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SENATE COMMITTEE REPORT

FURTHER

2/14/89

DATE TURNED INTO OFFICE

2/16/89

Mr. President:

Finance

Committee considered

SB 27

purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund and recommended

- [x] replace with CS AB 27 (SA)
[] or adopt CS
[] attached amendment(s) and
[] letter of intent adopted
[] same title
[x] new title
[] technical title change (HB only)

[x] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to

- FISCAL NOTE(S) [] zero [x] fiscal impact [] appropriation no FN
[] new [] updated [x] previous DOR (500.0 page note)
[] same as previous fiscal note(s) published

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Handwritten signatures of committee members: Jim Duncan, Stuart Frank, Gene Pearce, Paul Kelly.

Handwritten recommendation: Paul Frank No Rec Fisher

Handwritten signature of Paul Kelly with 'DO PASS' written above it.

Chairman signature and recommendation

[] Committee Backup attached

Handwritten signature 'Binkley' with 'Do PASS' written next to it.

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to purchase of international investments by PFC.
 Sponsor: Senator Sturgulewski
 Requestor: Senator Sturgulewski

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 and associated costs.
 FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047
 Division: _____ Date: February 13, 1989

Approved by Commissioner: David A. Rose, Executive Director Date: February 13, 1989
 Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):

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

Original sponsors: Sturgulewski, Kelly,
Uehling, et al.

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE
2 CS FOR SENATE BILL NO. 27 (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 purchase of international invest-
7 ments by the Alaska permanent fund; and changing
8 certain requirements related to the purchase of
9 domestic investments by the Alaska permanent fund;
10 and providing for an effective date."

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

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

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

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

17 (9) short-term

18 (A) domestic corporate promissory notes of the highest
19 ratings assigned by a nationally recognized rating service; or

20 (B) nondomestic corporate promissory notes of com-
21 parable quality, the interest on which may be payable in either
22 United States dollars or nondomestic currencies;

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

24 (19) certificates of deposit, term deposits, or bankers'
25 acceptances that [, WHICH] are issued by a United States or nondomes-
26 tic bank or trust company located outside of the United States [IN A
27 FOREIGN COUNTRY] and are denominated in United States or nondomestic
28 currency, if either (A) they may be readily sold in a secondary market
29 at prices reflecting fair value, or (B) the issuing bank or trust

1 company has capital, [AND] surplus, and retained earnings at the date
2 of issue equaling at least \$500,000,000; investments made under this
3 paragraph are not subject to the collateral requirements for domestic
4 certificates under (m) of this section;

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

6 (21) securities of nondomestic governments and nondomestic
7 government agencies, the principal of, or interest on, which is pay-
8 able in either United States dollars or nondomestic currencies;

9 (22) securities of nondomestic corporations, including
10 common and preferred stock, whose dividends, if any, may be payable in
11 either United States dollars or nondomestic currencies.

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

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

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

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

1 each investment the aggregate investment of the fund in each stated
2 category of investment may not exceed the following state percentage
3 of the total investments of the fund:

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

5 (2) real estate investments under (g)(20) of this section -
6 15 percent;

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

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

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

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 9, 1989

SUBJECT: Investments by the Permanent Fund (SB 27)
TO: . Senator Arliss Sturgulewski
FROM: Tamara Brandt Cook *TBC*
Director
Division of Legal Services

You have requested a sectional analysis of SB 27 dealing with investments of the permanent fund.

Sections 1 - 4 make changes to AS 37.13.120(g) which lists investments that the Alaska Permanent Fund Corporation may make.

Section 1. Permits investments in nondomestic corporate debt securities of a quality comparable to a rating of AA or better.

Section 2. Permits investments in short-term nondomestic corporate promissory notes, the interest on which may be payable in U.S. or other currencies.

Section 3. Permits investments in certificates of deposit, term deposits, or banker' acceptances issued by a nondomestic bank or trust company in certain instances. Allows retained earnings to be considered in determining whether these types of investments may be made with respect to a particular issuing bank or trust company.

Section 4. Permits investments in securities of nondomestic governments and in securities of nondomestic corporations.

Section 5. Allows the board to enter into future contracts for the sale of nondomestic currencies.

Section 6. Sets out percentages of the total investments which each stated category of investments may not exceed.

TBC:gc
WKG5/059

SECTIONAL ANALYSIS

Alaska State Legislature



SENATOR
ARLISS STURGULEWSKI
Senate President Pro Tempore
Chairman, Senate Rules Committee

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

M E M O R A N D U M

February 10, 1989

TO: Senator Rick Uehling, Co-Chairman
Senate Finance Committee

FROM: Senator Arliss Sturgulewski, Chairman *AS*
Senate Rules Committee

RE: SB 27 "An Act relating to purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund."

This bill would allow the Permanent Fund Trustees to authorize purchase of international investments as part of the fund portfolio.

I would appreciate your consideration of this bill for a Senate Finance Committee hearing. Frank Homan on my staff will be able to provide the background information on SB 27.

Thank you.



Alaska Permanent Fund Corporation

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

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

January 6, 1989

The Honorable
Senator Arliss Sturgulewski
P. O. Box V
Room 427
Juneau, AK 99811

Dear Senator ~~Sturgulewski~~ *Arliss*:

Thank you for pre-filing SB 27, "An Act relating to purchase of international investments by the Alaska permanent fund; and changing certain requirements related to the purchase of domestic investments by the Alaska permanent fund." As you know, this bill is supported by formal action of the Board of Trustees.

There are two primary reasons why the trustees are seeking passage of this legislation:

- 1) Investing a small portion of the Permanent Fund in non-U.S. securities will provide increased diversification in both the equities and fixed-income portfolios. Modern portfolio theory clearly indicates that the chief benefit of increased diversification is decreased investment risk. The trustees view minimizing investment risk, within the context of trying to earn a long-term real rate of return of three percent per year, as a fiduciary imperative.
- 2) Extensive research indicates that non-U.S. investments have outperformed U.S. investments in most of the past 17 years. While there is no guarantee that future performance will mirror historical performance, certainly there is great potential for increasing Permanent Fund returns by investing a small portion of the Fund in non-U.S. stocks and bonds.

In addition to decreasing risk and quite possibly increasing return, international investing by the Permanent Fund will provide valuable contacts with major non-domestic financiers, bankers and business leaders. This international outreach reasonably can be

Sponsor's BACK-UP

The Honorable Senator Arliss Sturgulewski
January 6, 1989
Page 2

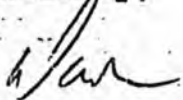
expected to enhance the State's efforts to boost Alaskan exports as well as in-state economic development.

Attached is a relatively-slim package of background material on the issue of international investing which you may find useful in upcoming legislative hearings. Corporation staff stands ready to provide whatever additional information you may desire or require.

As this bill, in substantially the same form, has been before the legislature in each of the last three sessions - and has met with very little opposition at any time - it is hoped that SB 27 will receive prompt attention and early passage in 1989.

Thanks again for your continuing interest and support for the Permanent Fund, and best wishes for a productive and harmonious session.

Sincerely,



David A. Rose
Executive Director

Attachment



ALASKA STATE CHAMBER OF COMMERCE

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

January 9, 1988

The Honorable Arliss Sturgulewski
Senate Rules Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Arliss:

Thank you for introducing SB 27 relating to international investment by the Alaska Permanent Fund.

We have reviewed the Bill and strongly support the legislation.

The Alaska State Chamber favors passage for the following reasons:

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

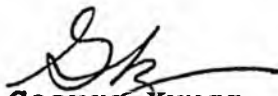
Arliss Sturgulewski
January 9, 1989
Page 2

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

The global outreach which will be facilitated by international investment is most timely in these difficult economic times for Alaska. We must do everything possible to expand our horizons and develop increased economic activity. Enactment and implementation of SB 27 will help us accomplish this.

We recommend its adoption.

Cordially,



George Krusz
President

GK:ly/102



Alaska Permanent Fund Corporation

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

PRESS RELEASE

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

DATE: March 17, 1988

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

COMMENTARY

BY

BYRON I. MALLOTT

CHAIRMAN, BOARD OF TRUSTEES

ALASKA PERMANENT FUND CORPORATION

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

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

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

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

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

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

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

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

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

Let's look at the facts:

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

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

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

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

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

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

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

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

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

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

BASICS OF GLOBAL INVESTING

A pioneer in finding worldwide bargains tells (1) how he reduces risk, (2) why he's a long-term optimist, and (3) what his eight investment principles are.

By John Templeton

PRUDENT INVESTORS HAVE NEVER PUT ALL their eggs in one basket. The difference now is that baskets are accessible all over the world, not only in an investor's own land. We can buy and sell stocks from various countries, traded on various stock exchanges.

Why is this important?

For one thing, it is only common sense that, if you search worldwide rather than in only one nation, you are likely to find more investment bargains and possibly better bargains.

Even more important, investing worldwide reduces the risk of investing. During one day or one month most of the world's markets may seem to go in the same direction. But, over any period of three or five years, there is obviously a wide disparity in the direction of markets in different countries.

Just as it would not be wise to invest in only one stock or in one industry, so it is not wise to invest in only one nation.

We're back to putting our eggs in more than one basket—also known as diversification.

Diversification is a basic investment principle for reducing risk. This applies to diversification among different stocks, different types of assets, different industries—and also among different nations.

Global investing and asset allocation by an experienced investment counselor provides the ultimate in risk reduction by diversification.

You may suspect me of writing this way because I happen to be an investment counselor—and one who has been sold on global investing for more years than most. Still, when I became an invest-

ment counselor close to half a century ago, I did not foresee the extraordinary events that now give me profound reason to expect a bright long-term future for global investing.

Before noting some of these events, let me acknowledge that this bright future depends on the increasing prosperity of the world. And my firm's studies indicate that the next 30 years are likely to witness a rising rate of progress in almost all areas of life. This future progress may be even more rapid in developing nations than in those nations already prosperous. We expect the standard of living worldwide to quadruple in the next 40 years.

To be sure, there are problems. Every person has problems. Every family and nation has problems. There have always been problems. I have never known how or when or whether each problem would be solved, and some never have been solved.

But to concentrate on the problems could make investors blind to the big picture. On a worldwide basis, there are now *fewer* problems than there were in any one of those almost 50 years since I became an investment counselor. It is hardly an exaggeration to say that, for every problem, the world has had more than ten blessings. Here are a few of them.

When I was born in Tennessee in 1912 the uniform wage of an unskilled man was 10 cents an hour. Now the average North American factory worker earns a hundred times that. Even after adjustment for inflation the increase is more than tenfold.

In my lifetime real consumption per person worldwide—that is, the standard of living in real goods—has more than quadrupled. It's the first time in history that such quadrupling has occurred

Sir John Templeton writes from an experience of close to five decades as an investment counselor, a pioneer in roaming the world for investing opportunities. The dozen mutual funds that bear his name manage \$9 billion for 600,000 shareholders. He is the founder of a business management school, Council Templeton College, at Oxford University. His Templeton Foundation Prizes for Progress in Religion honor people who are doing new and original thinking in religion. Sir John has said, "I regard spiritual progress as more important than progress in all other areas combined."

in the span of a single person's life. Also in my lifetime, to choose but one significant detail, the number of miles of paved highway in North America has increased more than a hundredfold. So has the number of people who own automobiles.

In 1912 North America had no color film...no refrigerators...no radios...no transcontinental telephones...no fluorescent lighting...no traffic lights...no talking pictures...no plastics...no man-made fibers....

Even after the great boom in 1929 there were still no airlines...no Xeroxes...no telefax...no sports broadcasts...no antibiotics...no herbicides...no nylon...no frozen foods...no television...no transistors...no lasers...no genetic engineering...no nuclear energy...no man-made satellites in space....

The people of the world now benefit from using more than a hundred times as much electricity as they did a century ago. Through scientific development enormous improvements have been made in the quality of vegetables and crops and also in the quantity produced on each acre of farmland.

Indeed, 50% of all discoveries in natural science have been made in this century. In North America alone more than \$160 billion was dedicated to research and development last year. That is more in one year than the total expended on scientific research in all the world's history before my lifetime.

Another reason I am optimistic about the future is the steady development in management skills and tools. When I was born there were only two graduate schools of business. Now there are some 600 in the US and about 800 worldwide.

Life expectancy has doubled in the past two centuries in North America and possibly also

worldwide. No longer is humanity terrorized by leprosy, small pox, or a number of other diseases once fatalistically accepted.

The number of people in the world who will enjoy the benefits of pensions when they retire is more than a hundred times what it was a century ago. In the past 20 years a smaller fraction of the world's people have died from starvation than in any previous 20-year period. One person starving is too many. But for the first time in world history there are more people suffering from eating too much than from eating too little.

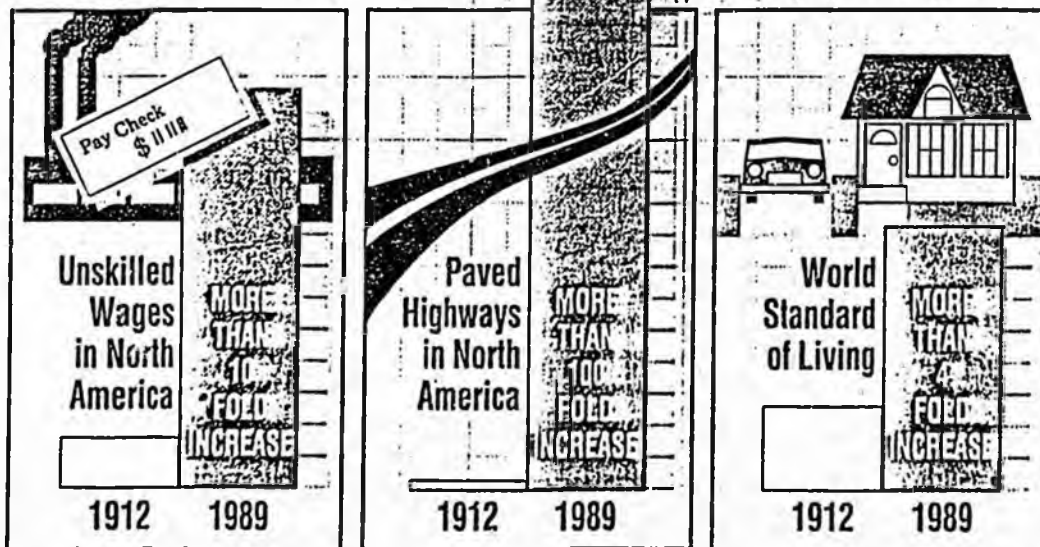
The list could go on. The point is that when I was born no one could imagine the variety of blessings that would come to the world in one lifetime. And now who can imagine the even greater new blessings that may be in store for our children and grandchildren?

It is in this context that I have high expectations for the future of investing in world markets.

Suppose that, as our studies tend to show, the standard of living in North America does quadruple again in 40 years. I hope nobody eats four times as much, but many will be having richness of life in travel, and luxury, and culture that they never dreamed of before—just as we now are enjoying things that our ancestors never dreamed of.

Also, we are likely to continue to have a bad thing: inflation. According to our studies, there probably is not going to be any year of deflation in the next decade. In North America there might be a year of 1% or 2% inflation, but there might also be some years when inflation gets temporarily

All in One Lifetime



For the first time in history the world standard of living has quadrupled in one person's lifetime—as the author notes, along with signs of progress in his own North America.

Graphic by Dave Herring

W

herever you look, an unusually large buying power is chasing a constantly shrinking supply of stocks. This may lead to higher prices in relation to earnings.

near 20%, as it did several years ago. If inflation goes up and down in cycles between 1% and 20%, it may average out to about 7% a year.

That's the same thing as saying that the cost of living will double every ten years—meaning that, in those 40 years while the *standard* of living is rising four times, the *cost* of living could be rising 16 times as high as now. So, in a country where this happens, the gross national product will have to be 64 times as high as it is now.

For the investor the meaning is this: If the gross national product goes up to 64 times where it is now, this rise will be reflected in higher sales volumes of corporations, higher profits, higher dividends—and quite possibly higher share prices.

It is not whistling in the dark to contemplate higher share prices while memories of the crash of October 1987 and the ensuing severe bear market are still fresh. For one of the few things I can assure is that every bear market is going to be followed by a bull market. In every bear market the wise thing for an investor to do is to get invested before the next great bull market gets going or gets very far up.

When will that be?

In my near half century of investment counsel-

ing I have never been able to predict when any bull market or bear market would start or stop. So I try to pursue a safer policy by buying in the latter half of a bear market, and that is what my company started doing on Oct. 20, 1987, after two months of a bear market so great that the amount of wealth that disappeared was 20 times as much as disappeared in the Crash of '29.

We were buying, because our studies indicated that the next bull market might be a big one. The previous bull market tripled the prices of stocks. Its successor might be bigger than that.

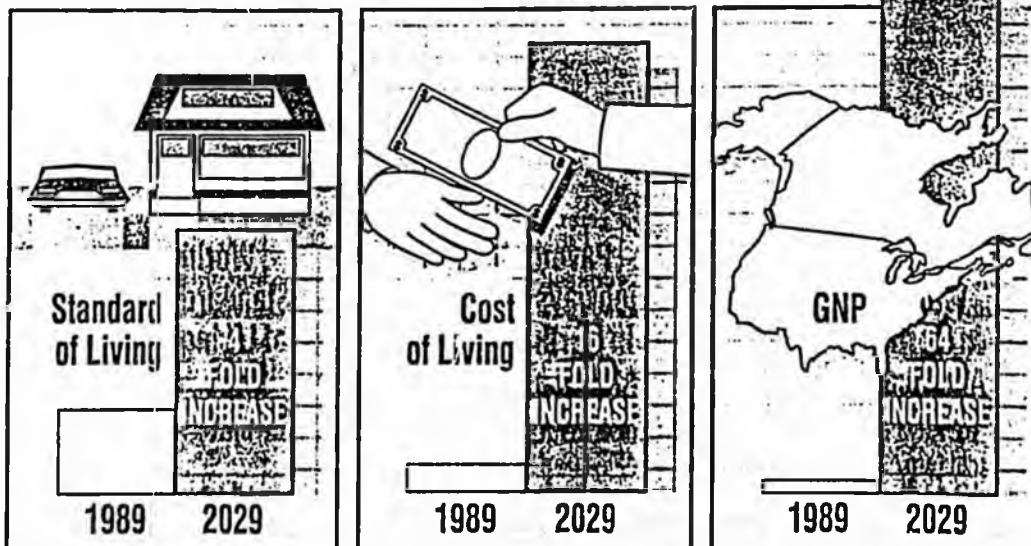
Why?

To speak only of the United States, our studies indicate that American earnings will rise by 40% in the next three years. Thus the new bull market could carry stock prices 40% higher than the last bull market did and still be no higher in relation to earnings.

There is another possible reason for shares to sell higher in relation to earnings: a shortage of shares to buy.

Throughout the history of major nations, every year has seen more shares outstanding than in earlier

If Present Trends Continue



Quadrupling North American standard of living and increasing cost of living by 16 times means GNP would be multiplied by 64. The result would be higher profits, higher dividends—and perhaps higher stock prices.

Graphic by Dave Herring

years, because underwriters kept issuing new shares. Until 1984. Then came the well-known rush of leveraged buyouts, company acquisitions, and the phenomenon of 700 major corporations buying in their own stock. Result: a shrinkage of \$80 billion worth of stocks. A similar shrinkage happened in each successive year. Before the end of last year no less than one-seventh of all the stocks in North America just weren't there anymore.

In a market of supply and demand, the supply of stocks was shrinking for the first time in the history of any major nation.

This circumstance alone wouldn't make share prices go surprisingly high—except for the other side of the equation: the amount of money available for investing.

More cash is available in North America than ever before in all history. The people of North America now have invested in common stocks a lower proportion of their savings than at almost any point in modern times. Only about 23% of the wealth of North America is in common stocks. Pension funds alone have grown to such a size that their total assets are bigger than all the common stocks existing in North America.

At the same time investors abroad are sending more and more money into the United States and Canada, especially from Europe and Japan. This influx is adding to the demand side of the equation, bidding up the prices of stocks in the long run.

Wherever you look, an unusually large buying power is chasing a constantly shrinking supply of stocks. This may lead to higher prices in relation to earnings and carry share prices higher than just the mere increase in earnings would carry them.

For such reasons the first bull market since the Crash of '87 is something not to miss. For long-term investors the outlook is truly amazing—not only because of supply and demand but because of the elements of general world progress mentioned earlier in the article.

To repeat, this progress is happening throughout the world. The headlines in countries such as Mexico, Brazil, and Argentina may still look dismal. But the fact is that in each of these countries the promise is there, and many of the companies there that are ripe for investment are succeeding by surmounting tremendous odds.

I think investors should always be cautious. No one knows when a bear market or a recession in business is going to occur.

But that doesn't keep me from buying common stocks. Suppose I do have to live through a decline of a third from where prices are now. I won't sell out at the bottom. I know that in the long run stocks will be worth more and maybe several times as much as they are now.

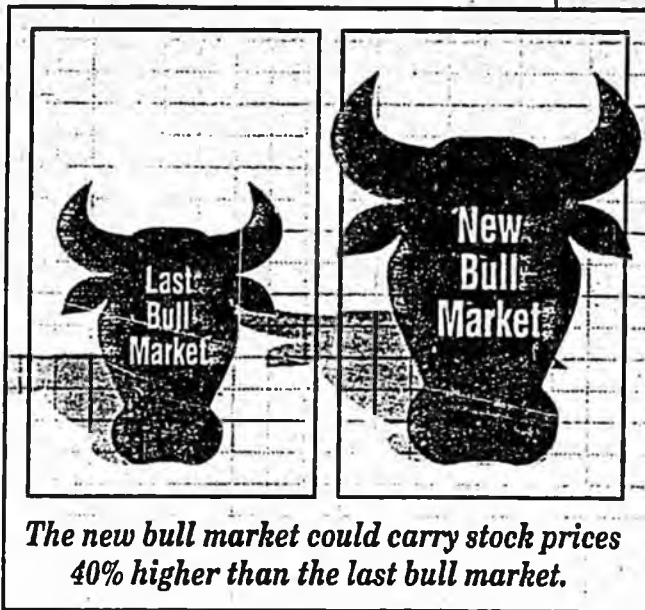
Are there secrets in this business of investing? I prefer to call them principles. Here are a few that have served me well:

1 To buy when others are despondently selling and to sell when others are greedily buying

requires the greatest fortitude but pays the greatest reward.

2 To avoid having all your eggs in the wrong basket at the wrong time, every investor should diversify.

3 If you search worldwide you will find more bargains and better bargains than by studying only one country—and also will gain the safety of diversification.



4 If you buy the same securities as other people you will have the same results as other people.

5 Too many investors focus on *outlook* and *trend*; therefore, profit is made by focusing on *value*.

6 The time to sell an asset is when you have found a much better bargain. In the stock market the only way to get a bargain is to buy what most investors are selling.

7 Share prices fluctuate more widely than share values.

8 Achieving a good investment record is a lot harder than most people think.

And one final thought:

We acknowledge corruption and greed, but this is minor if we also recognize the enormous generosity and benevolence that prevails today. As evidence of spiritual progress, Americans alone are giving over 80 billion dollars annually to churches and to charity. This is ten times as much as was given in the entire world in any year before this century.

The laws of love and charity differ from the laws of mathematics. The more we give away, the more we have left. Love hoarded dwindles, but love given grows. If we give all our love, we will have more left than he who saves some. Giving love, not receiving, is important; but when we give with no thought of receiving, we automatically and inescapably receive abundantly.

WM

Expert touts overseas investment

Permanent fund would be safer, more profitable

By KIRK McALLISTER

THE JUNEAU EMPIRE
It's time for the Alaska Permanent Fund to go worldwide, according to an investment counselor, who has been advising fund managers since the state's oil wealth trust fund was created 12 years ago.

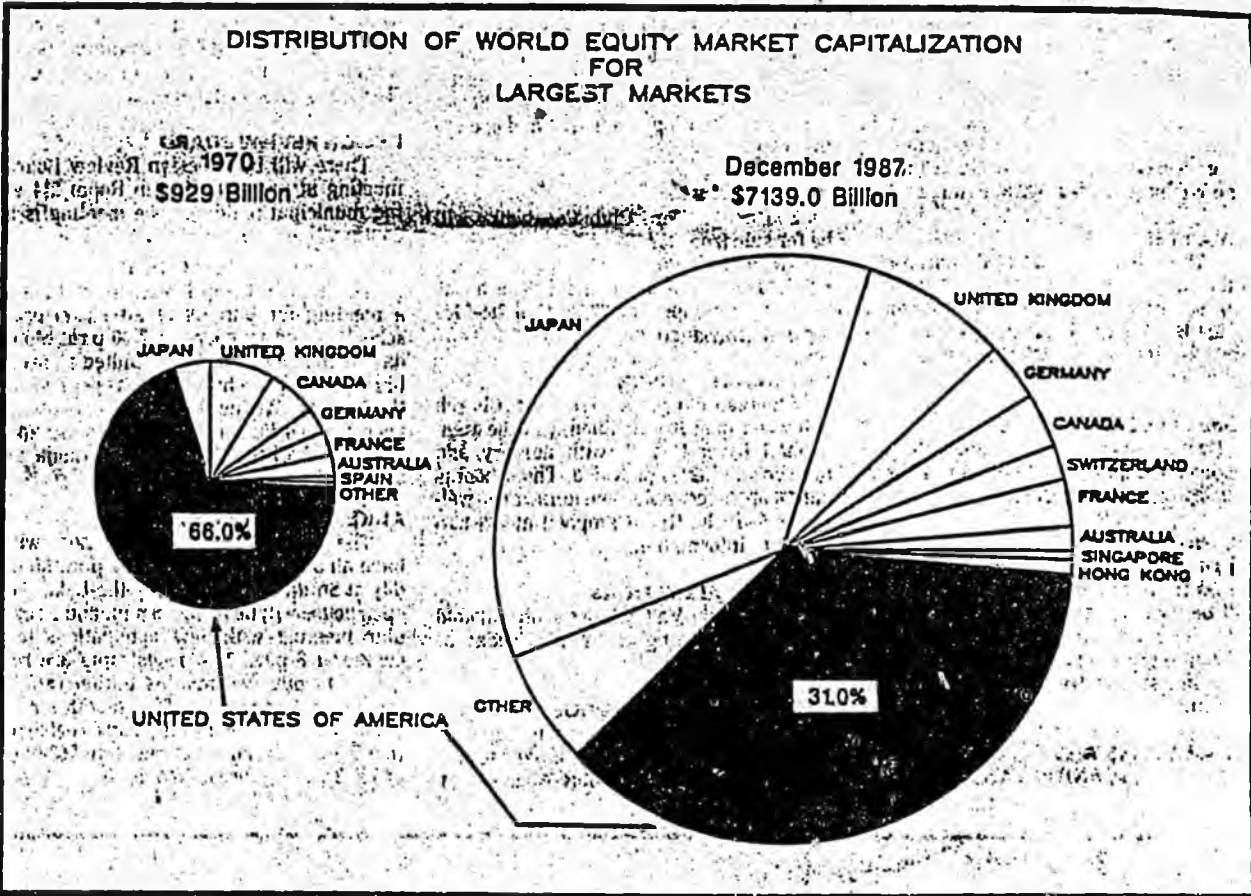
Bob Greeley, a California-based investment adviser, was in Juneau today to talk with Department of Revenue officials, Gov. Steve Cowper and some of the board of trustees of the permanent fund.

Greeley's recommendation is that it's time that up to 10 percent of the \$9.5 billion fund be invested in overseas stocks and bonds. The board of trustees sought that authority (up to 20 percent of the fund) from the legislature last session, but the attempt was killed in the Senate.

With the easing of trade barriers, emergence of worldwide markets and the declining dominance of the United States on the international financial scene, it only makes sense that a portion of the permanent fund be invested overseas, he said.

Greeley said if the permanent fund's investment objective remains getting the greatest amount of return for the least amount of risk, then overseas investing should be considered.

"I would recommend they start slowly (with international investing) make sure it works then proceed," Greeley said. "It's not automatic. Money must be worried about or it will end up with someone else."



Currently, the majority of the permanent fund is invested in U.S. government bonds, a safe but not highly profitable investment. Stocks or equities offer a higher rate of return, but are a bit riskier. Additionally, the United States has lost its dominance in the world's financial markets.

"In 1970, the United States controlled two-thirds of the world equity market; now it is just one-third. Given that new reality, an investment

portfolio needs to have overseas investments if it is to be truly diversified," Greeley said.

"Adding international investing adds stability and gives a higher rate of return," Greeley said.

There are some in the state who say the permanent fund should all be invested in Alaska much less overseas so Greeley knows he has a hard sell convincing people it's a good idea to invest abroad.

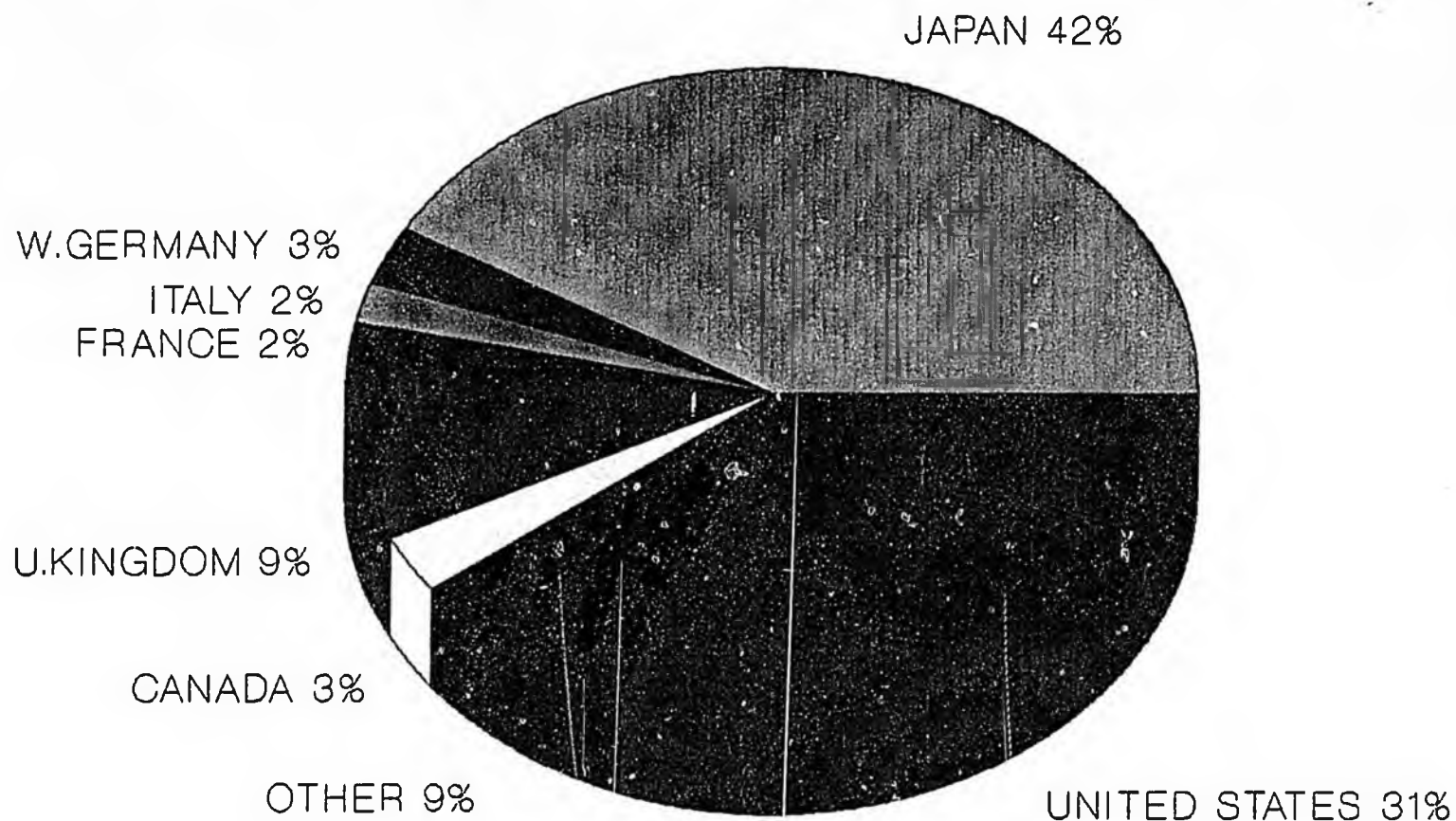
Newly elected chairman of the

board of trustees, Oral Freeman is one of those who is unconvinced. But, Greeley said, the more he (Freeman) listens the more he is considering the idea.

Greeley has extensive experience in overseas investing and oil wealth. He did several assignments for the government of Saudi Arabia where nearly 80 percent of the money was invested outside the country. He is currently manager of corporate investments for Hewlett-Packard.

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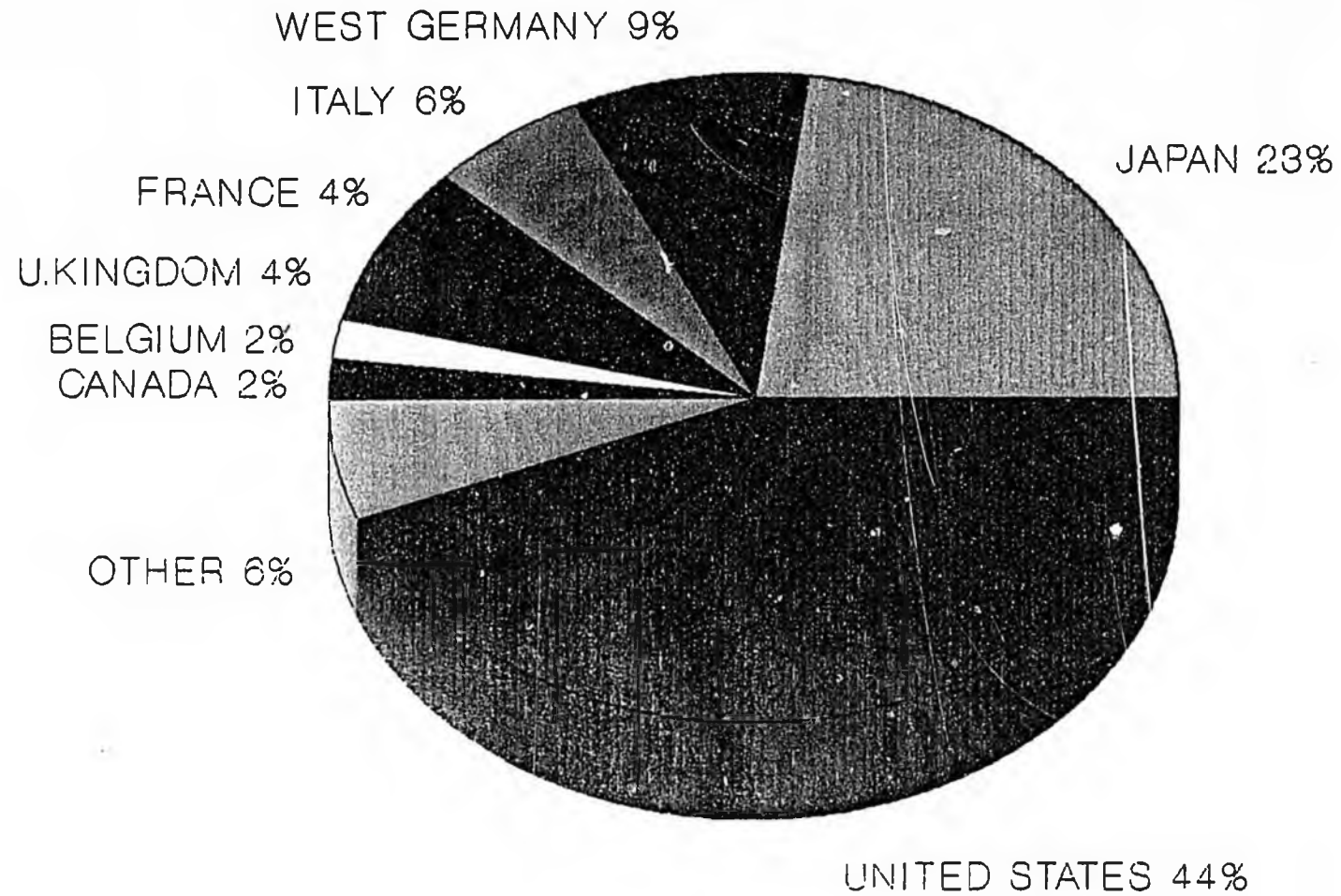
INVESTING IN INTERNATIONAL MARKETS EQUITIES - \$7.1 TRILLION 1987



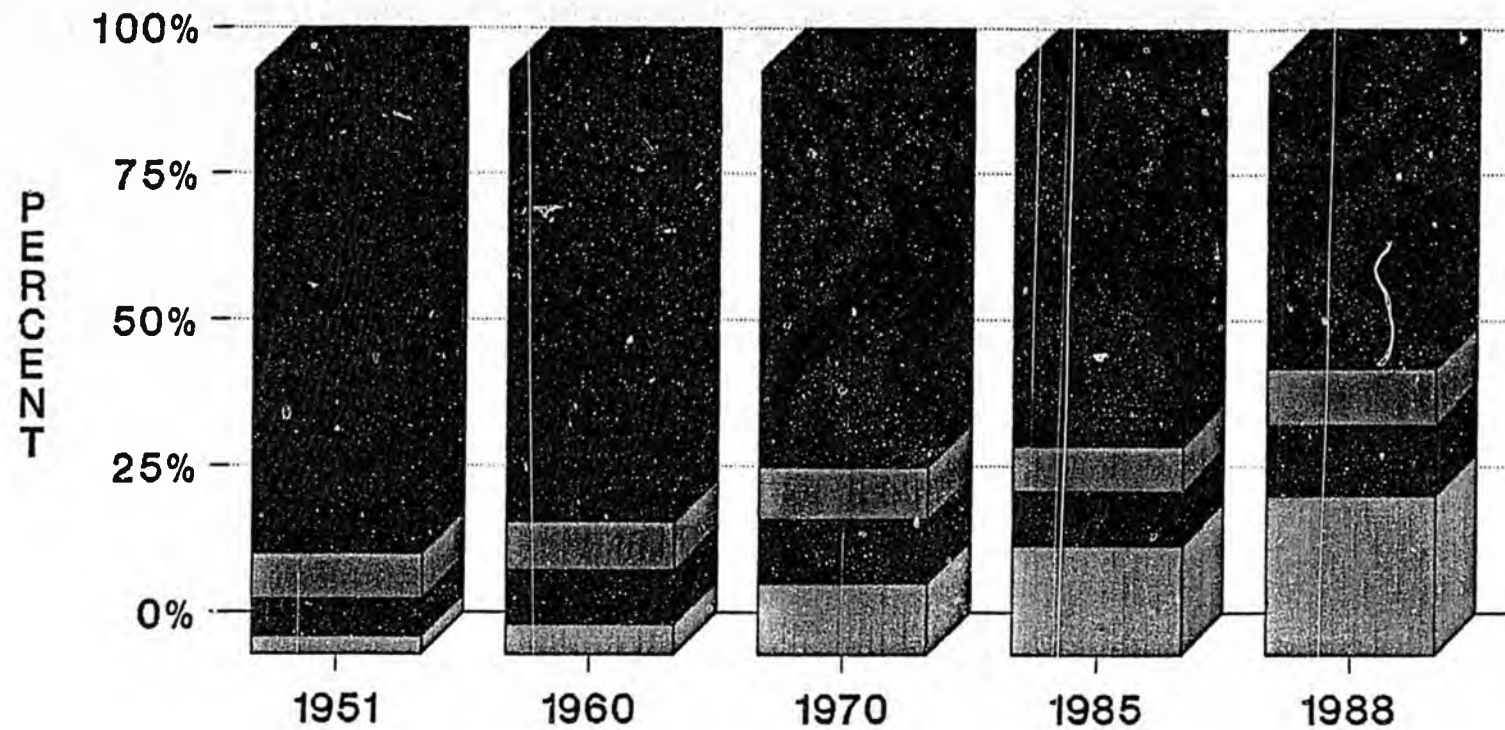
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INVESTING IN INTERNATIONAL MARKETS

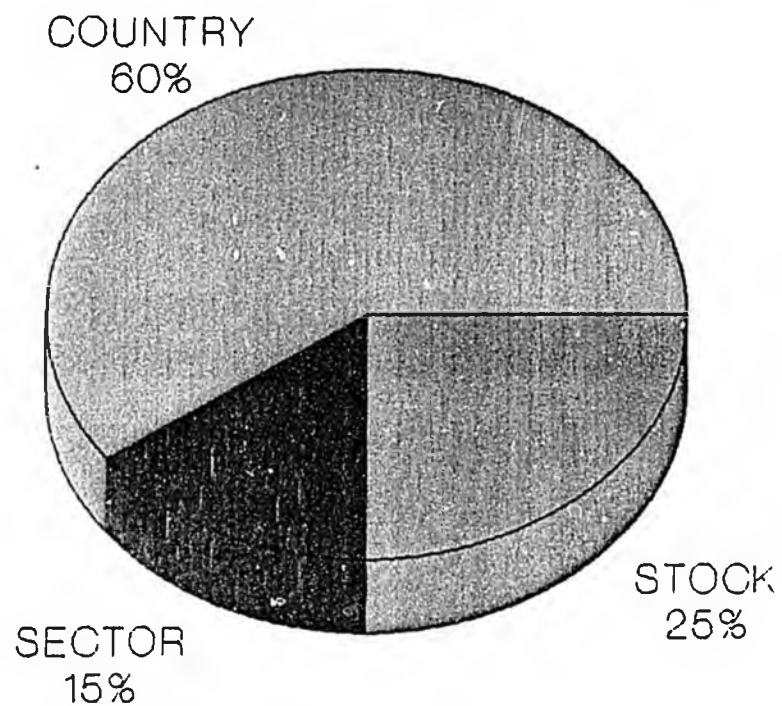
BONDS - \$9.4 TRILLION 1987



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	[REDACTED]	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	[REDACTED]
1979	[REDACTED]	12.1	22.1	43.6	83.5	11.9	28.5	51.8	18.5
1980	[REDACTED]	(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)	[REDACTED]	(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)	[REDACTED]	(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0	[REDACTED]	24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1	[REDACTED]	(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9	[REDACTED]	16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2	[REDACTED]	18.2
1987	[REDACTED]	(10.7)	31.6	6.7	(7.2)	42.4	0.8	11.6	5.2
1988	20.6	[REDACTED]	6.0	36.4	28.1	35.4	33.3	17.1	14.6

[REDACTED] BEST PERFORMER

[REDACTED] WORST PERFORMER

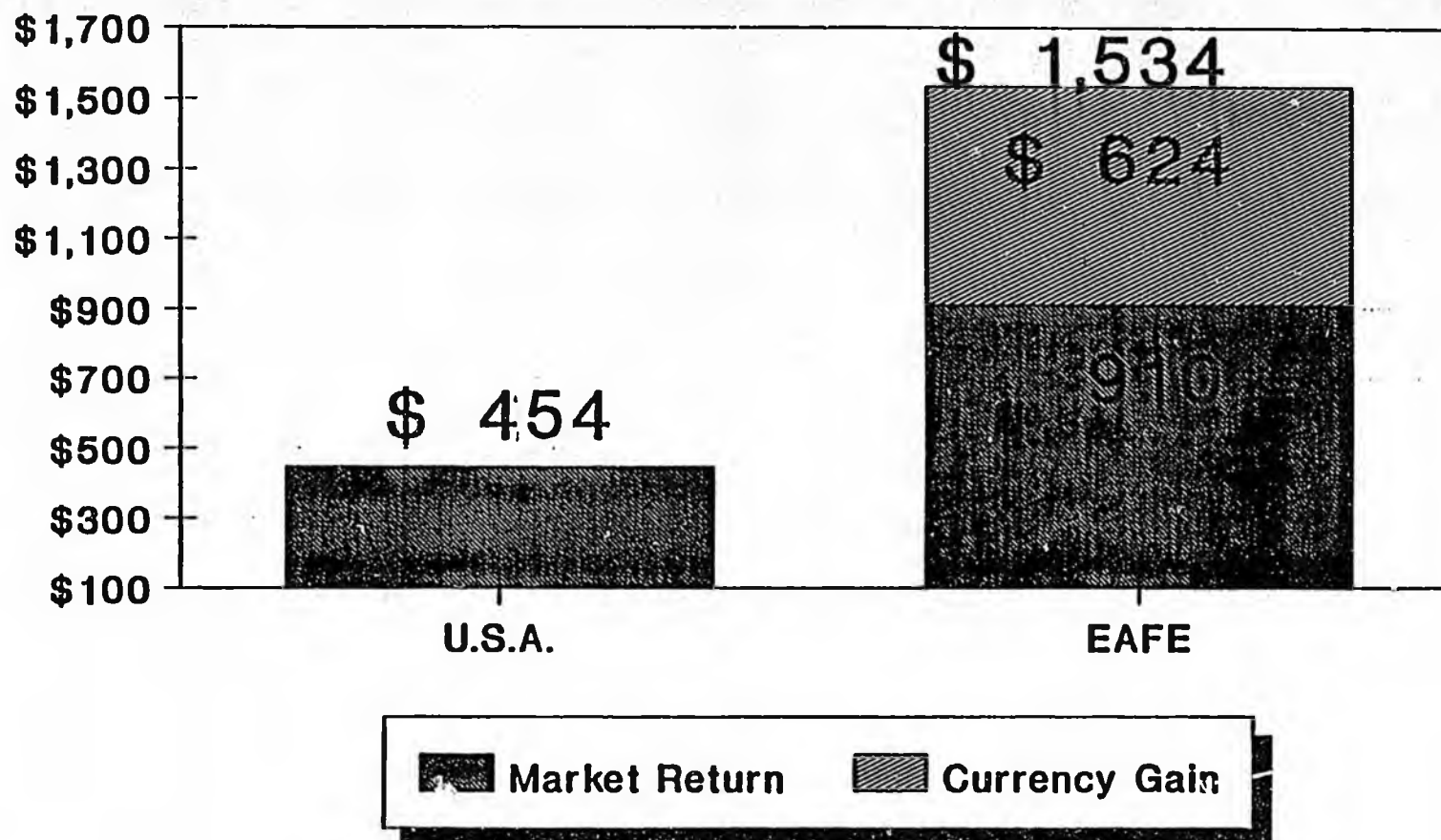
Largest Five Companies by Industry

	<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



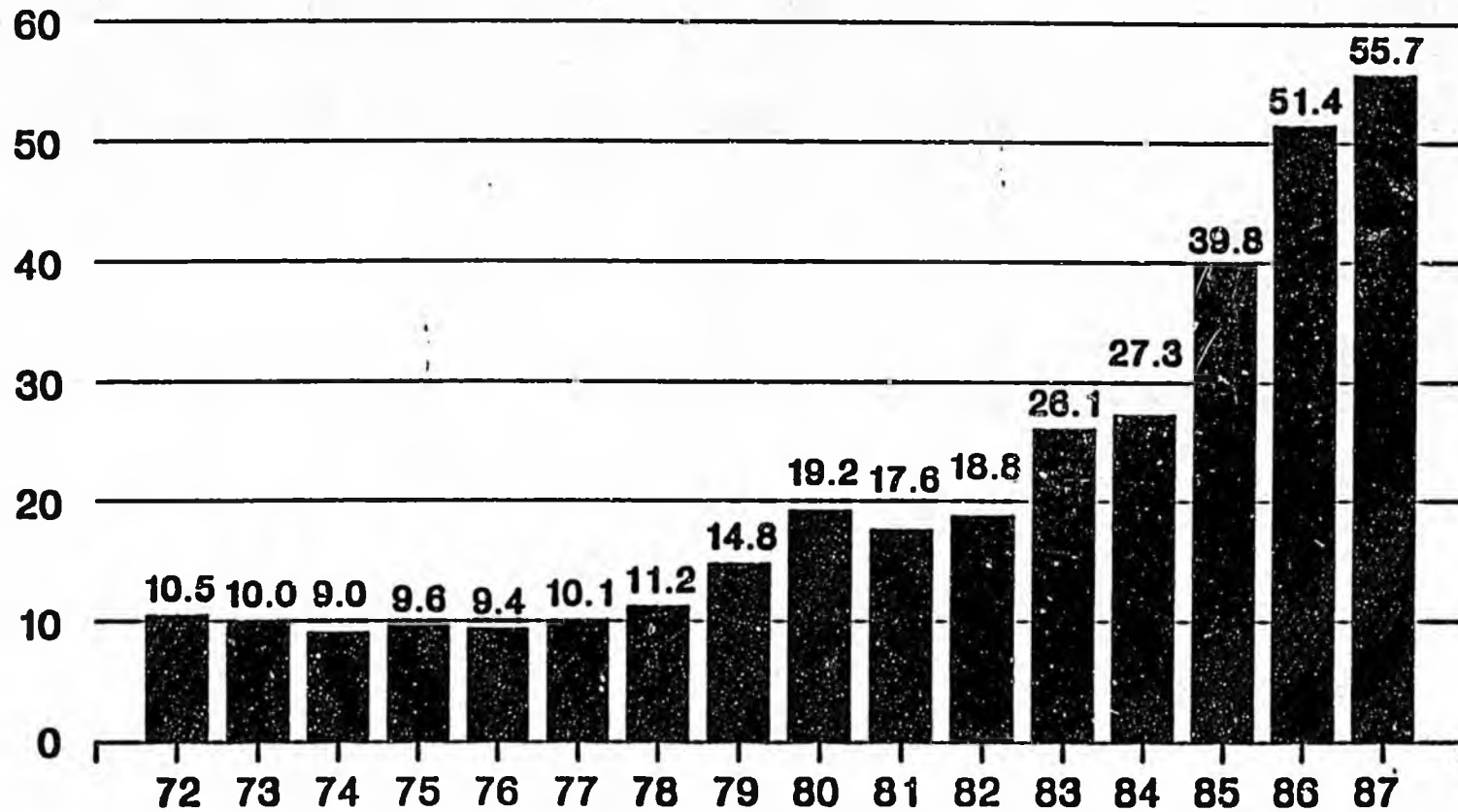
As of 1/1/89 with dividends reinvested

Source: MSCI

U.S. Holdings of Foreign Stock

1972 - 1987
(Year End Data)

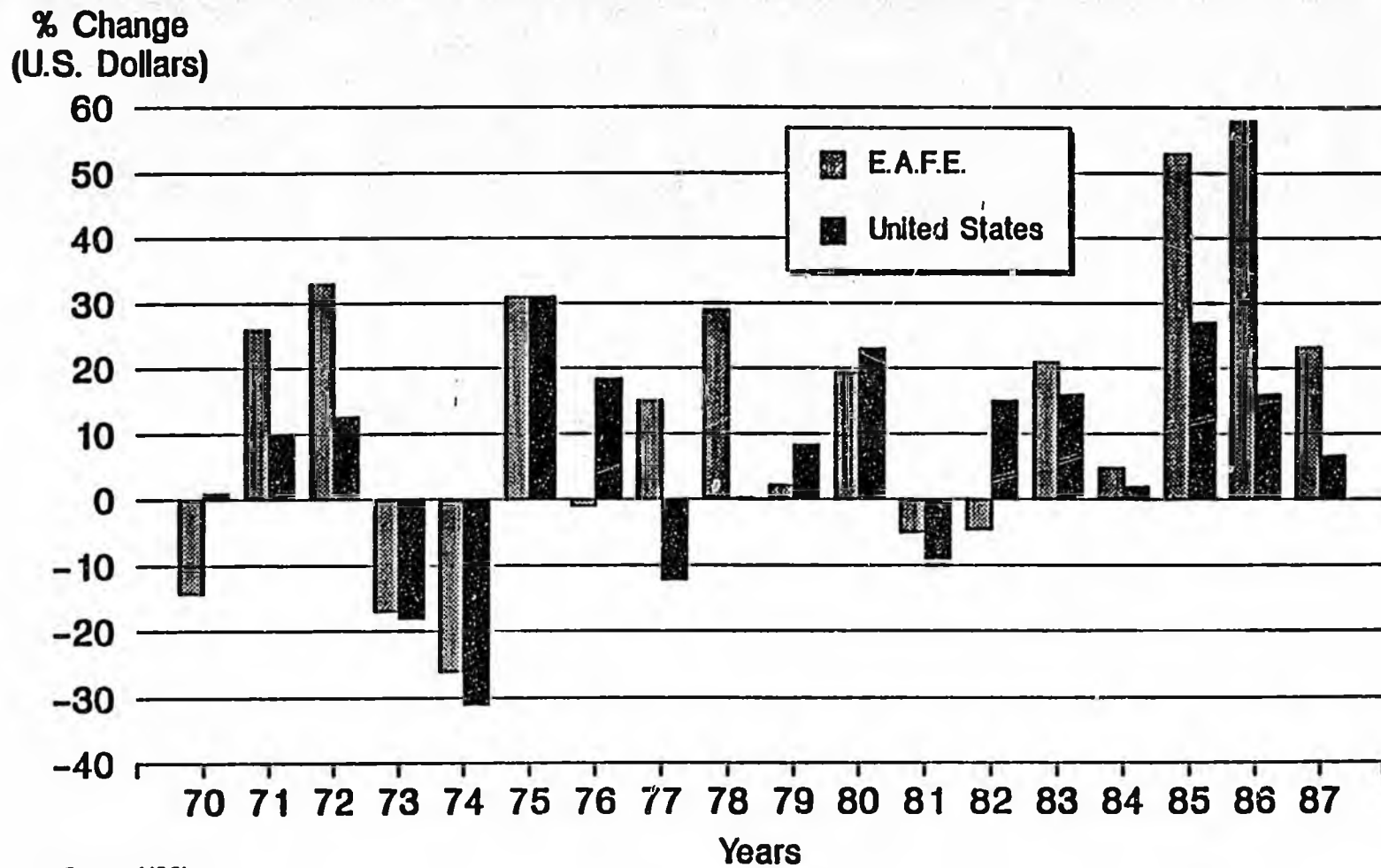
U.S. Holdings
(\$ Billions)



Source: Commerce Dept., Bureau of Economic Analysis

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

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

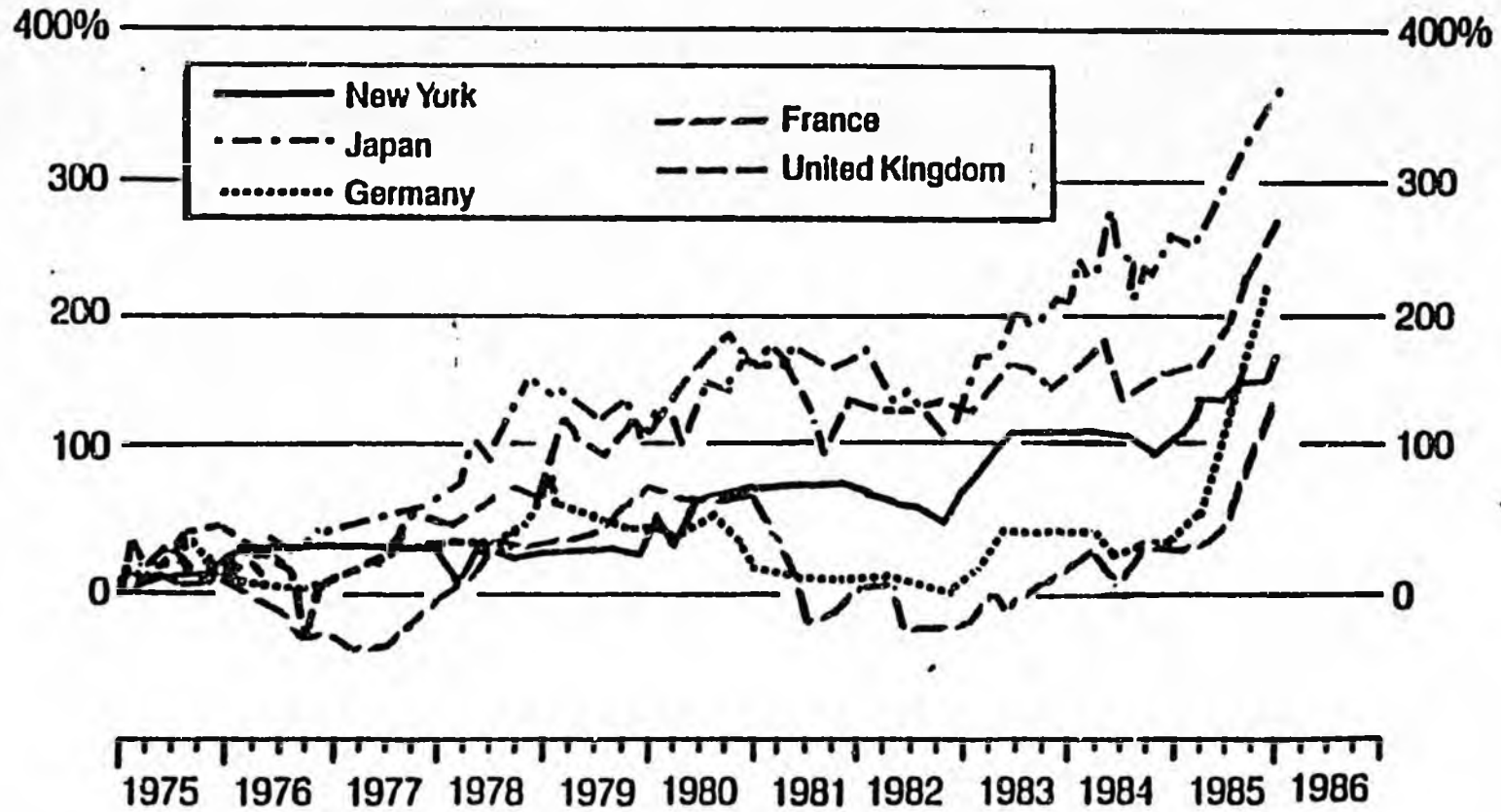


Source: MSCI

World Stock Markets

January 1975–January 1986

Zerobased
Price



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	16.67	17.13
Canada	-2.38	-0.63	1.70	-2.41	35.73	9.57	8.80	17.51	17.16	8.57	20.81	179.45	18.92	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	28.31
Germany	15.51	7.40	-10.58	-8.42	14.09	-8.06	-1.83	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	-6.18	167.82	10.44	18.25
Switzerland	32.19	-8.59	-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	-8.79	3.86	31.33	4.06	14.29	28.48	21.63	-1.37	8.16	173.37	10.67	11.34
Japan	32.70	-21.46	22.88	5.50	9.20	12.55	2.69	37.31	43.57	39.87	4.24	363.49	16.72	19.33
Non-U.S. ^c	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 ^d	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.

A/B
Original

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SB 27
PUBLISH DATE: 2/14/89

FISCAL NOTE

REQUEST:

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

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						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	35.0	500.0	500.0	500.0	500.0	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 and associated costs.

FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047
Division: _____ Date: January 25, 1989

Approved by Commissioner: David A. Rose, Executive Dir Date: January 25, 1989
Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):
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Handwritten signature: H. Malone 1/26/89