

HB

156

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: March 24, 1999

FURTHER REFERRALS:

Finance

Date of Committee Action: 4/15/99

The STATE AFFAIRS Committee considered:

HB 156

HOUSE BILL NO. 156

PERMANENT FUND INVESTMENTS

"An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date."

recommends it be replaced with the following committee substitute CSHB 156 (STA) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) REV fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Janette James</i>	✓			
<i>Hal Smalley</i>	✓			
<i>Bern Bertulok</i>	✓			
<i>John Coffey</i>			✓	
<i>Bill Hudon</i>	✓			
<i>Scott Gier</i> DO NOT RECORD →	✓			
			✓	

CHAIR'S SIGNATURE *Janette James*

AMENDMENT

OFFERED IN THE HOUSE
TO: HB 156

BY REPRESENTATIVE KERTTULA

- 1 Page 6, line 20:
- 2 Delete "50"
- 3 Insert "55 [50]"

OK on CS!
Jook final to Clerk
4/15/99

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Business Officer | February 1999

College and University Endowments Continue to Run with the Bulls

1998 NACUBO Endowment Study

by Jay Teixeira

Each year in Pamplona, Spain, hundreds of people from around the world gather to watch the annual running of the bulls. The race, which can be dangerous, provides a thrill to both the runners and observers who do not know what the outcome will be.

This past fiscal year, college and university endowments resembled the annual event in Pamplona. Endowment managers worked hard to keep one step ahead, even with a bullish stock market and a strong economy, to propel institutional endowment earnings into the double digits.

Endowment pools for colleges and universities earned an average return of 18 percent in the fiscal year ending June 30, 1998. This became the seventh time in the 1990s that double-digit returns were recorded and represents the second highest rate of return in a decade, according to the results from the 1998 NACUBO Endowment Study (NES). Institutional returns ranged from 38 percent to 3.7 percent, according to the annual study conducted for NACUBO by Cambridge Associates Inc., an investment research firm.

The equal-weighted mean return of 18 was below last year's average return of 20.4 percent, but higher than fiscal 1996's return of 17.2 percent. In addition, benchmark market indexes also experienced investment growth in fiscal year 1998. The S&P 500 had a 30.2 percent return rate, above the Wilshire 5000's return rate of 28.9 percent. The Lehman Brothers Aggregate Bond Index registered a 10.5 percent return rate. The Consumer Price Index for the period was 1.7 percent.

The equal-weighted mean nominal total return of the 508 institutional investment pools represented in the NES was 18 percent, while the dollar-weighted mean was 18.6 percent. (The dollar-weighted mean is provided as a precise measure of the actual returns produced by aggregate invested assets of

Resource Link
Institutions that are interested in participating in the fiscal year 1999 endowment study should contact Stephanie Woodfork, program manager in NACUBO's Center for Accounting, Finance, and Institutional Management, at telephone 202-861-2518 or e-mail swoodfork@nacubo.org

Tables:

[Institutional Ranking](#)

[Investment Pool Asset Allocation](#)

[Investment Pool Nominal Returns](#)

NACUBO would like to thank these firms for their financial support of both the 1998 NACUBO Endowment Study and the 1998 NAIS/NACUBO Endowment Study.

PRIMARY

CONTRIBUTOR

Cambridge Associates Inc.

PRESIDENT'S CIRCLE

Grantham, Mayo, Van Otterloo & Co., LLC
John W. Bristol & Company Inc.

PLATINUM

Alliance Capital Management L.P.
Bankers Trust Company Commonfund
Dresdner RCM Global Investors LLC
Fayez Sarofim & Company
Fidelity Investments Tax-Exempt Services Company
First Union Corporation
INVESCO
Iridian Asset Management

Morgan Grenfell Inc.
Pequot Capital Management Inc.

GOLD

Bank Boston
BARRA Rogers Casey

participating institutions.) The median return was 17.9 percent.

Nearly 700 colleges and universities were surveyed, 503 responded, from 162 public and 346 independent institutions. Public institutions reported a 18 percent, equal-weighted mean nominal total return rate, while independent colleges and universities had a nominal total return rate of 17.9 percent.

Investment Holdings Surpass \$178 Billion Mark

The responding 508 colleges and universities hold \$178.2 billion in endowment assets. More than 80 percent of the endowment wealth is held by the top 124 institutions, each with endowments of more than \$300 million. The 124 largest endowment pools had combined total assets of \$143 billion as of June 30, 1998, or 81 percent of all endowment assets reported, according to the study. In addition, 31 institutions or 6.1 percent have endowment assets over \$1 billion. Of the total pool, \$7.9 billion, or 4.4 percent, is held by 201 institutions, all with assets of \$75 million and under. The list of institutions ranked by market value of endowment assets begins on page 32.

Of the total endowment assets reported by endowment composition, \$77.95 billion or 58.5 percent, represented true endowments assets donated as permanent capital, with only the income available to be spent. The remaining assets constituted quasi-endowment (\$46.6 billion, or 35 percent), term endowment (\$2.81 billion, or 2.1 percent), and funds held in trust by others (\$5.9 billion, or 4.4 percent).

Expenditures

Total expenditures from endowments were at 5.5 percent, down 0.2 percent from 5.7 percent in fiscal 1997, according to the NES. The equal-weighted mean total expenditures for public institutions was 5.9 percent, while the rate for independent institutions was 5.3 percent. Total expenditures from endowments include endowment payout, investment management and custody expenses, and other distributions from the endowment.

Stable Investment Patterns

As of June 30, 1998, 88.5 percent of the assets of participating institutions was invested in marketable securities (including common stock, fixed income, cash and cash equivalents, hedge funds, distressed securities, event arbitrage, and high-yield bonds), 5.2 percent in nonmarketable securities (including venture capital, buyouts, and oil and gas), 4.3 percent in

Callan Associates Inc.
Evaluation Associates
Morgan Stanley Dean
Witter & Company
Nicholas-Applegate
Capital Management
Trusco Capital
Management
U.S. Trust Company
W.P. Stewart & Company
Inc.

SILVER

American Express Asset
Management Group Inc.
BANK ONE
CORPORATION
Brandywine Asset
Management
Capital Guardian Trust
Company
Clay Finlay Inc.
Dimensional Fund
Advisors Inc.
Dodge & Cox Inc.
Fifth Third Bank
John McStay Investment
Counsel
Luther King Capital
Management
Payden & Rygel
PNC Private Bank
PricewaterhouseCoopers
LLP
Scudder Kemper
Investments Inc.
The Northern Trust
Company
Vaughan, Nelson
Scarborough &
McCullough, L.P.
Western Asset
Management Company

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NM Capital Management
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Company Inc.
State Street Global
Advisors
Trade Street Investment
Association Inc.
Trevor Stewart Burton &
Jacobsen
Trinity Investment

noncampus real estate, 0.4 percent in campus real estate, and 1.6 percent in other investments.

Management Corporation
Virchow, Krause &
Company LLP

Investment patterns have changed very little over the past several years. On average, independent institutions' allocations to marketable securities decreased from 88.3 percent last year to 87.1 percent in fiscal year 1998, while their investment in nonmarketable securities grew from 5.5 percent in fiscal 1997 to 6 percent. Public colleges and universities increased their allocation to marketable securities from 91.5 percent in fiscal year 1997 to 91.8 percent in fiscal year 1998. The average public institution decreased its allocation to nonmarketable securities from 3.6 percent to 3.3 percent in fiscal year 1998, the study found.

Industry Standard

The NACUBO Endowment Study (NES), first published in 1974, provides colleges and universities with data to compare their year-end performance results with institutions that have similar endowment characteristics and investment objectives. The study also presents an overview of changes in endowment composition.

The NES measures the performance of a substantial majority of college and university endowments. The study is the industry standard for evaluating the institutional performance and management priorities of college and university endowments.

In 1992, NACUBO began an effort to provide endowment performance information to independent schools. The annual NAIS/NACUBO Endowment Study, which is published in March, is an abbreviated form of the endowment study for members of the National Association of Independent Schools.

Ordering Information: The 1998 NACUBO Endowment Study (Item No. NC 1480) is available for \$69.95 to NACUBO members and \$94.95 for nonmembers. The NES Executive Summary (Item No. NC 1485) highlights important data and provides analysis of survey results. The executive summary, which is aimed at presidents and governing board members, is \$24.95 for members and \$34.95 for nonmembers.

A 35 percent discount is offered for orders of five or more copies of the NES or the Executive Summary. To order, send credit card information, a check, or a purchase order to NACUBO Publications, P.O. Box 96164, Washington, DC 20090-6164. "NU 1231" must appear on all purchase orders.

Participating institutions and firms that support the NES receive a complimentary copy of the report.

The Stock Market Roller Coaster Ride: Institution Endowments Make Comeback

Over the past several months, college and university endowments have taken a roller coaster ride on the stock market. Problems in Asia, Russia, and currently in Brazil, have caused the stock market to fall by as much as 19 percent in September, before roaring back in the final quarter of 1998.

The figures reported in the 1998 NACUBO Endowment Study are for the fiscal year ending June 30, 1998. Thus, this year's study does not reflect the current volatile conditions in the stock market.

Upon surveying college and university endowment managers, most said that their institution's endowments are back on track-earning sufficient returns. However, in August and September of 1998, when the market was experiencing the effects of the Asian and Russian economic crises, several college and university endowments experienced as much as a 13 percent decrease in their value, thereby causing many business officers to worry that the "boom years" might be coming to an end.

"We were affected by the drop in the market ... as much as 10 percent," said Alex Huppe, director of public affairs at Harvard University. "But we bounced back nicely when the market rebounded."

Harvard University has the largest endowment in the country and its recent activity mirrored that of other's institutions across the nation. However, college and university endowments are bouncing back, due to their diversified portfolios and upswings in the market, propelled by strong increases in technology stocks.

At the University of Texas System, the recent recovery in the stock market has helped, but the university has not regained all of its losses. The endowment at the university system was down about 13 percent, said Thomas Ricks, president and chief executive officer at the University of Texas Investment Management Co. As of early January 1999, the University of Texas System had recovered about 11 percent of its initial losses, Ricks stated.

September, the Pitt endowment was down 8 to 10 percent. However, the endowment has now recovered. The university has an overall endowment investment philosophy of having a diversified portfolio, stated Marlin Pease, director of finance and assistant treasurer at Pitt.

"We've made no changes in our investment strategy due to recent downturns in the market," Pease said. "We have an investment policy that's long-term. It's an all weather policy."

-Jay Teixeira



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Send comments and/or questions to [Pierce McManus](#)

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Investment Pool Asset Allocation (%)
As of June 30, 1997

Responding Institutions	Domestic Common Stock	Foreign Currency Common Stock	Domestic Fixed Income	Foreign Currency Fixed Income	Domestic Cash and Cash Equivalents	Equity Real Estate	Mortgage Real Estate	Faculty Mortgages	Venture Capital	Buyouts	H F
In Aggregate											
Equal-Weighted Mean	52.6	11.2	23.4	1.8	4.8	1.6	0.3	0.1	0.9	0.3	1.
(Dollar-Weighted Mean)	45.3	14.8	17.4	2.5	3.5	4.0	0.1	0.1	3.0	1.9	3.
Median	53.7	11.6	23.1	0.0	3.2	0.1	0.0	0.0	0.0	0.0	0.
By Investment Pool Size (Dollar-Weighted Mean):											
\$25 million and under	51.8	7.3	29.9	1.3	6.1	0.8	0.4	0.1	0.2	0.0	1.
Over \$25 million-\$100 million	55.7	10.5	24.1	1.8	4.5	1.2	0.3	0.1	0.4	0.0	0.
Over \$100 million-\$400 million	51.6	12.8	21.7	1.8	4.3	1.9	0.2	0.2	1.1	0.3	2.
Over \$400 million	42.3	15.9	15.2	2.8	3.1	5.0	0.1	0.1	3.9	2.6	4.
By Type (Dollar-Weighted Mean):											
Public	51.5	12.8	21.2	3.6	3.7	2.0	0.0	0.7	1.2	0.4	0.
Independent	43.6	15.3	16.3	2.2	3.4	4.6	0.1	0.1	3.5	2.3	4.

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Investment Pool Nominal Returns (%) Years Ended June 30

	1 Year	3 Years	5 Years	10 Years
Responding Institutions	1997	1995-97	1993-97	1988-97
In Aggregate				
Equal-Weighted Mean	20.4	17.7	13.7	11.5
Dollar-Weighted Mean	21.8	19.7	15.3	11.2
Median	20.3	17.6	13.8	11.5
By Investment Pool Size (Equal-Weighted Mean):				
\$25 million and under	19.0	15.9	12.0	10.4
Over \$25 million-\$100 million	20.1	17.4	13.4	11.2
Over \$100 million-\$400 million	20.9	18.0	14.1	11.7
Over \$400 million	21.6	19.4	15.1	12.2
By Type (Equal-Weighted Mean):				
Public	19.9	17.3	13.3	11.2
Independent	20.7	18.0	14.0	11.6
Market Indexes:				
S&P 500	34.7	28.9	19.8	14.6
Wilshire 5000	29.3	26.7	19.1	14.0
LB Aggregate	8.2	8.5	7.1	8.8
CPI (U)	2.3	2.7	2.7	3.5

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Institutions Ranked by Fiscal Year 1997 Market Value of Endowment Assets

	Institution	Endowment Assets (\$000s)	Life Income Fund Assets (\$000s)	Reporting Period if Other Than June 30
1	Harvard University	10,919,670	513,532	
2	Texas System, University of	6,709,945	22,283	
3	Yale University	5,742,000	51,200	
4	Princeton University	4,940,900	124,458	
5	Stanford University	4,473,825	193,177	August
6	Emory University	4,273,543	14,832	
7	California, University of	3,133,252	36,165	
8	Massachusetts Institute of Technology	3,045,756	66,997	
9	Columbia University	3,038,907	NA	
10	The Texas A&M University System and Foundations	2,951,463	48,188	
11	Washington University	2,798,221	47,381	
12	Pennsylvania, University of	2,535,312	52,044	
13	Rice University	2,321,757	133,785	
14	Cornell University	2,125,070	129,934	
15	Chicago, University of	2,031,131	71,218	
16	Michigan, University of	1,988,835	56,402	
17	Northwestern University	1,798,900	125,000	
18	Notre Dame, University of	1,467,808	31,369	
19	Vanderbilt University	1,339,788	71,392	
20	Dartmouth College	1,277,753	63,530	
21	Southern California, University of	1,204,672	174,830	
22	Case Western Reserve University	1,157,600	30,297	
23	Johns Hopkins University	1,156,598	84,465	
24	Duke University	1,134,290	56,170	
25	Virginia, University of	1,098,539	14,438	
26	Minnesota and Foundation, University of	992,726	34,056	
27	California Institute of Technology	978,192	127,124	
28	Brown University	949,574	29,961	



Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

April 7, 1999

Representative Jeannette James
Chair, House State Affairs Committee
Capitol Room 102
Juneau, Alaska 99811

Dear Representative James:

I am writing to request that you schedule House Bill 156 in the House State Affairs Committee at your earliest convenience.

This bill, which would provide increased flexibility investment for the Alaska Permanent Fund Corporation (APFC) Board of Trustees is an important piece of legislation which could help the state earn an additional \$300 million per year on average over the next 20 years.

We look forward to testifying in support of this bill at your earliest convenience. Thank you.

With warm regards,

A handwritten signature in cursive script that reads "Jim Kelly".

Jim Kelly
Director of Communications

c: Byron I. Mallott
Board of Trustees

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: HB 156

- 1 Page 6, line 20:
- 2 Delete "50"
- 3 Insert "55 [50]"

Yes ~~NI~~
No II

Alaska State Legislature

REPRESENTATIVE
GAIL PHILLIPS
Chair

SESSION ADDRESS
State Capitol
Juneau, Alaska 99801-1182
(907) 465-2689
Fax: (907) 465-3472

Legislative Budget and Audit Committee

TO: Representative Jeannette James, Chair
House State Affairs Committee *Jeannette*

FROM: Representative Gail Phillips, Chair
Legislative Budget and Audit Committee *Gail*

DATE: April 6, 1999

RE: HB 156 – Request for Hearing

On the behalf of the Legislative Budget and Audit Committee, I respectfully request a hearing be scheduled as soon as possible for HB 156 "An Act relating to investments by the Alaska Permanent Fund Corporation (APFC) and providing for and effective date".

I have attached a sponsor statement, a sectional analysis prepared by APFC legal counsel, and additional explanatory materials.

Thanks for your consideration of this request.

attachments

cc: Jim Kelly, APFC

GP:tm

INTERIM ADDRESS

345 W. Sterling Highway, Suite 102B, Homer, Alaska 99603 (907) 235-2921 Fax: (907) 235-4008

Alaska State Legislature

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GAIL PHILLIPS
Chair

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Legislative Budget and Audit Committee

SPONSER STATEMENT / House Bill 156

“An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date”.

The Legislative Budget and Audit Committee (LBAC) is charged with oversight of the Alaska Permanent Fund Corporation (APFC). Specific to this legislation, AS 24.20.151 (2) under purposes of the Committee reads “holding these agencies (lending or investment entities) accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature”.

On March 4, the APFC submitted this legislation in draft along with explanatory materials to LBAC members for their review. On March 23, the APFC presented this legislation to the Committee and the members present agreed unanimously to introduce it, without revision, in both bodies.

House Bill 156 modernizes the operations of AS 37.13.120, the statutes that set out the “legal list” of permissible investments of APFC assets. The revisions requested in this legislation are aimed at providing increased investment flexibility, reduced risk, and hopefully increased returns for the Permanent Fund.

Specifically House Bill 156 allows the trustees to invest up to 5% of Fund assets to: (1) make or retain greater asset class commitments than currently allowed; and /or (2) invest in individual securities or instruments that are not expressly permitted. However, the legal list approach is maintained and current asset allocations, while modestly expanded, remain in place.

This legislation is accompanied by a detailed sectional prepared by APFC legal counsel and a letter from the Fund’s investment consultant, Callan Associates which addresses the need for the most significant proposed change, the 5% “basket clause”.

As you know, any revisions to APFC investment policy require careful consideration on our part, the legislature. The APFC stands ready to assist you in your review of the more detailed aspects of this legislation.

INTERIM ADDRESS

345 W. Sterling Highway, Suite 102B, Homer, Alaska 99603 (907) 235-2921 Fax: (907) 235-4008




Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500
(907) 465-2047

MEMORANDUM

DATE: April 2, 1999

TO: Representative Gail Phillips
Chair, Legislative Budget & Audit Committee

FROM: Jim Kelly 
Director of Communications

SUBJECT: Bill Analysis for HB 156/SB 115

Attached below is a bill analysis prepared for HB 156/SB 115, "An Act relating to investments by the Alaska Permanent Fund Corporation; and providing for an effective date." Originally drafted March 4, 1999 by APFC legal counsel Ron Lorensen, it has been slightly revised to conform with the bill as approved for introduction by the Legislative Budget & Audit Committee.

At the Board of Trustees' request, I have prepared a draft of proposed legislation to make a number of technical and other changes to improve and modernize the operation of AS 37.13.120, the section that sets out the "legal list" of permissible investments of Fund assets. Working within the framework of the existing "legal list," the proposed changes are intended to provide more internal consistency and greater flexibility for Fund investments in light of the tremendous changes in financial markets and investment vehicles that have occurred since the list was enacted in the early '80's.

The draft has been prepared in regular legislative drafting style, with additions to existing text underlined and deletions shown in square brackets and in all capital letters. These changes are summarized, by investment category (fixed income, equity, or real estate), below. As appropriate to illustrate a particular change, further explanation and/or "real world examples" of the effect of a proposal are separately set out in italicized text.

1. Fixed Income.

(a) Amending paragraph (g)(8)(A) (at page 2, line 24) to delete the requirement that short-term domestic promissory notes be "of the highest ratings assigned by a nationally recognized rating service" and to require, instead, that these notes be "investment grade."

"Investment grade" is the quality level required of all other debt instruments under the statute, so this change will provide for consistency.

(b) Amending paragraphs (g)(7) (at page 2, line 19) and (g)(19) (at page 5, line 12) to change the existing reference to "debt securities" to "debt instruments."

For many purposes, the terms "debt securities" and "debt instruments" are used interchangeably. However, their formal definitions as set out in Barrons' Dictionary of Finance and Investment Terms are slightly different, with "debt instruments" having a somewhat broader scope than "debt securities." This change would avoid any issue that a particular instrument does not qualify as a "debt security" for investment of Fund assets. Since the quality of a particular investment would still have to be rated investment grade, this change would not affect applicable risk considerations.

(c) Amending subsection (j) (at page 6, line 23), which prohibits investment in bonds on which any regular interest payment has been defaulted within the last five years, to substitute "debt instruments" for "bonds."

This change would conform the terminology used in this provision to the change in terms from "debt securities" to "debt instruments" described above at (b). There is no apparent reason why the restriction in investing in debt that has defaulted on interest payments should be limited only to bonds.

2. Equities.

(a) Amending subsection (h) (at page 5, line 29), which limits the situations in which the Board may enter into futures contracts for the sale of assets held by it, to permit the use of futures contracts to implement asset allocation strategies in the Fund's equity portfolio.

APFC experience has shown that there are a number of situations in which the use of futures contracts in furtherance of its asset allocation strategies can improve performance in the Fund's equity portfolio. For example, when one of the APFC's managers is holding cash as part of its portfolio (either in anticipation of a planned purchase of new or additional equities or as the result of the liquidation of a part of its portfolio at the direction of the APFC), the manager can avoid the opportunity cost of not being fully invested in equities by purchasing S&P 500 Futures contracts, in effect "equitizing" the cash balance until it is needed, at which point the S&P 500 Futures would be sold. The same benefit from the use of S&P 500 Futures can also be seen on a larger scale when realignments in the Fund's investments are made either to implement changes in the Board's asset allocation plan or to bring the Fund's asset mix back within established allocation guidelines.

(b) Amending the first sentence in subsection (i) (at page 6, line 3), which establishes a five percent limitation on ownership of voting stock of a corporation, to change the word "own" to "acquire" for purposes of determining when the percentage limitation is to be applied.

As presently worded, the limitation on "ownership" might actually come into operation at some time after the stock is purchased (acquired) by the Fund, thus forcing the Fund to sell a portion of its holdings in the corporation, even though the Fund satisfied the five percent limit at the time the stock

was purchased. This could happen, for instance, if a corporation were to buy back and then retire a portion of its own voting stock, thereby reducing the total shares outstanding and--at the same time--effectively increasing the Fund's percentage ownership of those remaining shares.

3. Real Estate.

(a) Amending subsection (e) (at page 1, line 5), which prohibits the Alaska Permanent Fund Corporation (APFC) from borrowing money, to explicitly permit borrowings against real estate assets so long as the obligation to repay those borrowings is secured and can not be enforced directly against the APFC or the Fund.

In connection with real estate, properly managed leveraging may improve the rate of return on the Fund's real estate investments or reduce risk by reducing the cash investment in an asset. In addition, several title-holding general partnerships through which the Fund currently invests in real estate have borrowed money in the past, and there is some question whether, given the Fund's status as a general partner in those partnerships, those borrowings might constitute either borrowings by the Fund or a guaranty of the obligations of another. The change would address this uncertainty by specifically authorizing debt financing for a particular real estate investment without subjecting any other investment of the Fund to the risks of the borrowing.

A real world example is the Fiesta Mall in Mesa, Arizona. A tenant of the mall requested that the mall be expanded to accommodate its square footage needs. Although the APFC considered the additional investment to be appropriate, one of the APFC's partners in the property was either unable or unwilling to invest more cash in the property. The only way to retain the tenant was to finance the expansion of the property through debt which was

incurred in the name of the partnership and which was without recourse to the APFC.

(b) Substantially revising paragraph (g)(16) (beginning at pages 3, line 27), which deals with limitations on investments in real estate. Presently, that provision includes a set of investment limitations that apply only to real estate investments in which the Fund has invested more than \$150 million, one of which is the requirement that the Fund not own more than 67% of an investment exceeding the \$150 million threshold. The existing provision also effectively precludes the Fund from acquiring undeveloped real estate, even though that real estate offers the opportunity to enhance the value of an existing Fund-owned property through expansion.

The proposed amendment eliminates the 67% ownership limitation for real estate investments that exceed \$150 million. This current restriction limits the APFC's ability to negotiate on large transactions, since competitors are aware that the Fund is limited to 67% ownership. A real world example of this problem is where the contract of a partnership or limited liability company contains a "buy-sell" provision in which one of the partners can either take full control of an asset or exit the asset by picking a price and forcing the remaining partners to decide whether to buy or sell at that price. The Fund currently owns three assets with total values exceeding \$150 million. If a partner in one of those properties were to exercise a buy-sell option, the price it offered might be artificially affected because it knows that the APFC could not legally elect to be a buyer of more than 67% of that asset.

The amendment also allows the APFC the ability to acquire undeveloped real estate tied to an existing property in order to enhance that property and/or to retain tenants. A real world example of the problem this amendment addresses is where a tenant whose business is growing decides that it needs more space. The tenant might request that the property owner(s) expand the building that it is currently

renting. Sometimes this expansion can only occur by purchasing a neighboring vacant lot and constructing a build-to-suit project in close proximity to the property. Under the statute as it presently reads, the Fund could not acquire the vacant lot for that purpose and might lose the tenant as a result.

(c) Adding a new paragraph (21) to subsection (g) (at page 5, line 19) to authorize the Fund to make real estate investments through title holding corporations and "securitization" structures or other investment vehicles, so long as the assets owned by the entity in which the Fund invests consist predominantly of real estate equity and debt investments of a type in which the Fund would otherwise be permitted to invest.

This change would address two lingering legal questions regarding the permissible contours of the Fund's real estate investment portfolio. First, it would make clear that the Fund may hold real estate assets indirectly through separate title-holding entities or other investment vehicles (such as real estate investment trusts--REITs--and commercial mortgage-backed securities programs) by explicitly authorizing those alternate investment forms. Second, it would allow the Fund's real estate portfolio to include pools of real estate assets that might contain some foreign properties, so long as a particular pool of assets is predominantly made up of U.S. real estate. Currently, because the statute limits the Fund to investments in real estate located in the United States, the APFC's REIT manager has been advised that it may not purchase shares of a REIT which contains even one foreign property. This restriction has precluded investment in several REITs from which the investment manager believes the Fund could obtain solid returns, even though the foreign property holdings of those REITs are quite limited.

(d) Amending subsection (i) (at page 6, line 3), which establishes a five percent limitation on ownership of voting stock of a

corporation, to make the five percent limitation inapplicable to interests in real estate title-holding corporations, REITs, and other real estate co-investment vehicles.

On its face, the current language prohibits the Fund from investing in more than five percent of the voting stock of any corporation. A literal application of this limitation would have the effect -- presumably not intended by the original drafters -- of precluding the Fund from engaging in the typical institutional practice of setting up separate title-holding corporations to insulate itself from liabilities arising from ownership of real estate. A real world example of this concern is a limited liability company in which the APFC is a majority co-owner. It may at some point be advantageous to convert the ownership to common stock, yet the APFC would not be able to do this because of the five percent limitation since the Fund would then own more voting stock than legally allowed.

4. General/Non-specific Changes:

(a) Revising paragraphs (g)(7), (g)(8) (beginning at page 2, line 19), (g)(14) (at page 3, line 17), and (g)(18) (at page 5, line 9), paragraph (i)(4) (at page 6, line 19), and subsection (j) (at page 6, line 23) to explicitly authorize investments in debt instruments and equity interests issued by entities other than just those legally organized as corporations.

At present, these provisions expressly refer to "corporate" securities, but for purposes of sound investment policy, there seems to be no good reason to distinguish between securities issued by corporations and those issued by limited partnerships, trusts, limited liability companies, or other entities.

Examples of the effect of this change in the fixed income area are securities such as Equipment Trust Certificates (ETC's) and Asset Backed Securities

(ABS's) which would become eligible for purchase, since they are issued out of a trust, rather than by a corporation. These securities are generally of higher quality because of structured collateral backing the investment, thereby providing relative value alternatives that may offer greater safety, return, or a combination of the two.

(b) Adding language to subsection (k) (beginning at page 6, line 29) to authorize the Board to invest up to five percent of the Fund's assets either (or both) in (i) types of investments other than those specifically set out in subsection (g)'s "legal list;" or (ii) in additional investments in a category of investment authorized under subsection (g), but for which the investment percentage "caps" established under subsection (i) (e.g., the 50 percent limitation on equities) has been reached. Under this new language, these investments would still have to satisfy the prudent-investor rule.

Examples of other types of investments for which this limited authority could be used include private debt, venture capital, timber, gas, and agriculture/farmland.

(c) Adding a new subsection (p) (at page 7, line 13) to authorize the Board to decide what category a particular form of investment belongs to if that investment could be included in more than one category for purposes of applying the asset allocation caps established under subsection (i) (beginning at page 6, line 3).

This change would permit the Board to refine asset allocation targets and would help clarify for the purpose of asset allocation decisions how a particular asset should be categorized. A relevant example is a REIT, where the underlying asset is real estate, but it trades like a stock and may even be included in the S&P 500 index.

cc: Board of Trustees, APFC
Byron I. Mallott, Executive Director, APFC
Terry Brown, CIO, APFC
Peter Bushre, CFO, APFC

MAR 03 1999

ALASKA PERMANENT
FUND CORPORATION

March 1, 1999

MICHAEL J. O'LEARY, JR., CFA
EXECUTIVE VICE PRESIDENT



SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Jim Kelly
Director of Communications
Alaska Permanent Fund Corporation
801 West 10th Street, Suite 302
Juneau, AK 99801

Re: Proposed "Basket" Clause Flexibility

Dear Jim:

As promised, I want to give you my thoughts on the proposed language that would enable the APFC to invest in a very limited way beyond the specific securities identified in current statute.

Specifically, the proposed change would allow the APFC to invest 5% of fund assets beyond otherwise permitted investments. This latitude could be used to:

- 1) make or retain greater asset class commitments than otherwise specifically allowed; and/or;
- 2) invest in individual securities or instruments that are not expressly permitted.

Clearly, the use of such flexibility would have to be prudent and appropriate for the fund. I should at this point add the requisite disclaimer that neither Callan Associates Inc. nor I are attorneys so my comments are offered from an investment professional's perspective not from a legal perspective.

Over the years, many public funds that operated under a "legal" list type of standard have sought and obtained authority to invest beyond the detailed list. In recent years many public entities have moved toward a "prudent" person standard and away from a legal list. Typically, under a pure prudent person standard there are no statutory limits with regard to either asset class restrictions or individual securities. In other cases, public funds may have asset class limitations but no individual security limitations and obviously there are still some that have both asset class and security limitations. In Alaska, the State Pension Investment Board operates under a prudent person standard without asset class or security limitations while the APFC obviously is governed by both asset class and security limitations.

As you know, the Institute for Fiduciary Education (IFE) maintains a web site that includes information on a number of public funds. The information is provided by the funds and, of course, may not be current and may be misinterpreted by IFE. Nonetheless, we have found that it is a useful source of data regarding general trends and practices. By searching that site, we found 24 U.S. based public funds that reported having a "basket" clause in their investment language. Of this total, 13 were domiciled in either Michigan or New York.

While both Michigan and New York have comparatively permissive investment statutes, the "basket" clause provides authority for subject public funds to invest either in securities or asset categories beyond the statutory limitations. For example, New York has a 70% maximum equity constraint and a 15% basket limitation. A fund subject to the statute could invest a total of 85% in equity like assets (including real estate and alternative investments). In practice, the authority has been used by one of our clients to invest a greater than statutory limit in foreign equities and in alternative investments.

The Michigan basket clause provides that retirement systems with assets of less than \$250 million may invest up to 5% of their assets in investments not otherwise qualified under statute. It provides up to 10% flexibility for larger funds. In Michigan's case, the basket liberalization does not apply to asset class limitations. So for example, a large fund could not use the basket provision to invest up to 75% in equities (the equity limit was 65%).

There appear to be two common themes behind trends toward liberalization of investment provisions. The first is that investment professionals recognize that risk should be considered primarily at the total fund level. An individually "risky" investment may well serve to reduce overall risk by offsetting some of the risk associated with another investment. The best illustration of this acceptance may be the Department of Labor's statement that in considering fiduciary conduct under ERISA the Department will utilize a "total portfolio" standard. The second motivating factor is that investment practices and commonly used instruments are changing rapidly. A good illustration is the evolution of fixed income securities. For example, asset backed securities are commonly utilized in high quality bond portfolios today. They are included in common bond market indices such as the Lehman Aggregate Bond Index. They are not currently permitted under APFC's governing statute. While other proposed changes in the draft statute would address this specific issue, we and others expect to see continued evolution of new fixed income instruments.

In my opinion, APFC might use the basket primarily at the asset class level. As you know, the current statutory limit for equity investments is 50%. In practice, the APFC must actually target a slightly lower level (currently 48%). This lower level is utilized to minimize the frequency and magnitude of portfolio rebalancings. If the basket clause were approved, the board could consider actually establishing a 50% target. Should the

Mr. Jim Kelly
Alaska Permanent Fund Corporation
Page 3 of 3

equity market subsequently advance such that the equity exposure increased to 52 or 53% there would be no need to mechanically reduce equity exposure and incur the resultant transaction costs. The other potential application is at the individual security level. While other changes included in the proposed statute address many of the obvious limitations of the current list (e.g. asset backed securities), the change would provide the board with flexibility to deal with other instruments that may evolve. Similarly, the basket clause might be utilized to opportunistically purchase securities such as BB rated bonds should spread differences more than offset the potential credit risk.

I hope that you find this letter helpful and I look forward to discussing it with you later this week.

Sincerely,



Michael J. O'Leary, Jr., CFA
Executive Vice President

cc: Terry Brown - APFC

Why Applicants Were Absent From the State
(For Applicants Absent more than 90 days in 1997)

Dividend application forms ask applicants if they were absent from the state for more than 90 days and 180 days. Reasons why applicants were absent from the state are listed below.

Absence reason	Number of Applicants		
	Adult	Child	Total
Enrolled as a full-time student	8,459	690	9,149
Was on vacation	5,812	611	6,423
Served on active duty in the US Armed Forces	4,419	N/A	4,419
Other reasons	2,595	800	3,395
Accompanied an Alaska resident who was eligible for a PFD	2,106	4,629	6,735
Sought employment out of the state	1,457	N/A	1,457
Cared for a direct relative with a critical life-threatening illness	890	N/A	890
Received continuous medical treatment	460	94	554
Settled the estate of a deceased direct relative	257	N/A	257
Employed by the State of Alaska	54	N/A	54
Served as a volunteer in the Peace Corps	49	N/A	49
Served as a member of Alaska's congressional delegation or staff	45	N/A	45
Was a member of the U.S. National Athletic Team	15	N/A	15
Part of a legal custody agreement	N/A	273	273

N/A - Not Applicable to application type

Note: Applicants may claim more than one type of absence on their application.

Effective for 1999 dividends, absences (over 180 days) for the following reasons are no longer allowable for claiming a dividend:
 Serving as a Peace Corps volunteer or member of the U.S. National Athletic Team.

State of Alaska Employees at out-of-state Work Locations

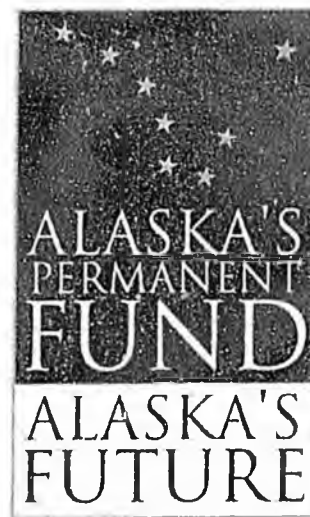
Department	Location	Employee	Job Class Title	Last Hire Date	Status
<i>Commerce and Econ Development</i>					
	Seattle				
		BARSNES, CHERYL A	MARKETING SPECIALIST	04/27/1992	Totally Exempt
		BAUER, GARY	MARKETING ASSISTANT	10/07/1994	Totally Exempt
		DELAROSA, LINDA W	DEVELOPMENTAL MANAGER	03/21/1991	Totally Exempt
		DRISCOLL, LINDA M.	ASST MARKETING DIRECTOR	03/19/1992	Totally Exempt
		HOGUE, CLAUDIA S	FOODSERVICE DIRECTOR	03/08/1995	Totally Exempt
		JACKSON, J WAIN	DEVELOPMENTAL MANAGER	01/17/1995	Totally Exempt
		KASTANAS, JOHN N.	SR MARKETING SPEC/RES ANALY	05/04/1992	Totally Exempt
		LUXWARTZ, MARYLYN E	ADMINISTRATIVE SUPPORT TECH	04/01/1998	Totally Exempt
		TARANTINO, STEPHANIE M	MARKETING SPECIALIST	07/06/1994	Totally Exempt
<i>Fish and Game</i>					
	Montana				
		CLARK, JOHN H	FISHERIES SCIENTIST	12/11/1995	Project Long-Term
<i>Office of the Governor</i>					
	Washington, D.C.				
		KATZ, JOHN W	DIR STATE AND FED RELATIONS	01/01/1983	Totally Exempt
		KERTTULA, ANNA M.	POLICY & PROGRAM SPECIALIST	02/02/1998	Totally Exempt
		LOWE, KARA Y.	EXECUTIVE SECRETARY I	07/08/1996	Totally Exempt

Thursday, April 01, 1999

Page 1 of 2

Page 2 of 2

The Case for Increased Investment Flexibility: HB 156



**APFC Presentation to House State Affairs
April 15, 1999**

Need for HB 156

- **Modernizes statutes, responsive to current market opportunities and challenges**
- **Requested change is conservative and maintains the legal list approach**
- **Allows your Fund managers to add incremental value**
- **Improves total portfolio risk management**

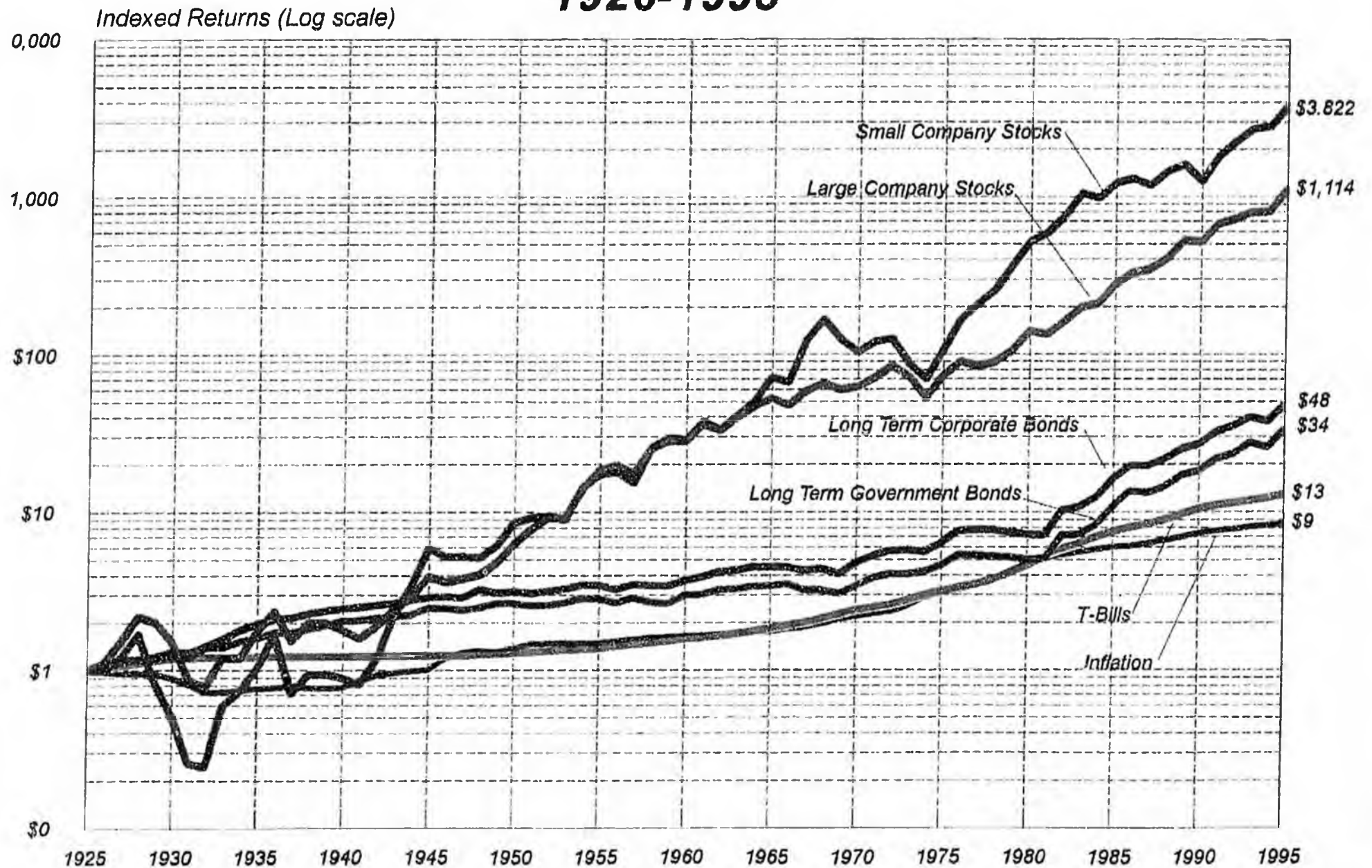


Asset class performance

Consider the growth of \$1.00 invested in various U.S. asset classes from Dec. 31, 1925 to Dec. 31, 1995:

◆ Inflation	\$	9
◆ Treasury bills		13
◆ Treasury bonds		34
◆ Large company stocks		1,114
◆ Small company stocks		3,822

Cumulative Growth of Investments in U.S. Stocks, Bonds and Treasury Bills 1926-1995

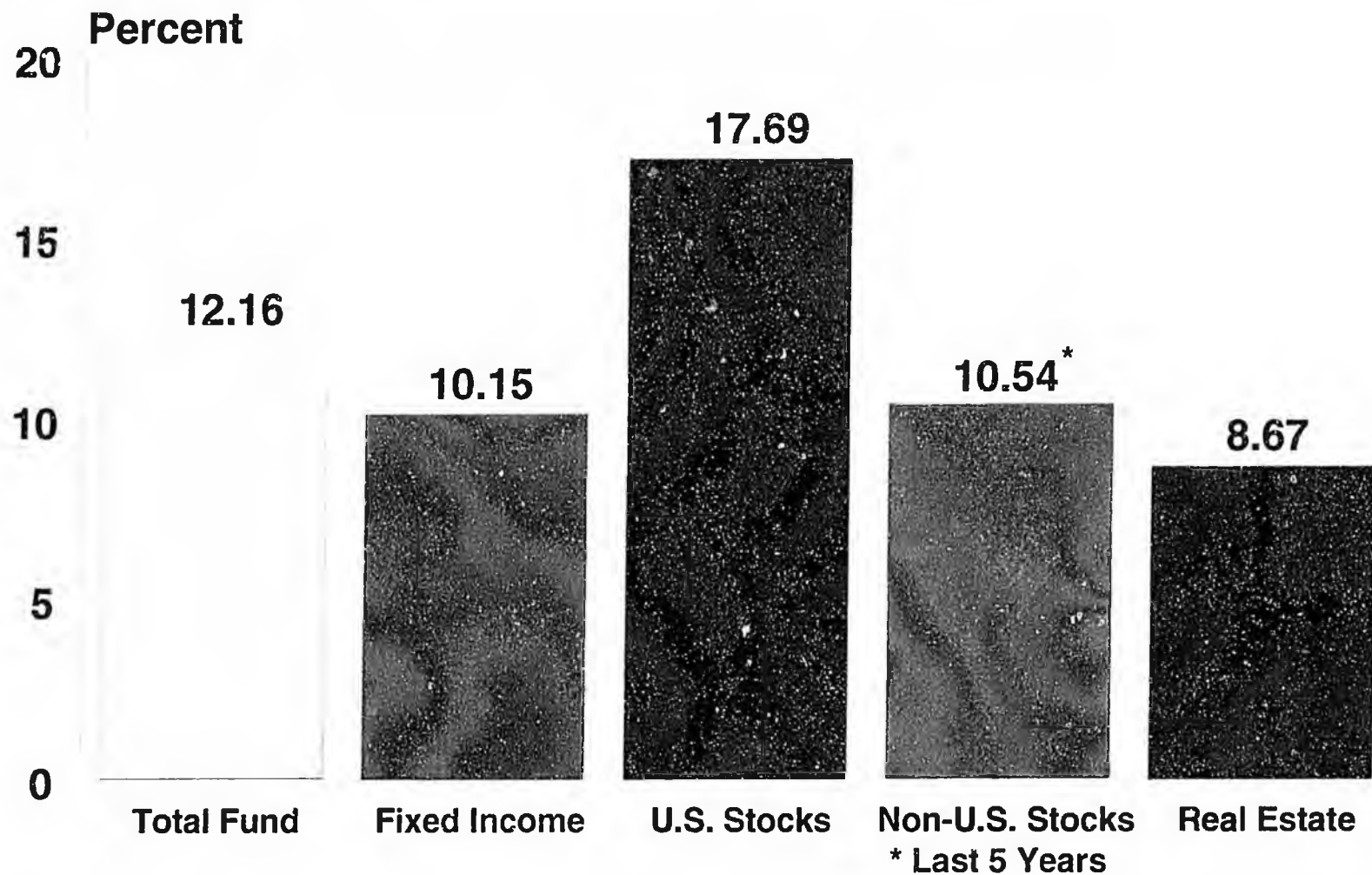


APFC performance



Long-term total returns

15 years ended December 31, 1998



Opportunity Cost: 1997-1998

APFC Actual Rates of Return

	<u>Fixed Income</u>	<u>U.S. Stocks</u>	<u>Difference</u>
1997	9.52%	31.00%	21.48%
1998	9.90	23.62	13.72

	<u>10% of Fund</u>	<u>Returns</u>	<u>Increased Income</u>
1997	\$2.07 billion	21.48%	\$324 million
1998	\$2.36 billion	13.72%	\$444 million

Total: \$770 million



Key assumptions

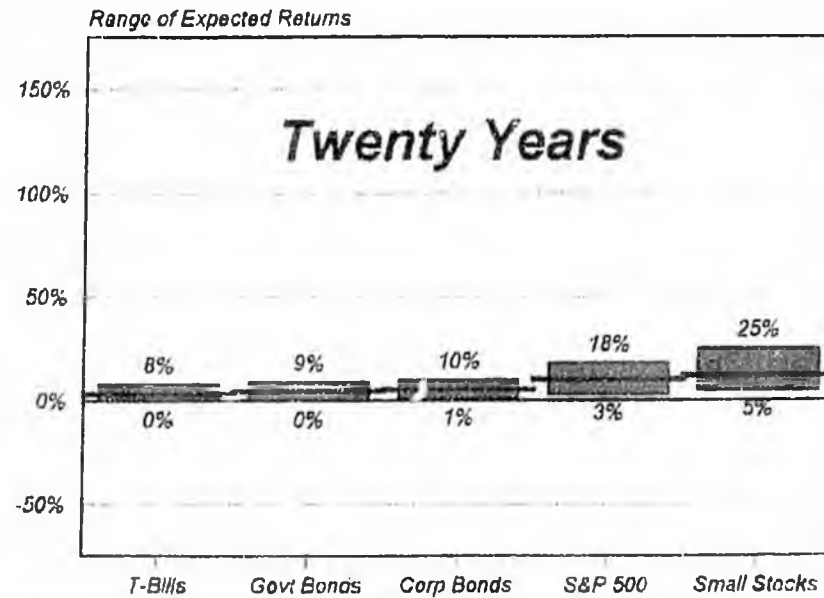
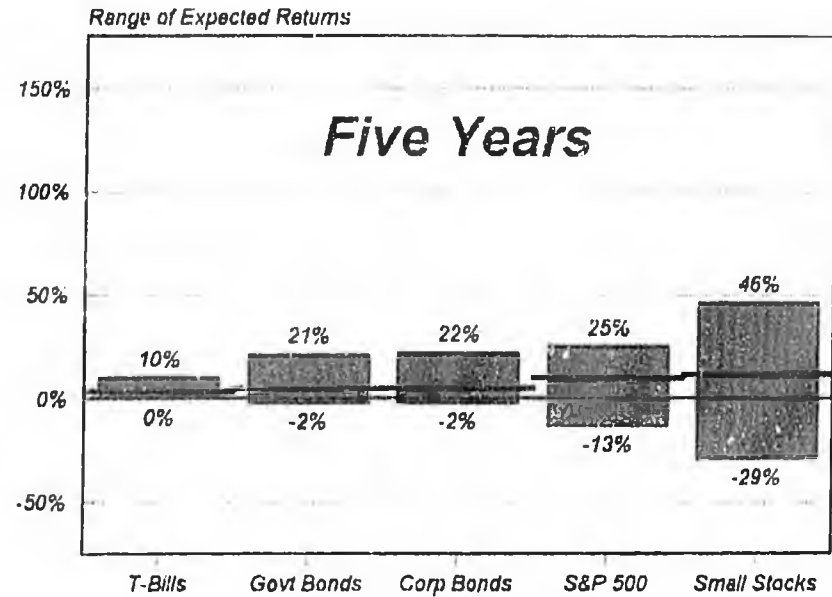
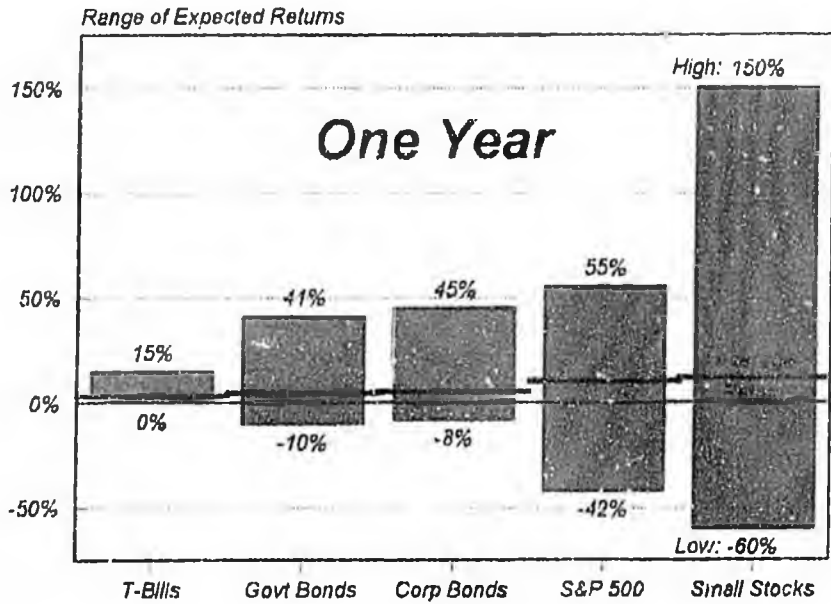
Increased volatility in capital markets

Asset Class	Index	Expected Return			Expected Risk		
		1998	1999	Change	1998	1999	Change
Equities							
Large Cap	S&P 500	9.10	9.00	-0.10	13.30	15.00	1.70
Small Cap	CAI Small	10.10	11.20	1.10	19.10	25.30	6.20
International	MSCI EAFE	9.60	10.00	0.40	18.50	21.50	3.00
Fixed Income							
Domestic	LB Agg	6.60	5.60	-1.00	5.50	5.30	-0.20
International	SB Non-US	6.55	5.60	-0.95	11.20	11.00	-0.20
Other							
Real Estate	CRES	8.25	8.00	-0.25	14.50	16.50	2.00
Alternatives	Veco 100	12.30	12.30	0.00	35.00	36.00	1.00
Cash Equiv.	90-day T-bill	4.80	4.40	-0.40	1.00	0.70	-0.30
Inflation	CPI-U	3.40	3.00	-0.40	0.95	1.75	0.80

LOWER RETURNS

HIGHER RISK

Risk Diminishes Over Time



Another way to manage risk is a POMV distribution of income:

- **Provides more predictability and stability in annual distributions**
- **Disconnects investment decisions from short-term spending considerations**
- **Spending provision becomes part of long-term investment strategy rather than tactical response to market cycles**

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	14.62%	1.10%	1.37%
Actively Managed	1.80%	7.60%	9.40%	19.38%	1.82%	1.82%
Sub-Total				34.00%	2.92%	3.20%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				42.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					7.33%	7.75%
<i>NOTE:</i> Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.						Minus 3.00% Inflation = Real Rates of Return
					4.33%	4.75%

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	16.77%	1.26%	1.58%
Actively Managed	1.80%	7.60%	9.40%	22.23%	2.09%	2.09%
Sub-Total				39.00%	3.35%	3.67%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				37.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					7.76%	8.22%
<i>NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.</i>					Minus 3.00% Inflation = Real Rates of Return	
					4.76%	5.22%

Key assumptions



Projected PF Realized and Total Rates of Return Based on the Fund's 1998 Asset Allocation and the 1999 Callan Capital Market Assumptions

ASSET CLASS	CAPITAL MARKET ASSUMPTIONS			PERMANENT FUND		
	INCOME RETURN	EXPECTED GROWTH	TOTAL RETURN	ASSET ALLOCATION	PROJECTED REALIZED RETURN	PROJECTED TOTAL RETURN
Domestic Equities:						
Passively Managed	1.80%	7.60%	9.40%	18.92%	1.42%	1.78%
Actively Managed	1.80%	7.60%	9.40%	25.08%	2.36%	2.36%
Sub-Total				44.00%	3.78%	4.14%
International Equities:						
Passively Managed	1.50%	8.50%	10.00%	4.90%	0.39%	0.49%
Actively Managed	1.50%	8.50%	10.00%	9.10%	0.91%	0.91%
Sub-Total				14.00%	1.30%	1.40%
Bonds:						
Domestic	5.60%	0.00%	5.60%	40.00%	2.24%	2.24%
International	5.60%	0.00%	5.60%	2.00%	0.11%	0.11%
Sub-Total				32.00%	2.35%	2.35%
Real Estate:	6.50%	1.50%	8.00%	10.00%	0.76%	0.80%
					8.19%	8.69%
					5.19%	5.69%

NOTE: Permanent Fund projected realized returns assume that, over a five-year period, active managers will realize 100% of the income return and 100% of the expected growth (capital gains) and that passive managers and real estate will realize 100% of the income return and 75% of the expected growth. Permanent Fund total returns assume all managers will realize 100% of income return and 100% of the expected growth. Capital market assumptions are provided by Callan Associates, Inc.

Minus 3.00% Inflation = Real Rates of Return

Key assumptions



GASB Income

Fund Value

66,816	61,989	30,442	43,035.61	18,275	13,272	14,661	3,545	7,516	63,344
--------	--------	--------	-----------	--------	--------	--------	-------	-------	--------

GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 7.75%

73,255	61,811	32,984	46,592.58	18,311	16,516	17,905	4,022	7,993	67,241
--------	--------	--------	-----------	--------	--------	--------	-------	-------	--------

GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 8.22%

80,089	71,986	35,671	50,346.19	18,349	19,966	21,355	4,529	8,500	71,388
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GASB net income is statutory net income plus the net change in unrealized gains and settlement earnings.
 Per Department of Revenue's January update of the Fall 1998 Revenue Forecast.
 Earnings reserve appropriated to principal.

STATUS QUO WITH 8.69%



Key assumptions



Daily Unaudited Position

as of April 13, 1999

Fixed Income	\$10,752,900,000	41%
U.S. Equities	\$9,727,800,000	37%
Non-U.S. Equities	\$3,560,700,000	14%
Real Estate	\$2,035,100,000	8%
<u>Alaskan CDs</u>	<u>\$190,000,000</u>	<u>1%</u>
TOTAL	\$26,266,500,000	100%

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 156

Revision Date/Time (Note if correction) 4-15-99 Dept. Affected Revenue
 Title Permanent Fund Investments BRU Revenue Operations
 Component Alaska Permanent Fund Corporation
 Sponsor Rules
 Requester House State Affairs Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	49,067.5	51,016.9	53,154.4	55,607.3	58,280.6	61,050.8

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
TOTAL	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *This fiscal note assumes an increase in costs and revenues associated with a 5% increase in public equity investments. It is likely over the 5 year period of this fiscal note that the APFC will use this increased investment flexibility in other asset types as well, e.g., real estate, fixed-income, and alternative investments such as private equity. The new investments would be entered into in order to add incremental value to a very large asset base. Investments with the potential to add significant value may require significant increased costs. All new investments will be reviewed by the Board of Trustees prior to implementation and presented to the APFC's oversight committee, the Legislative Budget & Audit Committee, for review and comment.*

Prepared by Peter A. Bushre
 Division Alaska Permanent Fund Corporation
 Approved by Wilson L. Condon
 Commissioner Wilson L. Condon
 Agency Department of Revenue

Phone 465-2301
 Date/Time _____
 Date 4/15/99

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FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB 156

Revision Date/Time (Note if correction) _____ Dept. Affecte Revenue _____
 Title An Act relating to investments by the Alaska RRU Revenue Operations
Permanent Fund Corporation Component Alaska Permanent Fund Corporation
 Sponsor _____
 Requester House State Affairs Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	49,067.5	51,016.9	53,154.4	55,607.3	58,280.6	61,050.8
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other Corporate Receipts	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2
TOTAL	1,577.3	3,087.9	3,217.2	3,365.7	3,527.5	3,695.2

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *This fiscal note assumes an increase in costs and revenues associated with a 5% increase in public equity investments. It is likely over the 5 year period of this fiscal note that the APFC will use this increased investment flexibility in other asset types as well, e.g., real estate, fixed-income, and alternative investments such as private equity. The new investments would be entered into in order to add incremental value to a very large asset base. Investments with the potential to add significant value may require significant increased costs. All new investments will be reviewed by the Board of Trustees prior to implementation and presented to the APFC's oversight committee, the Legislative Budget & Audit Committee, for review and comment.*

Prepared by Peter A. Bushro *Peter A. Bushro* Phone 465-2301
 Division Alaska Permanent Fund Corporation Date/Time _____
 Approved by _____
 Commissioner Wilson *Wilson* Date 4/14/99
 Agency Department of Revenue

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