

Н В

69

HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF
HB 69

Permanent Fund Investments

Received January 9, 1989
by the Rules Committee by
Request of the Governor

Heard January 31, 1989

Committee Substitute adopted January 31, 1989

Passed Out of Committee January 31, 1989
4 Do Pass
2 No Recommendation

TABLE OF CONTENTS

HB 69: Permanent Fund Investments

- Item 1: HB 69 by the Rules Committee by
Request of the Governor

CS HB 69
- Item 2: Governor's Transmittal Letter
- Item 3: Fiscal Note
- Item 4: Dr. Gary Anders Testimony from the
Permanent Fund Forum, January 28, 1989
- Item 5: "Investing in International Markets"
Graphs Prepared by the
Permanent Fund Corporation

HOUSE COMMITTEE REPORT

(5)

Date Referred: January 9, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: _____

The STATE AFFAIRS Committee recommends that:

HOUSE BILL NO. 69 [PERMANENT FUND INVESTMENTS]
"An Act relating to purchase of international investments for the Alaska permanent fund."

be replaced with LS HB 69 (SA) the same title
 a new title

have attached amendment(s)

- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- fiscal impact
- zero fiscal note
- zero with analysis

APPROVES PREVIOUS:

- fiscal note(s) published:
1/9/89 Perm Fund Corp
- zero fiscal notes(s) published:

SIGNING DO PASS:

Debra Nalley
Jim Swadlow
Richard P. Meehan
W.C. Tomlin

SIGNING OTHER THAN DO PASS:
(Do Not Pass, No Recommendation, Amend)

Debra Nalley (NO REC)
Carl J. J. (no rec)

W.C. Tomlin
 Chairman's signature

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 69

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to purchase of international invest-
7 ments for the Alaska permanent fund." }

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

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

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

13 * Sec. 2. AS 37.13.120(g)(9) is amended to read:

14 (9) short-term

15 (A) domestic corporate promissory notes of the highest
16 ratings assigned by a nationally recognized rating service, or

17 (B) non-domestic corporate promissory notes of compa-
18 parable quality, the interest on which may be payable in either
19 United States dollars or non-domestic currencies;

20 * Sec. 3. AS 37.13.120(g)(19) is amended to read:

21 (19) certificates of deposit, term deposits, or bankers'
22 acceptances, that are issued by a United States or non-domestic bank
23 or trust company located outside of the United States [IN A FOREIGN
24 COUNTRY] and are denominated in United States or non-domestic curren-
25 cy, if either (A) they may be readily sold in a secondary market at
26 prices reflecting fair value, or (B) the issuing bank or trust company
27 has capital, [AND] surplus, and retained earnings at the date of issue
28 equaling at least \$500,000,000; investments made under this paragraph
29 are not subject to the collateral requirements for domestic

1 certificates under (m) of this section;

2 * Sec. 4. AS 37.13.120(g) is amended by adding new paragraphs to read:

3 (21) securities of non-domestic governments and non-domestic
4 government agencies, the principal of, or interest on, which is pay-
5 able in either United States dollars or non-domestic currencies;

6 (22) securities of non-domestic corporations, including
7 common and preferred stock, whose dividends, if any, may be payable in
8 either United States dollars or non-domestic currencies.

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

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

14 * Sec. 6. AS 37.13.120(i) is amended to read:

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

- 1 (1) mortgages under (g)(16) of this section -- 15 percent;
2 (2) real estate investments under (g)(20) of this section --
3 15 percent;
4 (3) certificates of deposit, term deposits, or bankers'
5 acceptances under (g)(19) of this section -- 20 percent;
6 (4) securities of non-domestic governments, non-domestic
7 government agencies, and non-domestic corporations under (g)(8), (21),
8 and (22) of this section, domestic corporate stocks and debt secur-
9 ities under (g)(8) and (18) of this section, and short-term non-
10 domestic corporate promissory notes under (g)(9)(B) of this section --
11 50 percent.

14420111-2270041. WACC - Telleclaw

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 69 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to investments for the Alaska perma-
7 nent fund; and providing for an effective date."

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

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

10 (8) domestic corporate debt securities that are rated AA or
11 better by a nationally recognized rating service, or nondomestic
12 corporate debt securities of comparable quality;

13 * Sec. 2. AS 37.13.120(g)(9) is amended to read:

14 (9) short-term

15 (A) domestic corporate promissory notes of the highest
16 ratings assigned by a nationally recognized rating service, or

17 (B) nondomestic corporate promissory notes of compara-
18 ble quality, the interest on which may be payable in either
19 United States dollars or nondomestic currencies;

20 * Sec. 3. AS 37.13.120(g)(19) is amended to read:

21 (19) certificates of deposit, term deposits, or bankers'
22 acceptances, that are issued by a United States or nondomestic bank or
23 trust company located outside of the United States [IN A FOREIGN
24 COUNTRY] and are denominated in United States or nondomestic currency,
25 if either (A) they may be readily sold in a secondary market at prices
26 reflecting fair value, or (B) the issuing bank or trust company has
27 capital, [AND] surplus, and retained earnings at the date of issue
28 equaling at least \$500,000,000; investments made under this paragraph
29 are not subject to the collateral requirements for domestic

1 certificates under (m) of this section;

2 * Sec. 4. AS 37.13.120(g) is amended by adding new paragraphs to read:

3 (21) securities of non-domestic governments and non-domestic
4 government agencies, the principal of, or interest on, which is pay-
5 able in either United States dollars or non-domestic currencies;

6 (22) securities of non-domestic corporations, including
7 common and preferred stock, whose dividends, if any, may be payable in
8 either United States dollars or non-domestic currencies.

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

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

14 * Sec. 6. AS 37.13.120(i) is amended to read:

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

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

2 (2) real estate investments under (g)(20) of this section -
3 15 percent;

4 (3) certificates of deposit, term deposits, or bankers'
5 acceptances under (g)(19) of this section - 20 percent;

6 (4) securities of nondomestic governments, nondomestic
7 government agencies, and nondomestic corporations under (g)(8), (21),
8 and (22) of this section domestic corporate stocks and debt securi-
9 ties under (g)(8) and (18) of this section, and short-term nondomestic
10 corporate promissory notes under (g)(9)(B) of this section - 50 per-
11 cent.

12 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 9, 1989

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

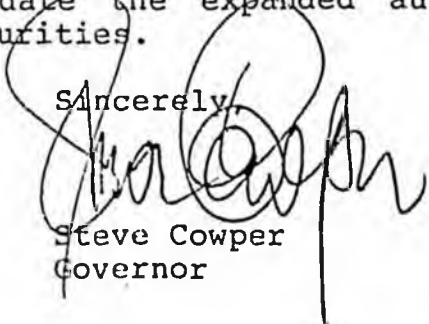
Dear Representative Cotten:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the purchase of international investments for the permanent fund by the board of trustees of the Alaska Permanent Fund Corporation. The bill specifically permits the purchase of non-domestic equity and debt securities by the board.

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

The bill allows the returns on the non-domestic securities to be denominated in either U.S. or non-domestic currency, and changes the various percentages allowed for categories of investments to accommodate the expanded authority to invest in international securities.

Sincerely,



Steve Cowper
Governor

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to purchase of international investments by PFC
 Sponsor: Rules
 Requestor: Governor

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	35.0	500.0	500.0	500.0	500.0	500.0
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LAND & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	35.0	500.0	500.0	500.0	500.0	500.0

CAPITAL	-	-	-	-	-	-
---------	---	---	---	---	---	---

REVENUE	-	-	-	-	-	-
---------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

FY 89: Contractual services for manager search.

FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation

Phone: 465-2047

Division: _____

Date: December 14, 1988

Approved by Commissioner: David A. Rose, Executive Director

Date: December 14, 1988

Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):

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

Alaska State Legislature, House Committee on State Affairs

Prepared remarks of Gary C. Anders, Associate Professor
of Economics, University of Alaska Southeast

Politically Financing Alaska's Development
Through the Permanent Fund

Representative Boucher, and Senator Pourchot

Thank you for inviting me to provide testimony today. In the interests of time I will keep my remarks brief.

My understanding of the issue before us is whether or not it is a good idea to make changes in the current use of Alaska's Permanent Fund, and specifically if a portion of the Earnings Reserve Account should be utilized to support the state government's operating budget.

I do believe that there are good reasons for making some changes in the management and composition of the Permanent Fund for the sake of long-term security and growth, but I am strongly opposed to tapping either the inflation proofing or the earnings reserve account to support the short fall in state revenues, or to provide endowments for pet programs.

First, I will explain my rationale for keeping the Permanent Fund in tact, then I will suggest some policy changes as they will relate to need to change the law allowing for a portion of the Permanent Fund to be placed in international investments.

We will be increasingly subjected to a strong appeal from various special interests and members of the legislature to tap the Permanent Fund because of the reduction in oil revenues, and the impending deficit. A great deal of attention needs to be focused on this issue, because the people of Alaska have not yet determined what they want or can realistically expect from the state. Our proven experience over the last few years is that wants exceed needs and both exceed existing resources--even in flush times.

Our greatest weakness is that we have not forced the political process to exercise its mandated leadership responsibility to prioritizing the delivery of services and establish viable levels of government.

Government services are necessary and while Alaska is a big state requiring high levels of government involvement in education, health and social services, environmental conservation, natural resources, fish and game, and so on we must, however, realize that there has been no objective determination of what the optimal levels of employment and service delivery should be. Government does not create wealth, and in terms of economic policy, sustaining government spending from the Permanent Fund is an inefficient form of fiscal policy to counter economic cycles.

The easy way out is to tap additional monies to serve us at the current levels. The appeal is strong for we are told that cuts in state government will increase unemployment, and further weaken the economy. Yet, we are in this situation today because we did not apply economic common sense in the first place. I think we will be far better off if we address the issue of supportable government now. This means that we reduce unnecessary and low priority programs and personnel, cut spending, bring our projected cost of state government down, and reinstitute state income taxes.

If our concern is to keep as many people in the state as possible then even bolstering state spending is not an optimal way of achieving this end, because administrative costs and bureaucratic drains reduce the employment multipliers which increase the demand for service sector jobs. There are teachers in our state making over \$80,000 per year, and state and municipal employees making over \$100,000 whose secondary form of employment in the private sector would be far lower. Certainly some kind of economic realignment needs to occur. The opportunity cost of the Permanent Fund earnings is too large a cost to disregard, and the precedent we would be setting would in a short time undermine the long-term vision of the fund.

In reading over the Trustees Papers I see that a number of distinguished economists such as Kenneth Arrow, Malcom Gillis, Maxwell Fry have provided advice to the state regarding the inadvisability of subsidizing development. Their counsel, which is based upon extensive experience in many underdeveloped countries, should have particular bearing upon us. The acid logic of these economists is that we should invest in only those projects that will be viable and self supporting, but if they are economically viable why can't these projects attract private financing in the first place.

An analysis of the political decision-making process reaffirms the suspicion that our legislature is unable to provide economic rationality to allocations of public resources unless they have a strong motivation. Instead, because needs and wants are greater than existing funds the compromise process results in not completely funding worthwhile programs. Because of political considerations funding levels will be adjusted and spread out over competing regions, agencies, and programs. In other words, the tendency is to misallocate by giving the deserving economically sound ones too little money, and others too much. Government does need to provide social services and infrastructure to support economic development projects such as highways, ports, and transportation systems, but can you guarantee that our political system will insure that Permanent Fund dollars will be invested in capital projects where they will foster economic growth. We can't afford any more performing arts Taj Mahals.

These spend now/pay later policies suffer from, in my opinion, a lack of appreciation for the fundamentals. We can see it at the national level in even greater terms. The U.S. has been turned into the largest debtor nation because we have not been willing to adjust spending levels or raise taxes. The consequences are likely to be far ranging in magnitude and duration.

This brings me to my second point which is that we should seriously entertain revisions in the law that will allow adding foreign investments to the Permanent Fund portfolio. As you know both the trade and budgetary deficits of the U.S. are reaching staggering proportions. While there may be some economic miracle that the President and Congress can pull together that will alleviate the immediate crisis, rising interest rates and inflation are becoming more threatening.

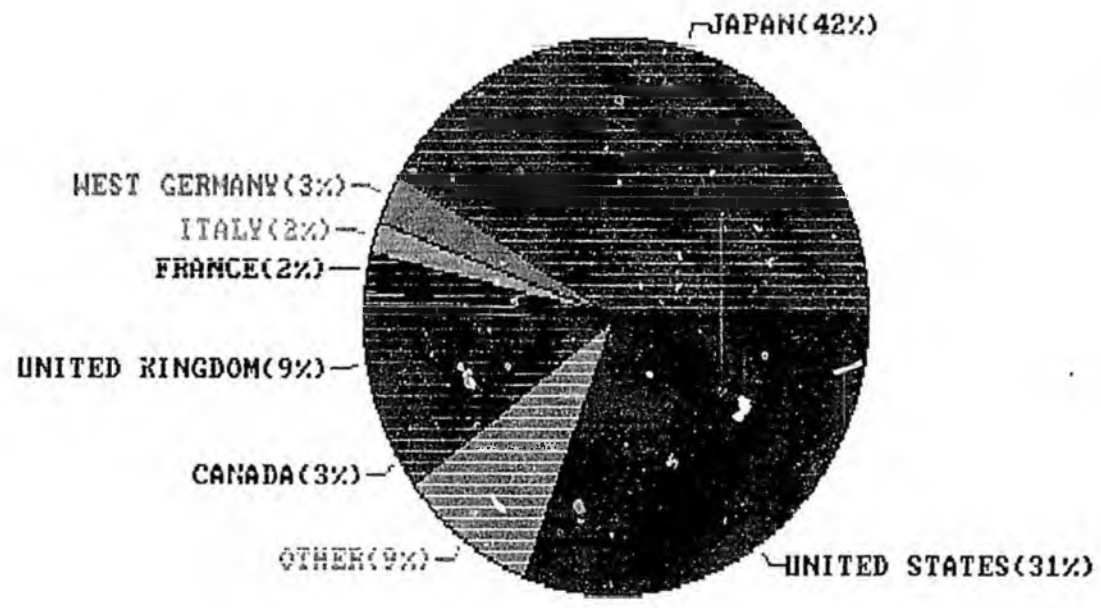
Alaska's Permanent Fund managers are to be commended for the excellent job that they have done in times of great financial uncertainty. Their conservative approach has carefully balanced risk and return far better than any similar sized fund. But currently about 83% of the fund's assets are invested in fixed income securities, 12% in stocks which is divided into a passive account managed by Bankers Trust and active portfolio placed with a number of asset managers, and finally about 5% which is invested in real estate and other properties.

When the inflationary pressures building in the American economy are eventually vented, we do not have an adequate hedge to insure the corpus of the fund. Even if the stock and real estate components of Permanent Fund are increased it is still conceivable that inflation may be at such a high rate that the earnings may not be sufficient to provide the necessary annual adjustments to bring the fund up in real terms.

Given the prospect of rising interest rates and a depreciating dollar it would be prudent to change the law to allow for a portion of the Permanent Fund to be invested in overseas markets. This would do several things. First, in the event of an increase in inflation in the U.S., and a further devaluation of the dollar, investments in secure foreign investments would provide a hedge against the principal. Second, since many of these equities markets are more vibrant than our own domestic markets, the potential rates of return for comparable risk are likely to be several percentage points higher. Finally, in light of our Pacific and East Asian orientation, financial investments of Alaska's capital might serve as useful leverage for increasing investment and operations of Asian firms in the state's economy.

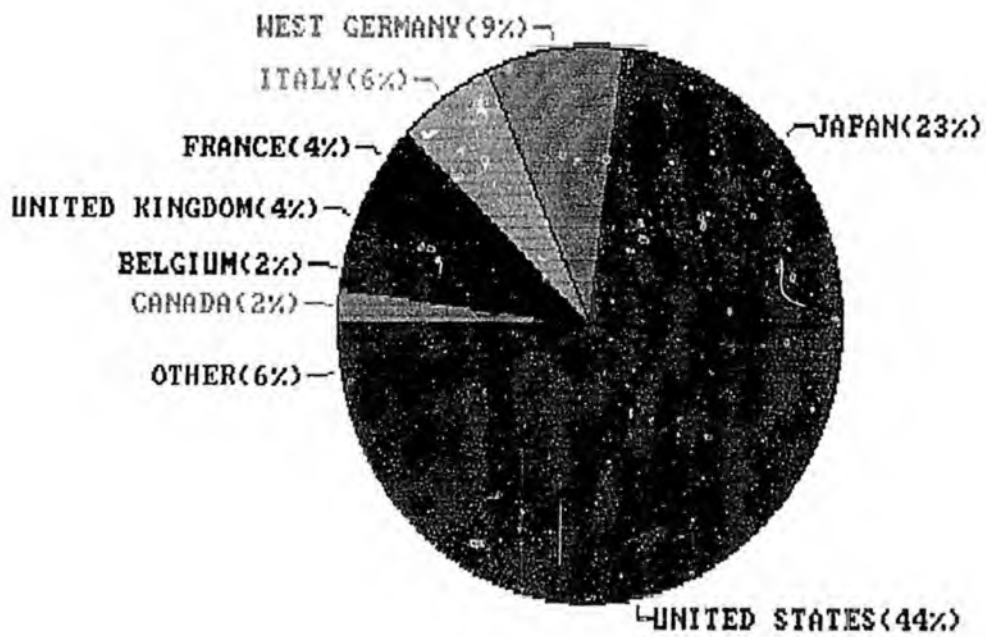
This ends my prepared comments. I want to thank you again for including me in these important hearings.

INVESTING IN INTERNATIONAL MARKETS



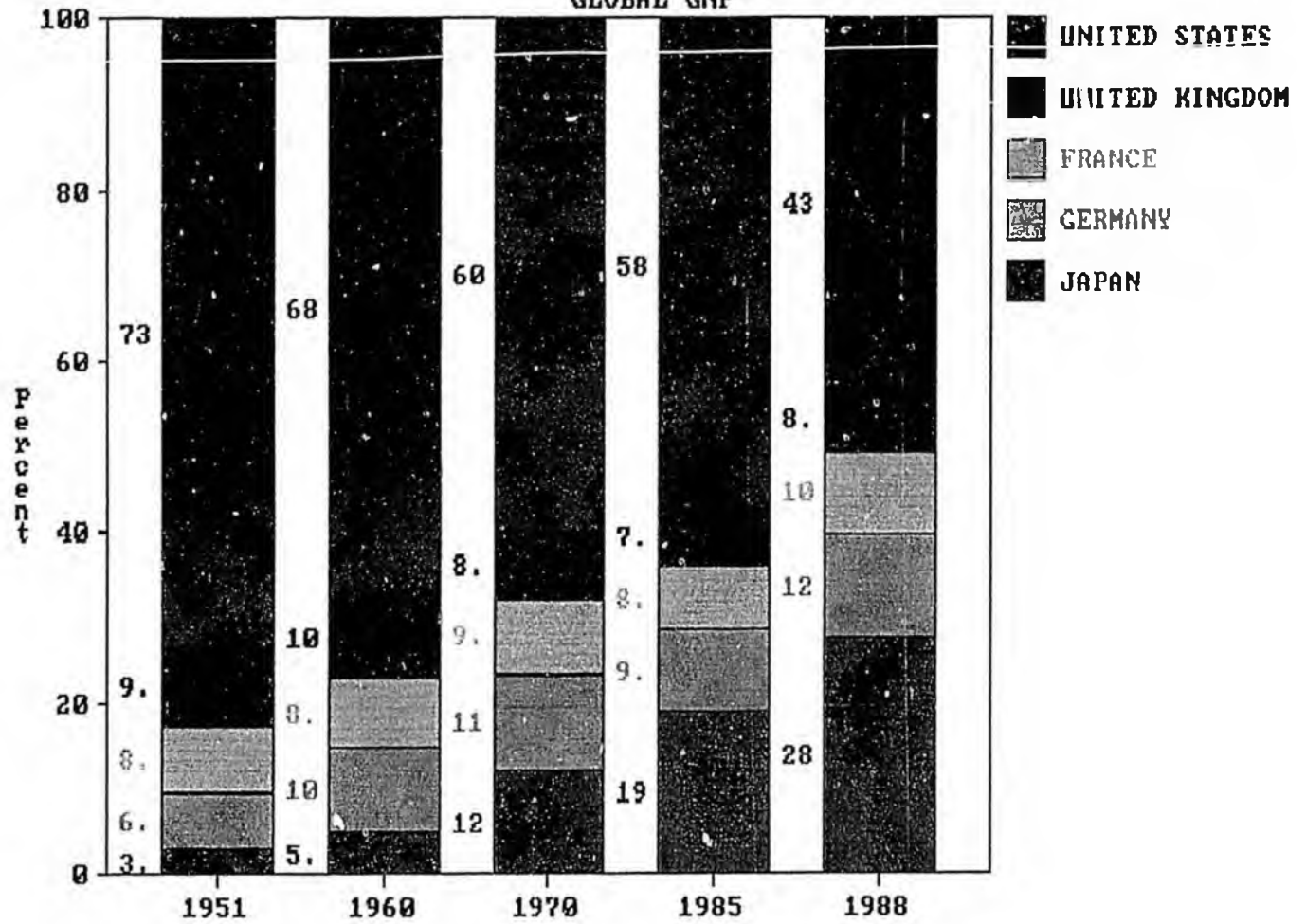
EQUITIES - 57.1 TRILLION 1987

INVESTING IN INTERNATIONAL MARKETS

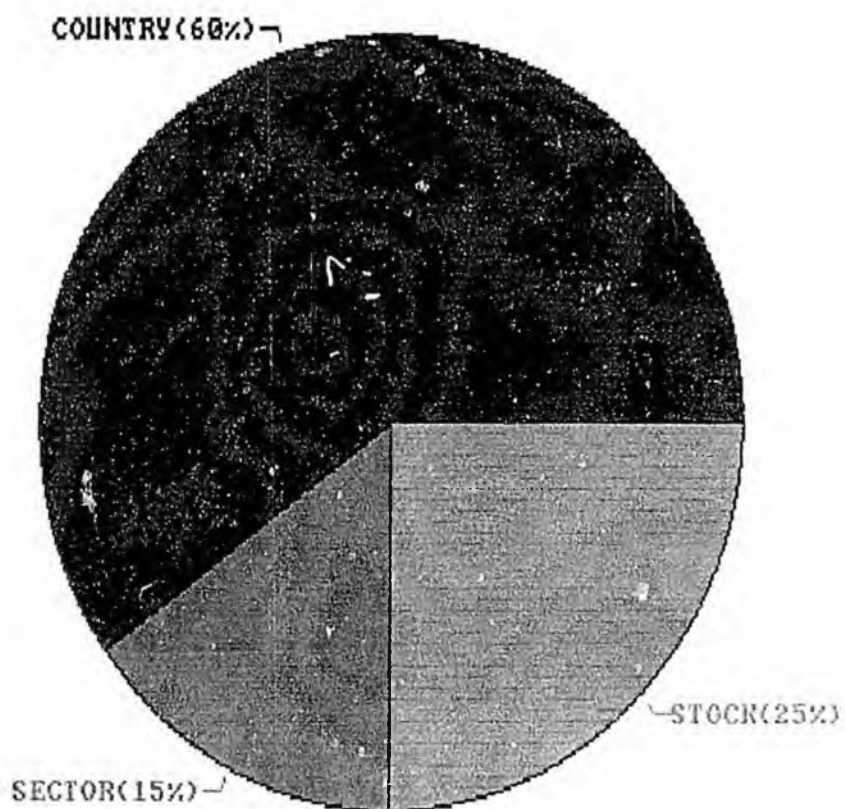


BONDS - 59.4 TRILLION 1987

GLOBAL GNP












INTERNATIONAL INVESTING
RETURN ATTRIBUTION *




* Results of a cross-sectional regression analysis study of 200 randomly created international equity portfolios of 50 stocks each.

TOTAL ANNUAL RETURN (U.S. DOLLARS)

	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<u>S&P 500</u>
1977	25.8	28.7	58.0	11.9		15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.8	18.5	53.3	45.1	20.4	
1979		12.1	22.1	43.6	83.5	11.9	28.5	51.8	18.5
1980		(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)		(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)		(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0		24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1		(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9		16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2		18.2
1987		(10.7)	31.6	6.7	(7.2)	42.4	0.8	11.6	5.2
1988	20.6		6.0	36.4	28.1	35.4	33.3	17.1	14.6

 BEST PERFORMER

 WORST PERFORMER

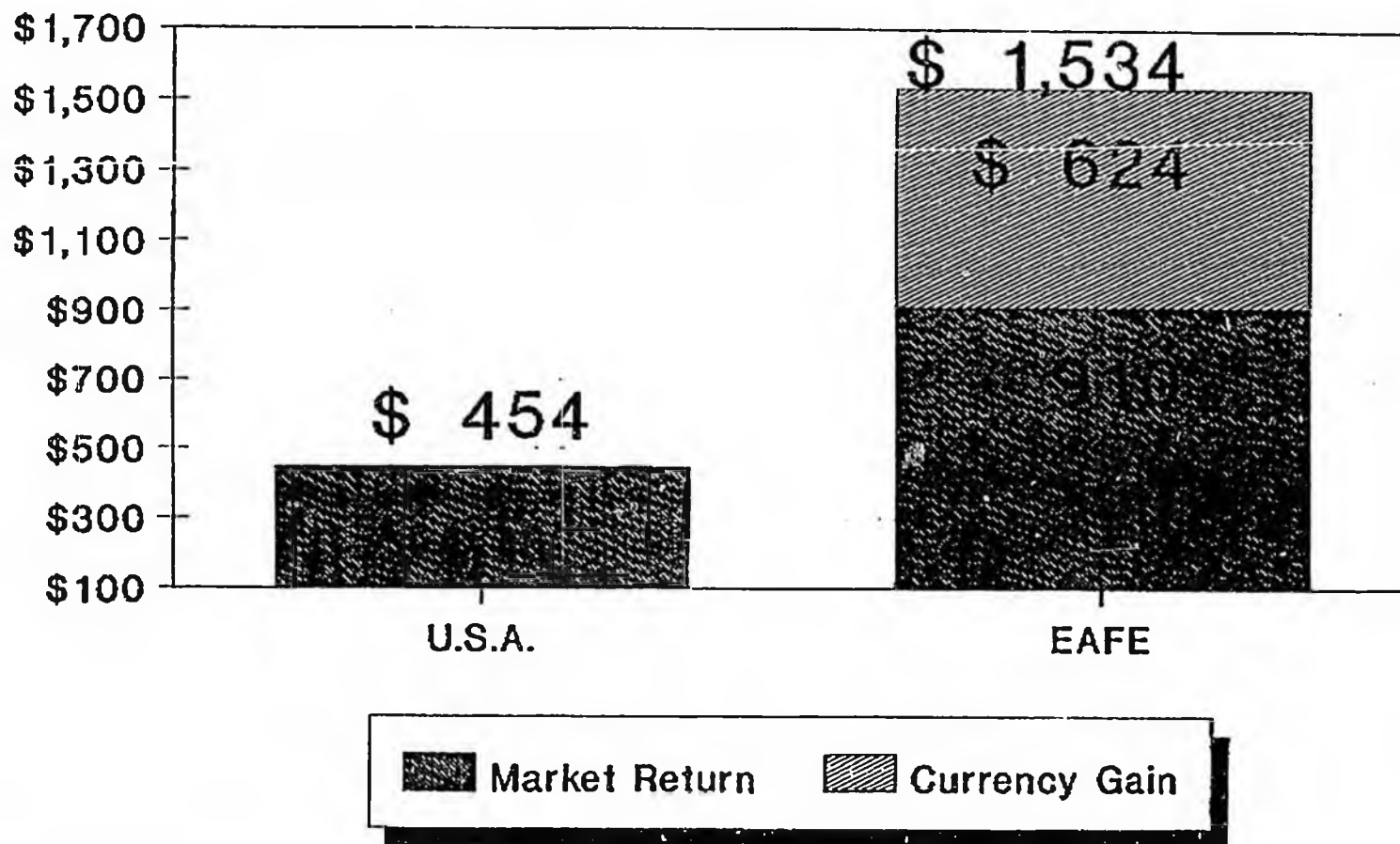
Largest Five Companies by Industry

	<u>Sales (\$MM)</u>		<u>Sales (\$MM)</u>
Automotive		Electrical Equipment	
General Motors	102	<u>Hitachi</u>	40
Ford	72	General Electric	39
<u>Toyota</u>	55	<u>Siemens</u>	33
<u>Daimler-Benz</u>	42	<u>Toshiba</u>	27
<u>Nissan</u>	35	<u>CGE</u>	24
Banking (Based on Assets)		Food & Household	
<u>Dai-ichi</u>	298	<u>Unilever</u>	31
<u>Sumitomo</u>	276	<u>Nestle</u>	28
<u>Fuji</u>	268	Procter & Gamble	17
<u>Mitsubishi</u>	242	Kraft	10
<u>Sanwa</u>	240	<u>Dalgerty</u>	9
Chemicals		Steel	
El duPont	31	<u>Nippon</u>	19
<u>BASF Group</u>	26	<u>Thyssen</u>	17
<u>Bayer Group</u>	24	USX	15
<u>Imperial Chemical</u>	20	<u>Nippon Kokan</u>	10
<u>Dow Chemical</u>	13	<u>Kobe</u>	9

Source: MSCI

WORLD EQUITY RETURNS

\$100 invested from 1970 through 1988



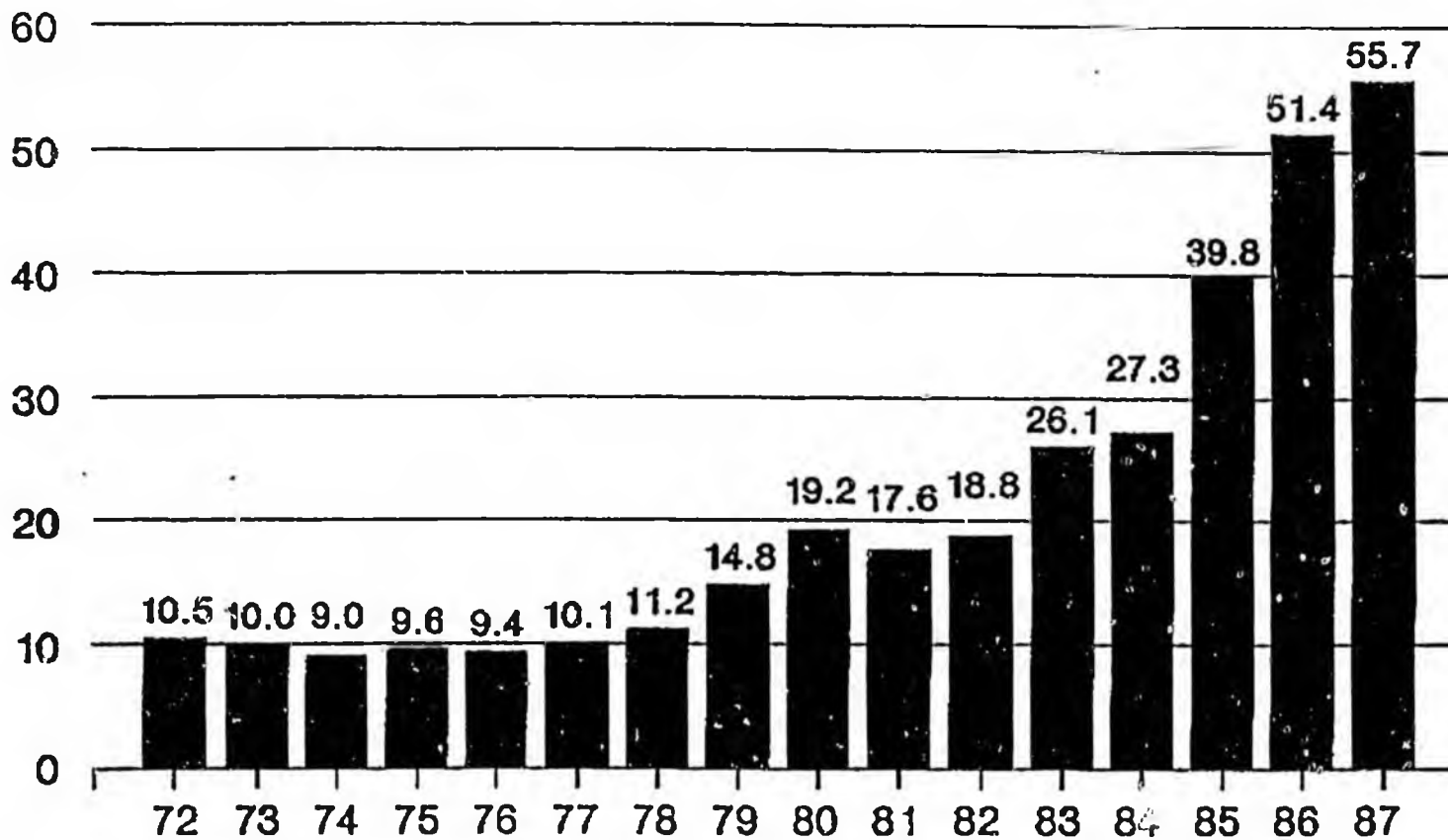
As of 1/1/89 with dividends reinvested

Source: MSCI

U.S. Holdings of Foreign Stock

1972 - 1987
(Year End Data)

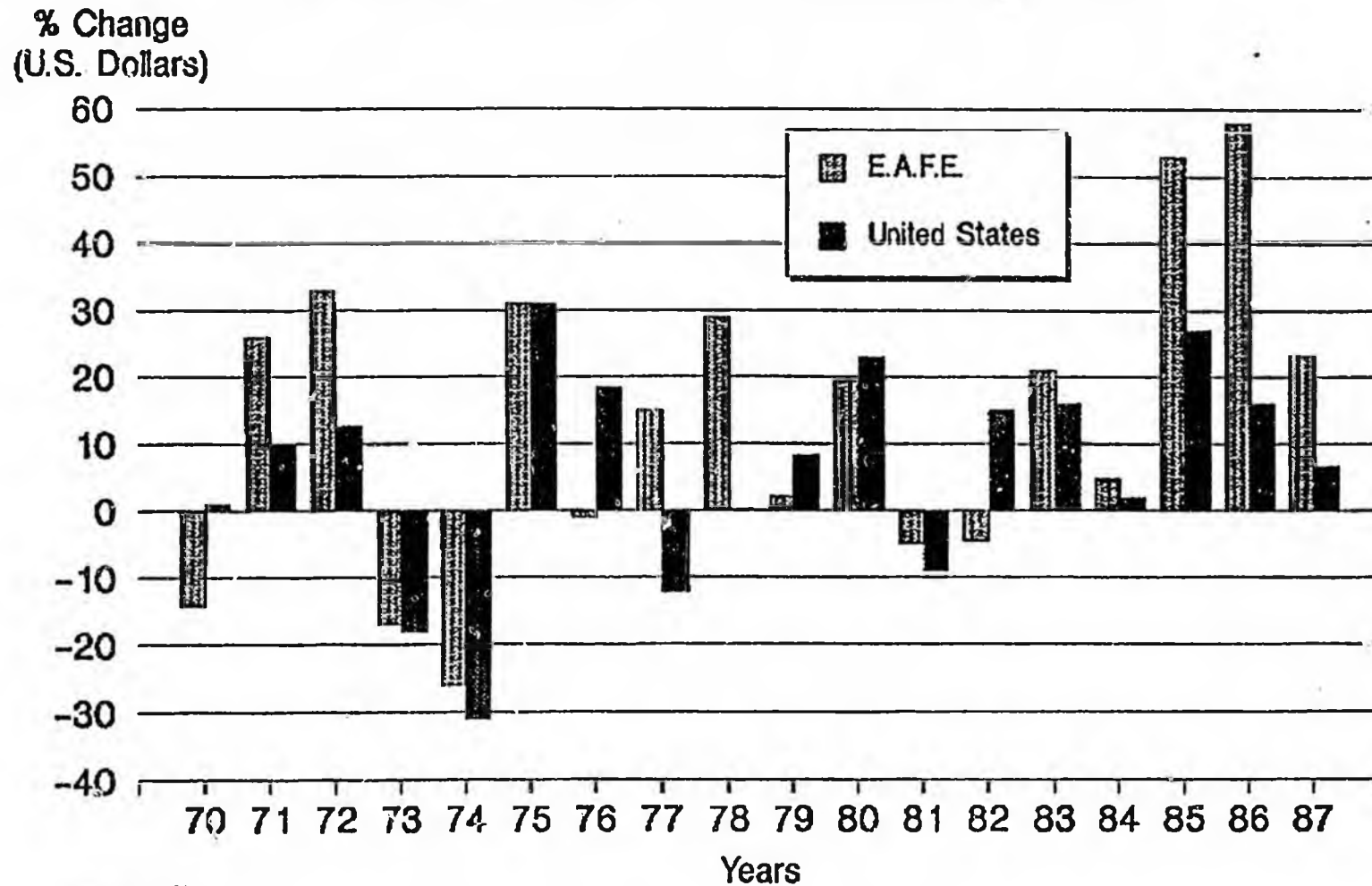
U.S. Holdings
(\$ Billions)



Source: Commerce Dept., Bureau of Economic Analysis

E.A.F.E. vs. United States

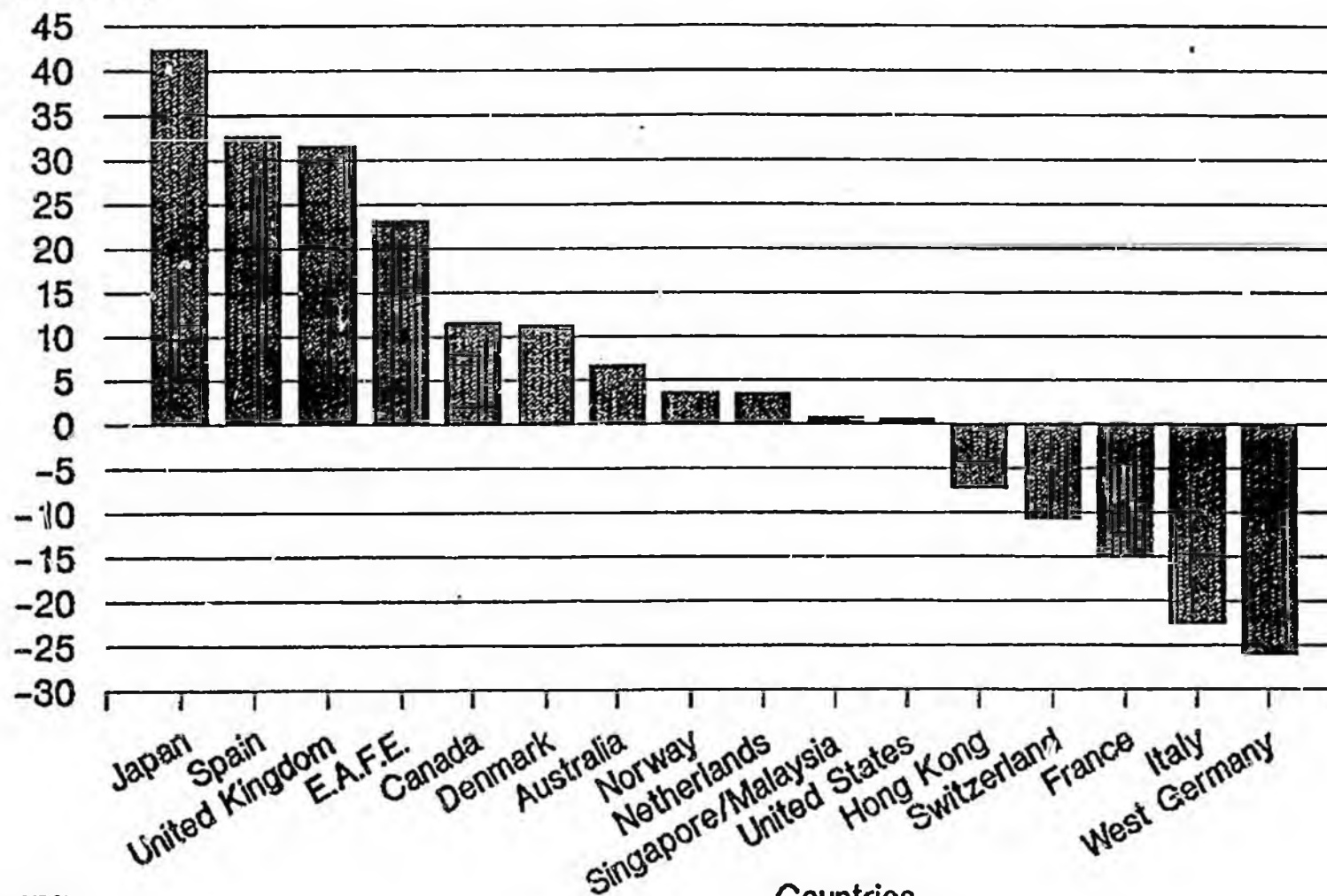
Yearly Percentage Change
January 1, 1970 to December 31, 1987



Source: MSCI

1987 World Equity Market Performance

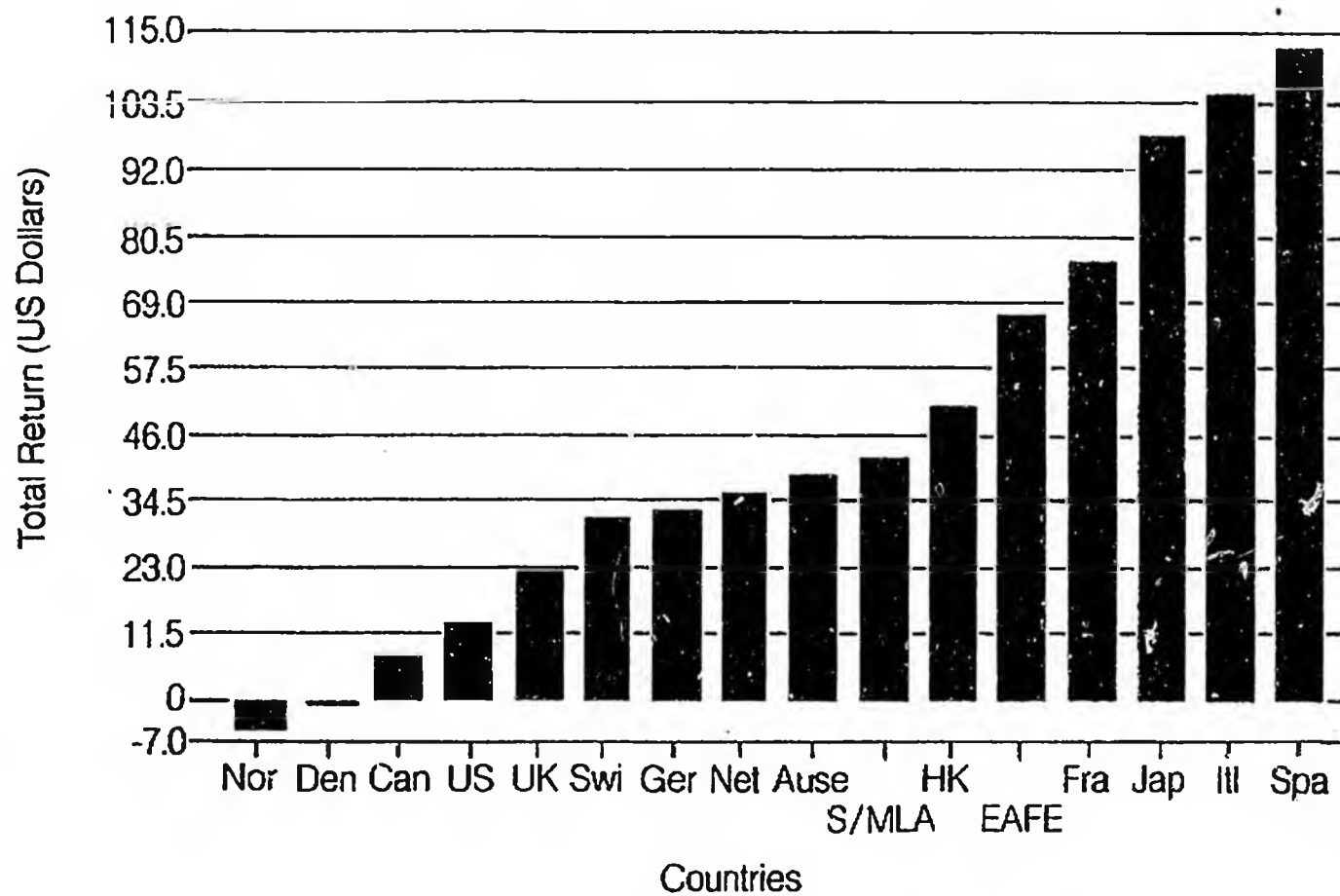
Total Return
(U.S. Dollars)



Source: MSCI

Countries

1986 World Equity Market Performance

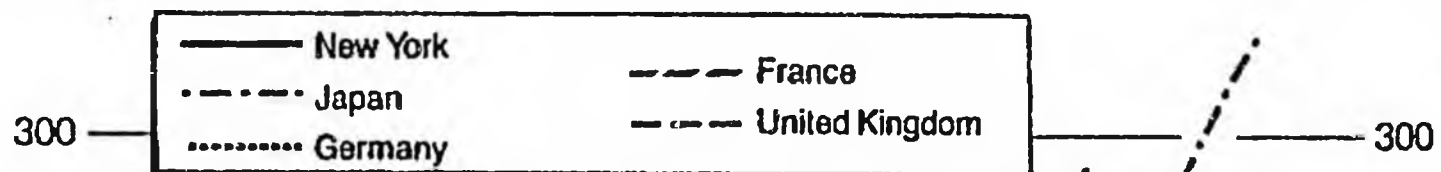


World Stock Markets

January 1975-January 1986

Zerobased
Price

400% 400%



1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Morgan Stanley Capital International Country Indices

Historical Total Returns of Government Bonds in U.S. Dollars
(in percent)

Country	1978***	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1978- 1988**	Annualized 1978- 1988**	Standard Deviation of Annual Returns
Australia*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-12.36	17.61	28.69	30.36	72.90	14.67	17.13
Canada	-2.38	-0.63	1.70	-2.41	35.73	9.57	8.80	17.51	17.16	8.57	20.01	179.45	10.92	11.13
France	31.90	0.15	-8.07	-16.07	1.88	-2.81	1.60	52.70	33.93	25.43	3.75	172.84	10.65	20.31
Germany	15.51	7.40	-10.58	-8.42	14.09	-8.06	-1.03	43.36	38.72	28.67	-6.30	152.89	9.81	18.62
Netherlands	7.69	16.24	-5.76	-8.55	15.85	-8.61	-2.61	42.66	36.14	32.01	-6.10	167.82	10.44	18.25
Switzerland	32.19	-0.59	-9.63	-1.65	1.18	-4.82	-14.66	34.36	35.16	32.60	-12.49	102.26	7.36	19.64
United Kingdom	3.83	12.40	28.88	-19.00	26.51	1.04	-13.11	40.59	15.28	47.52	2.96	233.10	12.90	20.06
United States	0.51	1.90	-0.79	3.86	31.33	4.06	14.29	28.48	21.03	-1.37	8.16	173.37	10.67	11.34
Japan	32.70	-21.46	22.88	5.50	3.28	12.55	2.69	37.31	43.57	39.87	4.24	363.49	16.72	19.33
Non-U.S.*	18.74	-4.98	13.68	-4.61	11.88	4.32	-1.96	37.15	33.92	36.17	2.95	260.43	13.80	15.45
World*	9.74	-1.74	7.82	-1.04	20.24	5.73	5.70	32.21	26.47	15.53	5.88	216.27	12.31	10.42

Source: Datastream

* Australian cumulative returns are for 1984 - 1988. World and Non-U.S. returns are weighted by market capitalizations.

** Numbers are calculated from January 1978 - December 1988.

*** 1978 total returns are calculated from January - December 1978, i.e., 11 months. The reported number is not annualized.

HB 69

NOTES

* DIVERSIFY HOLDINGS IN INTERNAL ARENA *

PTS

- 1) CAUTIOUS APPROACH
- 2) DIVERSIFICATION
WIDER DIVERSE - SPECIFIC PROTECTION
- 3) FOREIGN MARKETS, PRODUCE > RETURNS
HOWEVER, LOOKING FOR DIVERSIFICATION
- 4) ENTRY OF PF INTO "F" MARKETS
BUSINESS CONTACTS / FINANCIAL LEADERS
PACIFIC RIM -

INSERTION OF IMMEDIATE ASSOCIATIVE DATA

HAULEY

COMPETITION? DIVERSIFICATION PROTECTS PRINCIPAL
WHICH FILLS THEIR GOALS -

SPOLSKO

PRUDENT MAN RULE - INVESTMENTS NOT
MADE IN COUNTRIES WHERE FUNDS WERE FOUNDED -
S.A. C.G.

MACLEAN

20 ↓ 2-3-4 ?

NOT TIME TO ENTER BECAUSE \downarrow WORLD
MARKETS

-> MANAGEMENT FEES

TRS + PERS INVEST > FEES

-> SAFEST PERFORMANCE > SPECTRUM OF RISK

L>

MACLEAN

CELLING LIMIT ON INVESTMENTS? TOTAL INVESTMENT?

DUCKAGE IS 50% STOCK - 1.0% WITHIN

50% RULE ->