60.0	75.0	1306.1	117.5	1491.1	1214.7	68.6	10.0	12.0	1285.3

Notes:

1. Column 6, prior year
2. From Division of Retirement & Benefits
3. Treasury Division estimate based on FY 89 contributions
4. Column 1 + (Column 2 + Column 3)/2
5. $9\% \times$ Column 4
6. Column 1 + Column 2 + Column 3 + Column 5
7. Column 4 x .31% per contract x 30% asset allocation to common stocks
8. Column 4 x 5.25¢/\$1000 per contract
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9 + 10.

6-2313D
Cramer
5/4/97

5/5/90

5/6/90

DP Adopted

Original sponsor(s): Finance Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 SENATE CS FOR CS FOR HCUSE BILL NO. 580 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska State Investment
7 Corporation; relating to management and investment of
8 funds of the teachers' retirement system, University
9 of Alaska fund for money from the sale or lease of
10 land granted by Congress, judicial retirement system,
11 Alaska National Guard and Alaska Naval Militia re-
12 tirement system, public school trust fund, Alaska
13 children's trust fund, group health and life benefits
14 fund, supplemental employee benefits program, public
15 employees' retirement system, public employees'
16 deferred contribution program; requiring that certain
17 accounting records be maintained in accordance with
18 generally accepted accounting principles; and provid-
19 ing for an effective date."

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

21 * Section 1. AS 37.10 is amended by adding new sections to read:

22 ARTICLE 5. ALASKA STATE INVESTMENT CORPORATION.

23 Sec. 37.10.210. ALASKA STATE INVESTMENT CORPORATION. (a) There
24 is established the Alaska State Investment Corporation. The corpo-
25 ration is a public corporation and government instrumentality in the
26 Department of Revenue managed by a board of directors. The purpose of
27 the board is to provide professional management and investment of
28 state trust funds and other state funds upon agreement with the manag-
29 ers of those funds.

1 (b) The board consists of seven members:

2 (1) one member, nominated by the Teachers' Retirement Board
3 and appointed by the governor, who is a member of the teachers' re-
4 tirement system;

5 (2) one member, nominated by the Public Employees' Retire-
6 ment Board and appointed by the governor, who is a member of the
7 public employees' retirement system;

8 (3) one member, who is an employee of an employer partic-
9 ipating in the supplemental benefits system under AS 39.30.150 -
10 39.30.180 or who is receiving a benefit under that system because of
11 the person's prior employment appointed by the governor from three
12 nominees nominated for the position by the Teachers' Retirement Board
13 and by the Public Employees' Retirement Board; and

14 (4) four public members, appointed by the governor.

15 (c) At least two of the public members must have recognized
16 competence and wide experience in finance, investments, or other
17 business management-related fields. A public member may not hold
18 another state or federal office, position, or employment, either
19 elective or appointive, except as a member of the armed forces of
20 either the United States or of this state.

21 (d) The members of the board shall be appointed for staggered
22 terms of four years and may be reappointed to the board.

23 (e) The governor may remove a member of the board from office.
24 A removal by the governor must be in writing and must state the reason
25 for the removal. After a member receives written notice of removal
26 from the governor, the member may not participate in board business
27 and may not be counted for purposes of establishing a quorum.

28 (f) Members representing a state retirement system or the sup-
29 plemental benefits system may hold another compensated state office,

1 position, or employment, either elective or appointive.

2 (g) A vacancy on the board shall be promptly filled in the same
3 manner as the seat was originally filled. An appointee to a vacancy
4 holds office for the balance of the unexpired term of the appointee's
5 predecessor. A vacancy on the board does not impair the authority of
6 a quorum of the board to exercise all the powers and perform all the
7 duties of the board.

8 (h) The board shall annually elect a chair from among its mem-
9 bers.

10 (i) Four members of the board constitute a quorum for the trans-
11 action of business and the exercise of the powers and duties of the
12 board.

13 (j) A board member may not designate another person to serve on
14 the board in the absence of the member.

15 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board
16 shall

17 (1) hold regular and special meetings at the call of the
18 chair or of at least four of the members;

19 (2) establish investment policies for the funds for which
20 it is responsible;

21 (3) submit long-range and quarterly investment reports to
22 the Legislative Budget and Audit Committee;

23 (4) report to the governor and the legislature by Septem-
24 ber 30 of each year concerning the investment of state funds including
25 financial and investment policies established by the board;

26 (5) contract with external performance evaluators to review
27 the performance of each fund managed or invested by the corporation
28 and report each year to the board and to the other boards directly
29 responsible for the activities supported by the fund on the fund's

1 condition; the report must be complete, understandable, and presented
2 in acceptable format according to industry patterns and customs;

3 (6) engage independent certified public accountants to
4 prepare an annual audit of each of the funds for which the corporation
5 is responsible and to report to the board with the results of the
6 audit.

7 (b) The board may

8 (1) employ outside investment advisors to review investment
9 policies and make recommendations to the board;

10 (2) enter into an agreement with the manager of another
11 state fund, other than the commissioner of revenue with respect to
12 money invested under AS 37.10.070, to assume fiduciary responsibil-
13 ities for managing and investing the other state fund; an agreement
14 under this paragraph may not be for a term longer than three years but
15 may be renewed;

16 (3) do all acts necessary, convenient, or desirable to
17 carry out the powers expressly granted or necessarily implied in this
18 chapter.

19 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Members of the
20 board and the executive director are subject to the provisions of
21 AS 39.50.

22 (b) If a member of the board or an employee of the corporation
23 acquires, owns, or controls an interest, direct or indirect, in an
24 entity or project in which assets under the control of the corporation
25 are invested, the member shall immediately disclose the interest to
26 the board. The disclosure is a matter of public record and shall be
27 included in the minutes of the board meeting next following the dis-
28 closure.

29 Sec. 37.10.240. REGULATIONS. The board may adopt regulations

1 under the Administrative Procedure Act (AS 44.62) to interpret and
2 implement AS 37.10.210 - 37.10.399.

3 Sec. 37.10.250. COMPENSATION OF BOARD MEMBERS. Members of the
4 board, other than state employees, receive an honorarium of \$400 for
5 each day spent at a meeting of the board or at a meeting of a subcom-
6 mittee of the board or at a public meeting as a representative of the
7 board. Members of the board are entitled to per diem and travel
8 allowances as provided for members of state boards and commissions
9 under AS 39.20.180.

10 Sec. 37.10.260. STAFF. (a) The board shall, jointly with the
11 Board of Trustees of the Alaska Permanent Fund Corporation, employ an
12 executive director under AS 37.13.100. The operational, investment,
13 and administrative functions of the corporation are vested in the
14 executive director who serves under the joint supervision of the board
15 and the board of trustees. The executive director shall appoint
16 employees of the corporation as necessary under AS 37.13.100. The
17 board and the board of trustees shall agree on responsibility for
18 compensation for the executive director and employees of the two
19 corporations.

20 (b) A deed, contract, or other document that must be executed by
21 or on behalf of the corporation shall be signed by the executive
22 director.

23 Sec. 37.10.270. INSURANCE. The corporation shall protect trus-
24 teed assets and its own assets, services, and employees by purchasing
25 insurance or providing for self-insurance retentions in amounts recom-
26 mended by the executive director and approved by the board to cover
27 the acts, including fiduciary acts, errors, and omissions of its board
28 members, officers, employees, and agents. Insurance shall protect the
29 corporation and the state from liability to others and from loss of

1 trusted assets and assets of the corporation.

2 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
3 all properties at any time owned by it, managed by it, or held by it
4 in trust, and the income from those activities, are exempt from all
5 taxes and assessments in the state. All security instruments issued
6 by the corporation and income from them are exempt from all taxes and
7 assessments in the state, including transfer taxes.

8 Sec. 37.10.290. LIMITATIONS. The corporation may not engage in
9 commercial banking activity or private trust activity. The corpora-
10 tion may not act as a depository or trustee for a private person,
11 association, or corporation. The corporation may not act as a lender
12 to a private person, association, or corporation of money from any
13 source except state funds under management by the corporation.

14 Sec. 37.10.300. LIABILITY. A liability incurred by the corpo-
15 ration shall be satisfied exclusively from the assets or revenue of
16 the corporation and a creditor or other person may not have a right of
17 action against the state because of a debt, obligation, or liability
18 of the corporation. A liability of the corporation may not be sat-
19 isfied from trust assets unless expressly authorized by law.

20 Sec. 37.10.399. DEFINITIONS. In AS 37.10.210 - 37.10.399,
21 unless the context otherwise requires,

22 (1) "board" means the board of directors of the corpora-
23 tion;

24 (2) "corporation" means the Alaska State Investment Corpo-
25 ration.

26 * Sec. 2. AS 14.25.035(d) is amended to read:

27 (d) The commissioner of administration shall report to the board
28 concerning the condition and administration of the system. The re-
29 ports shall be distributed to the members of the system. The board of

1 directors of the Alaska State Investment Corporation [COMMISSIONER OF
2 REVENUE] shall provide reports to the board on the condition and
3 investment performance of the teachers' retirement trust fund and an
4 annual external performance review.

5 * Sec. 3. AS 14.25.180 is amended to read:

6 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The
7 board of directors of the Alaska State Investment Corporation [COMMIS-
8 SIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND THE] fiduciary
9 of the fund. In managing the fund, the board of the corporation
10 [COMMISSIONER OF REVENUE] shall

11 (1) consider the status of the fund's investments and the
12 system's liabilities on both a current and a probable future basis;

13 (2) determine the appropriate investment objectives for the
14 fund;

15 (3) establish investment policies aimed at achieving the
16 objectives; and

17 (4) act only in regard to the best financial interests of
18 the system's beneficiaries.

19 (b) The board of the corporation [COMMISSIONER OF REVENUE] may
20 invest the fund on the basis of probable total rate of return without
21 regard to the distinction between principal and income or to the
22 generation of income.

23 (c) In carrying out investment duties under this chapter, the
24 board of the corporation [COMMISSIONER OF REVENUE] has the same powers
25 and duties in regard to the teacher's retirement trust fund as are
26 provided in AS 37.10.071, except that the standard of prudence that
27 the board of the corporation [COMMISSIONER] must obey under AS 37.10.-
28 071(c) shall be in regard to the management of large trust investments
29 rather than large investments.

1 * Sec. 4. AS 14.40.400(b) is amended to read:

2 (b) The board of directors of the Alaska State Investment Corpo-
3 ration [COMMISSIONER OF REVENUE] is the fiduciary of the trust fund
4 and shall account for and invest the fund as set out in AS 37.14.-
5 110(c), 37.14.160, and 37.14.170, except that the board of the corpor-
6 ation [COMMISSIONER] shall report the condition and investment per-
7 formance of the fund to the Board of Regents.

8 * Sec. 5. AS 22.25.048(c) is amended to read:

9 (c) The board of directors of the Alaska State Investment Corpo-
10 ration [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND
11 THE] fiduciary of the fund and has the same powers and duties under
12 this section in regard to the judicial retirement trust fund as are
13 provided in AS 14.25.180.

14 * Sec. 6. AS 26.05.228(c) is amended to read:

15 (c) The board of directors of the Alaska State Investment Corpo-
16 ration [COMMISSIONER OF REVENUE] is the [TREASURER OF THE SYSTEM AND
17 THE] fiduciary of the fund and has the same powers and duties under
18 this section in regard to the fund as are provided under AS 14.25.180.

19 * Sec. 7. AS 36.30.850(b) (15) is amended to read:

20 (15) a contract that is a delegation, in whole or in part,
21 of investment powers held by the commissioner of revenue under
22 [AS 14.25.180, AS 14.40.400,] AS 14.42.200, 14.42.210, AS 18.56.095,
23 [AS 22.25.048, AS 26.05.228,] AS 37.10.070, or 37.10.071 [, AS 37.14,
24 OR AS 39.35.080];

25 * Sec. 8. AS 36.30.850(b) is amended by adding a new paragraph to read:

26 (22) a contract that is a delegation, in whole or in part,
27 of investment powers held by the board of directors of the Alaska
28 State Investment Corporation under AS 14.25.180, AS 14.40.400, AS 22.-
29 25.048, AS 26.05.228, AS 37.10.071, AS 37.14, AS 39.30.095, 39.30.175,

1 AS 39.35.080, or AS 39.45.030.

2 * Sec. 9. AS 37.10.071 is amended to read:

3 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making
4 investments under this section, the fiduciary of a state fund [COMMIS-
5 SIONER OF REVENUE] shall

6 (1) act as official custodian of cash and investments by
7 securing adequate and safe custodial facilities for them;

8 (2) receive all items of cash and investments;

9 (3) collect and deposit the principal of and income from
10 owned or acquired investments;

11 (4) invest and reinvest the assets in accordance with this
12 section;

13 (5) receive and spend appropriations to cover the cost of
14 the exercise of duties under this section;

15 (6) exercise the powers of an owner with respect to the
16 assets;

17 (7) perform all acts, not prohibited by this section,
18 whether or not expressly authorized, that the fiduciary [COMMISSIONER]
19 considers necessary or proper in administering the assets;

20 (8) maintain accounting records in accordance with gener-
21 ally accepted [INVESTMENT] accounting principles;

22 (9) engage an independent certified public accountant to
23 conduct an annual audit of the financial condition and investment
24 transactions;

25 (10) enter into and enforce contracts or agreements con-
26 sidered necessary, convenient, or desirable for the investment pur-
27 poses of this section; and

28 (11) when choosing to acquire or dispose of investments,
29 secure competitive national or international market rates or prices,

1 or the equivalence of those rates or prices in the judgment of the
2 fiduciary [COMMISSIONER].

3 (b) Under this section, the fiduciary of a state fund or the
4 fiduciary's [COMMISSIONER OR THE COMMISSIONER'S] designee may

5 (1) delegate investment, custodial, or depository authority
6 on a discretionary or nondiscretionary basis to officers or employees
7 of the state or to independent firms, banks, or trust companies, by
8 designation through appointments, contracts, or letters or authority;

9 (2) acquire or dispose of investments either directly,
10 indirectly, or through investment pools or trusts, by competitive or
11 negotiated agreements, contracts, or auctions, in public or private
12 markets;

13 (3) concentrate or diversify investments as the fiduciary
14 [COMMISSIONER] considers appropriate to increase the probable total
15 rate of return or to decrease the overall exposure to potentially
16 adverse market value risks;

17 (4) protect the market value or the rate of return of the
18 investments by entering into forward agreements to buy or sell assets
19 at a future date as a hedge against existing held assets or as a
20 precommitment of future cash flows;

21 (5) lend assets, under an agreement and for a fee, against
22 deposited collateral of equivalent market value;

23 (6) borrow assets on a short-term basis, under an agreement
24 and for a fee, against the deposit of collateral consisting of other
25 assets in order to accommodate temporary cash or investment needs;

26 (7) hold investments in bearer or registered form in the
27 name of the state, a fund, or nominees authorized by the fiduciary
28 [COMMISSIONER];

29 (8) utilize consultants, advisors, custodians, investment

1 services, and legal counsel for assistance in investment matters on
2 either a continuing or a limited-term basis and with or without com-
3 pensation;

4 (9) declare records to be confidential and exempt from
5 AS 09.25.110 and 09.25.120 if the records contain information that
6 discloses the particulars of the business or the affairs of a private
7 enterprise, investor, borrower, advisor, consultant, counsel, or
8 manager.

9 (c) In exercising investment, custodial, or depository powers or
10 duties under this section, the fiduciary of a state fund [COMMIS-
11 SIONER] shall exercise the judgment and care under the circumstances
12 then prevailing that an institutional investor of ordinary profession-
13 al prudence, discretion, and intelligence exercises in managing large
14 investments with consideration for the purpose of the fund, the in-
15 vestment objectives, the continuing disposition of the fund's invest-
16 ments, and the probable safety of the capital as well as the probable
17 investment returns.

18 (d). In exercising investment, custodial, or depository powers or
19 duties under this section, the fiduciary or the fiduciary's [COMMIS-
20 SIONER OR A] designee [OF THE COMMISSIONER] is liable for a breach of
21 a duty that is assigned or delegated under this section, or under
22 AS 14.25.180, AS 14.40.400(b), AS 14.42.200, 14.42.210, AS 18.56.095,
23 AS 22.25.048, AS 26.05.228, AS 37.10.070, AS 37.14.110(c), 37.14.160,
24 37.14.170, 37.14.200, 37.14.210, AS 39.30.095, 39.30.175, [OR] AS 39.-
25 35.080, or AS 39.45.030. However, the fiduciary or the [COMMISSIONER
26 OR THE COMMISSIONER'S] designee is not liable for a breach of a duty
27 that has been delegated to another person if the delegation is prudent
28 under the applicable standard of prudence set out in statute or if the
29 duty is assigned by law to another person, except to the extent that t

1 fiduciary [COMMISSIONER] or designee

2 (1) knowingly participates [PARTICIPATE] in, or knowingly
3 undertakes to conceal, an act or omission of another person, knowing
4 that the act or omission is a breach of that person's duties under
5 this chapter;

6 (2) by failure to comply with this section in the adminis-
7 tration of specific responsibilities, enables another person to commit
8 a breach of duty; or

9 (3) has knowledge of a breach of duty by another person,
10 unless the fiduciary [COMMISSIONER] or designee makes reasonable
11 efforts under the circumstances to remedy the breach.

12 (e) The state shall defend and indemnify the fiduciary [COMMIS-
13 SIONER] or an officer or employee of the state against liability under
14 (d) of this section to the extent that the alleged act or omission was
15 performed in good faith and was prudent under the applicable standard
16 of prudence.

17 (f) In this section, "fiduciary of a state fund" or "fiduciary"
18 ["COMMISSIONER OF REVENUE" OR "COMMISSIONER"] means

19 (1) the commissioner of revenue for investments under
20 [AS 14.25.180 OR] AS 37.10.070; [OR]

21 (2) the board of directors of the Alaska State Investment
22 Corporation for investments under AS 14.25.080; or

23 (3) the person or body provided by law to manage the in-
24 vestments, for investments not subject to AS 14.25.180 or AS 37.10.-
25 070.

26 * Sec. 10. AS 37.13.100 is amended to read:

27 Sec. 37.13.100. CORPORATION STAFF. The board of trustees.
28 jointly with the board of directors of the Alaska State Investment
29 Corporation. may employ and determine the salary of an executive

1 director. The executive director may, with the approval of the board
2 of trustees and the board of directors of the Alaska State Investment
3 Corporation, select and employ additional staff as necessary. An
4 employee of the corporations [CORPORATION], including the executive
5 director, may not be a member of either [THE] board. The executive
6 director and the other employees of the boards [BOARD] are in the
7 exempt service under AS 39.25. The board of trustees and the board of
8 directors shall agree on responsibility for compensation for the
9 executive director and the staff of the two corporations.

10 * Sec. 11. AS 37.14.110(c) is amended to read:

11 (c) The board of directors of the Alaska State Investment Corpo-
12 ration [COMMISSIONER OF REVENUE] shall account for the fund in accor-
13 dance with generally accepted accounting principles and shall deter-
14 mine the net income of the fund [IN ACCORDANCE WITH INVESTMENT AC-
15 COUNTING PRINCIPLES AND IN A MANNER THAT PRESERVES THE DISTINCTION
16 BETWEEN PRINCIPAL AND INCOME AND THAT EXCLUDES CAPITAL GAINS OR LOSSES
17 REALIZED ON PRINCIPAL]. The principal of the fund and the capital
18 gains or losses realized on principal shall be perpetually retained in
19 the fund for investment purposes.

20 * Sec. 12. AS 37.14.140 is amended to read:

21 Sec. 37.14.140. UTILIZATION OF INCOME. The net income of the
22 fund may not be appropriated for a purpose other than the support of
23 the state public school program. The board of directors of the Alaska
24 State Investment Corporation [COMMISSIONER OF REVENUE] shall invest
25 realized net income that has not been appropriated or that has been
26 appropriated but not expended until the income is appropriated and
27 expended.

28 * Sec. 13. AS 37.14.160 is amended to read:

29 Sec. 37.14.160. DUTIES OF THE ALASKA STATE INVESTMENT

1 CORPORATION BOARD [COMMISSIONER OF REVENUE]. The board of directors
2 of the Alaska State Investment Corporation [COMMISSIONER OF REVENUE]
3 is the fiduciary [TREASURER] of the trust fund created in AS 37.14.110
4 and shall

5 (1) exercise the powers and duties established in AS 14.-
6 25.180(c);

7 (2) deposit the principal and income from investments in
8 separate principal and income accounts for the fund;

9 (3) invest and maintain accounting records that distinguish
10 between the principal and income of the fund;

11 (4) provide reports to the board established under AS 37.-
12 14.120 on the condition and investment performance of the fund.

13 * Sec. 14. AS 37.14.170 is amended to read:

14 Sec. 37.14.170. INVESTMENTS. The board of directors of the
15 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] is the
16 fiduciary of the trust fund and shall invest the fund to provide
17 increasing net income over long-term periods to the fund's income
18 beneficiaries. The board of the corporation [COMMISSIONER] may invest
19 the money in the fund on the basis of probable total rate of return to
20 promote the long-term generation of income. In managing the trust
21 fund, the board of the corporation [COMMISSIONER] shall

22 (1) consider the status of the fund's capital and the
23 income generated on both a current and a probable future basis;

24 (2) determine the appropriate investment objectives;

25 (3) establish investment policies to achieve the objec-
26 tives; and

27 (4) act only in regard to the financial interests of the
28 fund's beneficiaries.

29 * Sec. 15. AS 37.14.200(c) is amended to read:

1 (c) The net income of the fund shall be determined by the board
2 of directors of the Alaska State Investment Corporation [COMMISSIONER
3 OF REVENUE] in accordance with generally accepted [INVESTMENT] ac-
4 counting principles [AND IN A MANNER THAT PRESERVES THE DISTINCTION
5 BETWEEN PRINCIPAL AND INCOME].

6 * Sec. 16. AS 37.14.210 is amended to read:

7 Sec. 37.14.210. POWERS AND DUTIES OF THE ALASKA STATE INVESTMENT
8 CORPORATION BOARD [COMMISSIONER OF REVENUE]. The board of directors
9 of the Alaska State Investment Corporation [COMMISSIONER OF REVENUE]
10 is the fiduciary [TREASURER] of the fund and has the power and duty to
11 [:]

12 (1) act as official custodian of the cash and investments
13 belonging to the fund by securing adequate and safe custodial facil-
14 ities;

15 (2) receive all items of cash and investments belonging to
16 the fund;

17 (3) collect the principal and income from investments owned
18 or acquired by the fund and deposit the amounts in separate principal
19 and income accounts for the fund;

20 (4) invest and reinvest the assets of the fund as provided
21 in this section and as provided for the investment of funds under
22 AS 14.25.180(c) and AS 37.14.170;

23 (5) exercise the powers of an owner with respect to the
24 assets of the fund;

25 (6) maintain accounting records of the fund in accordance
26 with generally accepted [INVESTMENT] accounting principles [AND WITH
27 DISTINCTION BETWEEN THE PRINCIPAL AND INCOME ACCOUNTS OF THE FUND];

28 (7) engage an independent firm of certified public accoun-
29 tants to annually audit the financial condition of the fund's

1 investments and investment transactions;

2 (8) enter into and enforce contracts or agreements con-
3 sidered necessary for the investment purposes of the fund;

4 (9) report to the board the condition and investment per-
5 formance of the fund;

6 (10) do all acts, whether or not expressly authorized, that
7 the board of the corporation [COMMISSIONER OF REVENUE] considers
8 necessary or proper in administering the assets of the fund.

9 * Sec. 17. AS 39.30.095(d) is amended to read:

10 (d) If the commissioner of administration determines that there
11 is more money in the fund than the amount needed to pay premiums or
12 benefits for the current fiscal year, the surplus, or so much of it as
13 the commissioner of administration considers advisable, may be in-
14 vested by the board of directors of the Alaska State Investment Corpo-
15 ration [COMMISSIONER OF REVENUE] in the same manner as retirement
16 funds are invested under AS 14.25.180.

17 * Sec. 18. AS 39.25.110(11)(B) is amended to read:

18 (B) Alaska Permanent Fund Corporation and Alaska State
19 Investment Corporation;

20 * Sec. 19. AS 39.30 is amended by adding a new section to read:

21 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. The
22 board of directors of the Alaska State Investment Corporation is the
23 fiduciary of the receipts of the employee benefits program established
24 under AS 39.30.150 - 39.30.180 and has the same powers and duties
25 concerning the management and investment in regard to those receipts
26 as are provided under AS 14.25.180.

27 * Sec. 20. AS 39.35.020 is amended to read:

28 Sec. 39.35.020. ADMINISTRATION. The commissioner of administra-
29 tion is responsible for the administration of the system and for

1 carrying out this chapter. In addition the commissioner shall

2 (1) maintain the accounts of the system;

3 (2) make payments for the various purposes specified;

4 (3) submit periodic reports or statements of account that
5 are needed;

6 (4) issue a statement of account to an employee requesting
7 it showing the amount of the employee's contributions to the system;

8 (5) as soon as possible after the close of each fiscal
9 year, and not later than six months after the close of each fiscal
10 year, send to the governor, the legislature, and the board an annual
11 statement on the operations of the system containing

12 (A) a balance sheet;

13 (B) a statement of income and expenditures for the
14 year;

15 (C) a report on an actuarial valuation of its assets
16 and liabilities;

17 (D) a summary of assets held in the pension fund
18 listed by the categories of investment, as provided by the board
19 of directors of the Alaska State Investment Corporation [COMMIS-
20 SIONER OF REVENUE];

21 (E) other statistical financial data that are neces-
22 sary for a proper understanding of the financial condition of the
23 system and the result of its operations;

24 (6) establish a public employees retirement trust fund in
25 which the assets of the system shall be deposited and held;

26 (7) engage an independent certified public accountant to
27 conduct an annual audit of the system's accounts and the annual report
28 of the system's financial condition and activity;

29 (8) report to the board concerning the condition and

1 administration of the system and distribute the report to the members
2 of the system.

3 * Sec. 21. AS 39.35.080 is amended to read:

4 Sec. 39.35.080. DUTIES OF THE ALASKA STATE INVESTMENT CORPO-
5 RATION BOARD [COMMISSIONER OF REVENUE]. The board of directors of the
6 Alaska State Investment Corporation [COMMISSIONER OF REVENUE] is the
7 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund. The board of
8 the corporation [COMMISSIONER] has the same powers and duties estab-
9 lished under this chapter in regard to the fund as are provided in
10 AS 14.25.035(d) and 14.25.180.

11 * Sec. 22. AS 39.45.030(a) is amended to read:

12 (a) The board of directors of the Alaska State Investment Corpo-
13 ration or the administrator of the [STATE OR] political subdivision
14 deferred compensation program is authorized, subject to contracts with
15 individual employees, to invest the funds held under a deferred com-
16 pensation program in

17 (1) fixed and variable life insurance and annuity contracts
18 or other contracts issued by life insurance companies;

19 (2) the same manner as retirement funds are invested under
20 AS 14.25.180 [SHARES OF OR DEPOSITS IN INSURED STATE OR FEDERAL CHAR-
21 TERED CREDIT UNIONS IN THE STATE;

22 (3) SHARES OF OR DEPOSITS IN INSURED STATE OR FEDERAL
23 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN THE STATE;

24 (4) DEPOSITS IN INSURED MUTUAL SAVINGS BANKS IN THE STATE;

25 (5) DEPOSITS IN INSURED STATE AND NATIONAL BANKS IN THE
26 STATE]; and

27 (3) [(6)] multi-employer trusts established for investment
28 of deferred compensation assets of state and local governments.

29 * Sec. 23. AS 39.50.200(b) is amended by adding a new paragraph to

1 read:

2 (50) Alaska State Investment Corporation (AS 37.10.210).

3 * Sec. 24. AS 44.25.020 is amended to read:

4 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue
5 shall

6 (1) enforce the tax laws of the state;

7 (2) collect, account for, have custody of, invest, and
8 manage all state funds and all revenues of the state except revenues
9 incidental to a program of licensing and regulation carried on by
10 another state department and funds managed and invested by the board
11 of directors of the Alaska State Investment Corporation or by the
12 board of trustees of the Alaska Permanent Fund Corporation;

13 (3) register cattle brands;

14 (4) supply necessary clerical and administrative services
15 for the Alcoholic Beverage Control Board; and

16 (5) invest and manage the balance of the power development
17 fund in accordance with AS 44.83.386.

18 * Sec. 25. TRANSITION. All litigation, hearings, investigations, and
19 other proceedings pending under a law amended or repealed by this Act, or
20 in connection with functions transferred by this Act, continue in effect
21 and may be continued and completed notwithstanding a transfer, amendment,
22 or repeal provided for in this Act. Orders and regulations issued or
23 adopted under authority of a law amended or repealed by this Act remain in
24 effect for the term issued, or until revoked, vacated, or otherwise mod-
25 ified under the provisions of this Act. All contracts, rights, liabilities
26 and obligations created by or under a law amended or repealed by this Act,
27 and in effect on the effective date of this Act, remain in effect notwith-
28 standing this Act's taking effect. Records, equipment, and other property
29 of agencies of the state whose functions are transferred under this Act

1 shall be transferred commensurate with the provisions of this Act.

2 * Sec. 26. (a) Notwithstanding AS 37.10.210(e), enacted by sec. 1
3 of this Act, the initial terms of the members of the board of directors of
4 the Alaska State Investment Corporation shall be as follows:

5 (1) the member nominated by both state retirement boards and two
6 public members shall serve terms of three years;

7 (2) one member nominated by a state retirement board and one
8 public member shall serve terms of two years;

9 (3) one member nominated by a state retirement board and one
10 public member shall serve one-year terms.

11 (b) The board of directors of the Alaska State Investment Corporation
12 may hold organizational meetings as soon as a quorum of the board has been
13 appointed to or selected for the board.

14 * Sec. 27. This Act takes effect, January 1, 1991.
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5/7/90

JB

Amendment

Adopted

AMENDMENT TO SCSHB580 (FIN)

Page 2, line 14, change to read:

(4) four public members who are also public members of the Alaska Permanent Fund Board of Trustees [APPOINTED BY THE GOVERNOR].

Page 2, line 15

delete subsection (c)

5/6/90

DP-3

Adopted

5/7/90

AMENDMENT

SCS CSHB 580 (SA) [^{Proposed} SCS CSHB 580 (Fin)
(5/4/90)]

BY THE FINANCE COMMITTEE

Page 6, line 27 (Finance version - Page 6, line 3)

after "all properties...", DELETE "at any time"

Page 6, line 29 (Finance version - Page 6, lines 5)

after "...are exempt from all taxes...", DELETE "and assessments"

Page 6, line 29 (Finance version - Page 6, line 5)

after "...in the state", ADD "unless otherwise provided by law"

Page 7, lines 1 and 2 (Finance version - Page 6, lines 6 and 7)

after "...are exempt from all taxes...", DELETE "and assessments"

1 office of investment director is vacant, the executive director may
2 temporarily designate the assistant director. The assistant director
3 shall act in place of the executive director in the absence or dis-
4 ability of the executive director.

5 (c) The board shall adopt regulations that restrict the execu-
6 tive director, investment directors, other officers, and employees
7 from having financial interest, directly or indirectly, in firms or
8 corporations that provide services to the corporation. Officers and
9 employees of the corporation are subject to AS 39.52.

10 (d) The executive director and each investment director shall
11 file a bond for the faithful performance of duties in the amount and
12 with the sureties as required by the board.

13 (e) Officers and employees of the corporation are members of the
14 exempt service under AS 39.25.110.

15 (f) A deed, contract, or other document that must be executed by
16 or on behalf of the corporation shall be signed by the executive
17 director.

18 Sec. 37.10.270. INSURANCE. The corporation shall protect trus-
19 teed assets and its own assets, services, and employees by purchasing
20 insurance or providing for self-insurance retentions in amounts recom-
21 mended by the executive director and approved by the board to cover
22 the acts, including fiduciary acts, errors, and omissions of its board
23 members, officers, employees, and agents. Insurance shall protect the
24 corporation and the state from liability to others and from loss of
25 trusted assets and assets of the corporation.

26 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
27 all properties [at any time] owned by it, managed by it, or held by it
28 in trust, and the income from those activities, are exempt from all
29 taxes [and assessments] in the state. All security instruments issued

1 by the corporation and income from them are exempt from all taxes [and
2 assessments] in the state, including transfer taxes.

3 Sec. 37.10.290. SURETY FOR DEPOSITS WITH BANKS. Banks, trust
4 companies, savings banks, and other persons carrying on a banking
5 business are authorized to give sureties to the corporation. The
6 sureties shall be approved by the corporation to the effect that the
7 banks or banking institutions shall faithfully keep and pay over to
8 the order of or upon the warrant of the corporation or its authorized
9 agent all money deposited with them by the corporation and agreed
10 interest, at the times or upon the demands agreed on with the banks or
11 banking institutions. In lieu of these sureties, a depository bank or
12 other banking institution shall deposit with the corporation or its
13 authorized agent or a trustee as collateral, securities approved by
14 the corporation. The deposits of the corporation may be evidenced by
15 agreements in the form and upon the terms and conditions that are
16 agreed upon by the corporation and the depository banks or banking
17 institutions.

18 Sec. 37.10.300. LIMITATIONS. The corporation may not engage in
19 commercial banking activity or private trust activity. The corpora-
20 tion may not act as a depository or trustee for a private person,
21 association, or corporation. The corporation may not act as a lender
22 to a private person, association, or corporation of money from any
23 source except state funds under management by the corporation.

24 Sec. 37.10.310. LIABILITY. (a) Except with respect to a writ-
25 ten agreement authorized under (b) of this section, a liability in-
26 curred by the corporation shall be satisfied exclusively from the
27 assets or revenue of the corporation and a creditor or other person
28 may not have a right of action against the state because of a debt,
29 obligation, or liability of the corporation. A liability of the

1 trusted assets and assets of the corporation.

2 Sec. 37.10.280. EXEMPTION FROM TAXATION. The corporation and
3 all properties [at any time] owned by it, managed by it, or held by it
4 in trust, and the income from those activities, are exempt from all
5 taxes [and assessments] in the state, ^{unless otherwise provided by law} All security instruments issued
6 by the corporation and income from them are exempt from all taxes [and
7 assessments] in the state, including transfer taxes.

8 Sec. 37.10.290. LIMITATIONS. The corporation may not engage in
9 commercial banking activity or private trust activity. The corpora-
10 tion may not act as a depository or trustee for a private person,
11 association, or corporation. The corporation may not act as a lender
12 to a private person, association, or corporation of money from any
13 source except state funds under management by the corporation.

14 Sec. 37.10.300. LIABILITY. A liability incurred by the corpo-
15 ration shall be satisfied exclusively from the assets or revenue of
16 the corporation and a creditor or other person may not have a right of
17 action against the state because of a debt, obligation, or liability
18 of the corporation. A liability of the corporation may not be sat-
19 isfied from trust assets unless expressly authorized by law.

20 Sec. 37.10.399. DEFINITIONS. In AS 37.10.210 - 37.10.399,
21 unless the context otherwise requires,

22 (1) "board" means the board of directors of the corpora-
23 tion;

24 (2) "corporation" means the Alaska State Investment Corpo-
25 ration.

26 * Sec. 2. AS 14.25.035(d) is amended to read:

27 (d) The commissioner of administration shall report to the board
28 concerning the condition and administration of the system. The re-
29 ports shall be distributed to the members of the system. The board of

ALASKA ASSOCIATION OF ASSESSING OFFICERS



Date: May 3, 1990
To: Chrystal Smith, AML
From: Steve Van Sant, Mickey Keller, A.A.A.O.
Subject: CSHB 580

As requested, we have reviewed CSHB 580 and offer the following concerns:

Sec. 37.10.280 - EXEMPTION FROM TAXATION

Line 23. There are three words contained in this section which appear redundant and at the same time confusing. "...at any time..." which addresses the ownership of property by the corporation and consequently, the exemption from taxation. These words are not necessary for the exemption to attach and we would request that they be deleted from the bill. The confusion which they add could initiate the exemption from taxation property owned by private individuals which at one time was owned by the corporation. We do not believe that is the intent of the bill, however, it could be misconstrued as such.

Line 25 and Line 27.

This section attempts to exempt property from taxation, however, the words "...and assessments..." are used in both lines of this section. It is unclear to us what the intent is, however, it is our opinion that the term "assessment" as used here is intended to mean the assessed values which are placed on property by the assessor's offices. In many municipalities, this term is also used in conjunction with special assessments, such as paving assessments, sewer and water assessments, etc. In our opinion, the municipalities would not endorse this concept of exempting properties from these special assessments. Therefore, we ask that the terms "...and assessments..." be deleted in both instances.

Line 25.

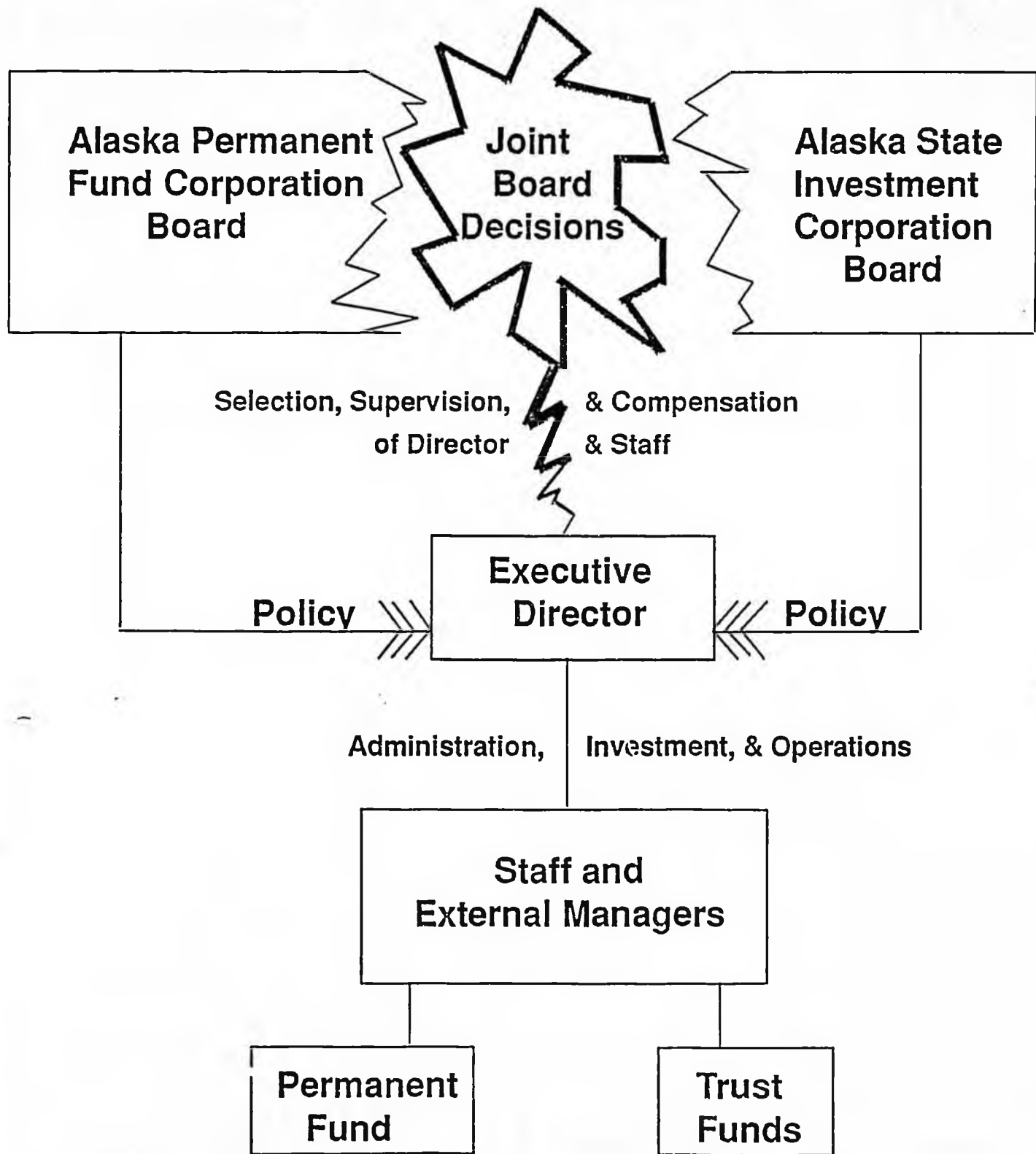
There are certain state agencies such as AHFC which, by statute, do pay property taxes. It appears that these agencies may have the corporation manage property which would become exempt. Therefore, we would like to add the following to the end of the first sentence: "...are exempt from all taxes in the state unless otherwise provided by law."

Thank you for this opportunity to voice our concerns. Should we be able to assist you on any matters relating to taxation, please don't hesitate to call on us.

5/6/90
Mick
Baker
HB580

MIXING THE PERMANENT FUND AND THE TRUST FUNDS

Draft
(SCS CSHB 580 (Finance))



More on exploding creatures

KNIGHT-RIDDER NEWSPAPERS

Here at the Exploding Animal Research Institute we have received two very alarming news items that we are passing along today in the hopes that you, the generalized public, will finally break out of your apathetic, selfish, materialistic life styles and send us some large cash contributions.

DAVE BARRY

Item One, submitted by numerous alert readers, concerns the recent criminally insane vote by the U.S. Senate AGAINST having the federal government monitor methane emissions from cows. I am not making this vote up. As you may be aware, cows emit huge quantities of methane, which contributes to global warming, which has gotten so bad in some areas that brand-new shirts are coming out of the factory with armpit stains already in them. So the U.S. Senate (motto: "White Male Millionaires Working for You") was considering an amendment to the Clean Air Act, under which the government would monitor methane emissions from various sources, including "animal production."

Well as you can imagine, this did not sit well with the senators from those states where cow flatulence is a cherished way of life. Leading the herd of opposition senators was Sen. Steve Symms of Idaho ("The Exploding Potato State"), who took the floor and stated that the amendment would - this is an actual quote - "put the nose of the federal government in almost every place it does not belong."

So the Senate took out the part about monitoring animal methane, which means there will be no advance warning when, inevitably, there is some kind of cow-interior blockage, causing a potentially lethal buildup of flammable gases and ~~transforming one of these normally~~ docile creatures into a giant mooing time bomb which, if detonated, could cause the dreaded Rain of Organs. Have you ever, in a supermarket, accidentally encountered a cow tongue - a large sluglike slab of gray flesh that you couldn't imagine anybody purchasing for any purpose other than to nail it to the front door in hopes of scaring off evil spirits? Well, I'd like to know what Sen. Symms would say if one of those babies came hurtling out of the sky and struck him at upwards of 100 miles per hour. "Yuck," would be my guess.

I base this statement on a similar situation in Oregon where innocent civilians were struck by falling whale parts. I am absolutely not making this incident up; in fact, I have it all on videotape, which I obtained from the alert father-son team of Dean and Kurt Smith. The tape is from a local TV news show in Oregon, which sent a reporter out to cover a 45-foot, eight-ton dead whale that washed up on the beach. The responsibility for getting rid of the carcass was placed upon the Oregon State Highway Division, apparently on the theory that highways and whales are very similar in the sense of being large objects.

So anyway, the highway engineers hit upon the plan - remember, I am not making this up - of blowing up the whale with dynamite. The thinking here was that the whale would be blown into small pieces, which would be eaten by sea gulls, and that would be that. A textbook whale removal.

So they moved the spectators back up the beach, put a half-ton of dynamite next to the whale, and set it off. I am probably guilty of understatement when I say that what follows, on the videotape, is the most

Please turn to Barry, Page 24

Barry...

Continued from Page 21
wonderful event in the history of the universe. First you see the whale carcass disappear in a huge blast of smoke and flame. Then you hear the happy spectators shouting "Yayy!" and "Wheee!" Then, suddenly, the crowd's tone changes. You hear a new sound, the sound of many objects hitting the ground with a noise that sounds like "splud." You hear a woman's voice shouting "Here comes pieces of ... my GOD!" Something smears the camera lens.

Later, the reporter explains: "The humor of the entire situation suddenly gave way to a run for sur-

The Fate of the Permanent Fund?

vival as huge chunks of whale blubber fell everywhere." One piece caved in the roof of a car parked more than a quarter of a mile away. Remaining on the beach were several rotting whale sectors the size of condominium units. There was no sign of the sea gulls, who had no doubt permanently relocated to Brazil.

This is a very sobering videotape. Here at the Institute we watch it often, especially at parties. But this is no time for gaiety. This is a time to get hold of the folks at the Oregon State Highway Division and ask them, when they get done cleaning up the beaches, to give us an estimate on the U.S. Capitol.

ALASKA?



5/6/90
Binkley
hand out

Alaska Permanent Fund Corporation
P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047

April 25, 1990

The Honorable
Senator John Binkley
Co-Chairman, Senate Finance Committee
P. O. Box V
Juneau, AK 99811

Dear Senator Binkley:

You have posed several questions regarding HB 580 which consolidates the investments of several funds under a single corporation known as the Alaska State Investment Corporation. Your questions and my answers follow:

Q: Proponents of HB 580 indicate that the Alaska State Investment Corporation will be organized and operated similar to the Permanent Fund? Will the two organizations be exactly the same? If not, what are some of the major differences?

A: The two organizations are not parallel in that there are several major differences as follows:

State Investment would be exempt from the Open Meetings Act.
The Permanent Fund is not.

State Investment would be exempt from the Administrative Procedures Act.
The Permanent Fund is not.

State Investment would be exempt from the State Procurement Act.
The Permanent Fund is not.

Two seats of State Investment's board are appointed by other board members.
All seats on the Permanent Fund's board are appointed by the Governor. There is no "inbreeding".

State Investment staff accountability is not well defined. The board appoints an executive director responsible only for "board executive and administrative functions". (Not investment functions.) That board also appoints an assistant executive director called an "investment director" but assigns him no investment functions. Apparently the executive director cannot remove this assistant. This duality is confusing and will tend to both undermine the executive director and create tension within the organization.

The Permanent Fund has simple, straight lines of authority and accountability. The board appoints an Executive Director who hires his own staff. The Executive Director is accountable to the board for the performance of all functions.

The Honorable John Binkley
April 25, 1990
Page 2

Q: Proponents of HB 580 state that the Permanent Fund should not be responsible for the investment of other funds. Are there any technical reasons which would prohibit the Permanent Fund from assumption of additional investment duties?

A: No. Indeed, the management style employed by the Permanent Fund would probably result in less total cost, provide greater staff depth and restore credibility.

It is interesting to note that HB 580 provides that State Investment can assume fiduciary, administrative or management responsibility for the Alaska Permanent Fund but apparently the reverse is not acceptable.

Q: Should the State's General Fund be managed by an investment company? Could State Investment take over the General Fund under provisions of HB 580?

A: In my opinion the State's General Fund should remain in the Treasury within the Department of Revenue under the direct control of the Governor as a "line" organization. The General Fund has a short-term cash management orientation whereas the other funds have long-term goals and investment regimens. HB 580 would permit the transfer of the General Fund to State Investment on the sole authority of the Commissioner of Revenue.

It would appear that this is the ultimate intent of the framers of HB 580 since there are provisions which permit State Investment to enter into an agreement with the Federal Reserve. Use of the Federal Reserve would be beneficial in the low cost clearance of warrants for the General Fund but would not be a major assist for the trust and endowment accounts. Since a state may enter into only one agreement with the Fed, the placement of the agreement within State Investment will "pull" the General Fund into that organization.

Q: You have set up three State financial organizations; AIDEA, the Bond Bank and the Permanent Fund. How do you feel about HB 580?

A: Uneasy. Financial organizations need authoritarian structure and anti-corruption control. New organizations need to develop credibility. HB 580 is wide open in that it divorces State Investment from too many disciplines. As executive director of the Permanent Fund I would love to have the operational flexibility the many exemptions provide, but I have never requested them because of potential abuse, appearance of abuse, and resultant loss of confidence and credibility.

Q: Legislation on these matters has been somewhat "fast-tracked" because of the SBS problem. Is it essential that we act quickly?

A: Quick action should not result in establishing the wrong organizational structure and guidelines. SBS matters could be handled in the short-run by Administrative or Executive Order. In the long-run, SBS must be managed by investment professionals. The establishment of a totally new financial organization such as State Investment will take some time. The simple renaming of Treasury will not do the trick. It would seem logical that an effective date of January 1, 1991 for all aspects of the legislation would enable the new governor to appoint her/his board members. This legislation should not be used as a vehicle to foster "midnight appointments", finding a resting spot for specific individuals, or starting the building of a critical organization by a group of people who may not be in a leadership role in seven months.

Finally, attached are audited total operating and investing expenses for the past three years per your request.

The Honorable Johne Binkley
April 25, 1990
Page 3

I hope I have answered your questions on these matters. Please understand that these remarks are my own and do not necessarily represent the views of my board. I would be pleased to respond if you have further inquiry.

Sincerely,

A handwritten signature in cursive script, appearing to read "D. Rose", with a long horizontal flourish extending to the right.

David A. Rose
Executive Director

DAR:vs

Enclosure: Audited expenses

cc: Board of Trustees

AS 14.25.180	Teachers Retirement System
AS 14.40.400	University of Alaska Endowment
AS 14.42.200 - 210	Student Loan Fund
AS 18.56.095	Mortgage Insurance Fund AHFC
AS 22.25.048	Judicial Retirement System
AS 26.05.228	Alaska National Guard and Naval Militia Retirement System
AS 37.10.070	General Fund
AS 37.14.110	Public School Fund
AS 37.14.160	
AS 37.14.170	
AS 37.14.200 - 210	Alaska Childrens Fund
AS 39.30.095	Group Health and Life Benefits
AS 39.30.175	Supplemental Benefits System
AS 39.35.080	Public Employee Retirement System
AS 39.45.030	Deferred Compensation

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

5/6/90
Binkley
STEVE COWPER, GOVERNOR
hand out

P.O. BOX 5
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300
TELEFAX: (907) 465-2389

April 27, 1990

The Honorable John Binkley
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Dear Senator Binkley:

This letter is to make some observations about the letter of April 25 sent to you by Dave Rose of the Alaska Permanent Fund.

Firstly, I want to thank you for your efforts on the trust investment issues. The leadership that you and other other legislators have demonstrated is appropriate and timely. I appreciate your attention to the details as well as the larger issues in these important and urgent questions.

The Legislature is in a position now to initiate a process that will serve the public and our trust beneficiaries - retirement, SBS and the other funds - into the foreseeable future. I ask for your continued help in this.

Turning to the points in the letter of April 25:

Open meeting law -

Open meetings are necessary. The investment corporation will meet this requirement.

Administrative procedures act -

The trust investment corporation should be exempt from the provisions of this act as they apply to rule making and dispute resolution. This law is designed to bring a uniform set of procedures to government agencies. Many specific exemptions exist throughout government to meet specific needs. This is one.

State procurement act -

At present Treasury's investment functions are exempt from the procurement act - but so are the investment functions of the Permanent Fund. The legislation approved by the house and the Senate State Affairs Committee would provide additional exemptions to increase the competitive ability of the trust corporation. The corporation would adopt procedures to effect this.

Board appointments -

The only board appointments that are not directly appointed by the governor are the two professional investor members of the board. The board is given the latitude to select people in the areas most needed. This is in concert with the trust nature of the board's responsibility.

Appointment of staff -

holding the chief executive officer responsible is the simple and best way for the board to work. The CEC should be required to hire and manage staff. If the board wants or needs board approval for filling key slots, they can and will make this clear to the CEC. This testimony was provided by me to the Senate State Affairs Committee.

Combining the Retirement Funds with the Permanent Fund -

We have discussed this before. The main problems, as I see them, are a loss of management focus, which will affect priorities and loss of the public sense of the purpose for the Permanent Fund. The Permanent Fund is a unique Alaska institution. It is not a pension fund.

General fund management -

Under CS HB 580 general fund management would be retained at Treasury unless the Governor acting through the commissioner decided to contract with the investment corporation, or with some other public or private agency, to carry out particular functions. The Governor has this authority now. As for "pulling" the General Fund into the Investment Corporation, I think that the example of Texas shows that many operations, including Treasury or the Permanent Fund, could avail themselves of the Federal Reserve access through the investment corporation without surrendering their identities.

Appropriate controls -

CSHB 580 provides carefully tailored exemptions from general standards, such as the personnel act, the procurement code, and the administrative procedures act. These all exist, in various forms, in the particular statutes for special purpose organizations. For example, the Permanent Fund is exempt from the personnel code and much of the procurement code. The Department of Revenue is exempt from various parts of the Administrative Procedures Act. The Alaska State Housing Authority is exempt from the procurement code.

The honorable John Binkley
April 27, 1990
Page 3

If we want these special purpose organizations to do their special jobs on behalf of the public, they need the operational authority to do so.

In this case, very high standards of accountability and performance are placed on the board and the investment corporation as a whole. Not only is the operation subject to Legislative Audit and reporting requirements, but the board members have personal financial liability. The organization is subject to meeting the standards of the banking examiner. There is explicit standing for beneficiaries to require, through the courts if necessary, that the investment corporation and board meet the strict fiduciary standard set out in the law. No other public organization has to meet these standards under Alaska law today.

Timely action -

The Legislative Budget and Audit committee has made clear the need for attention now. Establishing a board and charging the people on it to begin work promptly is the best way to make sure this process is continued in an orderly fashion. I believe that a delay will negatively affect the interests of all state employees, including both SBS and retirement system beneficiaries.

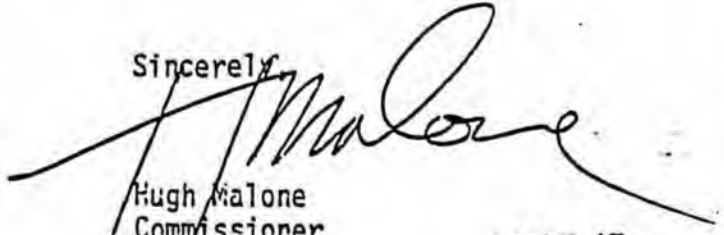
The notion that action should be delayed on the grounds that there is an election that will result in a new Legislature and Governor is a new one to me. Continuity is a major reason for the very change we are seeking. While a new Governor would have the authority to change all boards and other appointments, that is rarely done. The letter hints that "specific individuals" are looking for a "resting spot". I do not know who these people are. Perhaps the names could be supplied.

It is true that when the Permanent Fund was created that several of the staff moved from Treasury to the Fund. That worked out well for the Fund, but it was the decision of the Executive Director and the board as to whom they hired. The new organization would also make its own decisions.

I hope my comments are useful.

I look forward to working with you to bring these issues to a successful conclusion this session.

Sincerely,



Hugh Malone
Commissioner

HM:m11
90-99

CC DAVE ROSE

5/6/90

Alaska Association of Assessing Officers Proposed Amendments to

HB 580

All proposed amendments on pages 6 and 7 of the bill:

Page 6, line 27: Deletion of the phrase "at any time" as language which is unnecessary for the exemption from taxation to attach; and to clarify that the exemption only attaches to property when it is owned by the corporation (i.e. not to property in private ownership which was previously owned by the corporation)

Page 6, line 29: Deletion of the phrase "and assessments" because it would also apply to special assessments, such as paving, sewer, etc. from which property of the corporation should not be exempted.

Page 6, line 29: Addition of the phrase "unless otherwise provided by law" to clarify that agencies such as AHFC, which do pay property taxes, do not become exempt by having property managed by the corporation.

Page 7, lines 1 & 2: Deletion of phrase "and assessments"; same reasoning as Page 6, line 29 deletion.

AMENDMENT TO SCS HB 580 (State Affairs)

5/6/90
DOR
Amendment
Malone
to SCS (SA)

Page 7, - lines 2 - 16: Delete all language.

(REMOVES SURETY REQUIREMENT)

REASON: The fiduciaries are under an obligation to make adequate provision for surety already.

This specific provision may give the impression that other holdings do not require surety.

Also, the specifics in this section may limit or rule out certain forms of surety that may be the same or better.

5/6/90

ALASKA ASSOCIATION OF ASSESSING OFFICERS



Date: May 3, 1990
To: Chrystal Smith, AML
From: Steve Van Sant, Mickey Keller, A.A.A.O. *M. Keller*
Subject: CSHB 580 *[Signature]*

As requested, we have reviewed CSHB 580 and offer the following concerns:

Sec. 37.10.280 - EXEMPTION FROM TAXATION

Line 23. There are three words contained in this section which appear redundant and at the same time confusing. "...at any time..." which addresses the ownership of property by the corporation and consequently, the exemption from taxation. These words are not necessary for the exemption to attach and we would request that they be deleted from the bill. The confusion which they add could initiate the exemption from taxation property owned by private individuals which at one time was owned by the corporation. We do not believe that is the intent of the bill, however, it could be misconstrued as such.

Line 25 and Line 27.

This section attempts to exempt property from taxation, however, the words "...and assessments..." are used in both lines of this section. It is unclear to us what the intent is, however, it is our opinion that the term "assessment" as used here is intended to mean the assessed values which are placed on property by the assessor's offices. In many municipalities, this term is also used in conjunction with special assessments, such as paving assessments, sewer and water assessments, etc. In our opinion, the municipalities would not endorse this concept of exempting properties from these special assessments. Therefore, we ask that the terms "...and assessments..." be deleted in both instances.

Line 25.

There are certain state agencies such as AHFC which, by statute, do pay property taxes. It appears that these agencies may have the corporation manage property which would become exempt. Therefore, we would like to add the following to the end of the first sentence: "...are exempt from all taxes in the state unless otherwise provided by law."

Thank you for this opportunity to voice our concerns. Should we be able to assist you on any matters relating to taxation, please don't hesitate to call on us.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

5/6/90
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DOR
herdant

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(907) 456-4435
FAX: (907) 456-2159

May 2, 1990

TO: Senators Binkley and Uehling, Co-Chairs, and members of the Senate Finance Committee.

FROM: Don Oberg, President

RE: CSHB 580 (FIN)
CSSB 197 (SA)

After careful consideration of the above-mentioned legislation we conclude the Alaska State Investment Corporation will improve the management of the Public Employees' Retirement System, the Teachers' Retirement System, the Supplemental Benefits System, and other state retirement systems.

Please lend your support for this legislation.

cc: Hugh Malone, Commissioner
Alaska Department of Revenue

Sally Smith, Director
Department of Administration
Division of Retirement and Benefits

TRS Retirement Board

NEA-Alaska Board & Staff

OB/H580s197/dl

RECEIVED
MAY 3 1990
COMMISSIONER'S OFFICE



Alaska Public
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334
FEDERATION OF STATE EMPLOYEES/AFT/AFL-CIO

April 26, 1990

Honorable Albert P. Adams
PO Box V
Juneau, AK 99811

APR 20 1990

Dear Senator Adams:

The Alaska Public Employees Association urges the prompt resolution of the problems regarding the various state retirement funds, as well as other funds for which the state is responsible.

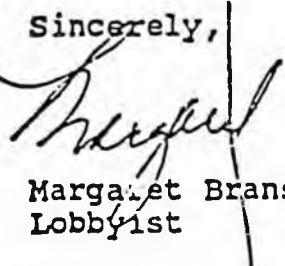
At the present time, we see CSHB580 (FIN) am, which passed the House April 23, as the most expeditious vehicle. It should be noted that a similar bill CSSB197 (SA) is currently residing in Senate Finance.

Our initial concern about the make up of the Board and the appointees who would represent the Teachers Retirement, Public Employees Retirement and the Supplemental Benefits System have been satisfied at this time.

We do believe, however, that the professional investor members should serve under the same conditions as the public sector members and that the permitting of monthly fees of up to \$1000 are unwarranted. They should be pleased to represent the private sector as a contribution to the common good of the state.

As you well know, time is very limited so we would urge you to expedite the passage of this legislation.

Sincerely,


Margaret Branson
Lobbyist

MB/kg

Sent to all
Senators.

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825 College Road
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TEACHERS' RETIREMENT SYSTEM BOARD

April 27, 1990

Charlie Arteaga, Chairperson
Teachers' Retirement System Board
1439 Miller
Ketchikan, Alaska 99901
225-6776

Senate State Affairs Committee
Senator Rick Uehling, Chairperson

RE: CSHB 550

Dear Senator Uehling and Committee members,

Once again I urge your support of legislation which creates the Alaska State Investment Corporation. It is the position of the Teachers' Retirement System (TRS) Board that this legislation is desirable and necessary. It is also the TRS Board's desire that any legislation creating an investment board have sufficient constituency representation, we favor an investment board which has approximately 40% constituency representation.

The TRS Board is in opposition to any legislation which would permit the Permanent Fund Corp. to invest retirement fund monies. We believe that an Independent corporation, with adequate constituency representation, is the best and most honest approach to maximize investment returns for our members. Divergent investment philosophies and on going political volatility surrounding the Permanent Fund does not provide a safe haven for retirement funds.

It is my hope that your committee takes quick and positive action on these concerns and moves to assure quick passage of legislation which will improve our members' retirement fund.

Thank you for your attention and time on this matter.

Sincerely,



C. Arteaga, Chairperson
TRS Board

UNIVERSITY OF ALASKA SOUTHEAST
School of Education, Liberal Arts and Science

11120 Glacier Highway • Juneau, Alaska 99801

The Honorable Senator
Rick Uehling Co-Chair
Senate Finance
Rm. 516, Capitol
P.O. Box V
Juneau, Ak. 99811

April 16, 1990

Dear Senator Uehling,

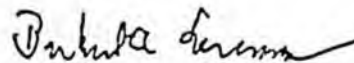
the Faculty Senate of the University of Alaska Southeast passed unanimously a motion in support of then Senate Bill 509 which proposed the establishment of an Alaska State Trust Company. Since the faculty senate acted on the motion, committee action resulted in CSSB 197 State Affairs, now pending before your committee.

Since most of the concept of the previous bill is now contained in CSSB197 State Affairs, the faculty of this institution would like to express its support for this Committee Substitute. In addition, we would like to let you know that we informed the Faculty Senates at Anchorage and Fairbanks of our action. It is likely that you will be informed of their actions as well.

Should you have any further questions in this matter, please feel free to have your staff contact me at my office number # 789-4403.

Thank you for your consideration.

Sincerely,



Dr. Barbara Sorensen
Associate Professor of Economics

Senator John Binkley, Co-Chairman
Senate Finance Committee
P.O. Box V
Juneau, Alaska 99811

Honorable Senator Binkley,

This is to urge you and your committee to give serious consideration and passage of SCS-HB 580 (State Affairs) in this session of the Legislature, if at all possible.

This legislation is badly needed in order to preserve and properly manage the funds dedicated and deposited for future benefits of some 27,000 employees who have participated in creating these funds.

The Board of the Public Employees Retirement System has endorsed the concept of a separate Alaska Trust Company in formal sessions and again urges you to act favorably on this at this session.

C. R. "Steve" Hafling
C. R. "Steve" Hafling
Chairman
Alaska Public Employees
Retirement Board



Inlandboatmen's Union of the Pacific



MARINE DIVISION — INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION
NATIONAL OFFICE • 2700 FIRST AVENUE, ROOM 211 • SEATTLE, WASHINGTON 98121 • 206-448-0736

April 26, 1990

Senator Tim Kelly
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Kelly:

The Inlandboatmen's Union of the Pacific, Alaska Region, supports creation of the ALASKA STATE INVESTMENT CORPORATION (CSHB 580). We strongly urge your passage of this legislation.

Public employees in Alaska work many years in dedicated public service. They should be secure in the knowledge their retirement is protected and properly managed when they finally reach retirement. Their pension monies should not be commingled with other funds managed by the Permanent Fund. Pension monies must be managed and accounted for separately with the proper fiduciaries.

We urge your support and passage on this important legislation before the end of the session.

Sincerely,

INLANDBOATMEN'S UNION OF THE PACIFIC
Marine Division of the International
Longshoremen's & Warehousemen's Union, AFL/CIO

Michael Wilson
Regional Director, Alaska Region

REGIONAL OFFICES

PUGET SOUND
2700 FIRST AVE., RM. 203
SEATTLE, WA 98121
206-441-5111

COLUMBIA RIVER
2455 N.W. FRONT
PORTLAND, OR 97209
503-252-2222

SAN FRANCISCO
501 ARMY ST., RM. 208
SAN FRANCISCO, CA 94124
415-376-0518

HAWAII
1001 DILLINGHAM BLVD. No. 214
HONOLULU, HI 96817
808-847-0511

SOUTHERN CALIFORNIA
728 LAGOON AVE.
WILMINGTON, CA 90744
916-830-2700

ALASKA
P.O. BOX 6300
KETCHIKAN, AK 99901
907-238-2565

JUNEAU
2219 JORDAN CREEK AVE.
JUNEAU, AK 99801
907-289-0888



ALASKA STATE EMPLOYEES ASSOCIATION

The Honorable John Binkley

April 27, 1990

RE: Investment of Retirement Funds - CSHB 580

Dear Senator Binkley:

The Alaska State Employees Association (ASEA/AFSCME Local 52) strongly supports the idea of placing responsibility for managing state trust and retirement funds with an entity outside state government. Many retirement funds are managed by a separate board of trustees. This practice insures that the funds remain outside the political sphere and guarantees the best return on the investment. Having individuals knowledgeable of investment practices also allows for the best return on investments.

We have studied several different pieces of legislation on this subject, and the approach we prefer is embodied in the committee substitute for HB 580.

The most recent version of this bill provides for nine voting members. Of the nine, four are not covered by TRS, PERS, or SBS and two are essentially representatives of the state as an employer. This leaves three of the nine as representatives of employee plan participants.

While it is particularly important to us that PERS and SBS participants are on the board, we would like to see employee participants comprise more than one-third of the voting directorship.

We also favor having an even number of voting members, as this encourages consensus. Major decisions on investment policy should not be made by a simple majority.

The dilution of plan participants' representation on the board can be alleviated by placing the commissioners of Administration and Revenue as non-voting members, as was the case in earlier versions of the bill. This gives the board the benefit of the commissioners' insight while avoiding the practice or appearance of politicizing the work of the Board of Directors.

The number of voting directors can be further reduced to six by eliminating one of the two public members from voting status.

Yours truly,

Fredric R. Dichter
ASEA Business Manager

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

May 15, 1989

SUMMARY OF: A Special Report on the Department of Revenue, Division of Treasury, Portfolio Management, State Investment Officers, April 14, 1989.

PURPOSE OF THE REPORT

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, this report was prepared to determine:

1. The purpose for requesting premium pay for four investment officer positions in the Department of Revenue, Treasury Management's FY 90 budget.
2. The reasons for allowing the State Investment Officer IV to work at home.

ISSUES ANALYSIS

1. What is the department's justification for budgeting premium pay in Treasury Management's FY 90 budget request?

According to the deputy commissioner of the Department of Revenue, the reason for budgeting \$100,000 under the "premium pay" heading was to provide a vehicle to increase employee compensation paid to the four state investment officers within the Portfolio Management section. These amounts were added to the detailed budget documents by the department and represent the estimated increase necessary to bring investment officers' compensation levels to competitive levels offered to investment officers managing similar investments.

The department does not intend on compensating these employees with "premium pay." Actual revisions to state investment officer compensation that the Division of Treasury plans to make would be based on an independent evaluation of compensation levels by a professional consulting firm in the employee compensation field. It is likely that a contract to conduct this evaluation will be awarded in FY 90.

2. What is the department's justification that allows the State Investment Officer IV (SIO IV) to work at home?

In response to a November 21, 1988 prohibition to smoking in the Juneau State Office Building where the Division of Treasury is located, the SIO IV, a heavy smoker with no intention to quit smoking at that time, indicated he would retire. As an alternative, the SIO IV was allowed to perform his job duties at home. The following enumerates the reasons that the department provided us to support their decision which allows the SIO IV to work at home.

- A. The department had difficulties recruiting for the position currently occupied by the SIO IV. These difficulties prompted the department to consider alternatives that might avoid an extended vacancy in the State's most important investment officer position.
- B. The department believed it would be detrimental at that time for the Portfolio Management section of the Division of Treasury to lose a valued employee whose job performance is considered excellent.
- C. The department believed that fiduciary responsibilities investing state funds required retaining the SIO IV as the chief investment officer.
- D. It is expected that the SIO IV plans to retire soon. As such, this working situation is temporary. The department would have reconsidered their decision if it meant that an employee would be working out of his/her home on a permanent basis.

Auditor's Comments

We question whether the best interests of the State are being met by allowing the SIO IV, a key supervisory position regarding state investment, to work in a location other than where the investments are being managed. There exists an appearance that effective management and professionalism is lacking in the investment of state assets that exceeds \$4.8 billion.

In our opinion, the department should take action to reestablish the work location of the SIO IV position back in the office. In order to accomplish that, the department should make it a priority to recruit for candidates to fill the SIO IV position. In addition, the department should obtain adequate evidence confirming the SIO IV will retire once a person is found to fill the position.



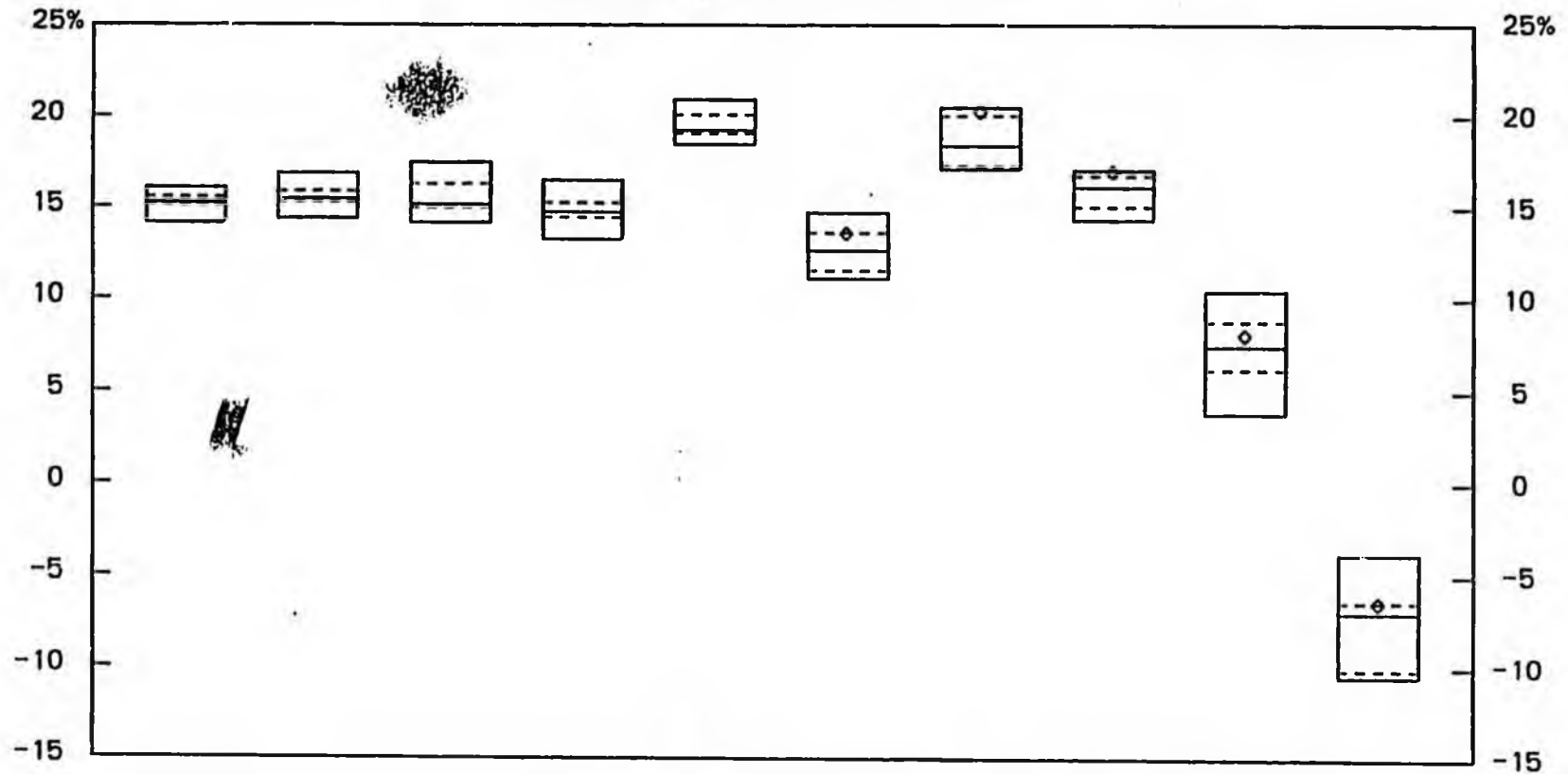
STATE PLAN REPORT

ALASKA PERMANENT FUND CORP.
JUNEAU, AK
ALASKA PERMANENT-COMBINED FUND
JUNE 30, 1988

FUNDS EVALUATION SERVICES

DRI

STATE RETIREMENT PLANS EQUITIES: ANNUALIZED RATES OF RETURN FOR PERIODS ENDING JUNE 30, 1988



	1979-88	1980-88	1981-88	1982-88	1983-88	1984-88	1985-88	1986-88	1987-88	1988
5TH PERCENTILE	16.0	16.9	17.5	16.5	20.9	14.7	20.5	17.1	10.4	-3.8
25TH PERCENTILE	15.5	15.9	16.3	15.2	20.1	13.6	20.0	16.8	8.8	-6.4
MEDIAN	15.2	15.5	15.1	14.7	19.2	12.7	18.4	16.1	7.5	-7.0
75TH PERCENTILE	15.1	15.3	14.9	14.5	19.1	11.6	17.3	15.1	6.2	-10.1
95TH PERCENTILE	14.1	14.4	14.2	13.2	18.5	11.1	17.1	14.3	3.8	-10.5
PLAN M1937						13.6	20.3	17.0	8.1	-6.4
RANK						28	12	6	32	30
S&P 500 INDEX	16.3	16.6	16.5	15.9	21.3	14.6	20.0	16.5	7.9	-6.9
RANK	3	8	15	10	3	6	26	43	38	49

going to happen, you would think that is when the award would be given, not years later," said Stephen Schroeder, 45, who received the majority of his \$35,000 prize in 1988, eight years after it was initially considered. "Before the award was approved, I had been on the road briefing the highest Department of Defense officials, including four-star generals and admirals, about how the system was working," said Schroeder, whose computerized identification of parts in inventory saved the Navy millions.

Please see Back Page, AWARDS

The council recommended that people daily eat five or more half-cup portions of fruits and vegetables and a minimum of six portions of starches such as breads, cereals and beans. The recommendations would roughly double the average amounts of these eaten by Americans. The council also said it found no proof that calcium

of dietary guidelines. This is the first time that a committee of the National Research Council, the working arm of the National Academy of Sciences, has made such definitive dietary recommendations. "Many people may be confused by the vast amount of

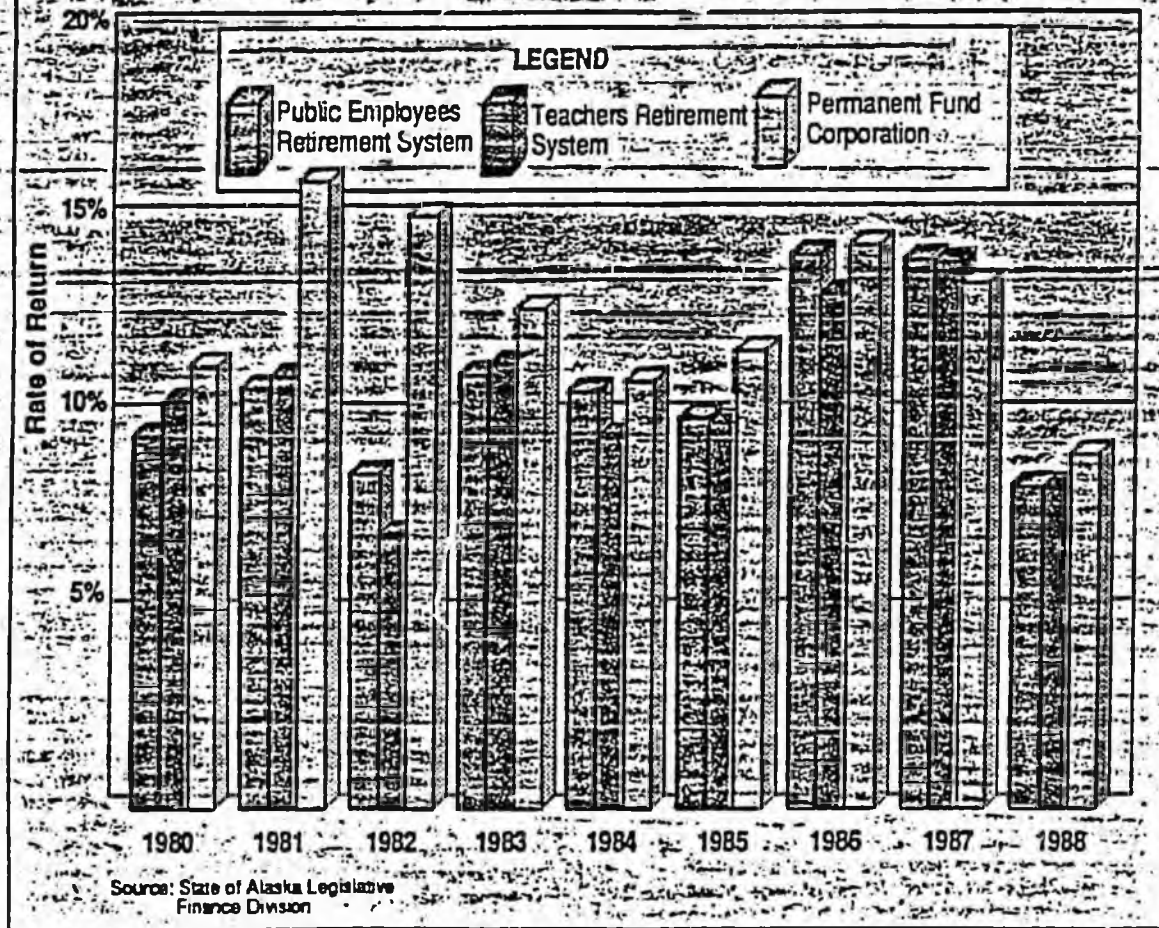
Please see Back Page, DIET

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Comparison of State Investment Funds



Anchorage Daily News/ Dee Boyle

State's handling of retirement fund gets a close look

By GEORGE FROST
Daily News reporter

A state-run retirement fund meant to ensure the golden years of about 27,000 government employees and teachers costs three times as much to administer as the Alaska Permanent Fund but consistently earns less on its investment portfolio, a legislative analyst says.

During this budget year, it will cost about \$7.4 million to manage the \$9.1 billion permanent fund portfolio and \$10.4 million to manage the \$3.8 billion retirement fund portfolio, according to a preliminary study by Cameron Kashani, an analyst in the legislative finance division.

But Kashani's analysis, performed at the request of legislators considering a transfer of investment authority away from the state Department of Revenue, is just one slice of a large and many-layered financial onion.

One layer at a time, the retirement system is being peeled back by legislative auditors, the revenue department and critics who allege the state has lost millions of dollars through unsound stock investments.

The state Department of Revenue is in charge of managing and investing the huge

Please see Back Page, RETIREMENT

Investors want pensions in Permanent Fund portfolio

LEGISLATION transferring Alaska's \$3.5 billion pension and teachers' pension permanent Fund Corp. was morning in the Senate. of the pension funds for has come under fire for sive management costs nance.

Last week the Legislative Budget and Audit Committee directed legislative auditors to investigate the performance of the Public Employees Retirement System and Teachers' Retirement System funds. Sen. John Binkley, R-Bethel, said he proposed the legislation to begin a dialogue on the issue. He said he doesn't expect the bill to pass this year. "I think we should hold some hear-

ings and get some questions answered," agreed Senate President Tim Kelly, who signed on as a co-sponsor of the bill. Sen. Drue Pearce, R-Anchorage and another co-sponsor of the measure, said the retirement funds are not in any danger, but "everybody who puts money into the Public Employees Retirement System and Teachers Retirement System ought to be concerned." "It looks as though the performance

of those two funds are below the permanent fund's," said Binkley. He said it also appears the state is duplicating efforts by having one set of investment officers in the Treasury Division and another at the permanent fund. Anchorage stockbroker Dennis Waldock researched the performance of the two funds and found them wanting. He said his research showed the pension fund's rate of return is among the worst

of the industry. Revenue Commissioner Hugh Malone disagrees with Waldock, saying that the pension funds' performance appears to be close to that of the Permanent Fund. Malone acknowledged management costs are higher than the Permanent Fund, but he attributed that to a greater share of the pension fund money being invested in stocks and foreign investments.

revenue Commissioner... who oversees the retirement fund, says those higher administrative costs are justified by a more aggressive investment strategy.

C.R. Halling, chairman of the Public Employees Retirement System for 20 years, sees no problem. "My first opinion is there is no crisis. I don't think a little blip is anything to get worried about."

But Dennis Waldock, a Paine Webber Inc. stockbroker who has orchestrated criticism of Malone, claims that the fund has been among the worst performers in the country and the state has used deceptive accounting practices to keep everybody confused. Waldock admits he has a very large axe to grind in pressing for change in the management of the retirement system. He began digging up information and firing off memos in December, shortly after Malone announced he wanted to bypass Alaska-based stockbrokers and deal directly with Wall Street discount brokers.

The local office of Paine Webber earned about \$100,000 in commissions last year from the retirement funds, and Waldock and other brokers here don't want to lose that income, he said. Malone put the Wall Street policy on ice for a year while he studies whether it would save money or not. After intense lobbying by Waldock, legislation to transfer the retirement funds to the stewardship of permanent fund managers was introduced this week by Sen. Johnie Binkley, R-Bethel, and two other GOP senators.

"It seems as though, from preliminary figures, that the return on investment is a lot less than the permanent fund corporation, when it should be greater," Binkley said.

The permanent fund was created by voters in 1976 to save some of the state's oil wealth, and it has a more conservative policy geared to greater investments in government securities.

To help sort out the true numbers, Sen. Arliss Sturgulewski requested a legislative audit to see how well the funds have performed. She also wants to study how the legislature can gain more oversight of those investments.

Kashani found that the state's cost of investing the retirement system portfolio almost doubled between 1988 and 1989, from \$5.54 million to \$10.45 million, although that is a budgeted, not an actual number.

Dollar for dollar, it costs more than three times as much to manage the retirement program as the permanent fund, he said. "What does this higher cost buy?"

During the last nine years, only once — in 1987 — did the revenue department's investments outstrip the permanent fund, he said.

"We are not running a gold-plated operation that is more expensive than the permanent fund at all," said Deputy Revenue Commissioner Mill Barker.

According to Barker, it should cost three times as much, dollar for dollar, because the Revenue Department is a much more active

retirement funds is driven by the fees paid to private investment houses, which got more than \$8 of every \$10. The retirement funds also pay out high fees for foreign stock purchases, forbidden for now to permanent fund managers, he said.

As for the disputes over performance, Barker's numbers show the retirement funds averaged a 14.6 percent return between 1985 and 1988 compared to 16.3 percent for the permanent fund. Malone, who also sits on the permanent fund board of directors, explained the lower returns as part hangover from earlier investments into Alaska commercial real estate and other poor policies.

And the permanent fund, with about 80 percent of its money in securities, was able to ride the waves of short-term government bonds that followed changes in interest rates, he said.

Malone said that transferring the retirement programs to the permanent fund may save a few hundred thousand dollars, but not enough to jeopardize either fund by mixing different investment strategies.

The permanent fund has to earn large amounts of cash each year to pay dividends to Alaskans and protect the fund from inflation, Malone said, and thus invests heavily in short-term securities. The retirement funds, however, aim for larger and longer-term gains primarily through the stock market.

Both funds were battered in the October 1987 stock market crash, although the retirement funds, with one-third invested in common stocks, were hit harder.

Waldock said the "politicians" at the Revenue Department had blundered far worse during the panic-racked month when stocks nose-dived. While the permanent fund and many other funds were selling off stock prior to the September peak of the Dow Jones index, the retirement fund was buying big — increasing its market position by \$181 million and purchasing more stock into October, he said.

Waldock also charged that the Revenue Department has used deceptive accounting practices to make its foreign stock investments more attractive. He pointed to a financial disclaimer by the accounting firm of Ernst and Whinney, incorporated into the state's financial statements.

The accountants said the Revenue Department was not using accepted accounting principles in reporting more than \$100 million of gains from its investments in foreign stocks, and actually should have reported gains of only about \$6 million.

Although Malone acknowledged his differences with Ernst and Whinney, he said the financial note was not significant.

Malone defended the department's deferred reporting on foreign stock activity, saying it's more accurate to record gains and losses in foreign stocks when the money was converted to U.S. dollars, not when the transactions were actually made, as required of private investment funds.

assistance for health restructuring of our health coverage for children who noted that the current budget deficit of investment in child

"The fiscal policies short-changed kids," too many of America's deficit status, and on by public policymakers alarming trends."

As a first step in the health of American children endorsed a bill co-sponsored by Waxman, D-Calif., to bring levels for preterm infants.

Under the proposal 1991 could, for example, be 10 percent above the federal level — and still there. By 1993, a slip up to \$10,874, 85 per poverty level, and s

AWARDS:

Continued from Page

"If you understand the system's a bureaucrat everything has to go so many checks and balances, you understand it takes so long," electronics technician at the U.S. Naval Air Station at North Island, San Diego. "But awarding money so late is an anticlimax."

Representatives of the Navy and the Office of Personnel Management in Arlington, D.C., said they could not explain the delay until the approval took so long.

About 7 percent of federal employees, 169,000 people, suggested in 1987 that they would like to have a year's pay for which they were available. A man said that the award had been about 43,000 of them an estimated savings of \$1 million since the start of the Federal Awards Program.

Schroeder is among individuals or groups that have won more than \$1 million for money-saving suggestions. Many are praising Schroeder's opinion on the timing of the awards.

"The whole purpose of the awards is to encourage people. It certainly encourages you to learn you are receiving \$25,000."

There's always a luster off the program, senior research John Pearson of the Weapons Center in Lake, Calif., who was named for a \$25,000 award in 1985 and will receive a final \$15,000 this year.

"Plus, it's frustrating you never really know you're going to get it. There's always

DIET: Council advises Americans to change their ways

Continued from Page A-1

advice given in many forms about what to eat," said Dr. Arno Motulsky, chairman of the Committee on Diet and Health. "Some may have delayed making changes in their diets until they are more convinced that scientists have reached consensus. We hope our report will help these individuals move from

The committee said the risk of heart disease could be reduced by at least 20 percent if the public followed the fat and cholesterol guidelines. Americans currently consume 37 percent of their calories as fat. The committee endorsed a reduction to 30 percent — as many other health groups have recommended — but it acknowledged that level is on

and said further reductions would provide additional benefits. The committee also said the risk of cancer of the colon, lung and stomach could be reduced by sharply increasing consumption of fruits and vegetables.

The committee's recommendations are far more specific than the recent Surgeon General's Report on Diet

5/5/90

Dennis L. Waldock
3327 Iliamna
Anchorage, Ak 99517
Wk. #:562-3029
Hm. #:243-8462

WHY WE NEED THE PUBLIC EMPLOYEES AND TEACHERS PENSIONS
TRANSFERRED TO THE PERMANENT FUND

Please accept this as written testimony regarding HB 580.

This is a plea that you consider placing the management of state funds with the proven, accomplished and professional management staff located at the Permanent Fund.

The Department of Revenue appears to be pre-occupied with the form of the investment organization rather than the execution of the investment function itself.

The department has demonstrated a lack of good judgment both in the execution of its management and investment duties as well as in proposing this new organization. What is really frightening is that the same individuals possessing this poor judgment are asking you to race to a decision on this legislation so they can be in charge of setting up the new corporation.

There has been much debate over form and very little about substance. By substance, I mean the execution of the investment function itself.

Investing must be accomplished by professionals who know the business and the people in it. It must be accomplished by professionals who have a proven track record and a consistent investment approach. It must be accomplished by professionals who enjoy what they do and are dedicated to the organization for which they work. Finally, the investment function must be accomplished by professionals who have demonstrated good judgment. In all cases, performance of the investment function by the professionals currently in place at the Permanent Fund is far superior to the alternative of the establishment of a new and untried organization.

Department of Revenue in a self-serving way has chronicled reasons why the Permanent Fund should not manage other funds. Its two-page paper does not discuss the investment function but dwells with the stress which will be placed on the Permanent Fund management. In my view, the Permanent Fund folks are experts at maintaining focus, balance, accountability and a keen awareness of proper fiduciary actions. Since the transfer of functions to the Permanent Fund is accompanied by the transfer of adequate numbers of people and dollar resources, there is no reason to believe that either Permanent Fund or other Fund functions will suffer from a consolidation.

For your information, I have prepared an enclosure which sets forth what, in my opinion, constitutes poor judgment by the people who would be responsible for the new organization, and should be viewed as a "red flag" warning you of the potential for continued mismanagement.

Again, I urge that you consider placing the investment of state funds with the proven, accomplished professionals of the Permanent Fund.

See Exhibit 1.

Some additional reasons for you to question the judgment of the members of the Department of Revenue who would be responsible for the start-up of the Alaska State Investment Corp. are as follows:

1) COST: By using the Permanent Fund which is already in place the state can save between \$2.5 million and \$5 million of savings to the Alaska taxpayer.

The Permanent Fund runs their money at a cost of .0013 or 13 basis points. At present, the PERS + TRS cost .0031 or 31 basis points to run their money. This idea of an Alaska State Investment Corporation will cost at least 40 basis points to run. The savings of \$2.5 million to \$5 million per year with the slowing of Prudhoe Bay and the slow economy could go a long way on helping the image of the Legislature with the public.

2) DEFINED BENEFIT PLAN: This simply means that if for some reason (mismanagement , etc.) there is not enough money to cover the plan that the Alaska Legislature will be called on to make the plan whole.

In the last three years the Revenue Department over stated the return on foreign investment by 1500% - Can you imagine 1500%.

During 1987, while the Permanent Fund was quietly trying to get out of the equity market, the Revenue Department was trying to put an additional \$1 billion dollars in the equity market. During October 1987 the Revenue Department put over \$76 billion in equities between October 1st and October 19th, the day of Wall Streets biggest crash.

Now, look at money. The Department of Administration has investments in Junk Bonds, \$121 million. If you look in the Wall Street Journal, today you will find that those Junk Bonds are now worth between 20 cents and 40 cents on the dollar. This all means that the state will in all probability have a loss of \$73,000,000.

Remember that the State of Alaska is under a Defined Benefit Plan.

See Exhibit 2 and 3.

3) THE PERMANENT FUND: a few years ago the Legislation was passed, AS 24.20.206, to allow oversight of the Alaska Permanent Fund. If PERS + TRS was moved from the Department of Revenue to The Permanent Fund, the Legislature would have oversight.

If you form an Alaska State Investment Corporation, you will only be duplicating services already in place. If you create the Alaska State Investment Corporation you will need five new employees above the present level.

The Rates of Return at the Permanent Fund are exceptional, and are admired around the world. You will have no guarantee the Rate of Return will be good or exceptional if you form the Alaska State Investment Corporation. The State of Alaska does not need another First Executive Corp.

Staffing at the Permanent Fund is already in place. They are a very talented and dedicated group of people who have a track record envied by all of Wall Street. It is extremely hard to find this type of individual who wants to live in Alaska. It will be very difficult to find similar talented help who will want to move to Alaska, so most likely you will find less talented people working in the Alaska State Investment Corporation. You will already have the Permanent Fund and its staff in place, so why would you possibly want to take a chance with the Alaska State Investment Corporation!

Separation of PERS + TRS from the Permanent Fund is already mandated by Federal Law. The PERS + TRS will not lose their individuality, they will remain as they presently are.

Dennis L. Waldock
3327 Iliamna
Anchorage, AK 99517
562-3029-Work
243-8462-Home

DLW:bjr

Enclosures

EXHIBIT 1

DEPT. OF REVENUE
POOR JUDGEMENT

Received an unnecessary "qualified audit opinion" on the fiscal year 1988 audit.

The qualified opinion was not disclosed within the formal, published PERS/TRS Annual Report for 1988.

Allowed its physically fit chief investment officer (a critical position) to spend months at home rather than at his desk in the State Office Building.

Engaged in some "market timing" activities which resulted in buying high and selling low before and after the 1987 crash.

Did not require the independent performance evaluation firm it hired to evaluate total portfolio performance.

Despite concerns at the highest levels of the Executive Branch, independently requested introduction of this legislation which originally:

- * Would have provided five-year contracts (golden parachutes) to staff.
- * Would have permitted the organization to move out-of-state.
- * Would have a majority of the board of directors located out-of-state.
- * Would have paid huge honorariums to the out-of-state Trustees.
- * Would have been exempt from the open meetings act.
- * Would have been exempt from the budget act.
- * Would have been exempt from the procedures act.
- * Would have created a cumbersome and impractical board-staff arrangement in which there would be poor accountability.

S&P'S 500, COMMON STOCK PRICE INDEX 1986 - 1988

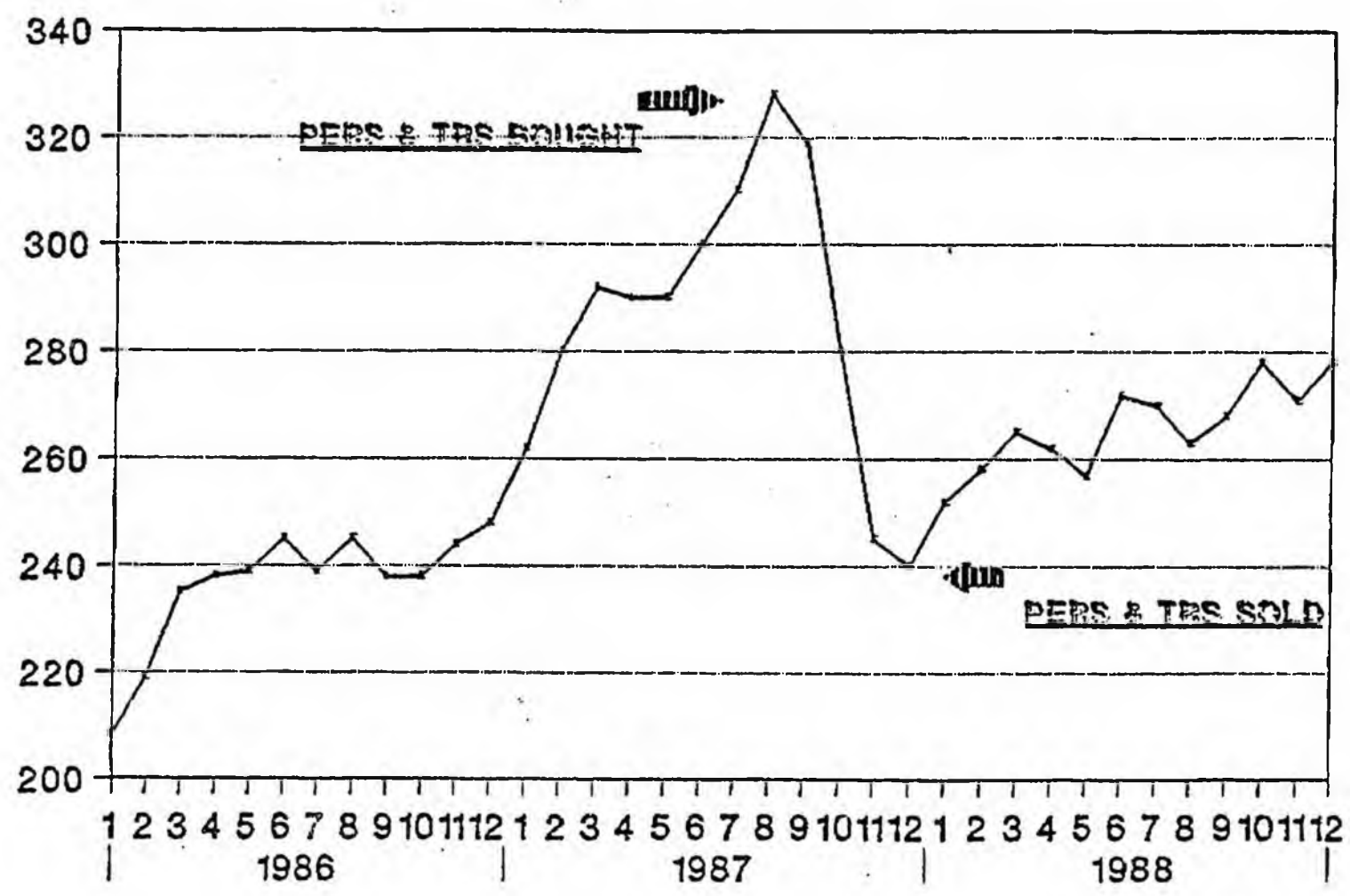


EXHIBIT 2

the market activity (not new money) of both PERS and TRS (please see exhibit 13 , or my original letter).

Below you will find the stock market activities month by month for both the PERS and TRS and where the Dow Jones was at during the important months leading up to the market crash. The figures with brackets are withdrawals from the market.

DJIA		PERS	TRS
	1987		
	January	0	0
	February	0	0
2226/2286	March	43,895,000	29,858,000
	April	8,655,000	6,111,000
	May	3,710,000	2,817,000
2295/2407	June	24,784,000	11,975,000
	July	6,247,000	3,519,000
2539/2669	August	107,887,000	19,858,000
2549/2701	September	132,316,000	48,729,000
	October	76,413,000	(688,000)
	November	(11,635,000)	(7,442,000)
	December	(7,222,000)	(4,660,000)
	1988		
1879/2037	January	(77,089,000)	(49,909,000)
	February	(4,391,000)	(2,824,000)
	March	(3,450,000)	(2,240,000)
	April	(2,690,000)	(1,738,000)
	May	9,540,000	6,766,000
	June	(251,000)	(163,000)

Please note, during September 1987, one month before the market crash (Dow Jones was at its high) the Retirement Funds increased their market position by \$181,045,000. During October 1987, the month of the crash, PERS increased their market position by \$76,413,000. Remember that the Alaska Permanent Fund sold out a major part of their market position during March 1987.

In November 1987, please also note that the bracketed monthly numbers turn negative (dictates withdrawals from the Equity market) and continued through June of 1988, with the exception of May 1988.

In closing I would like to leave you with two lists; one containing reasons for moving the management of PERS & TRS to the Permanent Fund and the other a list of reasons not to move the Retirement Funds from the Treasury Department.

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	30.0	62	26.6	75	0.0	100	0.0	100	0.0	100		
BONDS	65.0	31	59.4	31	62.2	37	74.1	1	73.1	1		
MONEY MARKETS & CASH	5.0	83	14.0	30	37.8	1	25.9	1	26.9	1		

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780122

P. 9

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>SECURITIES PORTFOLIOS</u> (Versus other States)	10.8	55	4.3	18	9.1	70								
<u>SECURITIES PORTFOLIOS</u> (Versus Corporate Funds)	10.8	98	4.3	9	9.1	92								

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	25.3	7.3	19.8
25th	14.8	3.4	14.2
Median	11.7	2.5	10.3
75th	8.7	0.1	8.4
95th	4.9	-1.1	5.3

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	27.7	4.6	22.9
25th	21.6	2.3	19.9
Median	19.2	0.8	15.3
75th	15.2	-1.3	13.6
95th	11.7	-3.3	6.1

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

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State of Alaska

TEACHERS RETIREMENT FUNDQuarter Ending,
June 30, 1988

DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
SECURITIES PORTFOLIOS (Versus other States)	11.7	49	1.6	57	9.3	66	27.6	23	29.4	45	-3.4	84	34.0	69
SECURITIES PORTFOLIOS (Versus Corporate Funds)	11.7	95	1.6	31	9.3	92	27.6	64	29.4	12	-3.4	37	34.0	97

STATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	25.3	7.3	19.8	33.0	36.4	3.1	46.9
25th	14.8	3.4	14.2	27.1	31.8	0.3	42.7
Median	11.7	2.5	10.3	23.8	28.9	-2.0	39.7
75th	8.7	0.1	8.4	22.7	25.9	-2.7	31.9
95th	4.9	-1.1	5.3	18.2	23.9	-5.6	18.4

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	27.7	4.6	22.9	34.3	30.1	-0.4	55.7
25th	21.6	2.3	19.9	32.4	27.4	-1.9	51.5
Median	19.2	0.8	15.3	29.7	25.5	-5.0	46.0
75th	15.2	-1.3	13.6	25.7	23.8	-6.4	39.9
95th	11.7	-3.3	6.1	20.4	22.1	-8.9	34.6

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780113

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988DOMESTIC SECURITIES PORTFOLIOS
AS COMPARED TO LARGE RETIREMENT FUNDS
(Annualized Rates of Return at Market Values)

	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>SECURITIES PORTFOLIOS</u> (Versus other States)	10.8	60	2.4	52	9.4	64	26.6	28	28.1	60	-1.2	38	28.5	91
<u>SECURITIES PORTFOLIOS</u> (Versus Corporate Funds)	10.8	98	2.4	23	9.4	91	26.6	69	28.1	19	-1.2	20	28.5	100

STATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	25.3	7.3	19.8	33.0	36.4	3.1	46.9
25th	14.8	3.4	14.2	27.1	31.8	0.3	42.7
Median	11.7	2.5	10.3	23.8	28.9	-2.0	39.7
75th	8.7	0.1	8.4	22.7	25.9	-2.7	31.9
95th	4.9	-1.1	5.3	18.2	23.9	-5.6	18.4

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACHPercentiles

5th	27.7	4.6	22.9	34.3	30.1	-0.4	55.7
25th	21.6	2.3	19.9	32.4	27.4	-1.9	51.5
Median	19.2	0.8	15.3	29.7	25.5	-5.0	46.0
75th	15.2	-1.3	13.6	25.7	23.8	-6.4	39.9
95th	11.7	-3.3	6.1	20.4	22.1	-8.9	34.6

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

078015

COMMON STOCK PORTFOLIOS
AS COMPARED TO LARGE STATE RETIREMENT FUNDS AND MARKET INDICES
(Annualized Rates of Return at Market Values)

Common Stock Portfolios (Note A)	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
ALGER	24.8	80	-13.1	100	8.4	100	48.5	1	27.4	75				
INVESCO	28.2	54	-4.9	22	19.4	85	29.6	100	27.4	75				
LEHMAN	31.6	30	-3.3	15	26.2	17	35.2	66	31.7	23				
COMPOSITE OF MANAGERS	28.2	51	-6.9	55	17.7	96	37.5	38	28.8	63	-15.1	100	67.3	7

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	49.6	-0.2	36.2	41.2	34.1	0.0	69.2
25th	32.6	-5.8	25.1	37.9	31.5	-6.1	65.5
Median	28.6	-6.8	22.6	37.0	30.6	-8.1	60.6
75th	25.3	-9.3	20.4	34.3	27.4	-9.6	58.0
95th	22.0	-10.5	17.8	30.5	18.5	-14.8	52.7

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

Prepared under contract by SEI CORPORATION

- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
 (A) - up to 9-30-87 portfolio returns include money market (non-stock) investments, whereas the comparative returns for state retirement funds are for stocks only.

0780H25

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

COMMON STOCK PORTFOLIO
AS COMPARED TO CORPORATE RETIREMENT FUNDS AND MARKET INDICES
 (Annualized Rates of Return at Market Values)

Common Stock Portfolio	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
DOMESTIC EQUITY FUND (Note A)	25.8	74	-5.4	32	17.7	89	37.5	39	28.8	71	-15.1	92	67.3	51

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	46.9	-1.6	30.1	42.5	33.6	-7.3	80.0
25th	35.0	-5.1	24.6	39.3	31.4	-8.8	72.4
Median	30.1	-6.6	22.4	36.4	30.1	-10.2	67.6
75th	24.8	-7.6	19.5	34.3	28.3	-12.7	62.9
95th	20.2	-9.6	14.1	31.6	26.3	-15.4	60.8

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

Prepared under contract by SEI CORPORATION

- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
 (A) - Includes money market investments (non-stock), whereas the comparative returns for corporate retirement funds are for stocks only.

078012

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

COMMON STOCK PORTFOLIO
AS COMPARED TO LARGE STATE RETIREMENT FUNDS AND MARKET INDICES
(Annualized Rates of Return at Market Values)

Common Stock Portfolio	Quarter 06/30/88		FY 1988		FY 1987		(*) FY 1986		(*) FY 1985		(*) FY 1984		(*) FY 1983	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
DOMESTIC EQUITY FUND (Note A)	25.3	72	-4.5	21	34.4	100								

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

Percentiles

5th	49.6	-0.2	60.3
25th	32.6	-5.8	50.1
Median	28.6	-6.8	46.3
75th	25.3	-9.3	42.2
95th	22.0	-10.5	40.9

MARKET INDICES

S&P 500 Index	29.1	-6.9	25.2	35.9	31.0	-4.6	61.2
Dow Jones 65 Index	29.9	-11.7	25.5	31.8	25.5	1.0	54.5

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- (*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.
(A) - includes money market (non-stock) investments, whereas the comparative returns for state retirement funds are for stock only.

078027

EXHIBIT 3

State of Alaska

TEACHERS RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	33.8	52	35.0	57	35.2	55	26.3	64	21.6	66	26.2	59
BONDS	56.4	49	51.4	32	53.0	51	46.3	52	66.8	25	57.4	39
MONEY MARKETS & CASH	9.8	35	13.6	48	11.8	35	27.4	1	11.7	45	16.4	12

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780104

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO STATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	32.6	55	33.8	59	34.9	55	26.5	65	18.3	67	17.3	65
BONDS	58.1	45	48.8	54	51.3	51	48.1	57	69.9	25	62.2	37
MONEY MARKETS & CASH	9.2	38	17.4	12	13.8	22	25.4	1	11.8	41	20.5	1

STATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	35.1	40.9	37.3	37.0	37.4	29.0
BONDS	56.0	51.2	51.2	53.5	52.4	51.0
MONEY MARKETS & CASH	8.2	10.6	7.0	9.5	10.6	9.8

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(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

078016

EXHIBIT 3

State of Alaska

PUBLIC SCHOOL FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO CORPORATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	30.0	100	26.6	100	0.0	100	0.0	100	0.0	100		
BONDS	65.0	1	59.4	1	62.2	3	74.1	1	73.1	1		
MONEY MARKETS & CASH	5.0	100	14.0	20	37.8	1	25.9	1	26.9	1		

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	55.3	58.5	51.8	56.8	56.5	59.5
BONDS	28.2	28.0	29.1	32.5	25.4	27.1
MONEY MARKETS & CASH	10.4	10.6	8.7	7.3	12.7	7.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

0780123

EXHIBIT 3

State of Alaska

PUBLIC EMPLOYEES RETIREMENT FUND

Quarter Ending
June 30, 1988

FUND ASSET ALLOCATION
AS COMPARED TO CORPORATE RETIREMENT FUNDS
(at Market Values)

	Quarter 06/30/88		6-30-87		(*) 6-30-86		(*) 6-30-85		(*) 6-30-84		(*) 6-30-83	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Asset Allocations</u>												
COMMON STOCKS	32.6	100	33.8	93	34.9	90	26.5	99	18.3	99	17.3	100
BONDS	58.1	1	48.8	6	51.3	7	48.1	11	69.9	1	62.2	17
MONEY MARKETS & CASH	9.2	67	17.4	16	13.8	15	25.4	1	11.8	52	20.5	1

CORPORATE RETIREMENT FUNDS OVER \$500 MILLION EACH

COMMON STOCKS	55.3	58.5	57.8	56.8	56.5	59.5
BONDS	28.2	28.0	29.1	32.5	25.4	27.1
MONEY MARKETS & CASH	10.4	10.6	8.7	7.3	12.7	7.8

Prepared under contract by SEI CORPORATION

(*) - Alaska's rates of return prior to FY 1987 were not calculated by SEI CORPORATION.

078017

MAY 03 '90 10:48 PRIME LEBBER HIGH

P. 5



alaska judicial council

1029 W. Third Avenue, Suite 201, Anchorage, Alaska 99501 (907) 279-2526 FAX (907) 276-5046

EXECUTIVE DIRECTOR
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Leona Okakok
Janis G. Roller

ATTORNEY MEMBERS
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Daniel G. Callahan
William T. Council

May 4, 1990

CHAIRMAN, EX OFFICIO
Warron W. Matthews
Chief Justice
Supreme Court

Senator John Binkley
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Re: HB 491: Alaska Sentencing Commission

Dear Senator Binkley:

I am writing to encourage the Senate Finance Committee to schedule and pass out the above referenced legislation which would create an Alaska sentencing commission. The Alaska Judicial Council supports this legislation and I would be happy to attempt to answer any questions you might have about it.

Please feel free to give me a call.

Very truly yours,

A handwritten signature in cursive script that reads "William T. Cotton".

William T. Cotton
Executive Director

TWC/jmz

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

June 19, 1989

Audit Control Number

04-4345-89-S

Commissioner, Department of
Revenue

Hugh Malone

Deputy Commissioner, Department
of Revenue

Milton B. Barker

STATE OF ALASKA

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

June 19, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

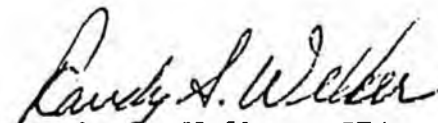
A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

Audit Control Number

04-4345-89-S

The purpose of this audit is to examine the accounting and oversight of the Public Employees' and Teachers' Retirement Funds administered by the Department of Revenue, Treasury Division.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. The audit approach is discussed in the Report Objectives, Scope, and Methodology section of this report. The audit results may be found in the Findings and Recommendations section.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we reviewed the Public Employees' and Teachers' Retirement Funds. The purpose was to review accounting procedures used for the retirement funds' foreign investment portfolio and to ascertain the extent of investment oversight the retirement funds are subject to.

The policy and audit approach utilized by the Division of Legislative Audit for special and performance reports can best be described as "audit by exception." This methodology focuses the audit effort on areas of an auditee's operation that have been identified by a preliminary survey as having a high degree of probability for needing improvements.

Therefore, by design, finite audit resources are used to identify where and how improvement can be made, and little time is devoted to reviewing well-run operations or programs. Consequently, this report highlights those areas needing improvement and does not emphasize those operations and programs that are properly functioning.

Discussion of the objectives, scope, and methodology of our review follows.

OBJECTIVES

In response to public allegations about mismanagement of the retirement funds and "deceptive accounting practices," the Legislative Budget and Audit Committee requested a review of certain management practices of the Public Employees' and Teachers' Retirement Funds.

The first objective of our review was to determine the type of management and investment oversight provided over the operations of the retirement funds.

The second objective was to ascertain the management and investment oversight styles applied to other similar funds.

Our third objective was to determine if proper accounting practices were applied to the funds' foreign investments.

Finally, we identified the various rates of returns earned by the retirement funds and the Permanent Fund, and we reviewed the cost of managing and investing these funds.

SCOPE AND METHODOLOGY

We met with officials of the Department of Revenue, Treasury Division, including the deputy commissioner, chief investment officer, other investment officers, and the state

comptroller; the director of the Division of Risk Management; officials of the Alaska Permanent Fund Corporation; certified public accountants under contract with the Treasury Division; and a member of the brokerage community.

We also reviewed various reference materials and publications; reports, and supporting documentation, prepared by the Senate Advisory Council; fund performance evaluation reports prepared for the retirement funds and the Alaska Permanent Fund; and, various literature provided by other states on their retirement funds.

Additionally, we prepared and distributed a questionnaire to all other states inquiring about certain aspects of their public employees retirement funds.

We also engaged a consultant, who as a former employee of Merrill Lynch had past experience in evaluating the performance of the Public Employees' and Teachers' Retirement systems, to assist us in interpreting the externally prepared performance reports on the retirement funds and the Permanent Fund.

ORGANIZATION AND FUNCTION

The Department of Revenue, Division of Treasury (Treasury) is responsible for, and has sole discretion over, the prudent investment and management of the Public Employees' Retirement Fund (PERS) and the Teachers' Retirement Fund (TRS).

Chapter 141, SLA 1988 amended PERS and TRS statutes by designating the funds as retirement trust funds and appointing the commissioner of Revenue as treasurer of the retirement systems and fiduciary of the funds. Under the amending legislation, the commissioner of Revenue shall:

1. Consider the status of the funds' investments and the system's liabilities on both a current and a probable future basis.
2. Determine the appropriate investment objectives for the funds.
3. Establish investment policies aimed at achieving the objectives.
4. Act only in regard to the best financial interests of the system's beneficiaries.

The amendments also repealed the "legal list" of investments the retirement funds were restricted to and placed upon the commissioner of Revenue, or his designee, the responsibility of fund fiduciary. Treasury also employes external investment managers who manage a substantial portion of the retirement funds.

Additionally, there are two boards which oversee the administrative aspects of the retirement systems. The Public Employees' Retirement Board is composed of five members, three of whom are members of the Department of Administration personnel board and two who are members of the system and elected by the membership of the system. The Teachers' Retirement Board consists of five members appointed by the governor. Both boards are mostly administrative in nature, being responsible for governing the regulatory aspects of the retirement systems.

The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

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FUND COMPARISONS AND DISCUSSION:
PUBLIC EMPLOYEES' RETIREMENT FUND, TEACHERS'
RETIREMENT FUND, and ALASKA PERMANENT FUND

BACKGROUND

There is no validity to the statement that "a fund is a fund" as each fund has its own unique characteristics. Although funds such as those set up as trusts and endowments may have few obvious differences, there are deeper, less clearly defined differences such as fund objectives, philosophy over fund management, and investment styles. A slight difference in fund objectives and philosophy may, and usually does, result in different investment styles and, therefore, differing returns on investment. The varied fund management styles and investment philosophies create a danger in across-the-board rate of return comparisons and forming conclusions drawn from those comparisons. There are several ways of assessing investment results. It is not, for example, appropriate to compare the results of funds with very different objectives or constraints. Funds with different types and mixes of investments are also difficult to compare directly. To properly assess investment results, comparisons must reflect similar objectives, constraints, opportunities, and all things that go into the investment process.

The Alaska Permanent Fund, while not legally defined as one, is in all probability a trust fund like the Public Employees' (PERS) and Teachers' (TRS) Retirement Funds. The Alaska Permanent Fund Corporation (PFC) holds the Permanent Fund out as a "Public Trust Investing for Alaska's Future," has a Board of Trustees, and is intent on earning revenue for beneficiaries while preserving principal. The obvious similarities between PERS/TRS and the Permanent Fund end here - at considering both funds as trusts.

PFC has chosen a more cautious, less risky approach towards its investments. In an informational pamphlet dated May 1989, PFC stated:

The Fund invests its assets to earn income. To minimize the risk that Fund assets could be destroyed by bad investment decisions, the Fund is invested very conservatively. Indeed, the primary emphasis in all Fund decision-making is maintaining the safety of principal. The maximizing return on investment is the secondary consideration.

This contrasts to the Department of Revenue, Division of Treasury (Treasury) investment philosophy of the PERS/TRS which has been stated as:

The most important characteristic of the funds for investment policy purposes is their perpetual nature and, in the case of the Public Employees' Retirement System, the long number of years before it will encounter any net outflows (probably 15 to 20 years). A long time span accommodates investments which should enjoy higher returns over the long-run, although they may be slow to materialize, or be erratic in the short-run, and it allows greater use of investments which may have substantial market valuation risks. This characteristic expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments.

The PERS/TRS has opted for more growth through a higher asset allocation to equities. To achieve that end, PERS/TRS follows an investment technique known as active management versus a passive management investment style. Passive management is a term used to describe an investment strategy that attempts to follow a predefined market index, such as the Standard and Poor's (S&P) 500, and fashions the portfolio to mirror the results of that index. Passive management follows a process of rebalancing the portfolio to reflect the index, not necessarily to enhance or maximize a return. Active management, on the other hand, involves portfolio management that is involved in the active investment process of buying and selling in an attempt to enhance the portfolio's performance. The active management strategy can be characterized as continually monitoring the market to determine what is the best selection of investment to produce the best returns within a predetermined set of risk parameters.

PFC is legally limited in its investment diversification by statute which defines a specific "list" of permitted investments. The Treasury did have investment limitations, but the statutory restrictions were repealed by Chapter 41, SLA 1988. This allows Treasury more investment flexibility. With this flexibility, Treasury can assume additional risk, and theoretically achieve higher returns for the PERS/TRS Funds.

ASSET ALLOCATION

An informative way to examine the assumed risk is to analyze the asset allocations of the various funds. At March 31, 1989, the various funds' holdings were (stated in percentage of portfolio at market values):

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Equities (1)	32.8%	34.9%	12.9%
Fixed Income	54.7%	51.3%	77.6%
Real Estate	6.4%	6.0%	5.6%
Other (2)	6.1%	7.8%	3.9%

(1) includes domestic and foreign equity holdings of the PERS and TRS. PFC does not yet invest in foreign markets.

(2) includes mortgages, cash, and interest and dividends receivable.

As can be seen, the PERS/TRS Funds hold 2.5-to-3 times more equity than does PFC. Conversely, PFC holds 1.5 times more fixed income investments than does the PERS/TRS Funds.

By their nature, equities have more risk than fixed income (debt) investments. As mentioned earlier, theoretically the riskier the investment, the higher the potential rate of return.

FUND PERFORMANCE

This section and the following section ("Other Rate of Return Data") present statistical data which show various rates of return earned not only by the PERS/TRS and Permanent Fund but other interest-bearing investments. As noted above, and throughout the report, direct comparisons between these funds and other investments are not practical for assessing how one fund "performed or out performed" another fund. This is mainly due to the differences in purpose, goals, and philosophy of each particular fund. However, the presentations provided here are done so for the benefit of interested parties who can review the returns earned by the funds and relate those to other commonly known investments.

It has been alleged that Treasury managed PERS/TRS Funds are among the worst performers within the universe of funds used for performance measurement and comparison (see Recommendation No. 2). While the allegations themselves are substantially accurate in the context they were submitted, the facts must be kept in perspective in light of the long-term nature of the retirement funds. The allegations were made from looking at just one, short period of time that the PERS/TRS funds were evaluated. One must be careful about the period of time used for measurement as investment results measured over short periods of time are very misleading. The best results today may be the worst tomorrow. What matters is consistent, long-term results.

With the above thoughts in mind, the PERS, TRS, and PFC performance can be reviewed together with returns of other, although non-comparable, commonly known investments.

Total rate of return (time-weighted) is a useful technique that is widely accepted for comparing investment results. It combines current yield plus changes in current market values for determining a portfolio's investment rate of return.

Total rate of return (time-weighted) for PERS, TRS, and PFC is shown below:

TIME-WEIGHTED TOTAL RATES OF RETURN(%)
AS OF JUNE 30, 1988 and DECEMBER 31, 1988 (a)
(unaudited)

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Year ending 6/30/88	3.79	3.76	5.3
Two years	7.46	7.85	6.5
Three years	13.80	13.37	11.8
Four years	15.02	14.62	(1)
Five years	(2)	(2)	13.1
Year ending 12/31/88	11.65	11.93	8.5
Two years	6.48	6.44	5.9
Three years	10.72	10.20	9.3
Four years	13.72	13.31	(1)
Five years	(2)	(2)	12.9

(a) source: PERS/TRS information obtained from Department of Revenue, Treasury Division internally calculated time-weighted rates of return. PFC information obtained from externally evaluated SEI Large Plan Report. Percentages presented are annualized time-weighted rates of return.

(1) four-year data not available for PFC from SEI external reports.

(2) five-year data not available for PERS/TRS for years ending June 30 and December 31, 1988.

As can be seen, the PERS/TRS Funds time-weighted rate of return generally exceeds that of the PFC. This is probably a reflection of the additional risk the retirement funds assume versus the more conservative approach taken by the PFC in its investments and asset allocation.

Another performance measurement would be reviewing the return of segments of the PERS/TRS and PFC portfolios; for example, reviewing PERS/TRS and PFC domestic equity investments to the S&P 500 or the fixed income investments to the Shearson Lehman Bond Index (SL-BONDS). Such an analysis would show:

PERS/TRS/PFC EQUITY AND FIXED INCOME TIME-WEIGHTED RETURNS
COMPARED TO SPECIFIC MARKET INDICES
ANNUALLY-COMPOUNDED RATES OF RETURN
FOR YEARS ENDING DECEMBER 31, 1988 (a)
(unaudited)

DOMESTIC EQUITIES

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	18.21	9.75	12.98	17.38	(1)
TRS	18.21	10.04	12.95	17.27	(1)
PFC	15.50	11.10	13.50	(2)	15.00
S&P 500	16.80	10.90	13.40	17.80	15.30

FIXED INCOME

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	8.73	5.14	9.37	12.33	(1)
TRS	9.10	5.01	8.58	11.71	(1)
PFC	7.20	4.30	8.10	(2)	12.10
SL-BONDS	7.60	4.90	8.40	11.50	12.20

(a) source: Dept. of Revenue, Division of Treasury internally calculated time-weighted rates of return; PFC externally evaluated SEI Large Plan Report; and, independent sources of market indices.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The above analysis shows that for the most part PERS/TRS and PFC achieved a competitive return on its domestic equity investments compared to the S&P 500 index. PERS/TRS fixed income investments outperformed the Shearson Lehman Bond Index in each of the four years compared above. PFC also achieved a competitive return on its fixed income holdings when compared to the bond index.

Another informative comparison is reviewing the annual (each year standing on its own, unlike the cumulative returns used in the previous comparisons) rate of return and how that return fits into the universe of funds used for comparative purposes.

PERS/TRS/PFC
ANNUAL RATES OF RETURN AT MARKET VALUES
AND PERCENT RANKING IN COMPARATIVE UNIVERSE (a)

	1984		1985		1986		1987		1988	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
<u>Equities</u>										
PERS	-15.1	100	28.8	63	37.5	38	17.7	96	-5.4	23
TRS	-15.1	100	28.8	63	37.5	38	18.5	90	-5.2	22
PFC	- 9.6	28	30.6	46	37.2	59	24.8	27	-6.4	55
<u>Fixed Income</u>										
PERS	1.1	55	27.9	65	22.9	3	5.0	59	7.6	51
TRS	0.8	57	28.2	61	23.4	1	4.3	79	8.8	3
PFC	4.4	56	27.2	12	20.5	25	4.3	91	7.0	71

(a) source: PERS/TRS data from SEI report for quarter ending 6/30/88. PFC data from SEI large plan report for period ending 6/30/88.

The rates of return above are based on the market value of the equity and fixed income portfolios and includes unrealized gains. PERS/TRS rankings are based on a comparison with a universe of approximately 30 large state retirement funds. PFC rankings are based on a universe comparison of 63 funds. The "rank" describes (using percentages) how the fund performed in relation to the other funds of the universe. For example, a rank of 100 indicates the fund had the lowest performance and 99% of the universe performed better. Conversely, a rank of 1 indicates the fund performed the best and 99% of the universe achieved lower returns. A rank of 55 indicates the fund performed near the median (50%), and that 45% of the universe performed worse while 54% achieved better returns.

OTHER RATE OF RETURN DATA

While not truly comparable, investment fund returns can be reviewed against other fixed income returns.

PERS/TRS/PFC ANNUAL REALIZED (NOMINAL) RATES OF RETURN
COMPARED TO OTHER FIXED RATE RETURNS (a)
(unaudited)

YEAR	Realized Rate of Return(%)			Fixed Rates of Return(%)		
	PERS	TRS	PFC	SBS(1)	DCP(1)	CD(1)
1980	9.54	10.41	11.29	10.40	n/a	12.91
1981	10.73	11.02	16.00	10.75	n/a	15.91
1982	8.52	6.98	15.10	12.35	n/a	12.04
1983	11.09	11.32	12.76	12.55	n/a	8.96
1984	10.66	9.47	10.89	12.00	n/a	10.17
1985	9.96	9.84	11.61	11.80	n/a	7.97
1986	13.16	13.12	14.36	11.87	9.30	6.62
1987	13.98	13.94	13.37	11.54	9.08	6.74
1988	8.20	8.20	9.01	11.00	9.93	7.58

(a) source: Division of Legislative Finance; Department of Administration, Division of Retirement and Benefits.

(1) SBS - State Supplemental Benefit System
DCP - State Deferred Compensation Plan
CD - Certificates of Deposit

n/a - not available

The comparisons above are not an accurate measurement of determining how PERS/TRS or PFC is performing in comparison to other funds or instruments. While it does demonstrate differing returns by different investing funds or instruments, it does not indicate nor provide a basis for comparing how similarly designed funds invested in similar securities are performing. Each of these funds or instruments, with the exception of PERS/TRS, have different objectives and goals and, therefore, have varying investment strategies and policies.

Also, the schedule above presents a different picture than the prior example. Here, annual realized (nominal) rates of return are presented. Realized rates of return do not include changes in market value and, therefore, are not usually used for comparing performance. In this schedule, PFC outperforms PERS/TRS in all but one annual period presented. This compares to the previous time weighted presentation that shows PERS/TRS outperforming PFC in all but one period presented. This exemplifies how, depending on a desired outcome, rate of returns can be used to make a point. Since PERS/TRS are pensions funds, their return

analyses should be based on a long-term view, not just how the funds performed in any one annual period.

Another review of returns can be made between the retirement funds and other market indices. Like the above, the returns are not truly comparable. These market indices reflect returns for certain investments, whereas the PERS/TRS and PFC Funds results reflect a total return on a balanced portfolio of many types of investments. For example, the Standard and Poor's 500 (S&P 500) index reflects returns on equities only; the 91 day Treasury Bill index (T-BILL) reflects short-term fixed income investments; and, the Shearson Lehman bond index (SL-BONDS) reflects returns on bond investments.

PERS/TRS/PFC TIME-WEIGHTED TOTAL RATES OF RETURN
COMPARED TO MARKET INDICES ANNUALLY-COMPOUNDED
RATES OF RETURN(%)
AS OF DECEMBER 31, 1988 (a)
(unaudited)

	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>5 Years</u>
PERS	11.6	6.5	10.7	13.7	(1)
TRS	11.9	6.4	10.2	13.3	(1)
PFC	8.5	5.9	9.3	(2)	12.9
S&P 500	16.8	10.9	13.4	17.8	15.3
T-BILL	6.7	6.0	6.0	6.5	7.1
SL-BONDS	7.6	4.9	8.4	11.5	12.2

(a) source: Department of Revenue, Division of Treasury, and independent sources of market indices. PFC data from 12/31/88 Large Plan Report.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The misleading nature of drawing conclusions solely from this analysis must be emphasized. For example, for the three years ending December 31, 1988 the S&P 500 had achieved an annualized return of 13.4%; contrasted to PERS, TRS, and PFC returns of 10.7%, 10.2%, and 9.3% respectively. The S&P 500 is an index that measures only equities traded on the exchanges. The PERS/TRS and PFC portfolios not only contain stocks but also bonds, other fixed income securities, and real estate. Additionally, PERS/TRS holds investments in foreign equities, whereas the S&P 500 reflects only domestic equity.

PERS/TRS and PFC may have achieved a return on its equity portfolio competitive to that of the S&P 500. However, fluctuations in bond, other fixed income, and real estate

investments may have affected the overall total portfolio rate of return. Therein lies the danger of relying solely on a comparison of fund performance to any one market index.

COST OF MANAGING AND INVESTING PERS/TRS AND PFC FUNDS

It has been alleged that the cost of administering the PERS/TRS Funds are "out of control" compared to the PFC. In reviewing the cost of administering the retirement funds versus the Permanent Fund the facts must again be kept in perspective and require closer scrutiny before drawing conclusions, similar to the closer analysis needed when comparing PERS/TRS and PFC rates of return.

The Department of Revenue, Treasury Division is responsible for, among other functions, the investment and management of the State of Alaska general investment fund; AHFC pledged fund; international airports construction fund; international airports revenue fund; state mortgage insurance fund; public employees' retirement trust fund; teachers' retirement trust fund; judicial retirement trust fund; military retirement trust fund; public school trust fund; and the University of Alaska trust fund. Also, the division is responsible for state cash management, debt management, and investment accounting.

By far the largest cost centers in the management of the PERS/TRS Funds are personal services (salaries) and contractual fees.

It has been alleged that it takes between 25-to-27 positions to manage the PERS/TRS Funds as compared to the PFC requiring 16 positions to manage their portfolio.

The 25-to-27 positions referred to above represents the total staffing of the Treasury Division. These positions do many tasks, as discussed above. Not all of those positions have duties related to the PERS/TRS Funds. We examined the job descriptions of employees in the Treasury Division and verified those descriptions with some employees through personal interviews. We also identified salary and benefits costs for each of the Treasury Division employees and for the division in total.

We have calculated that Treasury utilizes a full-time equivalent (FTE) staffing of 11.3 positions to manage, invest, and account for the PERS/TRS Funds in fiscal year 1988 at a cost of \$655,273. These positions are responsible for executive management, asset accounting, portfolio management, real estate investments, and cash management as it relates to the PERS/TRS Funds. This compares to the fiscal year 1988 PFC staffing of 16 positions at a cost of \$863,000.

Contractual fees comprise the largest cost of managing the PERS/TRS and PFC Funds. These costs consist of payments made for the services of professional money managers, external performance analysis, external auditors, consultants, and custody and safekeeping fees.

PERS/TRS fiscal year 1988 contractual payments amounted to \$4,841,564 compared to PFC expenditures of \$3,428,000. PERS/TRS incurs expenses that the PFC does not. PERS/TRS, being two separate funds, has increased costs for services such as investment processing, external auditors, and the external performance analysis. The retirement funds also incur additional costs due to PERS/TRS higher asset allocation to equities which, under an active investment strategy, necessitates additional trade costs and because PERS/TRS invests in foreign equities which require higher fees than does a domestic equity. PFC does not invest in the foreign markets, has a smaller asset allocation to domestic equity, and utilizes an index equity portfolio resulting in reduced management fees. As the PFC moves into the foreign markets and reevaluates asset allocation, one would expect to see an increase in their management fees.

The industry evaluates management and funds costs on a "basis point" system. A "basis point" reflects the cost to manage \$1,000. We performed a "basis point" cost evaluation of the PERS/TRS and PFC Funds, as follows:

	<u>PERS/TRS</u>	<u>PFC</u>
Personal Services	1.90	.88
Travel	.05	.15
Contractual	14.02	3.48
Other (capital outlay, communications, rent, depreciation)	.08	.67
<u>Total "Basis Point"</u> <u>cost per \$1,000</u>	<u>16.05</u>	<u>5.18</u>

As can be seen, the cost of PERS/TRS contractual is approximately four times that of the PFC. This reflects the additional costs PERS/TRS incurs due to its higher allocation to domestic equities, investment in foreign equities, the increased costs for identical services since these are two separate funds, and the economies of scale inherent in a large fund such as the PFC.

We do not feel a simple analysis with an allegation that PERS/TRS costs three times more to manage than the PFC is justified. A closer review shows valid reasons why PERS/TRS Funds are more expensive to manage than the PFC fund.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

A Board of Trustees concept or structure should be established that has broad powers and can exercise an active role in the management and investment oversight of the PERS and TRS Funds.

At present, the PERS and TRS boards (nor any other body) have minimal, if any, investment and management oversight responsibility over the nearly \$3.5 billion of retirement fund assets invested and managed by Treasury. What little investment oversight authority the boards may have had was eliminated by amending legislation in 1987/1988.

Currently the PERS and TRS boards are mostly administrative in nature, handling the administrative aspects of the retirement systems. The boards have no authority to direct or establish investment policy or guidance nor do they have the ability to effectively object to a direction the funds may be heading and enforce an alternative.

We believe the State and other governmental employers, fund beneficiaries, and active participants would be better served by a restructuring of the current PERS and TRS boards and the process of reporting to those boards.

We conducted a survey of all states' public employees' and teachers' retirement systems and discovered that Alaska PERS and TRS Funds investment management oversight is severely lacking when compared to other larger, older, more experienced funds.

An overwhelming number of respondents to our survey have an investment oversight function that rests with an independent body apart from the investment activity itself. This oversight authority is vested in authoritative retirement boards, boards of trustees (ranging from 3 to 4 and up to 16 members), investment committees and councils (usually a subcommittee of a board of trustees), or a statewide investment commission or board. We believe a similar structure is warranted for the PERS and TRS Funds.

The PERS and TRS statutes should be rewritten to allow, and the boards should be restructured to accept, a new, stronger investment management oversight responsibility. We recommend that:

1. The current PERS and TRS boards be consolidated into one overall board of trustees. The board of trustees should be structured so that individuals with the necessary and appropriate expertise are appointed, as well as PERS and TRS beneficiaries and active participants. Additionally, Treasury officials and, barring

constitutional prohibitions, members of the legislature should be active participants on the board.

2. Subcommittees of the board of trustees could be established to handle the respective administrative duties of the PERS and TRS Funds.
3. The board of trustees should be vested with the authority to employ outside investment advisors to review investment policies and make recommendations; to establish investment policies; to engage the independent certified public accountants for the funds' audits and have results reported directly to the board; to contract with external performance evaluators who would report directly to the board; and to review Treasury investment and asset allocation decisions.

A Board of Trustees with overlapping and staggering appointments will also provide continuity from one administration to another. Retirement funds such as the PERS and TRS are perpetual in nature. They are considered to exist forever. As such, a continuity in management is required, one that can provide the historical perspective of past actions and effects. The nature of the political environment is quite opposite. Administrations come and go, as do the political appointees that make the decisions that affect the retirement funds. Presently, the commissioner of Revenue, an appointed position, is the fiduciary of the retirement funds. A political appointment of two or four years pales in comparison to the longevity of the retirement funds. A "changing of the guard" every two-to-four years does not provide the needed continuity in fund administration. An independent board of trustees, with oversight authority, would provide the needed oversight and continuity over these funds.

It has been argued that since the PERS and TRS Funds are designated as trusts and the commissioner of Revenue is designated fiduciary of the funds, that the boards cannot and will not accept the fiduciary responsibility of managing the funds.

In our discussions with PERS and TRS board chairpersons we learned that the boards do want to assume more investment oversight responsibility over the funds but at present do not have the statutory ability to do so.

It has also been stated that the boards would not accept the liability associated with acting as a fund fiduciary. According to the Division of Risk Management of the Department of Administration, the PERS and TRS boards are currently covered by the Directors and Officials liability protection policy. This coverage, in the amount of \$100 million (with a \$5 million self-insured clause), covers any board or

commission that is created by law and that the policy coverage would extend to any actions taken by the boards or commissions that are within its official duties. At present, the commissioner of Revenue, as fiduciary, is similarly covered by this policy. Additionally, the director of Risk Management stated that if the funds incur a loss due to a breach of fiduciary duty, the Directors and Officers liability insurance policy may make funds whole, depending on the circumstances, if the payments are a legal liability. Based on the above, it is our opinion that the insurance coverage presently available to the commissioner of Revenue is likewise available to the current PERS and TRS boards and would be available to a duly created board of trustees acting in the capacity of fund fiduciary.

Therefore, we recommend that the administration and the legislature establish a board of trustees concept or structure to provide investment oversight on the Treasury investment operations, particularly the PERS and TRS Funds. Some members of the board of trustees should have the necessary professional skills. Other members should represent fund beneficiaries, active fund members, the Treasury, and, barring constitutional prohibitions, the legislature. The board of trustees should have the authority to contract for audits, external performance evaluations, and professional advice. Additionally, the board of trustees should review on an ongoing basis Treasury's implementation of investment policy and asset allocations.

Recommendation No. 2 *As directed*

The entire portfolio of the PERS and TRS Funds should be subjected to an external performance review. Also, the external performance reports should be presented directly to the boards and should be in a complete, understandable, and acceptable format according to industry patterns and customs.

Presently, the PERS and TRS performance evaluation analyses conducted by an independent evaluation service do not review the entire retirement funds portfolios; are not in the usual and customary format; do not contain the usual and customary presentations; and do not compare the PERS and TRS Funds with an acceptably large enough universe of other funds.

We found it difficult to glean information on the PERS and TRS Funds operating results from the performance evaluation reports prepared by the external fund performance contractors. To assist us in understanding those performance reports, we contracted with the individual who had analyzed PERS and TRS Fund performance in the past.

Our contractor had similar difficulty in understanding the performance reports as presented. We subsequently discovered that the difficulty in understanding the reports and

determining fund performance lied not with the reader, but with the unconventional format that the PERS and TRS Funds results were presented.

According to representatives of SEI (Treasury's performance reporting contractor) the State's chief investment officer had instructed SEI to prepare the performance reports according to his own design. This format per our contractor causes confusion and difficulty in analyzing fund results. It is interesting that even SEI, the firm who prepared the reports according to Treasury's custom design, finds them difficult to understand. If people knowledgeable in this area find the performance reports difficult to read and analyze, we wonder how members of the PERS and TRS boards and interested beneficiaries and active participants can determine how their funds are performing.

Another area that our contractor found unique was the abbreviated form of the performance reports. The reports do not include a number of standard comparisons, analyses, and graphic presentations. These presentations assist in understanding the fund performance and how they compare to other funds. For example, the performance reports have no presentations of asset growth summaries; total plan rates of return; cumulative rates of return for market cycles (falling markets and rising markets); reward versus risk analysis; equity and bond purchases and sales turnover analysis; equity portfolio profiles (showing capitalization of investees, dividend yields, price/earning ratios, return on net worth, earnings growth rates, market/book ratios); diversification and rate of return by industry sectors; and other graphic and numerical presentations. It is argued that this type of information is of little value in establishing investment policy and asset allocation. However, all these analyses combined assist in formulating an informed judgement as to how the retirement funds are performing by interested parties other than those responsible for investment policy and asset allocation. These analyses, and many others, are used by the Permanent Fund Corporation Board of Trustees to review the performance of the Permanent Fund. These types of analyses are not report cards on a fund, but rather a presentation of how one particular fund is performing compared to other funds competing for a return on investment.

Other areas of the PERS and TRS performance reports identified as lacking are that a total plan analysis is not performed on the entire portfolio and that the universe of funds used for performance comparison is too limited.

The major benefit of an external performance evaluation is the identification of how one particular fund is performing and how it compares to other funds (known as the "fund universe"). To have a thorough evaluation/comparison, the

entire portfolio must be externally evaluated. Presently, the PERS and TRS portfolio does not have an externally generated total plan rate of return analysis because the funds' real estate investments and foreign investments are not taken into consideration. Most respondents to our survey indicate their entire portfolios are externally evaluated. Most of those funds also have investments in equities, fixed income, some foreign investments, real estate, mortgages, leveraged buyouts, and venture capital.

The PERS and TRS Funds are compared to a fund universe consisting of only 28 other funds. This contrasts to the Permanent Fund's evaluation which compares itself to a balanced fund population (where the funds have at least 5% invested in equities and 5% in bonds) of 910 funds and a Large Plan Report of 63 funds. We believe the PERS and TRS Funds comparison is too restrictive and should be enlarged. Comparing fund performance to a larger fund universe would provide a better indication of how the PERS and TRS Retirement Funds are performing compared to other funds.

We recommend that the entire PERS and TRS Funds be externally evaluated thereby generating a total plan rate of return; that the evaluations be performed and reported in the standard informative formats with all appropriate graphic and numerical presentations; that these reports should be presented directly to the boards; and that the PERS and TRS Funds be compared against an acceptable fund universe.

The boards and/or Treasury should provide as much information as possible to the beneficiaries, active members, executive and Legislative branches, and the public that is clear and direct. By doing so, it would enhance public accountability.

Recommendation No. 3

The Department of Revenue, Treasury Division (Treasury) should follow generally accepted accounting principles in its accounting of investments for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Funds.

Treasury does not account for PERS and TRS foreign equity investments in accordance with industry generally accepted accounting principles.

The term "generally accepted accounting principles" (GAAP) as used in reporting results of operations on the financial statements refers to a body of theory and practice developed by the accounting profession in association with industry and other organizations that may be impacted by the adoption of standards which include not only accounting principles and practices but also the methods of applying them. GAAP

is a technical accounting term encompassing a common set of accounting concepts, standards, and procedures necessary in order to render financial statements comparable between enterprises and between accounting periods. Without adherence to GAAP, users of financial statements would have no uniform standard for judging the presentation of financial position, results of operations, and changes in financial position in those financial statements.

A user of financial statements expects those statements to present fairly, clearly, and completely the economic facts of the existence and operation of an enterprise on a consistent and comparable basis. A departure from GAAP results in financial statements that may not meet the user's criteria and will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements. Treasury realizes the importance of an unqualified audit opinion. Treasury, in Appendix J of its General Investment Policies, requires an applicant for commercial real estate loans to submit audited financial statements that contain unqualified audit opinions. The presentation of PERS and TRS financial statements by Treasury are departures from GAAP.

Treasury does not properly account for and report investment transactions occurring in the PERS and TRS foreign investment portfolio. Treasury did properly account for and report on its foreign portfolio activities through fiscal year 1987; however, in fiscal year 1988, a departure from GAAP was made, with which we do not agree is appropriate or justifiable.

An important element of a financial statement, and a framework of modern accounting, is the presentation of the historical cost of assets, including investments.

Treasury forwards funds to its London-based foreign managers. These managers then invest in foreign equities. The amount of the funds transferred to the foreign managers is recorded as the cost of the PERS and TRS investment in foreign equities. When the foreign equities are subsequently sold by the foreign managers, the amount received from the sale, which may include a gain on the sale, is usually reinvested in foreign equities. Contrary to GAAP, the reinvestment of proceeds from the sale of the equities are not recorded in the accounting records and the cost basis of the foreign portfolio is not adjusted to properly reflect the new cost basis of the retirement funds' investments. This accounting treatment was implemented over the initial written objections of the state comptroller. The sale, gain, and reinvestment of funds should be accrued and recorded in the accounting records at the date of the transaction in accordance with generally accepted accounting principles.

This irregular accounting treatment causes a material understatement of the cost basis that PERS and TRS has invested in foreign equity holdings. The understated cost as presented in the PERS and TRS financial statements is misleading to the average reader who is not aware of the non-GAAP accounting treatment accorded these transactions by Treasury.

In their June 30, 1988 balance sheet, Treasury shows the cost and market value of PERS and TRS foreign portfolio as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$77,847,000	\$138,421,000
TRS	51,756,000	91,246,000

At first glance, a reader of the financial statements would think that PERS and TRS had generated a \$60,574,000 and \$39,490,000 (respectively) market gain.

However, had GAAP been applied to the accounting of the foreign portfolio, cost and market value would have been presented as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$134,626,000	\$138,421,000
TRS	88,711,000	91,246,000

Under GAAP, foreign portfolio market gains for the PERS and TRS Funds would have been \$3,795,000 and \$2,535,000, respectively. As reflected in the financial statements, PERS and TRS market gains are overstated by approximately 1,500 percent.

The Treasury Division, chief investment officer has stated that this accounting treatment is necessary because of "investment accounting principles," "fiduciary law," and "the IRS code." None of those references, even if they do address this issue, override GAAP and Alaska state law in these circumstances.

Alaska Statute 37.05.150 states, in part, "The accounting system must be in accordance with accepted principles of governmental (fund) accounting" Generally accepted governmental accounting principles are embodied in the Governmental Accounting, Auditing, and Financial Reporting publication prepared by the Government Finance Officers Association. In this handbook of governmental accounting, the jurisdiction of the Governmental Accounting Standards Board (GASB) is defined as "The GASB will establish standards for activities and transactions of state and local governmental entities" The handbook further defines

the hierarchy of GAAP for financial statements issued by state and local governmental units. This hierarchy is:

1. Pronouncements of the GASB are to be followed for accounting and reporting by state and local governmental units.
2. In the absence of a GASB pronouncement regarding accounting treatment, pronouncements of the Financial Accounting Standards Board (FASB) are to be followed.
3. Pronouncements of bodies composed of expert accountants that follow a due process procedure. This category includes audit and accounting guides and statements of position issued by the American Institute of Certified Public Accountants.
4. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application of pronouncements to specific circumstances.

Since GASB is silent regarding the treatment of foreign investments, pronouncements of the FASB must be followed. In this case, generally accepted accounting principles established by the FASB, and its predecessor the Accounting Principles Board, should be followed by the Treasury Division.

We recommend that Treasury account for and report on the PERS and TRS Funds, including its foreign portfolio activity, in accordance with generally accepted accounting principles.

STATE OF ALASKA
DEPARTMENT OF REVENUE

TREASURY DIVISION

STEVE COWPER, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
P.O. BOX 58
JUNEAU, ALASKA 99811-0400

August 22, 1989

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit
P. O. Box W
Juneau, Alaska 99811-3300

RECEIVED

AUG 23 1989

LEGISLATIVE
AUDIT

Dear Mr. Welker:

I have reviewed the Division of Legislative Audit's preliminary report entitled "A Special Report on the Department of Revenue Treasury Division Public Employees' and Teachers' Retirement Funds".

At your request, I offer the following comments:

1. With regard to the discussion of realized returns on page eleven, I would like to point out:
 - a. The Financial Analysts Federation has endorsed the enclosed "Performance Presentation Standards". These standards are the first and only such standards in the industry for guidance on how to calculate and report investment performance. Section V.B. specifies that the use of total return, including income and capital appreciation, is mandatory in the presentation of investment performance data. Realized rates-of-return, as pointed out in your report, do not include unrealized capital appreciation.
 - b. Realized returns are relevant for a fund which has net cash flow requirements during the period being measured; in the case of retirement funds, a net cash flow from investments is not estimated by the funds' actuary to be required generally before FY 2005. See the enclosed "PERS and TRS Financial Projections", February 21, 1989, Mercer Meidinger Hansen. Sensitivity analyses in the projections indicate there may be some chance that a small portion of TRS investment earnings (no more than one-tenth) will be needed as cash to cover benefit payments after FY 1991;
 - c. The timing of actual realization of unrealized gains is at a fund manager's discretion and may be affected by a fund's cash flow requirements. Thus, realized returns may reflect not only investment policy, as shaped by cash flow requirements, and a portion of investment returns, but also asset liquidation decisions prompted by cash flow needs.

2. On page 12, as your report points out, there are difficulties in comparing total fund returns to market indices for individual classes of investments. The most appropriate comparison would be to an average of the relevant indices weighted by the asset allocations of a fund. This would be similar to the approach prescribed by the Financial Analysts Federation in section V.I.6.a. of their "Performance Presentation Standards" (enclosed) for comparing results of balanced accounts managed by investment advisors.
3. I am in basic agreement with Recommendation No. 1. There are obviously many issues to be considered in trying to develop the best possible structure for governance of PERS and TRS investment management. The Department of Revenue would be happy to work with Legislative members or bodies in developing legislation to reform the structure.

To address these same concerns, the Department has developed a proposal to create an independent trust company. The proposed structure would provide for the investment management of other State retirement and endowment trust funds, as well as PERS and TRS. It also would greatly improve State cash management procedures by allowing direct access to certain Federal Reserve System services, rather than through an intermediary custodian bank.

The Department's proposal has been endorsed by resolutions of the PERS and TRS boards and has been reviewed by the State's fiduciary counsel, Willkie, Farr & Gallagher.

There is one issue addressed in your report to which I should respond. The discussion of liability for fiduciary acts on page 17 does not take account of AS 37.10.071(d) and (e) which make fiduciaries personally liable and extends state indemnification of their liability only insofar as their actions are prudent, even though insurance would cover all fiduciary acts whether prudent or not. These statutory provisions were adopted to assure the most careful adherence by fiduciaries to the dictates of prudence. I do not concur with the suggestion that board members be allowed to avail themselves of the State's insurance coverage of liability for fiduciary acts when those acts fail to meet the statutory standard of professional prudence contained in AS 37.10.071(c).

4. I am in agreement with portions of Recommendation No. 2. My specific comments are:
 - a. I agree that performance reports should cover the total fund and include cumulative rates-of-return, a reward versus risk analysis, and relevant graphics. The Department has awarded a new contract for outside performance measurement services that includes such information. The first reports under the new contract will be available following the end of the first quarter of fiscal year 1990.

- b. I do not feel that other detailed analyses, mostly of individual manager portfolios, recommended in your report are useful either in establishing investment policy and asset allocations or evaluating manager or fund performance. Performance measurement data needs to be confined to comparative information that focuses on the bottom line -- rates-of-return -- and the critical policy variables -- asset allocation, bond maturity, and bond quality -- that contribute to it. The worst thing to do, if trying to ensure accountability, is to inundate fiduciaries with so much data that they can't see the forest for the trees or have time to adequately review the more critical information.
- c. If there are particular problems with the format of the report, the audit should identify them and I would be happy to consider changes. As part of the new performance measurement contract the Department will obtain any specific suggestions the contractor has for revising the format. However, the Department will not relieve the contractor of the obligation of supplying the reports in the format specified by the Department if revisions to the format decrease the report's intelligibility or appear to be for the convenience of the contractor. There is no industry standard for most of the presentations in these reports, the only possible exception being certain basic information set out in Tables I and II of the enclosed "Performance Presentation Standards" which no firm has yet adopted. Various performance measurement firms have various formats. Each has its own "standard" format and is reluctant to provide custom reports as required by the Department due to the extra time and expense involved.
- d. I agree that comparing performance to a larger universe is desirable, provided that, as your report stresses in several other places, the comparisons are meaningful. Under the circumstances it is not clear that the contractor can provide any larger universe that would be meaningful. The contractor, SEI Corporation, had the largest universes specified by the Department of the two firms responding to the RFP for these services. As part of the new contract, the Department will obtain the advice of the contractor on whether the universes can be meaningfully expanded.

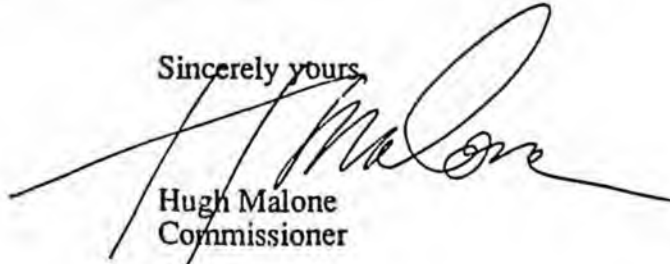
The PERS and TRS funds are compared to two universes consisting of pension funds over \$500 million -- one State pension funds, the other corporate. These universes were established to provide more meaningful comparisons than a universe including many small pension plans. Small plans for the most part operate under more restrictive constraints, have less diversification into the various asset classes represented in PERS and TRS, and are less likely to have professional management. As pointed out on page 5 of your report, similarity in objectives, constraints, opportunities, and resources are critical to achieving valid comparisons.

Randy S. Welker, CPA
August 22, 1989
Page 4

Not unexpectedly, larger plans generally seem to have superior investment returns as indicated by the enclosed "EXHIBIT 7" prepared by SEI. The segregation of corporate and state plans is useful because their significant difference in asset allocations to equities, which results in significantly higher returns for corporate plans, focuses attention on this critical policy variable.

5. The Department will comply with Recommendation 3, beginning with its audited financial statements for fiscal year 1989. However, I would like to make three comments:
 - a. The statements on page 19 and 20 that Treasury does not account for foreign equity investments properly or in accordance with generally accepted accounting principles are overly broad. Treasury does account for foreign equity investments in accordance with generally accepted accounting principles, with the exception of its treatment of historical cost and the point of realization of foreign gains or losses. Treasury's statement of market value and total investment income for foreign equities is in accordance with generally accepted accounting principles. As stated by Ernst & Whinney in their annual audit of Treasury investments, the "differences would have no effect on total investment income".
 - b. The departure from GAAP and its effects are fully disclosed in Treasury's financial statements. Your report should acknowledge this. The statement on page 20 that "A departure from GAAP...will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements." may leave the reader with the impression that Treasury did not make this disclosure.
 - c. The departure from GAAP was based on consideration of a number of issues. These issues were fully discussed by Treasury staff and its independent auditors. The decision was personally reviewed by me. The issues are summarized in the enclosed memo of November 1, 1988. The report's failure to address the issues contained in the memo, which was provided to Legislative Audit, and its failure to acknowledge the Department's review of the issue may leave the reader with the impression that the departure was made arbitrarily or capriciously. In fact, the issues involved are very "close" as to what is the best accounting treatment. This is reflected in the fact that FASB-52, which is the accounting principle at issue here, was highly controversial and was adopted by the Financial Accounting Standards Board only by a 4-3 vote.

Sincerely yours,



Hugh Malone
Commissioner

HM/MBB/ph

encls.

PERFORMANCE PRESENTATION STANDARDS

Presented by the Committee for
Performance Presentation Standards

Claude Rosenberg, Jr., Chairman
R.H. Jeffrey
Robert Kirby
Dean LeBaron
John J.F. Sherrerd

Endorsed by the
Financial Analysts Federation

January 12, 1989

I. The FAF has endorsed the following standards for investment management performance presentation. Up to now, this all-important subject has been given insufficient attention; as a result, investment advisers (despite registration with the SEC) have been left to follow their own standards, which have been varied, uneven, and, in some instances, outright irresponsible and dishonest. If the investing public is to be treated fairly, and if the investment management industry is to represent the highest ethical and moral standards, a fair and understandable policy should be followed. The standards recommended earlier have been endorsed by the FAF Board of Directors after consideration of comments from its membership (which includes investment advisers, brokers, consultants, academicians and other interested parties).

II. The overall philosophy underlying these standards is the need for full disclosure of investment performance data to clients and client prospects. Certain statistics and presentation data have been delineated as requirements; but the main theme is that investment managers may present any reasonable statistics provided that their derivation, and particularly any exclusions therefrom, are highlighted and made abundantly clear.

III. Parties affected by these standards.

These standards are directed to "investment managers," which obviously includes all registered investment advisers, but the

standards also apply to other organizations and individuals, such as:

A. Stock brokers acting as "portfolio managers" for clients, particularly those who charge separate (from normal commissions) fees for their management services.

B. Mutual funds, where certain regulatory presentation practices can be deceptive (but which exist under different jurisdictions).

C. Consultants, where it is recommended that similar standards be set by a separate FAF Committee.

IV. While clients and client prospects are encouraged to make extensive qualitative judgments of investment managers, these FAF guidelines concentrate on the quantitative—on a complete, accurate and fair presentation of investment performance data.

V. Performance Calculation.

A. Time-weighted performance calculation is the mandatory methodology, since it represents the only practical method for comparing manager results over time.

B. Total return, including income and capital appreciation, is also mandatory.

V. Performance Calculation (Continued)

C. To allow for the most efficient judgment of manager efficiency and client investment returns, results should be presented before fees so long as the manager's fee schedule is included with performance presentation.

D. Managers and new clients should agree in advance on the starting date for performance calculation.

1. This starting date should be part of the Management Agreement and calculations should conform to such agreed-to date.

2. Since the precise starting date for managed funds is not always definite (due to legal problems, delay of receipt of funds, etc.), it is recommended that a specified period (i.e., 30 days after funds have become available for investment) be set as inception for performance calculation. Again, the time period will vary from manager to manager, dependent on manager style or client preference; but agreement in advance between manager and new client eliminates potential confusion and sets a consistent standard.

E. Computational Standards.

1. Portfolios should be valued at least quarterly. Monthly valuation (and linking) is the preferred frequency where practical.

2. A time-weighted return formula which minimizes the effect of contributions and withdrawals must be utilized. Daily accounting for contributions and withdrawals is the preferred method.

3. When a contribution (or withdrawal) is significant (e.g., over 10%) in relation to the latest calculation of market value, a portfolio is best revalued on the date of the contribution (or withdrawal) in order to reduce possible distortion.

4. Investment income should be included on a full accrual basis (as opposed to cash basis).

F. Performance results for any one asset class (such as equities) should include cash equivalents and any other securities (e.g., convertible securities in an equity portfolio) held by the manager in place of that asset.

V. Performance Calculation, Paragraph F.
(Continued)

1. If managers present performance results for any particular asset class excluding cash or other securities used by the manager in place of the asset class, performance with cash and the other securities should likewise be presented along with a statement that results so presented conform to FAF standards.

G. Compound annualized performance returns should be presented for all periods covered in presentation.

H. Exclusions from account performance calculations and presentation should be clearly stated.

1. Complete information on inclusions and exclusions of data should be presented, as per attached Tables I and II.

a. Managers should provide the percentages of their inclusions and exclusions to prospects. Thus, if the presented data constitutes 85% of the asset class (e.g., equities) managed, with 15% excluded, this should be so stated. If the presented data constitutes 50% of a particular type of in-

vesting within that asset class (e.g., small-to-medium capitalization equities), this should also be stated.

b. Examples of such exclusions might include:

Special category investments, such as assets not carrying full discretionary power within a manager's business in which other accounts are normally discretionary.

Client assets not being charged a fee, within a manager's business which is normally fee-based. As indicated throughout Section VIII., the performance of all fee-based accounts should be accounted for in manager measurement and presentation.

I. Balanced accounts.

1. Balanced accounts, with both equity and fixed income assets, should be separated into two distinct equity and fixed income categories. Each such category should be assigned its own cash balances so that the performance of each

V. Performance Calculation, Paragraph I.
Number 1. (Continued)

investment class will include returns specifically reflecting the use of cash equivalents and other substitutions. While managers may be able to supply sufficient risk and volatility information on each investment class to allow clients to make a reasonable judgment of results as if cash had been included, the information content from the separation of balanced portfolios into distinct asset "pots" (each with its own cash equivalent or substitute holdings) is too valuable to leave to manager choice.

2. Assuming that the balanced account manager's assignment from the client is to periodically change the asset mix, managers altering the ratios between equities and fixed income should make bookkeeping transfers of cash from one category to the other. Accounting for such transfers should, of course, be based on the specific cash transfer dates.

3. Performance results from balanced accounts should, therefore, include the following:

a. Equities, including cash or substitute securities designated for potential investment in equities.

b. Fixed income, including cash or substitute securities designated for potential investment in fixed income.

c. Total account.

4. 3.a. and 3.b. results should be compared against their respective, comparable indexes, as if they were separate equity and fixed income accounts.

5. While separating the parts of a balanced account as recommended provides valuable insights into the capabilities of managers in each distinct asset class, the most significant performance criterion is still the combined, total account results.

6. Results for the total account are best compared against equity and fixed income proportions that reflect client objectives/guidelines; these proportions should be agreed to in advance by client and manager.

a. Comparative performance should then be calculated by apportioning the returns from each of the indexes chosen to represent each asset class to the agreed-to

V. Performance Calculation, Paragraph I. Number 6. (Continued)

percentage bogey for that asset class. Assume, therefore, that client and manager have agreed to a balanced account risk posture of 60% equities and 40% fixed income. The comparative indexes used for equities (assume the S&P 500) should be weighted at 60%, while the appropriate fixed-income indexes (assume the Shearson/Lehman Corporate/Govt. Index) should be weighted at 40%, producing a number against which the total account performance return should be compared.

J. *In addition to actual results, performance for accounts utilizing leverage should be calculated and presented as if they had been made for all-cash (no leverage).*

VI. *Indexes used for performance comparisons.*

A. *Managers should explain in advance any indexes used for performance comparisons to clients and prospects. These indexes should parallel the risk or investment styles the client account is expected to track.*

B. *Comparisons with specific measures (e.g., real returns adjusted for inflation, riskless returns from T-Bills, etc.) may be used so long as FAF standards on other factors, as presented herein, are followed.*

VII. *Treatment of convertible securities.*

A. *Convertible securities should normally be included in equity performance, unless manager and client agree in advance to their inclusion in fixed income. If convertibles are subsequently shifted from equity segments to fixed income, or vice versa, clients should be notified at the time of such shifting.*

VIII. *Formation and presentation of composite performance results by managers.*

A. *All managers should construct and present accurate composites of investment performance. Rules for such composites include:*

1. *Managers should compile and present such results for as long a period of time as accurate accounting can be accomplished, no less than 10 years if possible and up to 20 if practical.*

2. *Management organizations in business for less than 20 years should include results from the very first full calendar year since their inception.*

VIII. Formation and presentation of composite performance results by managers, Paragraph A.
(Continued)

3. Each and every year of such results should be presented to prospective clients, unless specific requests are for different periods.

4. Results presented to client prospects should be shown both for individual years and cumulative periods, as indicated in attached Table I.

5. All client accounts should be included for whatever period such accounts were under management; portions of periods under management (i.e., managers choosing inclusion of portions) is prohibited.

6. Clients' accounts no longer under management should be included in composite(s). So-called "survivor" performance results are to be avoided.

7. Changes in a manager firm's organization should not lead to an altering of composite results. Results achieved by an organization are the organization's responsibility; changes in personnel do not constitute a justifiable reason to alter composite performance results.

8. Managers are encouraged to construct separate composites where valid reasons exist for doing so. A differentiation between taxable versus nontaxable accounts; fully discretionary versus not-fully-discretionary; and other categories which entail varied investment styles, controls, or risks constitute valid reasons for separate composites. As indicated in Paragraph 9.d. below, however, managers should list all of their composites, with performance figures and other pertinent information on each, whenever performance results are presented. Any and all exclusions from any presentation of performance results should be clearly stated.

9. Composite performance calculation and presentation should be weighted by account sizes. A median of unweighted results may also be presented, but this should be accompanied by results weighted by account size, along with the statement that the latter is the recommended procedure as set by the FAF.

VIII. Formation and presentation of composite performance results by managers, Paragraph A, Number 9. (Continued)

Managers should also clearly delineate the following:

- a. The number of client relationships included in each (and all) composite(s);*
 - b. The total size of the composite for the beginning (January 1) and end of each year;*
 - c. The weighted average size of accounts constituting the composite.*
 - d. As indicated above, information on all excluded assets from any composite presentation should be presented.*
- 10. Fixed income and equity portions of balanced accounts should be included in their respective equity and fixed income composites, provided they conform to Section V., Paragraph I. above on balanced account calculations.*
 - 11. Balanced account composites should include only those accounts where the manager has*

discretion over changes from one asset to another. If the client has set balanced limits from which the manager should not deviate, the segregated assets (with their respective cash positions) should be included only with their like asset composite. (Example: Client gives Manager \$6 million for bond management and \$4 million for stock management, with no changes in mix to be made by Manager. The \$6 million should be added to the Manager's bond composite and \$4 million added to Manager's stock composite—nothing to be included in Manager's balanced account composite.)

- 12. Since performance results will be reported to clients along with either actual or average fee information (See Section V., Paragraph C.), composite figures should likewise contain sufficient information to enable clients and prospects to compute performance on both a pre- and post-fee basis.*

- 13. Managers should indicate typical indexes against which any and all composites are normally judged by respective clients. Thus, a manager's equity composite which includes accounts with both large and small capitalization equities of comparable weighted size*

VIII. Formation and presentation of composite performance results by managers, Paragraph A. Number 13. (Continued)

to the S&P 500 should be compared against the S&P 500, while a small-to-medium capitalization stock composite should be compared against NASDAQ, Russell 3000, etc. An account with, for example, 50% of its total in small-to-medium capitalization stocks and 50% in large capitalization stocks should be compared against similar-weighted separate indexes, rather than against either one of the two.

14. *Composites should follow the same treatment of returns with and without cash as indicated in Section V., Paragraph F.*

15. *Presentation of risk measurements such as Alpha, Beta and Standard deviation for individual account returns within any composite is encouraged.*

16. *Other pertinent information for use in performance analysis should be added to composite presentations. For example, managers are encouraged to include (for each period) average market capitalization of stocks held, average quality and duration of bond holdings, etc.*

B. *Table II provides a sample recommended format for composite performance presentation to client prospects and consultants. Table II should accompany the specific performance results as presented in Table I.*

IX. Verification of composites.

A. *Audited composite and other performance figures are encouraged. At the very least, managers presenting performance data should make a positive written statement that full disclosure of assets included and excluded has been made and that calculations conform to FAF standards. Any deviations from these FAF standards should be specifically stated.*

B. *The principles of these FAF performance presentation standards should apply to all individuals and organizations serving investment management functions. Consultants are likewise encouraged to adopt similar standards and principles in reporting performance data.*

X. *Table III is a checklist for managers and clients—to assure proper conformance to the standards presented above.*

TABLE I

**XYZ Capital Management: Actual and Annualized Equity Performance Versus S&P 500
Category of Accounts: Tax-Exempt Client Portfolios
Annualized Percentage Returns for N Years Through Year X**

Year	Standard Deviation ⁽⁹⁾	Actual Return (%)	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6 Yrs.	7 Yrs.	8 Yrs.	9 Yrs.	10 Yrs.	11 Yrs.	12 Yrs.	13 Yrs.	14 Yrs.	15 Yrs.	16 Yrs.	17 Yrs.
'87	1.2%	10.72 5.24	14.30 11.75	19.80 18.05	15.51 15.00	16.07 16.47	17.47 17.30	14.28 13.82	17.58 16.00	18.19 16.29	17.39 15.28	15.06 13.03	15.08 13.90	15.44 15.55	12.75 11.88	10.78 9.88	13.25 10.42	12.25 10.65
'86	3.0%	17.99 18.67	24.62 25.04	17.15 18.45	17.44 19.46	18.87 19.87	14.89 15.33	18.59 17.62	19.16 17.75	18.15 16.45	15.51 13.84	15.48 14.73	15.84 16.45	12.91 12.41	10.79 10.21	11.84 10.78	12.35 11.00	
'85	1.9%	31.61 31.75	16.73 18.34	17.26 19.72	19.09 20.18	14.28 14.66	18.70 17.45	19.32 17.61	18.17 16.18	15.23 13.32	15.24 14.34	15.64 16.25	12.50 11.90	10.25 9.59	11.41 10.24	11.99 10.50		
'84	3.0%	3.54 6.29	10.68 14.13	15.18 16.55	10.31 10.75	16.27 14.78	17.40 15.42	16.36 14.11	13.34 11.21	13.55 12.55	14.17 14.31	19.91 10.25	8.64 7.92	9.99 8.73	10.70 9.12			
'83	2.8%	18.32 22.55	21.49 22.05	12.67 12.28	19.69 17.01	20.38 17.34	18.66 15.48	14.80 11.92	14.86 13.36	15.40 15.79	11.67 10.66	9.11 8.07	10.55 8.94	11.27 9.34				
'82	6.8%	24.75 21.54	9.94 7.47	20.15 15.21	20.90 16.07	18.72 14.11	14.24 10.25	14.27 12.10	15.04 14.98	10.95 9.41	8.23 6.72	9.87 7.78	10.70 8.31					
'81	3.5%	- 3.10 - 4.97	17.92 12.18	19.65 14.29	17.26 12.32	12.24 8.12	12.74 10.61	13.72 14.06	9.34 7.98	6.54 5.19	8.48 6.49	9.51 7.18						
'80	4.4%	43.50 32.42	32.96 25.35	24.95 18.75	16.44 11.66	16.20 14.02	16.80 17.60	11.24 9.96	7.81 6.53	9.85 7.85	10.86 8.48							
'79	3.1%	23.19 18.65	16.60 12.46	8.61 5.29	10.23 9.83	12.08 14.83	6.63 6.61	3.49 3.27	6.24 5.12	7.72 6.10								
'78	2.4%	10.37 6.59	1.98 - 0.53	6.22 7.04	9.47 13.90	3.59 4.36	0.53 0.91	4.02 3.31	5.93 4.63									
'77	2.4%	- 5.77 - 7.17	4.21 7.26	9.17 16.44	1.96 3.80	-1.33 -0.19	2.99 2.78	5.31 4.35										
'76	2.5%	15.24 23.94	17.51 30.42	-4.67 7.74	- 0.19 1.64	4.84 4.89	7.29 6.40											
'75	2.9%	19.82 37.23	- 0.24 0.46	- 4.85 - 4.87	2.39 0.60	5.76 3.21												
'74	3.0%	-16.94 -26.46	-15.21 -20.80	-2.83 - 9.28	2.51 - 3.89													
'73	2.7%	-13.45 -14.69	5.10 0.75	9.96 5.08														
'72	3.2%	27.62 19.00	23.94 16.62															
'71	3.1%	20.37 14.30																

**XYZ CAPITAL MANAGEMENT COMPOSITE
OF ALL CLIENTS (BOLD)**

S&P 500 INDEX

Characteristic Line⁽¹⁰⁾

Beta = .89

Annual Alpha = +2.6%

R² = 90.3%

This performance presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated 11/19/88). In addition to the information presented herein, such standards include:

- Returns from all cash reserves and equivalents and/or bonds used by the manager in place of equities are included in performance calculations.
- Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- No selective periods of performance have been utilized. Results from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- The composite calculation has been appropriately weighted for the size of each account.
- Results are presented before management and related custodial fees. XYZ Capital fee schedule is attached.
- Convertible securities have been included in these equity results.
- No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- The figures have been audited as of 3/3/88 (statement attached).
- Approximately two thirds of all portfolios had returns equal to the composite "actual return" +/- one standard deviation.
- The characteristic line is a regression of manager composite performance versus S&P 500 over the full performance history (17 years).

TABLE II

**XYZ Capital Management Equity Account Summary
Category: Tax-Exempt Client Portfolios**

<u>Year</u>	<u>Composite Assets (\$000)</u>		<u>% Equiv. Equity Assets ⁽⁹⁾</u>	<u>% XYZ's Total Equities Managed</u>	<u># of Clients</u>	<u>Average Account Size (\$000)</u>	<u>Median Account Size (\$000)</u>
	<u>Reg. Yr.</u>	<u>Yr. End</u>					
1987	5,506,550	5,881,173	100%	96%	65	80,580	40,813
1986	4,456,012	5,506,550	100	90	62	77,557	28,726
1985	3,463,639	4,464,521	100	92	57	65,655	38,975
1984	3,253,627	3,439,790	100	93	55	52,118	25,926
1983	2,486,902	3,253,627	100	91	56	48,562	20,608
1982	1,840,726	2,480,485	100	89	52	42,042	20,933
1981	1,749,541	1,840,726	100	90	51	31,737	19,262
1980	1,133,875	1,749,541	100	91	45	35,705	26,285
1979	850,993	1,133,875	100	92	42	23,622	12,882
1978	645,561	850,993	100	90	41	18,500	11,268
1977	677,257	645,561	100	85	42	14,345	7,510
1976	540,736	677,257	100	87	44	13,822	7,588
1975	343,959	540,736	100	88	43	11,265	6,058
1974	317,764	343,959	100	90	40	8,000	4,801
1973	179,007	317,764	100	98	33	8,362	6,795
1972	78,626	179,007	100	98	21	7,459	1,997
1971	28,205	78,626	100	98	14	4,914	927

This composite presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated ,19)

In addition to the information presented herein, such standards include:

- 1) All cash reserves and equivalents and/or bonds used by the manager in place of equities are included in composite presentations.
- 2) Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- 3) No selective periods for presentation have been utilized. Data from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- 4) The composite calculation has been appropriately weighted for the size of each account.
- 5) Results are presented before management and related custodial fees. The average fee charged for each period appears in the presentation.
- 6) Convertible securities have been included in these equity composites.
- 7) No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- 8) The data have been audited as of 3/3/88 (statement attached)

Table III

*FAF Investment Manager Performance
Presentation Standards Checklist*

Following is a checklist for investment managers, their clients and prospects, and for consultants—to assure proper conformance to the Financial Analysts Federation "Performance Presentation Standards of January 12, 1989."

I. Performance calculations.

- A. Performance results have been calculated on a time-weighted basis.*
- B. Returns combine income and current market valuations (thus, presenting so-called total returns).*
- C. Manager fee levels have been disclosed along with performance records so that after-fee results can be measured.*
- D. Performance results of broad security classes such as equities or fixed income have been calculated with cash or substitute securities included. If cash has been excluded in the calculations, returns with cash have also been presented, along with the statement that FAF standards consider performance with cash as most representative of managerial results and most representative for comparisons with other managers.*

E. All exclusions from performance calculations and presentation by manager have been disclosed.

F. The method of linking interim performance results (daily, monthly, quarterly) has been explained. (FAF standard is for monthly linking.)

G. Balanced account performance.

1. Manager has assigned cash and substitute securities to the specific asset category to which it belongs, thereby allowing a clear division of the performance record for each asset managed.

2. If cash and substitute securities are not assigned to a separate asset, comparisons should not be made against other managers' performance figures for assets where cash returns have been included.

3. Manager has supplied information on risk, volatility and/or other measures which allow for reasonable performance evaluation.

H. *Convertible securities have been consistently assigned to either equities or fixed income, and have not been shifted without notice being given to clients concurrent or prior to such shift.*

J. *Managers have provided the indexes against which their submitted performance records have normally been compared.*

K. *If managers' assets have been leveraged, and performance returns calculated on this basis, results on an all-cash (unleveraged) basis have been provided.*

II. *Investment manager composites of performance results.*

A. *Manager has submitted a composite of all accounts managed for each period submitted; the composite includes results from any and all accounts no longer clients of the firm.*

B. *If a manager has separate composites, all have been submitted. A prospect should be able to account for the performance of all of the manager's assets managed.*

C. *Composites are not "survivors only" compilations; they include results of all accounts ever managed, including those of clients no longer with the firm.*

D. *All performance results contained in the composite include cash and substitutable securities, as per I.D. above.*

E. *All individual years and cumulative performance results for all periods have been supplied. The composite covers every year of the past 10 years, along with longer term results if the manager has been in business this long.*

F. *Compound annualized returns have also been provided for all periods.*

G. *A clear statement from manager indicates that no selectivity of account results for partial periods exists.*

H. *Composite or other data have not been altered for reasons of personnel changes or any other reasons.*

I. *Composite results are:*

1. *Weighted for the dollars under management (the FAF standard).*

2. *Presented on a median (unweighted) basis (recommended only as additional information, not as the primary disclosure).*

- J. *Data includes:*
 - 1. *Number of client relationships in the composite.*
 - 2. *Assets under management for each period.*
 - 3. *Average and median size of accounts in the composite have been presented.*
 - 4. *Assets included in the composite presented are shown as a percentage of the manager's total accounts which share very comparable investment guidelines and risks; and as a percentage of the manager's total funds under management. All clients and related performance data for this asset type can be accounted for.*
- K. *Fee information is clear, so that pre- and post-fee results can be determined.*
- L. *Composites include typical indexes against which manager has been judged.*
- M. *Alpha, Beta, Standard Deviation of Returns and other measures of risk, quality, variability, etc. within the composite for each year have been indicated.*

- N. *Other information provided:*

III. *Verification of performance data.*

- A. *Results have been audited by reputable auditors.*
- B. *Results are not audited, but include statements that calculations and presentation of individual accounts and composites conform to FAF performance presentation standards.*
- C. *Neither of A. or B. above.*

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

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WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

February 21, 1989

Mr. James R. Wilson
Statement Investment Officer
State of Alaska
Department of Revenue
Treasury Division
P.O. Box SB
Juneau, AK 99811

Re: PERS and TRS Financial Projections

Dear Jim:

Enclosed you will find our actuarial projections of financial results for both PERS and TRS for the next 15 years. As always, care should be exercised in using these long-term financial projections.

For both PERS and TRS, we provide projections based upon four different sets of actuarial assumptions. The first table for each retirement system is based upon the current actuarial assumption which assumes an investment return rate of 9% per year and salary increases of 6.5% for the first five years of employment and 5.5% for later years of employment. Then, for each retirement system, we provide three additional projections. The first one assumes a 1% higher investment return with no change in the salary increase assumption; the second one assumes no change in the investment assumption but a 1% lower rate of salary increase assumption; the last one, which provides the most optimistic scenario, bases its projections upon a 1% higher rate of investment return with the 1% lower salary increase assumption.

For both PERS and TRS, there were actuarial losses during FY88. These losses led to lower funding ratios and increases in employer contribution rates. There were three major deviations from actuarial assumptions during the year. Of greatest importance was the substantial increase in the monthly premiums for retiree medical insurance. The monthly rate is currently \$250 per month per benefit recipient. After a few years of declining retiree medical insurance premiums, the rates have once again shot skyward.

There were actuarial losses from less-than-anticipated investment return rates during the year. Even with the three-year smoothing approach used on valuation assets, the dramatic drop in equity values on October 19, 1987 still had an affect on the total investment performance for the year. Based upon valuation assets, both PERS and TRS had investment performance rates during the year which were about 3% less than our 9% interest assumption.

William M. Mercer Meidinger Hansen, Incorporated

Mr. James R. Wilson
February 21, 1989
Page Two

Partially dampening the affects of these two actuarial losses were the less-than-anticipated salary increases during the year. Both PERS and TRS experienced actuarial gains in this area.

The projections this year, when compared with last year's projections, all show slightly lower funding ratios and slightly higher employer contributions at all durations. More than anything else, this reflects the impact of the higher cost of post-retirement medical insurance. Also, this year's projections include additional employer contributions for the Retirement Incentive Program.

Summary

Despite actuarial gains from less-than-anticipated salary increases during FY88, actuarial losses from a dramatic rise in retiree medical insurance premiums, as well as less-than-anticipated investment performance, led to a decrease in funding ratios for both PERS and TRS. Nevertheless, both plans are still extremely well funded and are projected to remain so in the ensuing years.

Sincerely,



Robert F. Richardson, ASA, EA, MAAA
Principal

RFR:js

State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				Ending Asset Valuation			
	---Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus (Deficit)	-----Flow Total Employer Salaries	Amounts During Employee Contribs	Following 12 Months Total Contribs	Benefit Payments		Net Contribs	Investment Earnings	
1988	1,331,905	1,346,677	(14,772)	413,554	59,004	37,085	94,839	78,902	17,987	136,075	1,475,967
1989	1,475,967	1,482,362	(6,395)	438,535	59,519	39,723	99,242	83,548	15,694	139,521	1,631,182
1990	1,631,182	1,628,457	2,725	465,022	57,697	38,667	96,564	80,385	8,179	153,781	1,793,142
1991	1,793,142	1,784,918	8,224	493,110	57,715	37,723	95,438	93,429	2,009	168,735	1,963,887
1992	1,963,887	1,952,792	11,094	522,893	60,979	39,897	100,876	98,692	2,183	184,802	2,150,872
1993	2,150,872	2,136,494	14,378	554,476	64,418	42,196	106,614	104,192	2,421	202,398	2,355,692
1994	2,355,692	2,337,571	18,121	587,967	68,040	44,627	112,667	109,945	2,722	221,675	2,580,089
1995	2,580,089	2,557,711	22,378	623,480	71,855	47,197	119,052	114,812	4,240	242,848	2,827,177
1996	2,827,177	2,799,971	27,206	661,138	75,870	49,916	125,786	125,013	773	265,931	3,093,880
1997	3,093,880	3,061,206	32,675	701,071	80,095	52,791	132,886	129,756	3,130	291,120	3,388,130
1998	3,388,130	3,349,291	38,839	743,415	84,542	55,830	140,372	138,434	1,938	318,741	3,708,810
1999	3,708,810	3,663,024	45,786	788,318	89,218	59,124	146,342	146,321	2,021	348,904	4,059,735
2000	4,059,735	4,006,144	53,591	835,932	94,136	62,695	156,831	151,330	5,501	387,066	4,447,302
2001	4,447,302	4,384,955	62,343	886,422	99,307	66,482	165,789	155,844	9,944	418,716	4,875,967
2002	4,875,962	4,803,804	72,158	939,962	104,740	70,497	175,237	165,218	10,019	459,035	5,345,017
2003	5,345,017	5,261,848	83,169	996,736	110,445	74,755	185,200	172,835	12,366	503,255	5,860,638

- * Surpluses reduce employer contributions over 5 years
- * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	9.00%
1989	99.6	13.57%	9.06%	22.63%	19.05%	1.01%	9.00%
1990	100.2	12.45%	8.32%	20.77%	19.01%	0.48%	9.00%
1991	100.5	11.70%	7.65%	19.35%	18.95%	0.11%	9.00%
1992	100.6	11.66%	7.63%	19.29%	18.87%	0.11%	9.00%
1993	100.7	11.62%	7.61%	19.23%	18.79%	0.11%	9.00%
1994	100.8	11.57%	7.59%	19.16%	18.70%	0.11%	9.00%
1995	100.9	11.52%	7.57%	19.09%	18.41%	0.16%	9.00%
1996	101.0	11.48%	7.55%	19.03%	18.91%	0.03%	9.00%
1997	101.1	11.42%	7.53%	18.95%	18.51%	0.10%	9.00%
1998	101.2	11.37%	7.51%	18.88%	18.62%	0.05%	9.00%
1999	101.2	11.32%	7.50%	18.82%	18.56%	0.05%	9.00%
2000	101.3	11.26%	7.50%	18.76%	18.10%	0.13%	9.00%
2001	101.4	11.20%	7.50%	18.70%	17.58%	0.21%	9.00%
2002	101.5	11.14%	7.50%	18.64%	17.58%	0.20%	9.00%
2003	101.6	11.08%	7.50%	18.58%	17.34%	0.22%	9.00%

Table 2
State of Alaska IRS
Financial Projections (1988-2003)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				Ending Asset Valuation			
	--Valuation Total Assets	Amounts on Accrued Liability	July 1-- Surplus* (Deficit)	-----Flow Total Employer Salaries	-----Flow Employee Contribs	Amounts During Employee Contribs	Following 12 Months-- Total Benefit Payments		Not Investment Earnings		
1988	1,331,705	1,348,677	(16,772)	413,556	59,004	37,885	96,809	78,902	17,987	140,749	1,490,641
1989	1,490,641	1,482,362	8,279	438,535	57,237	39,723	96,960	83,548	13,413	157,188	1,661,242
1990	1,661,242	1,628,457	32,785	465,022	55,090	38,667	93,757	88,385	5,372	174,699	1,841,313
1991	1,841,313	1,704,918	56,394	493,110	53,216	37,723	90,939	93,429	(2,490)	193,213	2,032,036
1992	2,032,036	1,952,792	79,244	522,893	54,614	39,897	94,511	98,692	(4,181)	213,155	2,241,009
1993	2,241,009	2,136,494	104,515	554,476	56,000	42,196	98,195	104,192	(5,997)	235,006	2,470,010
1994	2,470,010	2,337,571	132,448	587,967	57,363	44,627	101,989	109,945	(7,956)	258,954	2,721,016
1995	2,721,016	2,557,711	163,306	623,400	58,692	47,197	105,890	114,812	(8,922)	285,261	2,997,355
1996	2,997,355	2,799,771	197,384	661,138	59,976	49,916	109,892	125,013	(15,122)	313,966	3,296,199
1997	3,296,199	3,061,206	234,994	701,071	61,199	52,791	113,990	129,756	(15,766)	345,313	3,625,746
1998	3,625,746	3,349,291	276,455	743,415	62,349	55,830	118,180	138,434	(20,254)	379,691	3,985,182
1999	3,985,182	3,663,624	322,159	788,318	63,406	59,124	122,530	146,321	(23,791)	417,255	4,378,646
2000	4,378,646	4,006,144	372,501	835,932	64,331	62,695	127,046	151,330	(24,284)	458,544	4,812,905
2001	4,812,905	4,384,759	427,946	886,422	65,161	66,482	131,643	155,844	(24,202)	504,145	5,292,848
2002	5,292,848	4,803,804	489,044	939,962	65,804	70,497	136,302	165,218	(28,917)	554,303	5,818,235
2003	5,818,235	5,261,848	556,386	996,736	66,248	74,755	141,003	172,835	(31,831)	609,323	6,395,726

- * Surpluses reduce employer contributions over 5 years
- * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	10.00%
1989	100.6	13.05%	9.06%	22.11%	19.05%	0.85%	10.00%
1990	102.0	11.85%	8.32%	20.16%	19.01%	0.31%	10.00%
1991	103.2	10.79%	7.65%	18.44%	18.95%	-0.13%	10.00%
1992	104.1	10.44%	7.63%	18.07%	18.87%	-0.20%	10.00%
1993	104.9	10.10%	7.61%	17.71%	18.79%	-0.26%	10.00%
1994	105.7	9.76%	7.59%	17.35%	18.70%	-0.31%	10.00%
1995	106.4	9.41%	7.57%	16.98%	18.41%	-0.31%	10.00%
1996	107.0	9.07%	7.55%	16.62%	18.91%	-0.48%	10.00%
1997	107.7	8.73%	7.53%	16.26%	18.51%	-0.46%	10.00%
1998	108.3	8.39%	7.51%	15.90%	18.62%	-0.53%	10.00%
1999	108.8	8.04%	7.50%	15.54%	18.56%	-0.57%	10.00%
2000	109.3	7.70%	7.50%	15.20%	18.10%	-0.53%	10.00%
2001	109.8	7.35%	7.50%	14.85%	17.58%	-0.48%	10.00%
2002	110.2	7.00%	7.50%	14.50%	17.58%	-0.52%	10.00%
2003	110.6	6.65%	7.50%	14.15%	17.30%	-0.52%	10.00%

Table 3
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases			5.04% (5.5/4.5 assumed)			Ending Asset Valuation	
	Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus* (Deficit)	Flow Total Salaries	Employer Contribs	Employee Contribs	Amounts During Following 12 Months-- Total Contribs	Benefit Payments	Net Contribs		Investment Earnings
1988	1,331,905	1,348,677	(16,772)	409,656	58,541	37,584	96,126	78,590	17,536	126,055	1,475,495
1989	1,475,495	1,476,121	(626)	430,303	57,181	39,090	96,272	82,889	13,383	139,373	1,628,251
1990	1,628,251	1,614,564	13,687	451,990	55,328	37,668	92,995	87,343	5,653	153,391	1,787,295
1991	1,787,295	1,761,762	25,532	474,770	53,923	36,320	90,243	91,961	(1,718)	168,018	1,953,594
1992	1,953,594	1,918,539	35,056	498,699	55,872	38,051	93,922	96,757	(2,834)	183,608	2,134,368
1993	2,134,368	2,089,059	45,309	523,833	57,895	39,864	97,759	101,741	(3,982)	200,558	2,330,944
1994	2,330,944	2,274,391	56,553	550,234	59,995	41,763	101,757	106,927	(5,169)	218,993	2,544,767
1995	2,544,767	2,476,514	68,252	577,966	62,172	43,752	105,924	111,171	(5,247)	239,099	2,778,619
1996	2,778,619	2,697,541	81,078	607,096	64,429	45,836	110,265	120,690	(10,425)	260,860	3,029,054
1997	3,029,054	2,924,142	94,912	637,693	66,766	48,018	114,784	124,686	(9,901)	284,437	3,303,589
1998	3,303,589	3,193,767	109,822	669,833	69,185	50,304	119,490	132,547	(13,057)	310,115	3,600,647
1999	3,600,647	3,474,741	125,906	703,592	71,687	52,769	124,456	139,543	(15,087)	337,962	3,923,522
2000	3,923,522	3,780,270	143,252	739,053	74,272	55,429	129,701	143,580	(13,879)	368,383	4,278,026
2001	4,278,026	4,116,064	161,962	776,302	76,943	58,223	135,165	147,035	(11,869)	401,814	4,667,971
2002	4,667,971	4,485,809	182,162	815,427	79,696	61,157	140,853	155,255	(14,402)	438,375	5,091,944
2003	5,091,944	4,887,949	203,995	856,525	82,531	64,239	146,771	161,618	(14,847)	478,229	5,555,326

- * Surpluses reduce employer contributions over 5 years
- Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	--As % of Salaries--				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.29%	9.17%	23.46%	19.18%	1.25%	9.00%
1989	100.0	13.29%	9.08%	22.37%	19.26%	0.86%	9.00%
1990	100.8	12.24%	8.33%	20.57%	19.32%	0.33%	9.00%
1991	101.4	11.36%	7.65%	19.01%	19.37%	-0.09%	9.00%
1992	101.8	11.20%	7.63%	18.83%	19.40%	-0.14%	9.00%
1993	102.2	11.05%	7.61%	18.66%	19.42%	-0.18%	9.00%
1994	102.5	10.90%	7.59%	18.49%	19.43%	-0.21%	9.00%
1995	102.8	10.76%	7.57%	18.33%	19.23%	-0.20%	9.00%
1996	103.0	10.61%	7.55%	18.16%	19.88%	-0.36%	9.00%
1997	103.2	10.47%	7.53%	18.00%	19.55%	-0.31%	9.00%
1998	103.4	10.33%	7.51%	17.84%	19.79%	-0.38%	9.00%
1999	103.6	10.19%	7.50%	17.69%	19.83%	-0.40%	9.00%
2000	103.8	10.05%	7.50%	17.55%	19.43%	-0.34%	9.00%
2001	103.9	9.91%	7.50%	17.41%	18.94%	-0.27%	9.00%
2002	104.1	9.77%	7.50%	17.27%	19.04%	-0.30%	9.00%
2003	104.2	9.64%	7.50%	17.14%	18.87%	-0.28%	9.00%

Table 4
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)							Ending Asset Valuation
	--Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus* (Deficit)	-----Flow Total Employer Salaries Contribs		Amounts During Following 12 Months----- Employee Contribs		Total Contribs	Benefit Payments	Net Contribs	
1988	1,331,905	1,348,577	(16,772)	409,656	58,541	37,584	96,126	78,590	17,536	140,727	1,490,157
1989	1,490,167	1,476,121	14,046	430,303	55,722	39,090	94,812	82,889	11,923	157,064	1,659,155
1990	1,659,155	1,614,564	44,590	451,990	52,441	37,668	90,109	87,343	2,766	174,350	1,836,270
1991	1,836,270	1,761,762	74,508	474,770	49,349	36,320	85,669	91,961	(6,293)	192,494	2,022,472
1992	2,022,472	1,918,539	103,933	498,699	47,439	38,051	87,489	96,757	(9,267)	211,896	2,225,101
1993	2,225,101	2,089,059	136,042	523,833	49,421	39,864	89,284	101,741	(12,456)	233,013	2,445,657
1994	2,445,657	2,274,591	171,066	550,234	49,281	41,763	91,044	106,927	(15,883)	256,000	2,685,773
1995	2,685,773	2,476,514	209,259	577,966	49,003	43,752	92,755	111,171	(18,417)	281,085	2,940,442
1996	2,948,442	2,697,541	250,901	607,096	48,568	45,836	94,404	120,690	(26,286)	308,272	3,230,428
1997	3,230,428	2,934,142	296,286	637,693	47,958	48,018	95,976	124,686	(28,709)	337,760	3,539,479
1998	3,539,479	3,193,767	345,711	669,833	47,154	50,304	97,458	132,547	(35,089)	369,891	3,874,281
1999	3,874,281	3,474,741	399,540	703,592	46,130	52,769	98,900	139,543	(40,643)	404,767	4,238,405
2000	4,238,405	3,780,270	458,135	739,053	44,861	55,429	100,292	143,580	(43,288)	442,868	4,637,985
2001	4,637,985	4,116,064	521,921	776,302	43,324	58,223	101,546	147,035	(45,488)	484,714	5,077,211
2002	5,077,211	4,485,809	591,402	815,427	41,475	61,157	102,632	155,255	(52,624)	530,476	5,555,063
2003	5,555,063	4,887,949	667,114	856,525	39,277	64,239	103,517	161,618	(58,101)	580,377	6,077,339

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.29%	9.17%	23.46%	19.18%	1.25%	10.00%
1989	101.0	12.95%	9.08%	22.03%	19.26%	0.76%	10.00%
1990	102.8	11.60%	8.33%	19.94%	19.72%	0.16%	10.00%
1991	104.2	10.39%	7.65%	18.04%	19.37%	-0.33%	10.00%
1992	105.4	9.91%	7.63%	17.54%	19.40%	-0.44%	10.00%
1993	106.5	9.43%	7.61%	17.04%	19.42%	-0.53%	10.00%
1994	107.5	8.96%	7.59%	16.55%	19.43%	-0.62%	10.00%
1995	108.4	8.48%	7.57%	16.05%	19.23%	-0.66%	10.00%
1996	109.3	8.00%	7.55%	15.55%	19.08%	-0.85%	10.00%
1997	110.1	7.52%	7.53%	15.05%	19.55%	-0.85%	10.00%
1998	110.8	7.04%	7.51%	14.55%	19.79%	-0.95%	10.00%
1999	111.5	6.56%	7.50%	14.06%	19.83%	-1.00%	10.00%
2000	112.1	6.07%	7.50%	13.57%	19.43%	-0.98%	10.00%
2001	112.7	5.50%	7.50%	13.08%	18.94%	-0.94%	10.00%
2002	113.2	5.04%	7.50%	12.57%	19.04%	-0.99%	10.00%
2003	113.6	4.59%	7.50%	12.09%	18.87%	-1.00%	10.00%

Table 5
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)					12 Months		Ending Asset Valuation
	--Valuation Amounts on July 1--			-----Flow Amounts During Following					Net Contri	Investment Earnings	
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contri	Employee Contri	Total Benefit Payments	Contri			
1988	2,088,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	200,702	2,384,364
1989	2,384,364	2,511,963	(127,599)	1,002,222	126,601	68,452	195,053	106,870	88,183	228,218	2,700,764
1990	2,700,764	2,801,804	(101,039)	1,062,756	123,924	72,586	196,510	116,504	80,006	257,607	3,038,378
1991	3,038,378	3,118,259	(79,881)	1,126,946	122,858	76,970	199,829	125,883	73,946	289,087	3,401,411
1992	3,401,411	3,464,631	(63,221)	1,195,014	125,211	81,619	206,831	135,955	70,875	323,092	3,795,378
1993	3,795,378	3,843,567	(48,189)	1,267,193	128,328	86,549	214,877	148,046	66,832	359,963	4,222,172
1994	4,222,172	4,256,607	(34,435)	1,343,731	132,148	91,777	223,925	160,809	63,116	399,936	4,685,224
1995	4,685,224	4,706,881	(21,658)	1,424,893	136,626	97,320	233,946	175,544	58,402	443,273	5,186,899
1996	5,186,899	5,196,490	(9,591)	1,510,956	141,724	103,198	244,922	191,787	53,135	490,219	5,730,253
1997	5,730,253	5,728,256	1,997	1,602,218	147,698	109,431	257,130	209,342	47,788	541,081	6,319,122
1998	6,319,122	6,305,512	13,610	1,698,992	155,546	116,041	271,587	228,844	42,743	596,237	6,958,102
1999	6,958,102	6,931,281	26,820	1,801,611	163,784	123,050	286,834	247,363	39,471	656,186	7,653,758
2000	7,653,758	7,611,981	41,776	1,910,428	172,431	130,482	302,913	269,379	33,534	721,345	8,408,636
2001	8,408,636	8,349,986	58,650	2,025,818	181,505	138,363	319,869	293,243	26,625	792,030	9,227,292
2002	9,227,292	9,149,673	77,619	2,148,178	191,027	146,721	337,748	318,446	19,302	868,695	10,115,290
2003	10,115,290	10,016,415	98,874	2,277,928	201,018	155,582	356,601	344,013	12,587	951,909	11,079,787

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contri	Employee Contri	Total Benefit Payments	Net Contri	Investment Earnings	
1988	93.0	13.60%	6.83%	20.43%	4.27%	9.00%	
1989	94.9	12.63%	6.83%	19.46%	3.48%	9.00%	
1990	96.4	11.66%	6.83%	18.49%	2.80%	9.00%	
1991	97.4	10.70%	6.83%	17.73%	2.30%	9.00%	
1992	98.2	10.48%	6.83%	17.31%	1.97%	9.00%	
1993	98.7	10.13%	6.83%	16.96%	1.67%	9.00%	
1994	99.2	9.83%	6.83%	16.66%	1.42%	9.00%	
1995	99.5	9.59%	6.83%	16.42%	1.19%	9.00%	
1996	99.8	9.38%	6.83%	16.21%	0.98%	9.00%	
1997	100.0	9.22%	6.83%	16.05%	0.79%	9.00%	
1998	100.2	9.16%	6.83%	15.99%	0.65%	9.00%	
1999	100.4	9.09%	6.83%	15.92%	0.54%	9.00%	
2000	100.5	9.03%	6.83%	15.86%	0.42%	9.00%	
2001	100.7	8.96%	6.83%	15.79%	0.30%	9.00%	
2002	100.8	8.89%	6.83%	15.72%	0.20%	9.00%	

Table 6
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)					Ending Asset		
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----					Investment		
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contri	Employee Contri	Total Contri	Benefit Payments	Net Contri	Earnings	Asset Valuation
1988	2,088,428	2,246,583	(158,155)	945,136	128,539	64,553	193,092	97,859	95,233	224,047	2,407,708
1989	2,407,708	2,511,963	(104,255)	1,002,222	121,095	68,452	189,547	106,870	82,677	256,943	2,747,328
1990	2,747,328	2,801,804	(54,473)	1,062,756	112,941	72,586	185,527	116,504	69,024	291,921	3,108,273
1991	3,108,273	3,118,259	(9,987)	1,126,946	106,373	76,970	183,343	125,883	57,460	329,242	3,494,974
1992	3,494,974	3,464,631	30,343	1,195,014	107,466	81,619	189,085	135,955	53,130	369,629	3,917,733
1993	3,917,733	3,843,567	74,166	1,267,193	110,035	86,549	196,584	148,046	48,539	413,789	4,380,060
1994	4,380,060	4,256,607	123,453	1,343,731	112,496	91,777	204,273	160,809	43,464	462,080	4,885,604
1995	4,885,604	4,706,881	178,722	1,424,893	114,826	97,320	212,146	175,544	36,602	514,818	5,437,024
1996	5,437,024	5,196,490	240,533	1,510,956	116,996	103,198	220,195	191,787	28,408	572,308	6,037,739
1997	6,037,739	5,728,256	309,483	1,602,218	118,980	109,431	228,411	209,342	19,070	634,916	6,691,725
1998	6,691,725	6,305,512	386,213	1,698,992	120,746	116,041	236,787	228,844	7,943	703,028	7,402,696
1999	7,402,696	6,931,281	471,415	1,801,611	122,260	123,050	245,310	247,363	(2,053)	777,180	8,177,824
2000	8,177,824	7,611,981	565,842	1,910,428	123,485	130,482	253,967	269,379	(15,412)	857,901	9,020,312
2001	9,020,312	8,349,986	670,326	2,025,818	124,377	138,363	262,740	293,243	(30,503)	945,608	9,935,417
2002	9,935,417	9,149,673	785,743	2,148,178	124,891	146,721	271,611	318,446	(46,834)	1,040,877	10,929,459
2003	10,929,459	10,016,415	913,044	2,277,928	124,977	155,582	280,560	344,013	(63,454)	1,144,421	12,010,426

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contri	Employee Contri	Total Contri	Benefit Payments	Net Contri	Investment Earnings
1988	93.0	13.60%	6.83%	20.43%	10.35%	4.25%	10.00%
1989	95.8	12.08%	6.83%	18.91%	10.66%	3.22%	10.00%
1990	98.1	10.63%	6.83%	17.46%	10.96%	2.36%	10.00%
1991	99.7	9.44%	6.83%	16.27%	11.17%	1.76%	10.00%
1992	100.9	8.99%	6.83%	15.82%	11.38%	1.44%	10.00%
1993	101.9	8.68%	6.83%	15.51%	11.68%	1.17%	10.00%
1994	102.9	8.37%	6.83%	15.20%	11.97%	0.94%	10.00%
1995	103.8	8.06%	6.83%	14.89%	12.32%	0.71%	10.00%
1996	104.6	7.74%	6.83%	14.57%	12.67%	0.50%	10.00%
1997	105.4	7.43%	6.83%	14.26%	13.07%	0.30%	10.00%
1998	106.1	7.11%	6.83%	13.94%	13.47%	0.11%	10.00%
1999	106.8	6.79%	6.83%	13.62%	13.73%	-0.03%	10.00%
2000	107.4	6.46%	6.83%	13.29%	14.10%	-0.18%	10.00%
2001	108.0	6.14%	6.83%	12.97%	14.48%	-0.32%	10.00%
2002	108.6	5.81%	6.83%	12.64%	14.82%	-0.45%	10.00%

Table 7
State of Alaska PERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)				Flow Amounts During Following 12 Months		Ending Asset Valuation	
	--Valuation Amounts on July 1-- Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Benefit Payments	Net Contribs	Investment Earnings		
1988	2,088,428	2,246,583	(158,155)	936,223	127,717	63,944	191,661	97,502	94,159	200,654	2,383,240
1989	2,383,240	2,497,668	(114,428)	983,408	121,758	67,167	188,925	106,061	82,864	227,873	2,693,977
1990	2,693,977	2,770,007	(76,030)	1,032,972	115,276	70,552	185,828	115,134	70,694	256,550	3,021,221
1991	3,021,221	3,065,357	(44,136)	1,085,034	110,559	74,108	184,666	123,829	60,837	286,884	3,368,942
1992	3,368,942	3,386,586	(17,645)	1,139,719	109,358	77,843	187,201	133,080	54,121	319,284	3,742,347
1993	3,742,347	3,735,867	6,480	1,197,161	109,893	81,766	191,659	144,194	47,465	354,104	4,143,915
1994	4,143,915	4,114,220	29,696	1,257,498	113,294	85,887	199,181	155,808	43,373	391,687	4,578,975
1995	4,578,975	4,524,205	54,770	1,320,876	116,802	90,216	207,017	169,199	37,818	432,354	5,049,148
1996	5,049,148	4,967,303	81,845	1,387,448	120,417	94,763	215,180	183,882	31,298	476,281	5,556,726
1997	5,556,726	5,445,658	111,069	1,457,376	124,142	99,539	223,681	199,637	24,044	523,692	6,104,462
1998	6,104,462	5,961,862	142,600	1,530,827	127,977	104,556	232,532	217,073	15,460	574,820	6,694,743
1999	6,694,743	6,518,135	176,608	1,607,981	131,922	109,825	241,747	233,228	8,519	630,024	7,333,285
2000	7,333,285	7,120,015	213,270	1,689,023	135,978	115,360	251,338	252,553	(1,214)	689,641	8,021,712
2001	8,021,712	7,760,923	252,789	1,774,150	140,144	121,174	261,319	273,361	(12,043)	753,900	8,763,570
2002	8,763,570	8,468,197	295,372	1,863,567	144,420	127,282	271,702	295,108	(23,406)	823,160	9,563,325
2003	9,563,325	9,222,083	341,242	1,957,491	148,806	133,697	282,502	316,776	(34,274)	897,888	10,426,939

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Benefit Payments	Net Contribs	Investment Earnings	
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.22%	9.00%
1989	95.4	12.38%	6.83%	19.21%	10.79%	3.27%	9.00%
1990	97.3	11.16%	6.83%	17.99%	11.15%	2.48%	9.00%
1991	98.6	10.19%	6.83%	17.02%	11.41%	1.91%	9.00%
1992	99.5	9.60%	6.83%	16.43%	11.68%	1.53%	9.00%
1993	100.2	9.18%	6.83%	16.01%	12.04%	1.21%	9.00%
1994	100.7	9.01%	6.83%	15.84%	12.39%	1.00%	9.00%
1995	101.2	8.84%	6.83%	15.67%	12.81%	0.79%	9.00%
1996	101.6	8.68%	6.83%	15.51%	13.25%	0.59%	9.00%
1997	102.0	8.52%	6.83%	15.35%	13.70%	0.41%	9.00%
1998	102.4	8.36%	6.83%	15.19%	14.18%	0.24%	9.00%
1999	102.7	8.20%	6.83%	15.03%	14.50%	0.12%	9.00%
2000	103.0	8.05%	6.83%	14.88%	14.95%	-0.02%	9.00%
2001	103.3	7.90%	6.83%	14.73%	15.41%	-0.14%	9.00%
2002	103.5	7.75%	6.83%	14.58%	15.84%	-0.26%	9.00%

Table 8
State of Alaska FERS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)							Ending Asset Valuation
	--Valuation Amounts on July 1--			-----Flow Amounts During Following 12 Months-----							
	Assets	Accrued Liability	Surplus* (Deficit)	Total Salaries	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings	
1988	2,088,428	2,246,583	(158,155)	936,223	127,717	63,944	191,661	97,502	94,159	223,993	2,406,579
1989	2,406,579	2,497,668	(91,089)	983,408	116,253	67,167	183,420	106,061	77,359	256,559	2,740,497
1990	2,740,497	2,770,007	(29,509)	1,032,972	104,304	70,552	174,856	115,134	59,722	290,738	3,090,957
1991	3,090,957	3,065,357	25,601	1,085,034	97,758	74,108	171,865	123,829	48,036	326,952	3,465,946
1992	3,465,946	3,386,586	79,360	1,139,719	97,784	77,843	175,627	133,080	42,547	366,052	3,874,544
1993	3,874,544	3,735,867	138,678	1,197,161	97,546	81,766	179,312	144,194	35,118	408,583	4,318,246
1994	4,318,246	4,114,220	204,026	1,257,498	97,012	85,887	182,899	155,808	27,091	454,770	4,800,107
1995	4,800,107	4,524,205	275,902	1,320,876	96,149	90,216	186,364	169,199	17,165	504,869	5,322,142
1996	5,322,142	4,967,303	354,838	1,387,448	94,921	94,763	189,683	183,882	5,801	559,115	5,887,058
1997	5,887,058	5,445,658	441,400	1,457,376	93,290	99,539	192,829	199,637	(6,808)	617,801	6,498,050
1998	6,498,050	5,961,862	536,188	1,530,827	91,217	104,556	195,773	217,073	(21,300)	681,230	7,157,981
1999	7,157,981	6,518,135	639,846	1,607,981	88,657	109,825	198,482	233,228	(34,746)	749,851	7,873,085
2000	7,873,085	7,120,015	753,070	1,689,023	85,562	115,360	200,923	252,553	(51,630)	824,092	8,645,548
2001	8,645,548	7,768,923	876,625	1,774,150	81,880	121,174	203,055	273,361	(70,307)	904,267	9,479,508
2002	9,479,508	8,468,197	1,011,311	1,863,567	77,554	127,282	204,836	293,108	(90,272)	990,835	10,380,071
2003	10,380,071	9,222,083	1,157,988	1,957,491	72,524	133,697	206,221	316,776	(110,556)	1,084,380	11,353,895

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

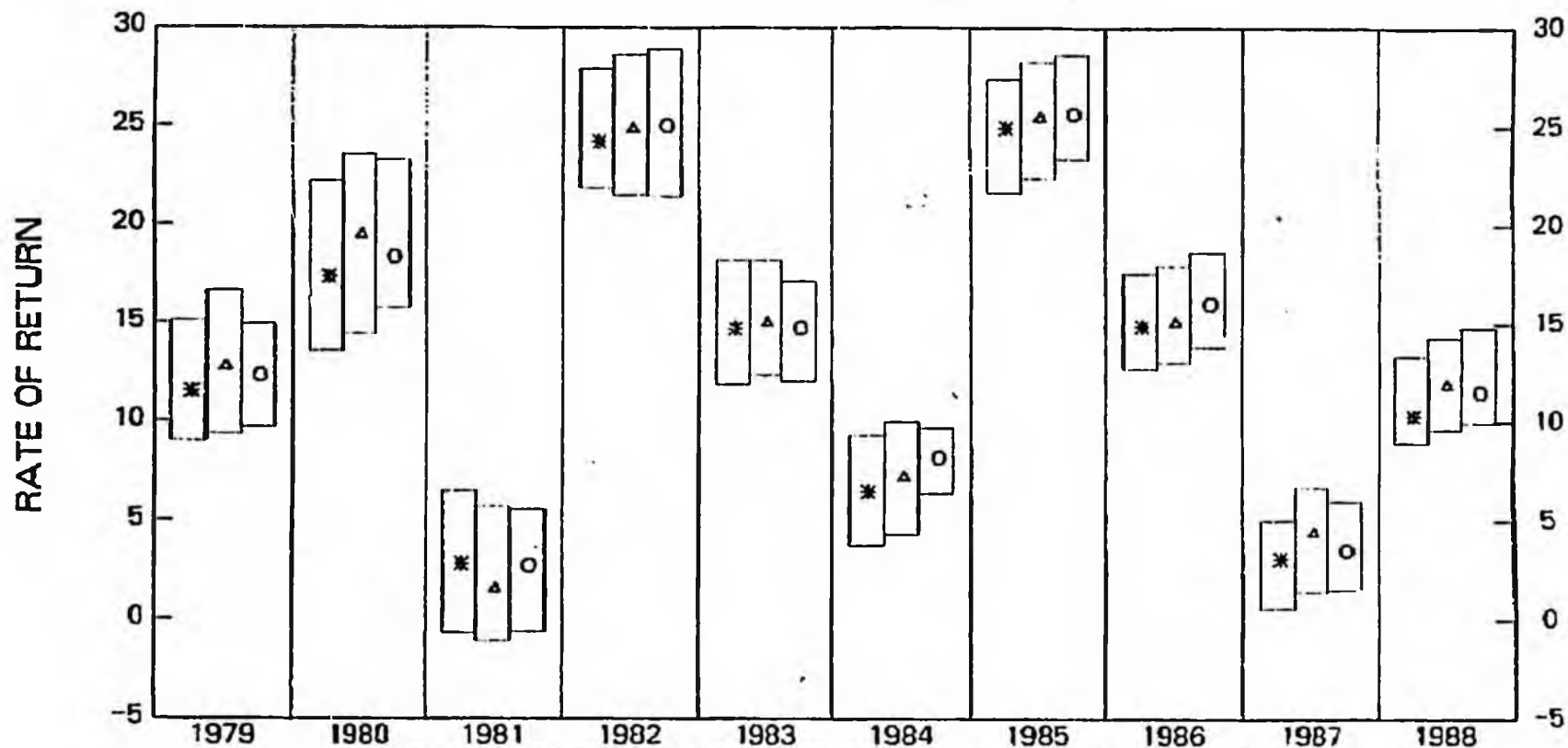
PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				---As % of Assets---	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	93.0	13.64%	6.83%	20.47%	10.41%	4.20%	10.00%
1989	96.4	11.82%	6.83%	18.65%	10.79%	3.02%	10.00%
1990	98.9	10.10%	6.83%	16.93%	11.15%	2.05%	10.00%
1991	100.8	9.01%	6.83%	15.84%	11.41%	1.47%	10.00%
1992	102.3	8.58%	6.83%	15.41%	11.68%	1.16%	10.00%
1993	103.7	8.15%	6.83%	14.98%	12.04%	0.86%	10.00%
1994	105.0	7.71%	6.83%	14.54%	12.39%	0.60%	10.00%
1995	106.1	7.28%	6.83%	14.11%	12.81%	0.34%	10.00%
1996	107.1	6.84%	6.83%	13.67%	13.25%	0.10%	10.00%
1997	108.1	6.40%	6.83%	13.23%	13.70%	-0.11%	10.00%
1998	109.0	5.96%	6.83%	12.79%	14.18%	-0.31%	10.00%
1999	109.8	5.51%	6.83%	12.34%	14.50%	-0.46%	10.00%
2000	110.6	5.07%	6.83%	11.90%	14.95%	-0.63%	10.00%
2001	111.3	4.62%	6.83%	11.45%	15.41%	-0.78%	10.00%
2002	111.9	4.16%	6.83%	10.99%	15.84%	-0.91%	10.00%



TOTAL FUND: RATES OF RETURN BY ASSET SIZE

FOR PERIODS ENDING DECEMBER 31



BARS REPRESENT THE RANGE OF RETURNS BETWEEN THE FIRST AND THIRD QUARTILE

ANNUAL MEDIAN RETURNS

	(*)	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
UNDER \$10 MILLION	(*)	11.7	17.5	3.0	24.4	14.9	6.6	25.1	15.0	3.2	10.5
\$10 TO \$50 MILLION	(Δ)	12.9	19.6	1.7	25.0	15.1	7.3	25.6	15.2	4.6	12.0
OVER \$50 MILLION	(○)	12.5	18.5	2.8	25.2	14.9	8.3	25.8	16.1	3.7	11.7

ANNUALIZED LINKED MEDIAN RETURNS

	1979-88	1980-85	1981-88	1982-86	1983-88	1984-88	1985-88	1986-88	1987-86	1988
UNDER \$10 MILLION	12.9	13.1	12.5	14.0	12.3	11.8	13.2	9.4	6.8	10.5
\$10 TO \$50 MILLION	13.6	13.7	13.0	14.7	13.1	12.7	14.1	10.5	8.2	12.0
OVER \$50 MILLION	13.7	13.8	13.3	14.8	13.2	12.9	14.0	10.4	7.6	11.7

M E M O R A N D U M

S T A T E O F A L A S K A

D E P A R T M E N T O F R E V E N U E

TO: The Honorable Hugh Malone
Commissioner of Revenue

DATE: November 1, 1988

FROM: Milton B. Barker *MB*
Deputy CommissionerSUBJECT: Foreign Equity
Investment
Accounting

End-of-period valuation reports in investment accounting are computed based on reported market values for marketable securities. If the investments and the domicile of the investor are in the same country (and, therefore, denominated in the same currency), then the books of account are probably kept in the country's currency. However, if the investments are located in another country and are denominated and traded in a foreign currency, then the market valuation at the end of a period is denominated in the foreign currency. In order to provide a valuation report in terms of the investor's domestic currency and books of account, the foreign denominated value is converted to domestic value by applying the momentary foreign exchange rate prevailing at the end of the period between the domestic currency and the foreign currency. This is an entirely appropriate methodology for valuation reports, but it is not appropriate for reporting foreign investment activity or for recording foreign investment transactions on the investor's domestic books of account.

If investments are made in different countries having different currencies, then purchases, sales, gains, losses, and income transactions should not be converted into U.S. dollar books of account. The value is not fixed in terms of U.S. dollars and will not become fixed until the foreign currency is sold and the proceeds are used to buy U.S. dollars which are repatriated. When the U.S. dollars are repatriated, that is when events should be recognized on the U.S. dollar books of account.

Over the last five years the retirement funds have been investing in foreign markets through our two contract managers, Citibank and Morgan Guaranty, both of London, England. The funds' domestic book values should reflect the amount of U.S. dollars we advanced to the managers for investment purposes and not foreign transactions which are arbitrarily valued at a presumably appropriate exchange rate somewhere near that point in time. By attempting to convert all foreign investment activity into recordable U.S. dollar equivalents, we are essentially marking up the funds' book values to market values (albeit on a lagging basis). Such actions destroy the historical nature of book value in keeping track of the net U.S. dollar amount which was invested in the securities, creates a book value which is inconsistent with the other book values on the domestic books of account, and misleads users of the data.

The foreign investing through managers is analogous to buying stock in a single foreign company or a mutual fund. The book value is the U.S. dollars used to acquire the stock. If the company or mutual fund buys or sells some

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of its assets, it does not affect book value. If the company or mutual fund retains income for investment in the business or fund or uses it to buy other assets, it does not change book value. The only things which could change book value would be investing more U.S. dollars to buy more of the stock or selling some of the stock for foreign currency and then exchanging the foreign currency for U.S. dollars. The fact that the book value of the company's assets are increasing or decreasing does not change the book value of the retirement funds' investment. It does, however, change the market values.

Even dividend or interest income earned in foreign currencies should not be ascribed as U.S. dollar income. As long as the income remains in foreign currency investments, its amount in U.S. dollar terms is not fixed and varies with each transitory change in the exchange rates. If the income is remitted in U.S. dollars, then its amount is fixed and then we can recognize it as U.S. dollar income on accounting reports.

Attached is Chapter 16 of the Miller Comprehensive GAAP Guide 1988 which discusses FASB-52, the statement of the Financial Accounting Standards Board that establishes generally accepted accounting principles for foreign operations and exchange. FASB-52 requires recognition in U.S. dollars of the book value of the income, gains, and losses realized in foreign currencies but not converted into U.S. dollars.

There are several aspects of FASB-52 that suggest this is a less than satisfactory treatment of the accounting problem.

1. For one thing, FASB-52 was highly controversial and was adopted by only a 4-3 vote.
2. Significantly, any foreign currency exchange gain or loss that results from translating (but not converting) income, gains, and losses realized in foreign currencies into U.S. dollars is not recorded as income on the U.S. dollar books of account, but is instead to be posted directly to a separate component of shareholder equity and realized as income only on partial or complete liquidation of the foreign investment. This seems rather arbitrary since not only the gain or loss component but also the original book value of the investment is just as much at risk to fluctuations in foreign exchange rates.
3. Along these lines, it is interesting to note that on page 22 Miller suggests that if it is not possible to compute meaningful exchange rates (in his examples, owing to foreign strife or exchange restrictions), "it is best to include earnings of a foreign operation only to the extent that cash has been received in unrestricted funds." Similarly, on page 24 Miller states "disclosure of exchange rate changes. . .that occur subsequent to the balance sheet date should be disclosed, if the effects are material." Given that the retirement funds investments are of a

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long-term nature, the exchange rate as of the balance sheet date is not meaningful. Partial or complete liquidations of these foreign investments are highly infrequent.

Perhaps the basic problem is that FASB-52 is oriented toward business activities in foreign countries that generate liabilities in foreign currencies. (The second model which FASB-52 addresses (page 4), a business which conducts operations in U.S. dollars, is certainly not relevant.) The retirement systems are a misfit in that they operate in foreign currencies yet all their liabilities are in U.S. dollars. Indeed, this would be true of any foreign investment, as opposed to business, activity. The examples and language of FASB-52 do not explicitly address investment activities.

MBB/gb

Attachments

ANNUAL RATES OF RETURN (a)
ON EXTERNALLY MANAGED EQUITIES
OF ALASKA RETIREMENT FUNDS

MANAGER AND INCEPTION DATE	03-31-89 to 06-30-89	06-30-88 to 06-30-89	Inception to 06-30-89
R.E. Equity Managers:	MANAGER R of R	MANAGER R of R	MANAGER R of R
Aetna (09-30-80)	N/A	4.77% (b)	6.19% (b)
Hancock (09-30-80)	N/A	-0.42 (b)	3.24 (b)
Equitable (12-31-80)	8.67	8.00	8.39
Sentinel (03-05-84)	N/A	6.54 (b)	7.02 (b)
JMB (04-12-84)	3.49	11.57	8.92
Morgan (06-01-84)	10.50	9.27	12.08
Karsten (12-26-84)	N/A	4.82 (b)	6.74 (b)
<u>Group Average</u>		<u>7.64%</u>	<u>7.54%</u>
<u>Domestic Equity Managers:</u>			
Alger (06-14-84)	47.58%	10.12%	10.81%
Invesco (06-14-84)	33.64	1.90	13.88
Lehman (06-14-84)	32.09	18.99	17.27
IDS (01-12-89)	37.24	28.21	28.21
Loomis, Sayles (01-12-89)	31.37	31.31	31.31
Miller Anderson (01-12-89)	26.20	27.74	27.74
United Capital (01-12-89)	27.35	22.13	22.13
<u>Active Group Average*</u>	<u>32.51%</u>	<u>17.69%</u>	<u>15.06%</u>
State Street (07-13-88)	29.21	17.40	17.40
Treasury (11-02-87)	11.22	8.56	7.98
<u>Domestic Group Average</u>	<u>32.24%</u>	<u>17.59%</u>	<u>15.15%</u>
<u>International Equity Managers:</u>			
Citicorp (11-01-83)	-18.59	7.77	24.83
Morgan Guaranty (11-01-83)	-7.71	10.74	25.56
<u>Group Average</u>	<u>-13.27%</u>	<u>9.26%</u>	<u>25.20%</u>
<u>ALL EQUITY MANAGER AVERAGE</u>		<u>14.55%</u>	<u>15.08%</u>

* - Not net of fees of approximately .31%.

a - Pure internal rate of return weighted by amount and date of deposits.

b - Used 03-31-89 value because 06-30-89 was not available.

Portfolio Management, Treasury Division
August 16, 1989

ANNUAL RATES OF RETURN (a)
ON INTERNALLY MANAGED FIXED INCOME INVESTMENTS
AND ON THE TOTAL FUNDS OF ALASKA RETIREMENT FUNDS
Fiscal Years 1985 through June 30, 1989

	<u>Fiscal Year 1989</u>		<u>Fiscal Year 1988</u>		<u>Fiscal Year 1987</u>		<u>Fiscal Year 1986</u>		<u>Fiscal Year 1985</u>		<u>Fiscal Year 1985 Through June 30, 1989</u>	
	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>	<u>Rates of Return at Cost (c)</u>	<u>Market</u>
R. E. Mortgages	9.08%	11.81%	10.63%	8.60%	13.38%	4.05%	11.74%	17.96%	13.05%	26.61%	12.07%	16.45%
Bonds and Reserves (b)	<u>9.68</u>	<u>15.04</u>	<u>9.48</u>	<u>7.67</u>	<u>10.43</u>	<u>4.87</u>	<u>11.61</u>	<u>23.24</u>	<u>9.75</u>	<u>29.65</u>	<u>10.14</u>	<u>15.18</u>
Total Fixed Income	9.62%	14.72%	9.63%	7.79%	10.98%	4.71%	11.64%	21.67%	10.83%	28.62%	10.55%	15.44%
Total Equities	<u>14.55%</u>	<u>14.55%</u>	<u>-5.12%</u>	<u>-5.12%</u>	<u>20.39%</u>	<u>20.39%</u>	<u>37.80%</u>	<u>37.80%</u>	<u>21.54%</u>	<u>21.54%</u>	<u>15.08%</u>	<u>15.08%</u>
TOTAL FUND	<u>11.58%</u>	<u>14.65%</u>	<u>2.73%</u>	<u>1.93%</u>	<u>14.94%</u>	<u>10.90%</u>	<u>19.74%</u>	<u>26.59%</u>	<u>13.27%</u>	<u>26.84%</u>	<u>12.14%</u>	<u>15.31%</u>

a - Internal rates of return under simplifying assumption of mid-month flows for fixed income investments.

b - Net of gains, losses, and amortizations.

c - Cost returns for fixed income investments; but market returns on equities. The returns for total fund approximate actuary's calculation of returns.

Portfolio Management, Treasury Division
August 18, 1989