

SB

244



Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: April 12, 1994

TO: Senator Loren Leman
Chairman, Senate State Affairs Committee

FROM: William H. Scott *WHS*
Executive Director

SUBJECT: **Senate Bill 244**

Senate Bill 244, introduced at the request by the Board of Trustees, would amend current law with respect to equity investing. Specifically, it would allow the Permanent Fund to purchase – under certain conditions – more than five percent of the stock of a corporation.

The bill sets out general policies and guidelines for alternative asset investing. The purpose of the alternative asset investment program is to prudently employ a modest percentage of Permanent Fund assets to alternative investments to produce a well-diversified, profitable portfolio which will enhance the Fund's total return. The goals of the program are: (1) to achieve superior total returns compared to traditional asset classes; and (2) to diversify away from traditional capital market risks.

Even though alternative investments as an asset class are employed by hundreds of public and private corporations and institutions around the country, including universities and state retirement systems, they would represent a new type of investment for the Permanent Fund. As such, it is understood that a significant amount of education will be required both within the Corporation and within the legislature before such investments would be initiated, even on a limited basis.

Senator Loren Leman
April 12, 1994
Page 2

To begin the educational process, I am enclosing the following six attachments:

Attachment #1 is draft language for a proposed committee substitute for SB 244. This language, rather than focusing on the transaction mechanics of the new investments, more properly addresses alternative investments as simply a new asset class to be made available to your Fund managers for investment under the very stringent guidelines set forth by the Prudent Investor Rule. It is important to recognize that the particular selection criteria for each of these investments will most likely evolve and be adjusted over time as a result of the interaction between the staff, the Board and our consultants.

Attachment #2 is the Board of Trustees resolution dated December 6, 1993 in support of the original legislation. The Trustees adopted this resolution by a vote of five to one.

Attachment #3 contains excerpts from the minutes of the December 6 Board meeting in which Trustee Brady made the case for the proposed change.

Attachment #4 is the Executive Summary from the "1992 Survey of Alternative Investments by Pension Funds, Endowments and Foundations." This document indicates that investment by our peers in the asset class of alternative investments is widespread, significant and growing. For example, the top 200 funds in the U.S. and Canada currently have \$36 billion invested; this represents 3.6 percent of the assets of those funds that allocate dollars to alternative investments.

Attachment #5 is a reprint from the Spring 1994 issue of *The Journal of Investing*. The headline of the featured article is "Alternative Investments Grow Rapidly at Tax-Exempt Funds." Interestingly, this article indicates that it is the largest funds which are most the active in alternative investing. In fact, of the 33 \$10 billion-plus funds surveyed, more than 80 percent participate in at least one alternative investment asset.

Attachment #6 is a copy of a letter from Dave Rose, the Fund's previous executive director, stating his support for the legislation and his reasoning, as well as some thoughts about the specific prohibitions included in the proposed committee substitute.

Senator Loren Leman

April 12, 1994

Page 3

The bottom line is that the Board wishes to have the authority contained in this amendment because we are convinced it will help us to do a better job protecting and enhancing the Permanent Fund. I would ask for your support and stand ready to provide additional information at any time.

Be it enacted by the Legislature of the State of Alaska:

*Sec 1.AS.13.120.(g) is amended by adding a new paragraph to read:

(21) Notwithstanding 37.13.120(i), equity investments may comprise more than five percent of the stock of a corporation only through an interest in a partnership, or ownership in a collective investment vehicle, under the following conditions:

(A) the Fund shall not own more than a 60% interest in a partnership or collective investment vehicle;

(B) the aggregate investment of the Fund under this paragraph may not exceed five percent of the total investments of the Fund:

(C) at no time may the Fund own directly or indirectly, through a corporation, partnership or collective investment vehicle, more than 5% of any entity which has substantial oil and gas operations in the State of Alaska;

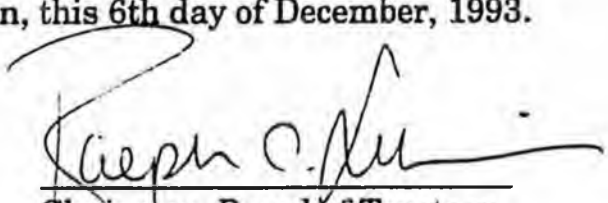
(D) appropriate policies and procedures for investments under this section shall be reviewed and approved annually by the Board of Trustees.

RESOLUTION OF THE BOARD OF TRUSTEES
OF THE ALASKA PERMANENT FUND CORPORATION
PERTAINING TO LEGISLATIVE CHANGES IN THE ALASKA STATUTES
RELATING TO ALTERNATIVE INVESTMENTS BY THE
ALASKA PERMANENT FUND CORPORATION

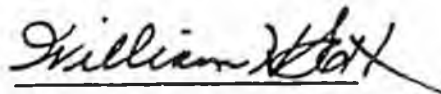
RESOLUTION 93-12

BE IT RESOLVED, THAT the Board of Trustees directs staff to seek legislative changes to provide that, notwithstanding any other provision of law, but subject to the prudent investor provisions, the Alaska Permanent Fund Corporation may invest in the category of "Alternative Investment Strategies."

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 6th day of December, 1993.


Chairman, Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:


Corporate Secretary

CHAIR SEEKINS: Yes, Mr. Brady.

MR. BRADY: I'm going to follow our senior Trustee's example of trying take the floor for a while and stand up here and talk to you about this subject. No offense, Mr. Freeman. I think Mr. Surz's presentation highlighted an opportunity here that wasn't presented necessarily by his presentation, but presented to you in the fashion of understanding of something that sounds to be very complicated and possibly even beyond the grasp of most of the activities we do, in your mind.

I probably am the one responsible for all of this today and it has to do with a number of things. Firstly, we've all concluded one way or another, I believe, that the strategy of diversification through asset allocation is the primary key to our success. As a matter of fact, I don't know how many of you saw this article in Forbes Magazine recently, with which I don't agree, but which basically asks why spend a lot of money with money managers because, if you just bought into S&Ps and saved all that money, you'd end up with approximately the same results? I don't concur that, over a long period of time, this is true.

If we're going to continue to grow in profit in the style and manner at which we've set our objectives, this horizontal development of asset allocation, I think, is very important to all of us. If we don't, that pyramid in the middle, our bonds, keeps getting bigger and bigger and we have a shallower horizontal allocation. I think that, to continue to diversify, we've got to continue to do this. We're in alternative investment strategy right now. That's all real estate is. We're betting on Pete and Llewellyn and others to find the deals that make the most sense. That's an alternative investment strategy. I don't want to confuse this with venture capital or with the other investment funds that the State of Alaska does. This is not building a water pipeline to California or buying into a gold mine. I think we're looking at here a strategy that would allow us to do some of the things that we're currently prohibited from doing.

For example, we're limited to the extent of 5% on any publicly traded equity. This summer, when all this started, I met some very bright fellows. We've heard over and over and over that the key to a lot of this is the people you find for your partners. I think that's true in any successful entrepreneurial enterprise. These guys and gals have rates of return that are phenomenal. They're doing partnerships with people like ourselves. If we had an alternative investment strategy of 5%, whether we fund it or not, by resolution we can restrict it however we wish. Let's say we don't want to do timber, although that's been very successful recently, we don't want to do dairy farms, we don't want to do gold mining, and we don't want to even get into

some of the IPOs or some of the other things that are happening. But, let's say that we wanted to partnership with some people who buy what they feel are undervalued small-cap, publicly traded companies, for whatever reasons. They can either influence the board or put themselves on the board or do things to maximize their rates of return that otherwise aren't happening. It may be that there's one senior shareholder that's got a large percentage of it and you can recapitalize, do all the things that need to be done to fix the company, and get the rates of return that company is likely to get being fixed, if you will.

Bill Scott and I met with these folks. These kinds of people are real interesting. I think this is something we ought to do. I don't think we should take 1% and throw it out there for a home run, but I think we should take some percentage as we broaden our diversification and look at opportunities with people and companies that are successful at making a lot of money.

By the way, although I know this doesn't carry a lot of weight with you, Mr. Freeman, almost everybody else is doing this. It is not just the swingers, the universities, and the colleges, but the public entities, the states, and the corporations are in this category. I got a sampling of this myself and over 100 entities similar to ourselves have an alternative investment strategy. That doesn't mean we take 5% of our money and throw it at the wall and say, "Do deals, whatever they are, and we just trust you." That's not the suggestion I have here. The suggestion I have here is that we pass a resolution that allows us to incorporate, in our legislative package, the ability to invest in alternative categories. Then, through our own means and devices, such as limitations as we talked about with real estate, we control through resolutions what it is we want and wish to do. I don't have anybody in mind. There's not many Duracell deals floating around. Those come around once in a while. There are, however, a lot of small-cap companies and other situations that come along that are good. The rates of return some of these people are generating are really good. As our oil revenues go down and other things take place, you could create a scenario that we ought to have other opportunities and ways to make money around here.

Having said that, the example that I tried to lay out here to do this is prohibited because, in many instances, we may find ourselves in a partnership wherein we would own more than 5% of a specific stock. We can't do that. But, if we had an alternative investment category and we invested with partners and it was understood that these investments, made from time to time, in most cases, we would find ourselves in a situation where we would have 20% to 30% of this partnership that would own 30% to 50% of a publicly traded company.

We just flipped over the edge. What I want to do is convince you, as best I can, that through our asset allocation and diversification, we should have this category. Once we have this category and the authority to do these sorts of things, then we come back and we look at the opportunities through presentations to learn the history, the track records, the benchmarks, and all the things we talked about earlier that we need and want to have to feel comfortable about this. Then, if we choose to do this, we can do it. Mr. Surz said it and Mr. Stone said it. Not just because everybody else is doing it. I do believe it's a missed opportunity, if we don't have ourselves positioned so that we can take advantage of these kinds of opportunities as they continue to come along.

With \$80 million to \$120 million a month coming in, the pyramid keeps getting bigger and we're shallower on our diversification. That's why I feel, after having learned a little bit about this from reading stacks of information and discussing those with Commissioner Rexwinkel, it's something we should be doing. The other board Commissioner Rexwinkel sits on is going to do it. We're not throwing something at the wall, closing our eyes, and looking out the corner to see what's going to happen. This is something that's got some premeditated thought to it and some pre-examination. I feel very strongly that this is something we should have in a resolution to be able to incorporate. I've got a copy of the New York statute, if anybody wants to see what they did. They just authorized up to "X" percent of their allocation for that category.

That doesn't force us into any position to have to do anything. It would just allow, if the timing is such that we can convince the Legislature we're right about this, the passage of legislation to authorize us to engage in these different opportunities, as they come along. Thank you.

CHAIR SEEKINS: Are there any comments? Mr. Freeman.

MR. FREEMAN: I would assume from your remarks, Mr. Brady, that a change in legislative authorization would be necessary for what you want to do?

MR. BRADY: I think so, only as respects, from what I understand, the potential of intentionally going out and having an indirect, but real, ownership in more than 5% of a publicly traded company. That's where the Legislature would have to come into play.

MR. SCOTT: If you can't do that, then you can't accomplish the types of private buy-outs involved here. If you can't own more than 5%, then you can't effectively operate in this arena.

It's interesting to me, and it may be just of incidental help, that it's been demonstrated over the years that higher tax rates dry up entrepreneurial capital. The only reason I make that point is that we're going into a period of higher tax rates, unless Congress and Clinton change their minds, and we're going to see a drying up of entrepreneurial capital and it may very well be that also demonstrates an opportunity for the institutional investor to take the place of some of that.

CHAIR SEEKINS: Commissioner Usera.

COMMISSIONER USERA: I'm wondering what is your experience in terms of the necessity of having staff involved. Did you feel that the Washington and Oregon funds felt it was necessary to staff up to do oversight of this process?

MR. STONE: It was interesting that, at the time we got involved, staff did it all. There was no outside expertise. To be honest with you, I don't think they increased their staff at all with respect to what they were doing. That's not true. In Washington, they added one person who was specifically involved in alternative investments.

COMMISSIONER USERA: The impression I get is that you do have to know what you're doing. You have to be tuned into it and not, like with passive investments, say that you'll check back in six months or a couple of years. Certainly, it requires close monitoring and having a sound communication system between the funds, as well as the gatekeeper and the company that's going to be a parent. If I'm hearing you right, what they're doing is saying they're in agreement and they collectively, as partners, are going to insure the success of this company by using these very best and brightest people who are going to go in and add value to the investment.

MR. STONE: That is true, to a certain degree. Let me add this. John was mentioning Paul Saylor earlier with respect to real estate. He is very well know and very good. Surprisingly, in this area there are some very good people. We found some excellent, if you will, Paul Saylor types who could monitor this and have done a very good job for Washington and Oregon.

COMMISSIONER USERA: They were on a contract basis?

MR. STONE: Yes. I'm not recommending adding staff. This guy talked earlier about smart people. There is some real talent out there in terms of companies who are overseeing this as consultants and advisors who do a wonderful job.

COMMISSIONER USERA: Mr. Chairman, could I ask just one other question? What is the competition for the good deals?

MR. STONE: What we found to happen is, in the 1980s, this asset category got flooded with money. I think that is one of the reasons you've got so many problems. What has happened now is a lot of that money has pulled back. That's in the form of insurance companies. Banks can't do it any more because the regulations have changed and they can no longer be involved in this type of asset category. So, the number of good deals have increased dramatically with the available dollar that's out there. The funds are having potential deals go across their table that are very attractive.

COMMISSIONER USERA: Do the deals come to you or do you go out and look for the deals?

MR. STONE: They come to the fund.

COMMISSIONER REXWINKEL: Mr. Chairman, I have a question. Do we have legislative authority to do some of these that Mr. Surz pointed out on page 2 of his presentation, which include hedged funds, market neutral, and managed futures?

MR. BRADY: No.

COMMISSIONER REXWINKEL: None of them?

MR. SCOTT: We can hedge individual positions, but not on a speculative basis.

CHAIR SEEKINS: Mr. Freeman.

MR. FREEMAN: I suspect that my feelings and position on this and my lack of enthusiasm doesn't come as a surprise to Mr. Brady. I don't want to make a long-winded pitch on the merits of it. I'll be a little more practical than that. I asked the question whether you thought this was going to require legislative approval and a change in the statute and I'm sure that it will. From a practical standpoint, how do I put that? One of the lessons I learned in politics is, once in a while, you try to do something you think should be done, but it's very unpopular politically. Even though something is unpopular, if you can get it done, it's a lose/win situation, as far as politics is concerned. But anytime you tackle something that's very unpopular and don't get the job done, all you've done is diminish your credibility, harmed your reputation politically, and haven't accomplished anything other than that.

From a practical standpoint, 1994 is an election year and you know, as well as I do, the concern that our politicians have for reaction from the public as far as tampering with the Permanent Fund. The chances of accomplishing the changes in the law that you need are just about nil. If you're not going to accomplish that and can't get the job done, I think it's harmful to the Permanent Fund with regard to the feelings of the public as far as the Permanent Fund Board of Trustees is concerned to attempt it, if you can't get the job done. You can do as you wish, but whether this is good or bad, there are a lot of people in the Legislature today that I served with years ago and were there when the Permanent Fund was created. They are well aware of the background, the history, and the philosophy all along the line and most of those people have enough seniority that they're in positions of reasonable influence today. When I have serious thoughts about the Permanent Fund, I don't hesitate to talk to them and I have a pretty good idea what are some of their feelings. Regardless of the merit of what you're trying to do, it's not going to happen. My suggestion would be to discuss it and whatever you want to do, but I wouldn't put my foot on the line to get it done. That's just my opinion.

MR. BRADY: Mr. Chairman.

CHAIR SEEKINS: Mr. Brady.

MR. BRADY: Mr. Freeman, I respectfully disagree. You know better than I the evolution of the investment strategy of this Fund. At one time, we didn't have a real estate portfolio. At one time, we didn't invest in stocks. We simply started with some bonds and some cash. I think that the Fund was late in making the proper decisions in those investment strategies. The results will bear that out.

Having said that, I don't think this is an attempt to hoodwink the Legislature. I'm attempting to, as convincing as I can be, go back to our asset allocation strategy and I think we can make awfully good sense to all of our legislators that the success in our Fund has been largely due to that, to date. I think we need to continue to broaden that. I don't know what's going to be coming next. You said \$10 billion and I think it's more than that. Whatever it is, there are hedging opportunities through diversification that we're foolish to ignore. I believe this is one we should give very serious consideration and we should move forward in a continued asset allocation through diversification, if you will. What we end up purchasing, at the end of the day, remains to be seen. The fact is, the timing is here. As I spoke at the last Fund meeting when I said I wanted to bring this up, I said I wanted to bring in somebody who could try to explain that

this isn't something that is novel, new, or unique to one or two private investors, but this is something that's going on in lots of ways with lots of funds with lots of money.

The interesting thing is that this concentration of money is not in the traditional risk-takers. I say traditional risk-takers are typically colleges and universities. I guess they figure, if they lose some money, they can go back and get some more and have it replaced. They do swing more than the state retirement funds. Having said that, it's not just the colleges and universities, it's universal. I'm sorry that maybe we haven't had a work session prior to this to go through and exemplify some of the activities with proven results. I've had the opportunity of having done that and have seen those results. I see the future here and it's very clear to me that we're amiss, if we don't do this. If it's a gamble at this point in time because of politicians going off and being re-elected, I'm prepared to take that gamble because I feel that it's important to this Fund to be able to have this diversification. Then we can sit down and decide where it makes the most sense to go forward.

CHAIR SEEKINS: Mr. Brady, if you perhaps want to bring some action, you might want to do that during New Business.

MR. BRADY: I intend to do so.

CHAIR SEEKINS: Thank you very much. We are one-half hour behind on our agenda.

MR. SCOTT: Mr. Chairman, because we are one-half hour behind, could I intercede here? I have checked with Mr. O'Leary and he could switch to a point later on in the agenda. We do have Capital Guardian here to address you and one part of their presentation is going to be a conference telephone hook-up. Those people are ready and waiting and, if it's all right with you, I think we should go on to that one next.

CHAIR SEEKINS: We would like to then go ahead with Capital Guardian, who is right on time.

MS. YORBA: They had to go out and place a quick telephone call.

CHAIR SEEKINS: So, we will have two new items under New Business. One will be a real estate resolution and one will be dealing with alternative investments.

Mr. Scott, would you introduce the next presenters on the agenda, please?

1992 SURVEY OF ALTERNATIVE INVESTMENTS

BY PENSION FUNDS, ENDOWMENTS AND FOUNDATIONS



Goldman, Sachs & Co. and Frank Russell Company
October 1992

P.3

#4

SEP 08 '93 11:35 RH OF PK MGMT
0123
10/22/93
-APPROVE
T/10/22/93

Executive Summary

The 200 largest pension funds, endowments and foundations in the United States and Canada currently have \$36 billion invested in alternative investments

Pension funds, endowments and foundations have invested significant assets in alternative investments⁽¹⁾ -- the top 200 funds in the United States and Canada⁽²⁾ have invested \$36 billion. This represents 3.6% of the assets of those funds that allocate dollars to alternative investments.

Alternative investments have, until recently, been the province of a small group of investors; participation is broadening significantly:

- 54% of all respondents participate in alternative investments
- Over 80% of funds with greater than \$10 billion in assets participate in alternative investments

Buyout funds and venture capital have been the predominant investment strategies.

Limited partnerships are the most common investment vehicle; 80% of all alternative investment dollars are channelled through them.

There is a strong appetite for alternative investments *going forward*:

- 71% of all respondents plan to increase commitments to alternative investments
- Venture capital continues to dominate investor interest

(1) "Alternative investments" are defined as non-traditional investments that are illiquid and have a substantial equity component. See p.22 for a more complete definition.

(2) See p. 2 for a breakdown of institutions surveyed. A smaller survey of 72 of the top 100 pension funds in the U.S. and Canada was performed by Goldman Sachs in 1991.

#5

THE JOURNAL OF INVESTING

A PUBLICATION OF INSTITUTIONAL INVESTOR, INC.

VOLUME 3 NUMBER 1

SPRING 1994

ALTERNATIVE INVESTMENTS GROW RAPIDLY AT TAX- EXEMPT FUNDS

Reprinted from the Spring 1994 issue of *The Journal of Investing*
488 Madison Avenue, New York, NY 10022

ALTERNATIVE INVESTMENTS GROW RAPIDLY AT TAX- EXEMPT FUNDS

THOMAS J. HEALEY

is head of the Pension Services Group at Goldman, Sachs & Co. in New York. He joined Goldman in 1985 in charge of real estate capital markets and became a partner in 1988. Mr. Healey was previously the assistant secretary for domestic finance at the U.S. Treasury Department in Washington. He holds an A.B. degree from Georgetown University and an M.B.A. from Harvard.

DONALD J. HARDY

is the director of Private Investment Services at the Frank Russell Company in Tacoma, Washington. He has been with Frank Russell since 1977. Mr. Hardy has more than twenty-five years of investment experience, and has previously been a fund manager, a securities analyst, and a trust officer. He holds a B.S. from Boston University and an M.B.A. from the University of San Francisco.

When interest rates on U.S. Treasury bills dipped below 3% last summer to their lowest level in thirty years, investors and the public alike were caught by surprise.

But no one was more alert to this drop than pension fund managers. These specialists knew that the continuation of this trend could make it difficult to match the high investment returns of the 1980s.

One look at the figures illustrates the problem: between the end of 1991 and the end of 1992, total returns on equities dropped from 33.0% to 9.0%; on cash, from 5.75% to 3.61%; and on fixed-income investments, from 16.1% to 7.6%.¹

NEW ASSET CLASSES IN SPOTLIGHT

Tax-exempt funds, appropriately, are exploring new ways to increase returns. One result is greater interest in categories like alternative investments, which have a strong potential for higher returns.

A number of studies have shown that private

U.S. equities produced returns of 18% or 19% during the latter part of the 1980s, while some leveraged buyout funds did considerably better.

Of course, the illiquidity of these private investments makes them subject to greater due diligence and oversight. But the results can be worth it, especially when other potentially high-yielding asset classes like real estate are still under water.

Additionally, with traditional sources of capital like insurance companies and banks facing major constraints, tax-exempt funds find themselves in a new role — providing a much more active source of capital. They are offered a much wider range of private investment opportunities at extremely attractive returns.

Yet this asset category still suffers from one major problem, along with its potential cyclicity and relative youth: Very little systematic data are available. Funds traditionally have been secretive about their most successful alternative investments, and the variety of strategies involved has made it hard to develop useful benchmarks.

To start building a more accurate picture,

Goldman, Sachs & Co. and the Frank Russell Company joined forces last summer to launch the first truly comprehensive study of this investment category. The study requested data on alternative investment participation from the 228 largest tax-exempt funds in the U.S. and Canada (assets ranging from \$500 million to \$68 billion).

194 (85%) of the 228 funds contacted responded, a remarkably high response rate (Exhibit 1). The results of the study, entitled "1992 Survey of Alternative Investments by Pension Funds, Endowments and Foundations," were released in the fall of 1992.

STRONG PARTICIPATION IN ALTERNATIVE INVESTMENTS

This article discusses the findings of the survey, using the terms tax-exempt fund and investor interchangeably to refer to respondents. Percentages are rounded in the text and shown to the nearest tenth of a percentage point in the exhibits.

The survey defines alternative investments (AI) as illiquid private investments that have not been registered with the Securities and Exchange Commission. It focuses on eight different types of strategies within the asset class, strategies typically grouped together under the rubric of "alternative investments."²

These strategies are buyout funds, venture capital, mezzanine financing, oil and gas programs, distressed companies, targeted investments, timberland (and/or farmland), and other. All strategies involve an equity or equity-like component (Exhibit 2).

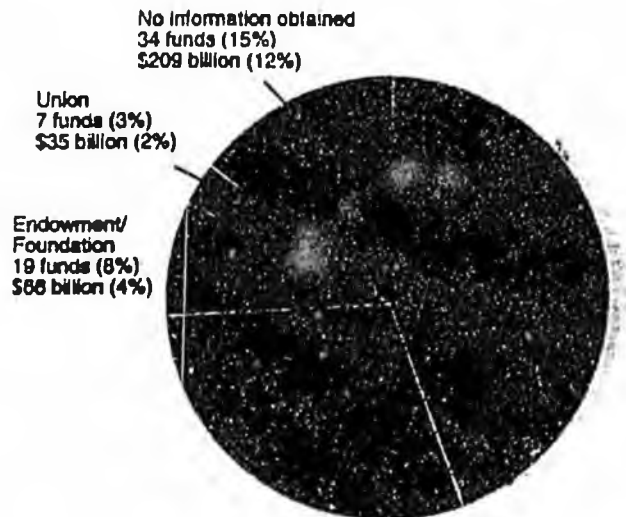
LARGEST FUNDS MOST ACTIVE IN THIS MARKET

One of the most impressive findings of the survey is the fast growth rate of this asset class. The assets held by tax-exempt funds have tripled over the past six years.

More specifically, in 1986 about one-third of the respondents in the survey held \$12 billion in this investment category (Exhibit 3). Today over half (54%) have invested a total of \$36 billion in alternative investments. This is a compound annual growth rate of 20%.

The survey reveals that the largest funds are most active in alternative investing (Exhibit 4). These investors dominate the asset category. By and large, they are the ones that have committed professional staff and developed consistent strategies within this

EXHIBIT 1 SURVEY PARTICIPATION: BREAKDOWN OF FUNDS SURVEYED



Total Funds Surveyed = 228, representing \$1.7 trillion assets
Total Funds Responding = 194, representing \$1.5 trillion assets

investment category.

Over 80% of investors with assets of \$10 billion or more participate in at least one alternative investment asset. Put another way, thirty-three funds with assets of \$10 billion or more account for 69%, or \$24.6 billion of all alternative investment assets.

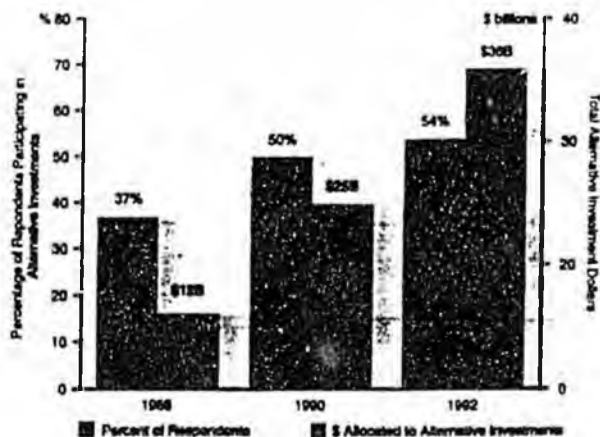
Among the remaining funds, those with assets from \$5 billion to \$9.9 billion account for only

EXHIBIT 2 ASSET ALLOCATION



Sources: *Pensions & Investments*, Goldman Sachs/Frank Russell 1992 Survey.

**EXHIBIT 3
ESTIMATED GROWTH OF ALTERNATIVE
INVESTMENTS**

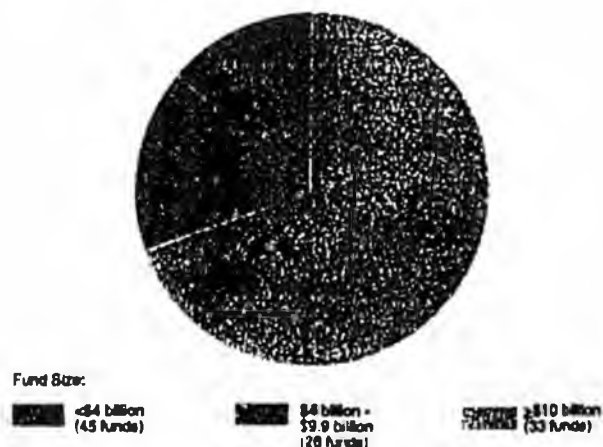


17.9%, or \$6.4 billion, while funds with under \$5 billion have 13%, or \$4.8 billion, in AI assets.

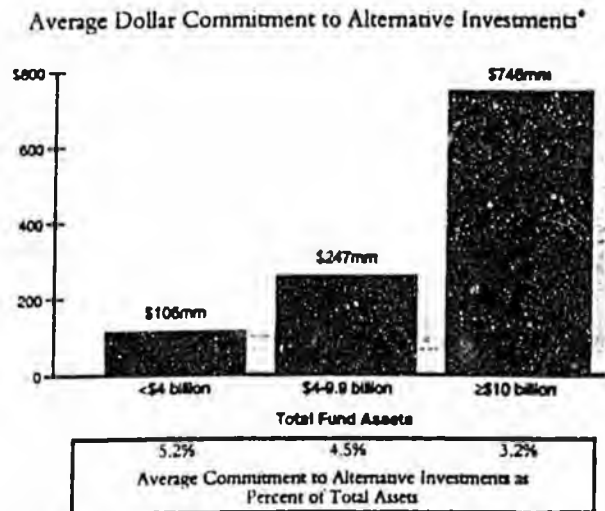
The largest funds certainly have significantly greater resources to investigate opportunities in this market. They also have the potential to obtain better returns and gain more control than smaller players. Furthermore, large funds can make significant investments in private equity without exceeding their asset allocation guidelines.

For example, funds with over \$10 billion in assets commit, on average, \$750 million to AI assets, versus a mere \$106 million for funds under \$4 billion (Exhibit 5). Yet alternative investments comprise only 3% of total assets for these giants, compared to 5% for the funds with under \$4 billion in assets.

**EXHIBIT 4
PARTICIPATION IN ALTERNATIVE
INVESTMENTS BY FUND SIZE**



**EXHIBIT 5
AVERAGE ALLOCATION TO ALTERNATIVE
INVESTMENTS BY FUND SIZE**



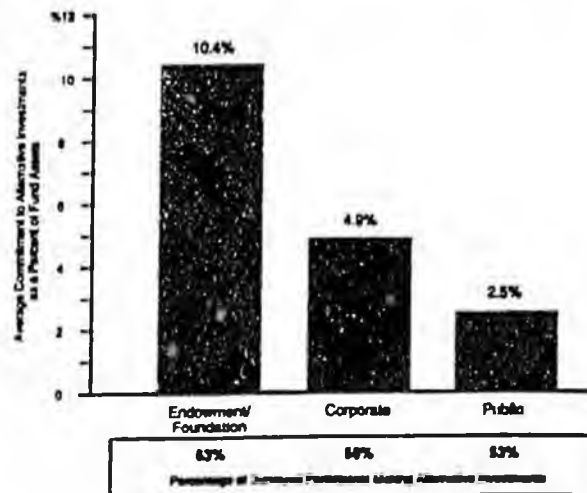
*Includes all funds committed whether drawn down or not.

This does not mean that smaller funds cannot invest efficiently in alternative investments. It just means that when they do, the investment usually involves a larger portion of their asset allocation. And it usually means that they invest more heavily in certain types of AI investment than do their larger peers.

BEHAVIOR DIFFERS BY FUND TYPE

The historical behavior of tax-exempt funds differs not only by fund size, but also by fund type (Exhibit 6). Endowments and foundations were the

**EXHIBIT 6
ALTERNATIVE INVESTMENTS BY FUND TYPE**



first to enter this market, investing steadily in the 1970s and 1980s. This early involvement probably stemmed from the long-range thinking of their boards, as well as a shorter chain of command. Even today, these funds are the most committed to alternative investing, keeping 10% of their assets in AI funds versus only 5% for corporate funds and 3% for public funds. Despite their smaller size, endowments and foundations continue to commit a greater portion of their assets to alternative investments than corporate or public funds.

Corporate and public funds did not start participating heavily in this market until 1982. Today their total investment in this asset class far surpasses the others. This fact is probably more a function of their size than a greater commitment.

In fact, corporate funds today lead their public fund peers, although the public funds appear to be catching up. With the possible exception of targeted investments (assets with a special component such as a social or geographic imperative), union pension funds that flirted briefly with the idea of alternative investing seem to be sitting on the sidelines. This may be the result of membership constraints.

THE EIGHT MAJOR INVESTMENT STRATEGIES

Our study breaks alternative investments into eight different investment strategies (Exhibit 2). Some of these, like venture capital and oil and gas programs, have been around for years, and thus have solid track records.

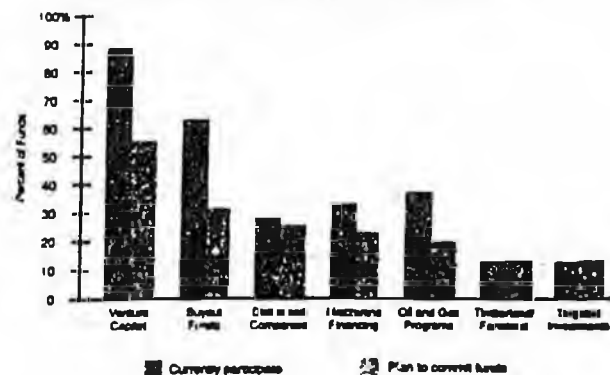
But others came of age in the 1980s. These include several corporate finance-related strategies such as leveraged buyout equity funds (LBOs), mezzanine financing (subordinated debt), and distressed companies (restructuring or bankruptcy funds). The remaining strategies include farmland and/or timberland and "targeted investments."

The alternative investment assets of respondents that did not provide a detailed breakdown were assigned to the "other" category. Coinvestments and project financings are likely to be among the investments in this category.

Inclusion of these newer strategies dramatically expands the AI category. This expansion has given AI assets more importance in the overall asset mix and is probably the reason why alternative assets are considered such an important, newly recognized asset class today.

EXHIBIT 7 FUND PARTICIPATION BY INVESTMENT STRATEGY

Percent of Funds that Participate in Each Investment Strategy and Plan to Commit Initial/Additional Funds



FUNDS DIFFER IN THEIR INVESTMENT MIX

When tax-exempt funds first consider AI investing, they usually start with venture capital, complementing it with one or two other strategies. Within this structure, most investors do not seem to have one preferred plan for AI asset allocation.

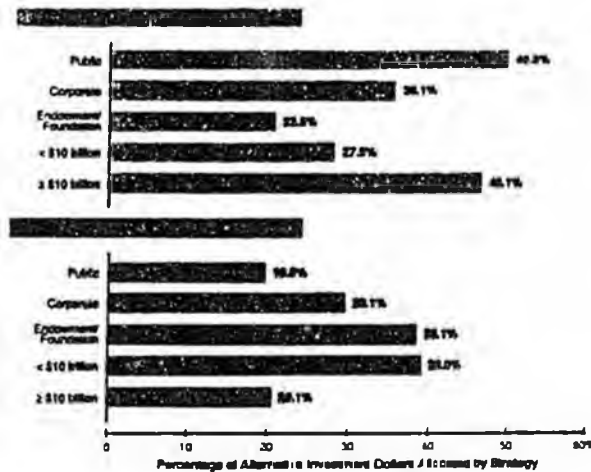
Given this pattern, it is no surprise that venture capital is the most popular asset on a participation basis (Exhibit 7). Almost 90% of the funds with alternative investments have allocated some dollars to this strategy. Investors also report that they are more interested in investing in venture capital in the future than in any other investment strategy.

Even though venture capital attracts more participants, however, it attracts far fewer dollars than leveraged buyouts (Exhibit 2). Investors have invested \$9 billion in venture capital versus \$14 billion in buyout funds.

LBOs represent 41% of all AI assets, which makes them the largest AI investment component (Exhibit 2). Venture capital comprises 26% of all AI assets, while mezzanine financing accounts for 10%. These top three strategies represent 77% of all AI assets. Of the remaining 23%, investors have put 7% in oil and gas programs, perhaps because these have been around the longest, 4% in distressed companies, 3% in targeted investments, 2% in timberland or farmland, and 6% in "other."

The popularity of LBOs is related to the size of each investment. Despite the attraction of venture capital, it is difficult for investors to commit large amounts of assets to these deals because of the small

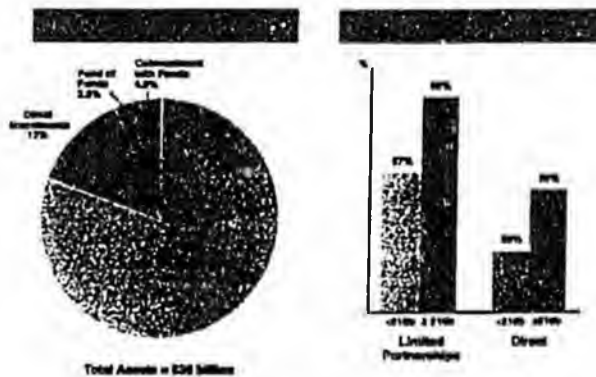
**EXHIBIT 8
LEADING STRATEGIES: INVESTOR PROFILES**



size of individual venture investments.

Leveraged buyouts, however, give equity investors an opportunity to commit large dollar amounts in far fewer deals. In doing this, the investor usually purchases significant control of a company. Given the asymmetry between the two most popular AI strategies, it is not surprising that large investors and public funds, in particular, gravitate toward buyout funds, while smaller investors, endowments, and foundations focus on venture capital (Exhibit 8).

**EXHIBIT 9
INVESTMENT PROCESS — VEHICLES***



*Limited partnerships and other commingled vehicles.

Coinvestment/Add-on Investment with Funds: The investor invests in parallel with or in different securities from the Limited Partnership.

Fund of Funds: A multiple-manager vehicle with investments in more than one fund.

Direct Investments: The investor does not use an intermediary such as a Limited Partnership or Fund of Funds.

The largest funds keep 46% of their AI assets in buyout funds, while public funds keep 50%. On the other hand, smaller funds have 39% of their assets in venture capital, while the largest invest only 20% in that strategy.

REASONS FOR INVESTING IN THIS ASSET CLASS

The study examines the main reasons funds invest in alternative investments. Predictably, 63% said they were looking for superior returns. But another 33% said their main motive was diversification. This is understandable because the volatility of this asset class has a low correlation with other asset classes. Of the remaining participants, 2% said they are looking for an inflation hedge, while 2% believe these assets enhance their reputation.

The lack of information about alternative investing has made it difficult to understand the investment process itself. To clarify this, the study looks at three different aspects of the process: the choice of investment vehicle; organization and decision-making; and monitoring and measurement.

THE POPULARITY OF LIMITED PARTNERSHIPS

Limited partnerships are by far the most popular investment vehicle, accounting for 80% of all alternative investment dollars (Exhibit 9). Direct investment accounts for 13%, while coinvestment with funds represents 4% and fund of funds are 3%.

With limited partnerships, investors can rely on outside experts for assistance in making their investment decisions. This is particularly helpful for smaller investors with limited staff.

Although many investors reported seeking out coinvestment opportunities with general partners, only the largest funds have been able to do this on a consistent basis. To date, coinvestment attracts approximately \$1.6 billion.

The study shows that limited partnerships have been, and will likely continue to be, the primary vehicle for alternative investing (Exhibit 9). But it also reveals that certain pressures are changing the typical partnership structure. As pension funds gain more experience in alternative investing, they want to take a more active role.

For instance, investors rank negotiating terms and conditions as the most important contractual issue. Additionally, investors are putting pressure on

partnerships to establish priority returns and to reduce the carry from the traditional 20%.

While some investors do not emphasize these cost issues, they do search for general partners that put their own capital at risk rather than relying solely on investors' capital. Overall, the bottom line seems to be a trend toward selecting a general partner with whom the investor can forge long-term partnerships.

Although direct investment is the second favorite investment vehicle, with 13% of alternative investment dollars, it is difficult to gauge whether more funds are going to move toward this vehicle in the future. There is no consensus on the subject.

Clearly, the largest and most experienced funds are those that do the most direct investing. They are also the ones that plan to do the most direct investing in the future (Exhibit 9). For example, 50% of the investors with over \$10 billion in assets plan to commit additional funds through direct investing, compared to only 25% of the smaller funds.

Direct investing allows the larger funds to avoid the fees charged by general partners. Many smaller funds say they would like to do more direct investing, but they simply do not have the resources, time, or staff to do the necessary groundwork.

DECISION-MAKING

Participation in alternative investments brings with it a unique set of risks and rewards. As private investments, these assets are much less liquid than traditional stocks and bonds. Thus the due diligence process is different, more complex, subjective, and more judgmental. In addition, investments must be held longer than many others to yield the expected results.

To determine whether investors handle this category differently, the study looks at who is responsible for the decision-making process, including the initial decision to participate in alternative investments; allocation by strategy; and, finally, selection of individual investments.

The study shows that top-level management exercises unusually strong control over this entire three-tier process. The investment committee or board of directors maintains total control over the first two decisions virtually 100% of the time. They maintain control over the selection of individual investments about two-thirds of the time. When they do give up control, the board or investment committee delegate the third tier of decisions to the chief investment officer or other professional staff

29% of the time and to an outside consultant 6% of the time.

Nearly half (49%) of the investors use outside consultants to help evaluate or manage this asset category. The study defines consultants as external advisors who provide either non-discretionary advice or handle selection and oversight of investments on a discretionary basis.

Looking at the specific functions performed by these advisors, survey respondents said they use consultants in an advisory capacity (22%), to handle due diligence (18%), to take on the entire decision-making process (6%), and as Qualified Plan Asset Managers (QPAMs) (3%).

MONITORING AND MEASUREMENT

There is no consensus among respondents about how to measure performance in this asset category. Although 52% report using a benchmark, there appears to be little consistency. Many funds consider their benchmarks to be proprietary information.

When it comes to measuring actual performance, most investors report turning this task over to the internal staff or the trustee bank. The respondents are split on measurement methods. 53% use internal rate of return as their primary method; 48% use time-weighted rate of return; and 16% use cash on cash.

A large majority of respondents (84%) say they would welcome development of generally accepted performance measurement standards for this asset class.

THE FUTURE OF ALTERNATIVE INVESTMENTS

Looking toward the future, 71% of the funds say they intend to expand their alternative investment assets in the future. This answer suggests a strong appetite for these investments. More specifically, the funds selected four strategies as most popular going forward: venture capital, buyout funds, distressed companies, and mezzanine financing.

Investors were also asked which *single* investment strategy they would favor if they were just starting out. The three top choices were venture capital (39%), buyout funds (16%), and mezzanine financing (8%), in that order.

However, when asked to select *three* investment strategies, investors still rank venture capital first (81%), but mezzanine financing is second

(56%) and buyout funds third (52%). This suggests that venture capital and mezzanine financing may be the leading alternative investment strategies in the future.

GREATER OPPORTUNITIES FOR INVESTORS

The timing seems right. Today, the economy has started to expand. Yet many traditional lenders are still relegated to the sidelines until they solve their own capital adequacy and loan problems.

In the meantime, pension funds, endowments, and foundations are filling this gap. These tax-exempt investors have suddenly become a much more important source of capital to the economy as a whole. Thus, they receive a much larger flow of more sophisticated transactions to evaluate and select from. And many of these transactions fall into the alternative investment category.

To evaluate and track these transactions may take more expertise than other investments. But with the potential for double-digit returns, clearly the rewards justify the extra effort.

It is clear today that alternative investments offer investors an unusual opportunity. By investing in these strategies, tax-exempt funds may achieve both the higher returns and the diversification they will need in the 1990s to succeed in the new, lower-return investment environment.

ENDNOTES

The authors wish to thank for their assistance with the research and preparation of this article: W. Blair Garff, Matthew A. Bernstein, and Jill Byatt of Goldman, Sachs & Co.; Sharon L. Hammel, Holly F. D'Annunzio, Heide L. Berger, and Sandra M. Sullivan of The Frank Russell Company; and April W. Klimley of Klimley Communications.

¹Sources for these figures: equities, the Russell 1000 index; cash, ninety-day Treasury bills; fixed-income, the Lehman Brothers Long-Term High Quality Government/Corporate Bond Index.

²Following is how the study defines the eight strategies commonly considered alternative investments:

Venture capital: Equity investments in companies that have undeveloped or developing products or revenue.

Buyout funds: Equity investments in public or private companies that result in the purchase of a significant portion or majority control of the company.

Distressed companies: Investments made through the purchase of debt or trade claims in companies that are in financial distress, restructuring, or bankruptcy.

Mezzanine financing: Investment in the subordinated debt of privately owned companies. The debtholder participates in equity appreciation through conversion features such as rights, warrants, or options.

Oil and gas programs: Investment in the exploration for oil and/or gas reserves or in the development of proven reserves.

Timberland or farmland: Investment in land to harvest timber or farm commodities.

Targeted investments: Investments that have a special component, usually related to geographical, economic, or social issues. These investments are sometimes referred to as "ETIs," or "economically targeted investments," and include investment in minority-owned businesses and state-financed housing.

Other: This category is a catchall that includes assets that respondents did not break down into individual strategies. Coinvestments and project financings may be among the investments in this category.

#6

Alaska Permanent Capital Management Company

900 West Fifth Avenue, Suite 701
Anchorage, Alaska, 99501

Phone: (907) 272-7575

Fax: (907) 272-7574

February 2, 1994

Mr. Carl Brady, Jr.
Board Member
Alaska Permanent Fund Corporation

VIA COURIER

Dear Carl:

Thank you for providing a copy of the Permanent Fund Trustees' Resolution 93-12 which sets in motion a legislative request to authorize Alternative Investment Strategies. Thank you, also, for a copy of the proposed legislation and the analysis thereof.

At the outset, allow me to comment that this proposal appears to have been well thought out. The Trustees started with the broad concept of Alternative Investments (which could have involved everything from investments in timber, agricultural land, and venture capital) and quickly narrowed it down to investments in corporate stock.

Having established that focus, certain important investment parameters were wisely established:

1. **Other institutional co-investors are required** This insures that additional participants—institutional investor peers—scrutinize each transaction.
2. **A significant level of other institutional participation is established.** When the Fund started real estate investing, it used the same approach and it provided for the important useful exchange of information between large funds. It also provided a needed comfort and confidence level and "eased" us into investments and relationships over time. This gave us an opportunity to expand our knowledge, increase our returns and revise and establish policy over a long protracted period.
3. **A cap is placed on the amount of such investment.** This is wise as it controls the amount of non-diversification which could occur and restricts the Fund to activity in the small and medium capitalization company field. You won't be able to join in the Paramount takeover under this legislation; and you shouldn't!!

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. Senate Bill No. 244

Revision Date:

Dept. Affected: Department of Revenue

Title: *An Act relating to investments of the permanent fund in certain limited partnerships each of who principal purpose is investment in securities of public or private companies; and providing for an effective date.*

BRU: APFC

Component: APFC

Sponsor: Senate Rules Committee by Request.

Requestor: SenateState Affairs.

COMPONENT SERIAL NO. 109

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	200.0	206.0	215.0	223.0	232.0	240.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	200.0	206.0	215.0	223.0	232.0	240.0

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

REVENUE FUND SOURCE:						
----------------------	--	--	--	--	--	--

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Corporation Receipts - 1022)	200.0	206.0	215.0	223.0	232.0	240.0
TOTAL	200.0	206.0	215.0	223.0	232.0	240.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) Impact: \$ -0-

ANALYSIS: (Attach a separate page if necessary) The Corporation intends to begin expending money for due diligence relating to these investments on July 1, 1994. These costs will include a "gatekeeper" fee similar to current real estate advisory fees; and will increase annually at the 3.75% inflation rate.

Prepared by: *William H. Scott*
 William H. Scott, Executive Director
 Division: Alaska Permanent Fund Corporation

Phone: (907) 465-2047
 Date: April 12, 1994

Approved by: Darrel J. Rexwinkel, Commissioner
 Commissioner:
 Agency: Department of Revenue

Date: _____

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

4. An effort is made to specifically exclude companies in the oil and gas sectors who may operate in Alaska. This, too, is prudent in that it would be wise to avoid even the appearance of involvement in this sector in an oil and gas state.

I think that you and the Trustees have done a fine job and that the request for the legislation is reasonable and well thought out. You are to be commended on reaching for the opportunity to increase bottom line yield and the passage of the legislation will permit that.

Finally, allow me to observe that the current legislative draft is adequate and will permit you to do the job. It is not as artfully written as I would have preferred because it appears to be preoccupied with the business form of how a transaction might be put together rather than the investment itself. Each transaction is different and it could be a limited partnership, a joint venture, a corporation, etc. Each venture might use a financial adviser, a consultant, a brokerage merger and acquisition team, etc. If I had a chance to rewrite the legislation, I would dwell on the investment, not who pulls the deal together and how it is organized.

I have taken the liberty of enclosing my view of more focused legislative verbiage.

As always, thanks for giving me an opportunity to comment. I enjoy being "kept in the loop" and hope that I have been constructive.

Please give my regards to the other Trustees.

Sincerely,



David A. Rose
Chairman

STATE OF ALASKA
Boards and Commissions

PERMANENT FUND

BOARD: Board of Trustees of the Alaska Permanent Fund Corporation

BOARD IDENTIFICATION NUMBER: 076

DEPARTMENT: Department of Revenue

AUTHORITY: AS 37.13.040

STATUS: Active

REQUIREMENTS: Financial Disclosure

PROHIBITIONS: Conflicts of Interest - Ownership of interest in entities in which corporation assets are invested; public members may not hold any other state or federal office/position except as a member of the armed forces.

TERM: 4 years

DESCRIPTION: 6 members appointed by Governor: 4 public members (may not hold any other state or federal office, position or employment, either elective or appointive, except as member of armed forces) with recognized competence/wide experience in finance, investments, or other business management-related fields; 2 heads of principal departments, 1 being the Commissioner of the Department of Revenue; board elects chair; vacancies to be filled promptly; terms of public members shall be staggered so that no more than one term of a public member expires each year.

FUNCTION: Manage and invest the assets of the permanent fund and other funds designated by law.

CHAIR: Board elects.

SPECIAL FACTS: Quorum - 4 members; may be removed by the Governor with a written explanation; report (by September 30) to Governor/Legislature/public.

COMPENSATION: Standard Travel and Per Diem. Public members receive honorarium of \$400 per day.

MEETINGS: 8 times per year; 10 days total.

FOR FURTHER INFORMATION CONTACT: Mr. William H. Scott, Executive Director, Alaska Permanent Fund Corporation, P.O. Box 25500 M/S 0401, Juneau, AK, 99802 5500, Phone: 907 465 2047, Fax: 907 586 2057

STATE OF ALASKA
Boards and Commissions

Membership Roster
PERMANENT FUND (076)

Member	Appointed	Reappointed	Term Exp.
Nancy Bear Usera Commissioner/Principal State Department Comm/DOA/P.O. Box 110200 Juneau, AK 99811-0200	11/27/91		
Carl F. Brady, Jr. Public 2100 Atwood Drive Anchorage, AK 99517	02/01/91	07/01/92	07/01/96
Oral E. Freeman Public 2743 Third Avenue Ketchikan, AK 99901	02/01/91		07/01/94
John T. Kelsey Public P.O. Box 527 Valdez, AK 99686	03/06/87	07/01/91	07/01/95
Darrel J. Rexwinkel Commissioner/Revenue Comm/DOR/P.O. Box 110400 Juneau, AK 99811-0400	10/01/91		
Ralph C. Seekins Public -- Chair 1625 Old Steese Highway Fairbanks, AK 99701	02/01/91	07/20/93	07/01/97

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. Senate Bill No. 244

Revision Date:

Dept. Affected: Department of Revenue

Title: "An Act relating to investments of the permanent fund in certain limited partnerships each of who principal purpose is investment in securities of public or private companies; and providing for an effective date."

BRU: APFC

Component: APFC

Sponsor: Senate Rules Committee by Request.

Requestor: Senate State Affairs.

COMPONENT SERIAL NO. 109

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	200.0	206.0	215.0	223.0	232.0	240.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	200.0	206.0	215.0	223.0	232.0	240.0

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

REVENUE FUND SOURCE:						
-----------------------------	--	--	--	--	--	--

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Corporation Receipts - 1022)	200.0	206.0	215.0	223.0	232.0	240.0
TOTAL	200.0	206.0	215.0	223.0	232.0	240.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ -0-

ANALYSIS: (Attach a separate page if necessary) The Corporation intends to begin expending money for due diligence relating to these investments on July 1, 1994. These costs will include a "gatekeeper" fee similar to current real estate advisory fees; and will increase annually at the 3.75% inflation rate.

Prepared by: William H. Scott, Executive Director
 Division: Alaska Permanent Fund Corporation

Phone: (907) 465-2047
 Date: April 12, 1994

Approved by: Darre J. Rexwinkel, Commissioner
 Commissioner: Department of Revenue
 Agency:

Date: 4/14/94

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information call the Governor's Legislative Office

Permanent Fund changes asked

BRIAN S. AKRE

ASSOCIATED PRESS

The Alaska Permanent Fund board of trustees wants legislative permission to invest a portion of a state's oil-wealth savings account in limited partnerships.

But one trustee questions the wisdom of putting hundreds of millions of dollars into limited partnerships, an area of investments he considers too broad and risky.

The trustees also are asking lawmakers to lift the restriction that prevents the fund from investing in more than 40 percent of any building or other real estate.

Supporters say the changes would allow the fund to adapt to a changing investment market and continue bringing in high returns that lead to larger dividends for Alaskans.

The two changes are in Senate Bills 244 and 245, introduced on behalf of the board. Both are scheduled to have their first hearing Friday before the Senate State Affairs Committee.

SB244, the limited partnership bill, is expected to generate the most debate.

Limited partnerships are investments usually sold through brokerage firms. Investors put up cash that typically goes toward real estate, stock or major developments, such as oil and natural gas drilling projects.

The limited partners risk only

The board wants legislative permission to invest some of the state's savings in limited partnerships, which carry a higher return but also a higher risk.

their investment, while the general partner who puts the deal together assumes the legal liability. In return, investors can receive income, capital gains and tax benefits.

Under state law, the Permanent Fund invests only in domestic and foreign stocks, government bonds, real estate, mortgage securities and Treasury bills.

SB244 would only allow investments in limited partnerships that are principally invested in corporate stocks. It would require the general partner to have at least five years experience managing large securities investments. The fund could contribute no more than 60 percent of the capital for the investment.

Total investment in limited partnerships could not exceed 5 percent of the Permanent Fund, or about \$750 million under the fund's current value.

The legislation has been nar-

then for legislation that would allow investments in the far broader category of "alternative investment strategies," which also includes leveraged buyouts, oil and gas projects, and commodities such as timber.

The board, on a 5-1 vote, approved a resolution directing its staff to seek such legislation.

But the staff "toned down" the legislation in light of trustee Oral Freeman's objections, research officer Jim Kelly said.

"It was just too wild. He didn't think in an election year the Legislature would give the board the authority, basically, to do anything it wants to do."

There initially were concerns that the change was being pushed as a way to get the fund to invest in the trans-Alaska natural gas pipeline, which Gov. Walter J. Hickel has promoted for years.

But SB244 would specifically prohibit investment in limited

operations in Alaska.

Freeman cast the only dissenting vote on the alternative investment resolution. He still opposes the narrower legislation that resulted, saying the term "limited partnership" is too vague.

Freeman said Monday that while limited partnerships promise greater returns, they also come with greater risk of big losses.

Senate President Rick Halford, R-Chugiak, referred both bills to four committees each - a long path to travel through one chamber. He did not return phone calls for comment Friday and Monday.

Rep. Terry Martin, R-Anchorage, said the Legislative Budget and Audit Committee introduced the bill Friday simply to open up the issue for discussion. He, too, doubted it would go far.

SB245, which would remove the provision in state law that says the fund cannot own more than 40 percent of any real estate investment, has a better chance of gaining passage, Martin said.

The fund began investing in real estate in 1983. The 40 percent limit was intended to reduce the risk of being a novice investor by allowing the fund to use the expertise of experienced partners.

In a recent memo to the board, Pete Jeans, the fund's real-estate