

LEG. FINANCE - BILLS 1981 - 1982 1702

SB 684 cont. - SB 684 Back-Up

1702

1 (14) the portions of business and industrial loans made  
2 under the Rural Development Act of 1972 which are guaranteed by the  
3 Farmer's Home Administration;

4 (15) the guaranteed portion of Farmer's Home Administration  
5 loans;

6 (16) notes secured by mortgages granting a first lien on com-  
7 mercial or [OF] residential real estate improved by completed buildings  
8 if the mortgages are insured by a private mortgage insurance corporation  
9 which is authorized to do business in Alaska and has combined capital,  
10 surplus and reserves aggregating at least \$20,000,000, and if loan-to-  
11 value ratios do not exceed 75 percent for commercial mortgages and 90  
12 percent for residential mortgages; [THE MINIMUM COVERAGE SHALL BE 10  
13 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90 PERCENT,  
14 AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A LOAN-  
15 TO-VALUE RATIO OF 90 PERCENT OR MORE.] however,

16 (A) no mortgage insurance is necessary for commercial  
17 loans having loan-to-value ratios of less than 50 percent and the  
18 minimum coverage of other commercial loans shall be 10 percent for  
19 those having a loan-to-value ratio of 50-60 percent and 15 percent  
20 for those having a loan-to-value ratio greater than 60 percent but  
21 no more than 75 percent, and

22 (B) no mortgage insurance is necessary for residential  
23 loans having a loan-to-value ratio of less than 70 percent and the  
24 minimum coverage of other residential loans shall be 10 percent for  
25 those having a loan-to-value ratio greater than 70 percent but less  
26 than 90 percent and 20 percent for those having a loan-to-value  
27 ratio of 90 percent;

28 (17) notes secured by mortgages granting a first lien on com-  
29 mercial real estate improved by completed buildings if the originating

1 financial institution retains at least 25 percent of the mortgage until  
2 maturity;

3 (18) preferred and common stock of corporations incorporated  
4 in the United States, on which dividends have been paid in each of the  
5 three years immediately preceding the investment;

6 (19) debt securities of foreign governments or corporations  
7 and preferred and common stock of foreign corporations which are of sub-  
8 stantially equivalent quality as those domestic securities permitted  
9 under this section;

10 (20) certificates of deposit, term deposits, bankers' accept-  
11 ances, or equivalent instruments, which are issued by a United States  
12 or foreign bank or trust company located in a foreign country and are  
13 denom' nated in either United States or foreign currency, if either (A)  
14 they may be readily sold in a secondary market at prices reflecting fair  
15 value, or (B) the issuing bank or trust company has capital and surplus  
16 at the date of issue equalling at least \$500,000,000; investments made  
17 under this paragraph are not subject to the collateral requirements for  
18 domestic certificates under (m) of this section;

19 (21) equity interests in, and debt obligations secured by  
20 mortgages granting a first lien on, real property improved by completed  
21 and substantially rented buildings and located in the United States, if  
22 these investments are made

23 (A) in a corporation, partnership, trust, or other  
24 entity in which, at the conclusion of each investment transaction,  
25 at least 60 percent of the beneficial ownership interests are  
26 held by other institutional investors, and which is organized and  
27 operated for the purpose of making real estate investments by a  
28 bank, insurance company, or other manager of institutional funds  
29 which has had at least five years of experience in the management

1                   of real estate investments of institutional investors: or  
2                   (B) in conjunction with and on substantially the same  
3                   terms as an entity described in (A) of this paragraph.

4 \* Sec. 7. AS 37.13.120(i) is repealed and reenacted to read:

5           (i) At the time of each investment, the aggregate investment of  
6 the Alaska permanent fund in each stated category of investment may not  
7 exceed the following stated percentage of the total investments of the  
8 fund: mortgages under (g)(16) of this section, 15 percent; real  
9 estate investments under (g)(21) of this section, 15 percent; foreign  
10 securities under (g)(19) of this section, 10 percent; foreign cer-  
11 tificates of deposit or the equivalent under (g)(20) of this section,  
12 20 percent; corporate stocks and debt securities under (g)(8), (9), and  
13 (18) of this section, 50 percent. The fund may at no time own more  
14 than five percent of the voting stock of any corporation. Domestic  
15 stocks, except for bank and insurance company stocks, must be listed at  
16 the date of purchase on an exchange registered with the Securities and  
17 Exchange Commission.

18 \* Sec. 8. AS 37.13.120 is amended by adding a new subsection to read:

19           (m) Certificates of deposit or the equivalent instruments which  
20 are not of a quality which may be readily sold in a secondary market at  
21 prices reflecting fair value must be secured by a pledge as collateral  
22 of investments authorized for the permanent fund under (g)(1), (2), (8)  
23 or (12) -- (17) of this section, which have value at least equal to the  
24 face value of the certificate of deposit. The board may require  
25 substitution of collateral in order to ensure continued satisfaction of  
26 these requirements.

27 \* Sec. 9. AS 37.13.130 is repealed.

28 \* Sec. 10. AS 37.13.140 is repealed and reenacted to read:

29           Sec. 37.13.140. INCOME. Net income must be computed annually as

1 of the last day of the fiscal year in accordance with generally accepted  
2 accounting principles, excluding any unrealized gains or losses.

3 Income available for distribution equals the average net income for the  
4 last five fiscal years, including the fiscal year just ended, but may  
5 not exceed net income for the fiscal year just ended plus the balance  
6 in the undistributed income account described in AS 37.13.145.

7 \* Sec. 11. AS 37.13 is amended by adding a new section to read:

8 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each  
9 fiscal year, an amount equal to 50 percent of net income as defined in  
10 AS 37.13.140, excluding any income on the undistributed income account  
11 in the permanent fund, must be transferred to principal for reinvestment.  
12 The other 50 percent of the net income must be transferred to the  
13 undistributed income account. Money in the undistributed income account  
14 must be invested in investments authorized under AS 37.13.120. Income  
15 from the investment of the undistributed income account must be treated  
16 as an addition to that account.

17 \* Sec. 12. AS 37.13.150 is amended to read:

18 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
19 ted by the corporation's investments must be identified as the source  
20 of the [THE] operating budget of the corporation in the state's operat-  
21 ing budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
22 Executive Budget Act (AS 37.07.010 -- 37.07.130). The unexpended bal-  
23 ance of the corporation's annual operating budget does not lapse at  
24 the end of the fiscal year but must be treated as income under AS 37.-  
25 13.140.

26 \* Sec. 13. AS 37.13.160 is amended to read:

27 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
28 tee may [SHALL] provide for an annual post audit and annual operational  
29 and performance evaluations of the corporation's investments and

1 investment programs.

2 \* Sec. 14. AS 37.13 is amended by adding a new section to read:

3 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
4 under the Administrative Procedure Act (AS 44.62) to interpret and  
5 implement this chapter.

6 \* Sec. 15. This Act takes effect July 1, 1982.  
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THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. \_\_\_\_\_  
 Title Relating to Investment & Management of the Alaska Permanent Fund  
 Requested by \_\_\_\_\_ Date 1/22/82

II. FISCAL DETAIL

Agency Affected Department of Revenue  
 Program Category Affected Revenue Collection and Management  
 BRU, Program, Or Subprogram(s) Affected Permanent Fund Corporation  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES		94.4	103.8	114.2	125.6	138.2
200 TRAVEL		(28.8)				
300 CONTRACTUAL		6,119.7	6,989.6	8,775.4	9,914.5	11,159.7
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		<b>6,185.3</b>	<b>7,093.4</b>	<b>8,889.6</b>	<b>10,040.1</b>	<b>11,297.9</b>

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Permanent Fund Income		6,185.3	7,093.4	8,889.6	10,040.1	11,297.9

POSITIONS

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

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Personal Services is for four public members of Board of Trustees to be compensated at salary prescribed for state legislators. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated costs of new allowable investments for outside management fees were applicable and related safekeeping. Assumes, of average Fund balance for a fiscal year, 25% in preferred and common stock, 5% real estate equity, 5% foreign securities, 10% foreign certificates of deposit or equivalent; all percentages used are one-half of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed with FY 85 and after (not per year). Reduction in regular safekeeping cost accounted for as securities shift from present pool to other categories. Brokerage fee on preferred and common stock not included as that is part of base security cost.

*Anselm C. Staack*

IV. DATE January 22, 1982

PREPARED BY Anselm C. Staack, Treasury Comptroller

AGENCY Dept. of Revenue/Treasury Division

Original: Legislative Finance

PHONE 465-2350

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 9, 1982

The Honorable Jalmar Kerttula  
President of the Senate  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a sponsor substitute for Senate Bill No. 684, introduced at my request on January 27, 1982. Since the introduction of the bill regarding investment and management of the Permanent Fund, the Board of Trustees of the Alaska Permanent Fund Corporation has met and reviewed the bill and requested that four changes be made. The changes included in the sponsor substitute are as follows:

(1) In sec. 6 of the bill, AS 37.13.120(g)(19) and (20) are amended by deleting the condition that foreign investments must be held in safekeeping by an entity which is subject to the jurisdiction of the United States courts. The Board has determined that the benefits and risks associated with this condition are not capable of precise calculation and that this condition or a similar one would be better imposed by regulation, in order to ensure the flexibility necessary for prudent investment of the fund.

(2) In sec. 7 of the bill (AS 37.13.120(i)), a limit on investment in real estate equal to 15 percent of the fund is added. A 15 percent limit is now applicable to privately insured mortgages under existing AS 37.13.120(i). In addition, modifying references are added to clarify the limitations on investments in mortgages ("under (g)(16) of this section,"), in corporate stocks and debt securities ("under (g)(8), (9) and (18) of this section"), in foreign securities ("under (g)(19) of this section") and foreign certificates of deposit ("under (g)(20) of this section.")

(3) In secs. 10 and 11 of the bill, AS 37.13.140 and 37.13.145 are both reworded in order to retain the five-year averaging provision for income available for distribution which is contained in current law at AS 37.13.140, while still providing for reinvestment of 50 percent of the fund's annual net income.

This result is accomplished without amending the dividend fund statute, AS 43.23.050(b), or diminishing the

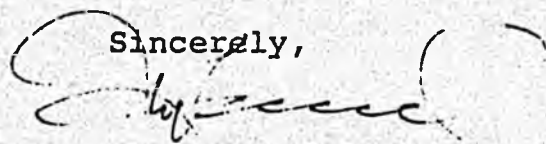
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flow of income to the dividend fund under that statute which provides that 50 percent of the income available for distribution under AS 37.03.140 is transferred to the dividend fund. Secs. 10 and 11, as written in the substitute bill, provide for the 50 percent of net income which is not transferred to principal to be retained in an undistributed income account. Money in the undistributed income account will be invested by the corporation until it is transferred to the dividend fund or appropriated by the legislature. The amount of income available for distribution equals the average net income for the last five years but may not exceed net income for the fiscal year just ended plus the balance in the undistributed income account.

Thus the rewritten sections retain the income-averaging characteristic designed to provide an even flow of revenue to the dividend fund while still allowing reinvestment of 50 percent of the annual net income earned on principal of the fund in order to preserve the value of the fund in inflationary times. The other 50 percent of net income earned on principal will retain its character as income and be invested to yield additional income, all of which will be available for transfer to the dividend fund or for appropriation. The definition of "income available for distribution" as the average net income for the last five fiscal years is retained in order to avoid any effect of this bill on the flow of money to the dividend fund. The changes to secs. 10 and 11 have been drafted with the advice of the independent accountants who performed the corporation's 1981 audit, and have been approved as understandable and workable from an accounting standpoint.

(4) AS 37.13.140 (sec. 10 of the bill) has been amended to provide that unrealized gains and losses are excluded when computing net income. This provision is consistent with the present generally accepted accounting principles (GAAP) which are incorporated by AS 37.13.140, but we are advised that the GAAP may be revised to allow inclusion of unrealized gains and losses when computing net income. While it is important for sound management to know the market value of the fund, this concern is satisfied by the reporting requirement of AS 37.13.170. The Board of Trustees has determined, and I concur, that since the amount of income available for distribution is fixed by statute and may not be altered by the Board, it is imperative for sound management of the fund to ensure the exclusion of unrealized gains and losses when computing distributable income.

Sincerely,



Jay S. Hammond  
Governor



THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS SSSB 684 (S.A.) (Fin) am  
 Title Relating to Investment & Management of the Ak. Permanent Fund  
 Requested by \_\_\_\_\_ Date 5/12/82

II. FISCAL DETAIL

Agency Affected Department of Revenue  
 Program Category Affected Permanent Fund Corp.  
 BRU, Program, Or Subprogram(s) Affected Permanent Fund Corp.  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES		94.4				
200 TRAVEL		(28.8)				
300 CONTRACTUAL		1,938.0				
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		2,003.6				

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						
Permanent Fund Income		2,003.6				

POSITIONS

FULL TIME		-				
PART TIME						
TEMPORARY		-				


III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Personal Services is for four public members of Board of Trustees to be compensated at salary prescribed for state legislators. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated outside management and safekeeping costs of new allowable investments where applicable. Assumes, based on average fund balance for a fiscal year; 25% in preferred and common stock, 5% real estate equity, 5% foreign securities and certificates of deposit. Stock is at one-half of maximum allowed, others at one-third of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed starting FY 85 and after (not per year). Brokerage fee on preferred and common stock not included as it is part of base security cost.

FY 83 assumes above percentages for one-half year only as transition time to new investment categories. Net effect of above scenerio places 35% of all corporate assets with outside managers, the balance 65% remains for internal management.

IV. DATE May 12, 1982 PREPARED BY House Finance Committee  
 AGENCY \_\_\_\_\_  
 Original: Legislative Finance PHONE 465-3757  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)  
 33-001 (Rev. 12/81)

  
 Al Adams, Chair  
 House Finance Committee

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: CS for SS for SB 684 (Finance)  
Title: Relating to investment and management of the Alaska Permanent Fund  
Requested by: Senate Finance Date: 4/7/82

II. FISCAL DETAIL

Agency Affected: Department of Revenue  
Program Category Affected: Alaska Permanent Fund Corporation  
BRU, Program, or Subprogram(s) Affected: Alaska Permanent Fund Corporation  
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

FUNDING (MILLIONS of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	+25.6	Future has costs, but can't be estimated			
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

With the transition rule in Sec. 15 of the proposed Finance CS, the effect of transferring one half of the disburseable income to the Permanent Fund principal instead of the General Fund is fully offset in FY 83. The net effect of this is to make an extra \$25.4 million available for expenditure in FY 83, since the Bill increases the amount of Permanent Fund income going into the PFD account and thereby reduces the General Fund appropriation dollar for dollar. The increase in Permanent Fund income comes from converting from a cash-received basis to an earned-income basis for computing the disburseable income. In FY 84 and thereafter, the transfer of one-half of the of the Permanent Fund income stream back to the principal of the Fund will have an effect on General Fund income, but the extent of this effect cannot be estimated at the present time because of uncertainties in future interest rates, the contributions to the Permanent Fund, and the balance in the Permanent Fund in the future.



IV. DATE: April 7, 1982

PREPARED BY: Thomas K. Williams

AGENCY: Department of Revenue

Original: Legislative Finance PHONE: 465-2300

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

Original sponsor: Rules/Governor

Offered: 4/23/82  
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 684 (Finance) am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF  
13 TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund  
14 Corporation consists of six members appointed by the governor. Two  
15 [THREE] of the members shall be heads of principal departments of state  
16 government, one of whom shall be the commissioner of revenue. Four  
17 [THREE] members shall be appointed by the governor from the public and  
18 may not hold any other state or federal office, position or employment,  
19 either elective or appointive, except as a member of the armed forces of  
20 either the United States or of this state. [MEMBERS OTHER THAN THE  
21 COMMISSIONER OF REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF  
22 THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 remove a member of the board from office. [HOWEVER, THE REMOVAL OF A  
11 MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF A MAJORITY OF  
12 THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION HELD 10 OR  
13 MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL FROM THE  
14 GOVERNOR.] A removal by the governor shall be in writing and shall  
15 state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he re-  
18 ceives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of  
6 the board receive an honorarium of \$400 for each day spent at a meeting  
7 of the board or at a meeting of a subcommittee of the board or at a  
8 public meeting as a representative of the board. Members [MEETING DAY  
9 IF THEY ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to  
10 per diem and travel allowances as provided by law for members of state  
11 boards and commissions.

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

13 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
14 section, the board may invest corporation assets at such competitive  
15 national market rates or prices as are applicable to each investment  
16 only in

17 (1) obligations of, or obligations insured by or guaranteed  
18 by, the United States or agencies or instrumentalities of the United  
19 States;

20 (2) obligations secured by reserves paid in by the United  
21 States or agencies or instrumentalities of the United States or obliga-  
22 tions of corporations in which the United States is a shareholder or  
23 member;

24 (3) certificates of deposit and term deposits of [ISSUED BY]  
25 United States domestic banks which are members of the Federal Deposit  
26 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
27 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
28 which are fully secured at all times as to payment of principal and  
29 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -

1 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS PARA-  
2 GRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND THE  
3 BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

4 (4) certificates of deposit and term deposits [SHARES] of  
5 federally chartered savings and loan [LOANS] associations, in Alaska  
6 which may be readily sold in a secondary market at prices reflecting  
7 fair value or which are fully secured at all times as to payments of  
8 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
9 of this section [SUBSECTION];

10 (5) [SAVINGS] certificates of deposit and term deposits of  
11 [ISSUED BY] state chartered savings and loan associations in Alaska  
12 which may be readily sold in a secondary market at prices reflecting  
13 fair value or which are fully secured at all times as to payments of  
14 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
15 of this section [SUBSECTION];

16 (6) certificates of deposit and term deposits of [DEPOSITS  
17 WITH] mutual savings banks in Alaska which may be readily sold in a  
18 secondary market at prices reflecting fair value or which are fully  
19 secured at all times as to payments of principal and interest as [BY  
20 INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

21 (7) fixed-term certificates of indebtedness of federally in-  
22 sured credit unions in Alaska which may be readily sold in a secondary  
23 market at prices reflecting fair value or which are fully secured at all  
24 times as to payments of principal and interest as [BY INVESTMENTS] de-  
25 scribed in (m) [(1), (2)] of this section [SUBSECTION];

26 (8) corporate debt securities which are rated AA or better by  
27 a nationally recognized rating service;

28 (9) short-term corporate promissory notes of the highest  
29 ratings assigned by a nationally recognized rating service;

1 (10) bankers' acceptances drawn on and accepted by United  
2 States banks each of which have a combined capital and surplus aggregating at least \$200,000,000;

3  
4 (11) repurchase agreements, the securities underlying the  
5 agreements being any of the items in (1) - (3) and (8) - (10) of this  
6 subsection;

7 (12) the guaranteed portion of Federal Small Business Administration  
8 loans;

9 (13) the portion of first lien real estate mortgages guaranteed  
10 by the Federal Veterans Administration [ASSOCIATION];

11 (14) the portions of business and industrial loans made under  
12 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
13 Home Administration;

14 (15) the guaranteed portion of Farmer's Home Administration  
15 loans;

16 (16) notes secured by mortgages granting a first lien on commercial or [OF] residential real estate improved by completed buildings  
17 if the mortgages are insured by a private mortgage insurance corporation  
18 which is authorized to do business in Alaska and has combined capital  
19 and [,] surplus [AND RESERVES] aggregating at least \$20,000,000, and if  
20 loan-to-value ratios do not exceed 75 percent for commercial mortgages  
21 and 90 percent for residential mortgages; however, [THE MINIMUM COVERAGE  
22 SHALL BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN  
23 90 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS  
24 HAVING A LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

25  
26 (A) no mortgage insurance is necessary for commercial  
27 loans having loan-to-value ratios of less than 50 percent and the  
28 minimum coverage of other commercial loans shall be 10 percent for  
29 those having a loan-to-value ratio of 50 - 60 percent and 15 percent

1 for those having a loan-to-value ratio greater than 60 percent but  
2 no more than 75 percent, and

3 (B) no mortgage insurance is necessary for residential  
4 loans having a loan-to-value ratio of less than 70 percent and the  
5 minimum coverage of other residential loans shall be 10 percent for  
6 those having a loan-to-value ratio greater than 70 percent but less  
7 than 90 percent and 20 percent for those having a loan-to-value  
8 ratio of 90 percent;

9 (17) notes secured by mortgages granting a first lien on com-  
10 mercial real estate improved by completed buildings if the originating  
11 financial institution retains at least 25 percent of the mortgage until  
12 maturity;

13 (18) preferred and common stock of corporations incorporated  
14 in the United States;

15 (19) certificates of deposit, term deposits, or bankers' accep-  
16 tances, which are issued by a United States bank or trust company  
17 located in a foreign country and are denominated in United States cur-  
18 rency, if either (A) they may be readily sold in a secondary market  
19 at prices reflecting fair value, or (B) the issuing bank or trust com-  
20 pany has capital and surplus at the date of issue equalling at least  
21 \$500,000,000; investments made under this paragraph are not subject to  
22 the collateral requirements for domestic certificates under (m) of this  
23 section;

24 (20) equity interests in, and debt obligations secured by  
25 mortgages granting a first lien on, real estate improved by completed  
26 and substantially rented buildings and located in the United States, if  
27 these investments are made

28 (A) in a corporation, partnership, trust, or other  
29 entity in which, at the conclusion of each investment transaction,

1 at least 60 percent of the beneficial ownership interests are held  
2 by other institutional investors, and which is organized and oper-  
3 ated for the purpose of making real estate investments by a bank,  
4 insurance company, or other manager of institutional funds which  
5 has had at least five years of experience in the management of real  
6 estate investments of institutional investors; or

7 (B) in conjunction with and on substantially the same  
8 terms as an entity described in (A) of this paragraph.

9 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

10 (i) At the time of each investment, the aggregate investment of  
11 the Alaska permanent fund in each stated category of investment may not  
12 exceed the following stated percentage of the total investments of the  
13 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
14 investments under (g)(21) of this section, 15 percent; foreign certifi-  
15 cates of deposit or the equivalent under (g)(20) of this section, 20  
16 percent; corporate stocks and debt securities under (g)(8), (9), and  
17 (18) of this section, 50 percent. The Alaska permanent fund may at no  
18 time own more than five percent of the voting stock of a corporation.  
19 Domestic stocks, except for bank and insurance company stocks, must be  
20 listed at the date of purchase on an exchange registered with the  
21 Securities and Exchange Commission.

22 \* Sec. 7. AS 37.13.120 is amended by adding a new subsection to read:

23 (m) Certificates of deposit or the equivalent instruments which  
24 are not of a quality that may be readily sold in a secondary market at  
25 prices reflecting fair value must be secured by a pledge as collateral  
26 of investments authorized for the Alaska permanent fund under (g)(1),  
27 (2), (8), or (12) - (17) of this section, which investments have value  
28 at least equal to the face value of the certificate of deposit. The  
29 board may require substitution of collateral in order to ensure continued

1 satisfaction of the requirements set out in this subsection.

2 \* Sec. 8. AS 37.13.140 is repealed and reenacted to read:

3 Sec. 37.13.140. INCOME. Net income of the corporation must be  
4 computed annually as of the last day of the fiscal year in accordance  
5 with generally accepted accounting principles, excluding any unrealized  
6 gains or losses. Income available for distribution equals the average  
7 net income of the corporation for the last five fiscal years, including  
8 the fiscal year just ended, but may not exceed net income of the corpora-  
9 tion for the fiscal year just ended plus the balance in the undistributed  
10 income account described in AS 37.13.145.

11 \* Sec. 9. AS 37.13 is amended by adding a new section to read:

12 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
13 year, an amount sufficient to offset the effect of inflation on principal  
14 of the Alaska permanent fund during that year, as measured by a nation-  
15 ally recognized index, shall be transferred from net income as defined  
16 in AS 37.13.140, excluding income on the undistributed income account in  
17 the Alaska permanent fund, to the principal of the Alaska permanent fund  
18 for reinvestment. The balance of the net income as defined in AS 37.13.-  
19 140 shall be transferred to the undistributed income account in the  
20 Alaska permanent fund. Money in the undistributed income account shall  
21 be invested in investments authorized under AS 37.13.120. Income from  
22 the investment of the undistributed income account shall be treated as  
23 an addition to that account.

24 \* Sec. 10. AS 37.13.150 is amended to read:

25 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
26 ted by the corporation's investments must be identified as the source  
27 of the operating budget of the corporation in the state's operating  
28 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
29 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-

1 ance of the corporation's annual operating budget does not lapse at  
2 the end of the fiscal year but shall be treated as income under AS 37.  
3 13.140.

4 \* Sec. 11. AS 37.13.160 is amended to read:

5 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
6 tee may [SHALL] provide for an annual post audit and annual operational  
7 and performance evaluations of the corporation's investments and invest-  
8 ment programs.

9 \* Sec. 12. AS 37.13 is amended by adding a new section to read:

10 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
11 under the Administrative Procedure Act (AS 44.62) to interpret and  
12 implement this chapter.

13 \* Sec. 13. AS 37.13.130 is repealed.

14 \* Sec. 14. Transition to four-year terms for members of the Board of  
15 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
16 as amended in sec. 2 of this Act shall be implemented as follows: at the  
17 expiration of the present term of each public member, the governor shall  
18 appoint a replacement, or reappoint the present member, for a term of four  
19 years. Within 90 days after the effective date of this Act, the governor  
20 shall appoint a public member to replace one of the two present heads of  
21 principal departments other than the commissioner of revenue, to serve for a  
22 term of four years or less which term expires in a year when no other public  
23 member's term expires. The head of a principal department who is to be re-  
24 placed shall continue to serve on the board until the appointment of a re-  
25 placement.

26 \* Sec. 15. TRANSITION. (a) All income earned by the Alaska permanent  
27 fund before the effective date of this Act that is not income available for  
28 disbursement shall be transferred to the undistributed income account estab-  
29 lished in AS 37.13.145 added by sec. 9 of this Act. However, the amount

1 transferred under this section shall be reduced by an amount equal to one-  
2 half of the income available for disbursement for fiscal year 1983.

3 (b) The amount equal to the reduction in income under (a) of this  
4 section shall be transferred to the general fund.

5 (c) In this section "income available for disbursement" shall be deter-  
6 mined as set out in AS 37.13.140 before amendment by this Act.

7 \* Sec. 16. This Act takes effect July 1, 1982.

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THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: SSSB 684 (3/9/82)

Title: Relating to Investment & Management of the Alaska Permanent Fund

Requested by: \_\_\_\_\_ Date: 4/7/82

*CS SSSB 684 (SA) FIN*

II. FISCAL DETAIL

Agency Affected: Department of Revenue

Program Category Affected: Permanent Fund Corp.

BRU, Program, or Subprogram(s) Affected: Permanent Fund Corp.

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	94.4	103.8	114.2	125.6	138.2
200 TRAVEL	-	(28.8)	-	-	-	-
300 CONTRACTUAL	-	2,425.0	5,190.0	6,458.0	7,287.0	8,152.0
400 COMMODITIES	-	1,932	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL	-	2,490.6	5,293.8	6,572.2	7,412.6	8,290.2
		2,003.6	4,281.8	5,357.2	6,075.6	6,835.2

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	2,003.6	-	-	-	-
PERMANENT FUND INCOME	-	2,490.6	5,293.8	6,572.2	7,412.6	8,290.2

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Personal Services is for four public members of Board of Trustees to be compensated at salary prescribed for state legislators. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated outside management and safekeeping costs of new allowable investments were applicable. Assumes, based on average fund balance for a fiscal year; 25% in preferred and common stock, 5% real estate equity, 5% foreign securities and certificates of deposit. Stock is at one-half of maximum allowed, others at one-third of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed starting FY 85 and after (not per year). Brokerage fee on preferred and common stock not included as it is part of base security cost.

FY 83 assumes above percentages for one-half year only as transition time to new investment categories. Net effect of above scenerio places 35% of all corporate assets with outside managers, the balance 65% remains for internal management.

IV. DATE: April 7, 1982

PREPARED BY: Anselm C. Staack, Treasury Comptroller

AGENCY: Dept. of Revenue/Treasury Division

PHONE: 465-2350

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

*A. Staack*

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: SSSB 684 (3/9/82)

Title: Relating to Investment & Management of the Alaska Permanent Fund

Requested by: \_\_\_\_\_ Date: 4/7/82

II. FISCAL DETAIL

Agency Affected: Department of Revenue

Program Category Affected: Permanent Fund Corp.

BRU, Program, or Subprogram(s) Affected: Permanent Fund Corp.

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	94.4	103.8	114.2	125.6	138.2
200 TRAVEL	-	(28.8)	-	-	-	-
300 CONTRACTUAL	-	2,425.0	5,190.0	6,458.0	7,287.0	8,152.0
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>2,490.6</b>	<b>5,293.8</b>	<b>6,572.2</b>	<b>7,412.6</b>	<b>8,290.2</b>

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-
PERMANENT FUND INCOME	-	2,490.6	5,293.8	6,572.2	7,412.6	8,290.2

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Personal Services is for four public members of Board of Trustees to be compensated at salary prescribed for state legislators. Reduction in Travel for deletion of \$400/meeting day honorarium budgeted for present public members.

Contractual Services is for associated outside management and safekeeping costs of new allowable investments were applicable. Assumes, based on average fund balance for a fiscal year; 25% in preferred and common stock, 5% real estate equity, 5% foreign securities and certificates of deposit. Stock is at one-half of maximum allowed, others at one-third of maximum allowed. Fee rate level for FY 83 and FY 84; 10% fee increase assumed starting FY 85 and after (not per year). Brokerage fee on preferred and common stock not included as it is part of base security cost.

FY 83 assumes above percentages for one-half year only as transition time to new investment categories. Net effect of above scenerio places 35% of all corporate assets with outside managers, the balance 65% remains for internal management.

IV. DATE: April 7, 1982

PREPARED BY: Anselm C. Staack, Treasury Comptroller

AGENCY: Dept. of Revenue/Treasury Division

Original: Legislative Finance

PHONE: 465-2350

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution Number: CS for SS for SB 684 (Finance)

Title: Relating to investment and management of the Alaska Permanent Fund

Requested by: Senate Finance

Date: 4/7/82

II. FISCAL DETAIL

Agency Affected: Department of Revenue

Program Category Affected: Alaska Permanent Fund Corporation

BRU, Program, or Subprogram(s) Affected: Alaska Permanent Fund Corporation

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LAND & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

FUNDING (MILLIONS of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	-	+25.6	Future has costs, but can't be estimated			
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME	-	-	-	-	-	-
PART TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

With the transition rule in Sec. 15 of the proposed Finance CS, the effect of transferring one half of the disburseable income to the Permanent Fund principal instead of the General Fund is fully offset in FY 83. The net effect of this is to make an extra \$25.4 million available for expenditure in FY 83, since the Bill increases the amount of Permanent Fund income going into the PFD account and thereby reduces the General Fund appropriation dollar for dollar. The increase in Permanent Fund income comes from converting from a cash-received basis to an earned-income basis for computing the disburseable income. In FY 84 and thereafter, the transfer of one-half of the of the Permanent Fund income stream back to the principal of the Fund will have an effect on General Fund income, but the extent of this effect cannot be estimated at the present time because of uncertainties in future interest rates, the contributions to the Permanent Fund, and the balance in the Permanent Fund in the future.

IV. DATE: April 7, 1982

PREPARED BY: Thomas K. Williams

AGENCY: Department of Revenue

Original: Legislative Finance PHONE: 465-2300

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

Original sponsor: Rules/Governor

Offered: 4/23/82  
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 684 (Finance) am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF  
13 TRUSTEES. (a) The Board of Trustees of the Alaska Permanent Fund  
14 Corporation consists of six members appointed by the governor. Two  
15 [THREE] of the members shall be heads of principal departments of state  
16 government, one of whom shall be the commissioner of revenue. Four  
17 [THREE] members shall be appointed by the governor from the public and  
18 may not hold any other state or federal office, position or employment,  
19 either elective or appointive, except as a member of the armed forces of  
20 either the United States or of this state. [MEMBERS OTHER THAN THE  
21 COMMISSIONER OF REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF  
22 THE MEMBERS OF THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 remove a member of the board from office. [HOWEVER, THE REMOVAL OF A  
11 MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF A MAJORITY OF  
12 THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION HELD 10 OR  
13 MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL FROM THE  
14 GOVERNOR.] A removal by the governor shall be in writing and shall  
15 state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he re-  
18 ceives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of  
6 the board receive an honorarium of \$400 for each day spent at a meeting  
7 of the board or at a meeting of a subcommittee of the board or at a  
8 public meeting as a representative of the board. Members [MEETING DAY  
9 IF THEY ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to  
10 per diem and travel allowances as provided by law for members of state  
11 boards and commissions.

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

13 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
14 section, the board may invest corporation assets at such competitive  
15 national market rates or prices as are applicable to each investment  
16 only in

17 (1) obligations of, or obligations insured by or guaranteed  
18 by, the United States or agencies or instrumentalities of the United  
19 States;

20 (2) obligations secured by reserves paid in by the United  
21 States or agencies or instrumentalities of the United States or obliga-  
22 tions of corporations in which the United States is a shareholder or  
23 member;

24 (3) certificates of deposit and term deposits of [ISSUED BY]  
25 United States domestic banks which are members of the Federal Deposit  
26 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
27 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
28 which are fully secured at all times as to payment of principal and  
29 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -

1 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS PARA-  
2 GRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND THE  
3 BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

4 (4) certificates of deposit and term deposits [SHARES] of  
5 federally chartered savings and loan [LOANS] associations in Alaska  
6 which may be readily sold in a secondary market at prices reflecting  
7 fair value or which are fully secured at all times as to payments of  
8 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
9 of this section [SUBSECTION];

10 (5) [SAVINGS] certificates of deposit and term deposits of  
11 [ISSUED BY] state chartered savings and loan associations in Alaska  
12 which may be readily sold in a secondary market at prices reflecting  
13 fair value or which are fully secured at all times as to payments of  
14 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
15 of this section [SUBSECTION];

16 (6) certificates of deposit and term deposits of [DEPOSITS  
17 WITH] mutual savings banks in Alaska which may be readily sold in a  
18 secondary market at prices reflecting fair value or which are fully  
19 secured at all times as to payments of principal and interest as [BY  
20 INVESTMENTS] described in (m) [(1), (2)] of this section [SUBSECTION];

21 (7) fixed-term certificates of indebtedness of federally in-  
22 sured credit unions in Alaska which may be readily sold in a secondary  
23 market at prices reflecting fair value or which are fully secured at all  
24 times as to payments of principal and interest as [BY INVESTMENTS] de-  
25 scribed in (m) [(1), (2)] of this section [SUBSECTION];

26 (8) corporate debt securities which are rated AA or better by  
27 a nationally recognized rating service;

28 (9) short-term corporate promissory notes of the highest  
29 ratings assigned by a nationally recognized rating service;

1 (10) bankers' acceptances drawn on and accepted by United  
2 States banks each of which have a combined capital and surplus aggre-  
3 gating at least \$200,000,000;

4 (11) repurchase agreements, the securities underlying the  
5 agreements being any of the items in (1) - (3) and (8) - (10) of this  
6 subsection;

7 (12) the guaranteed portion of Federal Small Business Adminis-  
8 tration loans;

9 (13) the portion of first lien real estate mortgages guaranteed  
10 by the Federal Veterans Administration [ASSOCIATION];

11 (14) the portions of business and industrial loans made under  
12 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
13 Home Administration;

14 (15) the guaranteed portion of Farmer's Home Administration  
15 loans;

16 (16) notes secured by mortgages granting a first lien on com-  
17 mercial or [OF] residential real estate improved by completed buildings  
18 if the mortgages are insured by a private mortgage insurance corporation  
19 which is authorized to do business in Alaska and has combined capital  
20 and [,] surplus [AND RESERVES] aggregating at least \$20,000,000, and if  
21 loan-to-value ratios do not exceed 75 percent for commercial mortgages  
22 and 90 percent for residential mortgages; however, [THE MINIMUM COVERAGE  
23 SHALL BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN  
24 90 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS  
25 HAVING A LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

26 (A) no mortgage insurance is necessary for commercial  
27 loans having loan-to-value ratios of less than 50 percent and the  
28 minimum coverage of other commercial loans shall be 10 percent for  
29 those having a loan-to-value ratio of 50 - 60 percent and 15 percent

1 for those having a loan-to-value ratio greater than 60 percent but  
2 no more than 75 percent, and

3 (B) no mortgage insurance is necessary for residential  
4 loans having a loan-to-value ratio of less than 70 percent and the  
5 minimum coverage of other residential loans shall be 10 percent for  
6 those having a loan-to-value ratio greater than 70 percent but less  
7 than 90 percent and 20 percent for those having a loan-to-value  
8 ratio of 90 percent;

9 (17) notes secured by mortgages granting a first lien on com-  
10 mercial real estate improved by completed buildings if the originating  
11 financial institution retains at least 25 percent of the mortgage until  
12 maturity;

13 (18) preferred and common stock of corporations incorporated  
14 in the United States;

15 (19) certificates of deposit, term deposits, or bankers' accep-  
16 tances, which are issued by a United States bank or trust company  
17 located in a foreign country and are denominated in United States cur-  
18 rency, if either (A) they may be readily sold in a secondary market  
19 at prices reflecting fair value, or (B) the issuing bank or trust com-  
20 pany has capital and surplus at the date of issue equalling at least  
21 \$500,000,000; investments made under this paragraph are not subject to  
22 the collateral requirements for domestic certificates under (m) of this  
23 section;

24 (20) equity interests in, and debt obligations secured by  
25 mortgages granting a first lien on, real estate improved by completed  
26 and substantially rented buildings and located in the United States, if  
27 these investments are made

28 (A) in a corporation, partnership, trust, or other  
29 entity in which, at the conclusion of each investment transaction,

1 at least 60 percent of the beneficial ownership interests are held  
2 by other institutional investors, and which is organized and oper-  
3 ated for the purpose of making real estate investments by a bank,  
4 insurance company, or other manager of institutional funds which  
5 has had at least five years of experience in the management of real  
6 estate investments of institutional investors; or

7 (B) in conjunction with and on substantially the same  
8 terms as an entity described in (A) of this paragraph.

9 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

10 (i) At the time of each investment, the aggregate investment of  
11 the Alaska permanent fund in each stated category of investment may not  
12 exceed the following stated percentage of the total investments of the  
13 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
14 investments under (g)(21) of this section, 15 percent; foreign certifi-  
15 cates of deposit or the equivalent under (g)(20) of this section, 20  
16 percent; corporate stocks and debt securities under (g)(8), (9), and  
17 (18) of this section, 50 percent. The Alaska permanent fund may at no  
18 time own more than five percent of the voting stock of a corporation.  
19 Domestic stocks, except for bank and insurance company stocks, must be  
20 listed at the date of purchase on an exchange registered with the  
21 Securities and Exchange Commission.

22 \* Sec. 7. AS 37.13.120 is amended by adding a new subsection to read:

23 (m) Certificates of deposit or the equivalent instruments which  
24 are not of a quality that may be readily sold in a secondary market at  
25 prices reflecting fair value must be secured by a pledge as collateral  
26 of investments authorized for the Alaska permanent fund under (g)(1),  
27 (2), (8), or (12) - (17) of this section, which investments have value  
28 at least equal to the face value of the certificate of deposit. The  
29 board may require substitution of collateral in order to ensure continued

1 satisfaction of the requirements set out in this subsection.

2 \* Sec. 8. AS 37.13.140 is repealed and reenacted to read:

3 Sec. 37.13.140. INCOME. Net income of the corporation must be  
4 computed annually as of the last day of the fiscal year in accordance  
5 with generally accepted accounting principles, excluding any unrealized  
6 gains or losses. Income available for distribution equals the average  
7 net income of the corporation for the last five fiscal years, including  
8 the fiscal year just ended, but may not exceed net income of the corpora-  
9 tion for the fiscal year just ended plus the balance in the undistributed  
10 income account described in AS 37.13.145.

11 \* Sec. 9. AS 37.13 is amended by adding a new section to read:

12 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
13 year, an amount sufficient to offset the effect of inflation on principal  
14 of the Alaska permanent fund during that year, as measured by a nation-  
15 ally recognized index, shall be transferred from net income as defined  
16 in AS 37.13.140, excluding income on the undistributed income account in  
17 the Alaska permanent fund, to the principal of the Alaska permanent fund  
18 for reinvestment. The balance of the net income as defined in AS 37.13.-  
19 140 shall be transferred to the undistributed income account in the  
20 Alaska permanent fund. Money in the undistributed income account shall  
21 be invested in investments authorized under AS 37.13.120. Income from  
22 the investment of the undistributed income account shall be treated as  
23 an addition to that account.

24 \* Sec. 10. AS 37.13.150 is amended to read:

25 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
26 ted by the corporation's investments must be identified as the source  
27 of the operating budget of the corporation in the state's operating  
28 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
29 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-

1 ance of the corporation's annual operating budget does not lapse at  
2 the end of the fiscal year but shall be treated as income under AS 37.  
3 13.140.

4 \* Sec. 11. AS 37.13.160 is amended to read:

5       Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Commit-  
6 tee may [SHALL] provide for an annual post audit and annual operational  
7 and performance evaluations of the corporation's investments and invest-  
8 ment programs.

9 \* Sec. 12. AS 37.13 is amended by adding a new section to read:

10       Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
11 under the Administrative Procedure Act (AS 44.62) to interpret and  
12 implement this chapter.

13 \* Sec. 13. AS 37.13.130 is repealed.

14 \* Sec. 14. Transition to four-year terms for members of the Board of  
15 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
16 as amended in sec. 2 of this Act shall be implemented as follows: at the  
17 expiration of the present term of each public member, the governor shall  
18 appoint a replacement, or reappoint the present member, for a term of four  
19 years. Within 90 days after the effective date of this Act, the governor  
20 shall appoint a public member to replace one of the two present heads of  
21 principal departments other than the commissioner of revenue, to serve for a  
22 term of four years or less which term expires in a year when no other public  
23 member's term expires. The head of a principal department who is to be re-  
24 placed shall continue to serve on the board until the appointment of a re-  
25 placement.

26 \* Sec. 15. TRANSITION. (a) All income earned by the Alaska permanent  
27 fund before the effective date of this Act that is not income available for  
28 disbursement shall be transferred to the undistributed income account estab-  
29 lished in AS 37.13.145 added by sec. 9 of this Act. However, the amount

1 transferred under this section shall be reduced by an amount equal to one-  
2 half of the income available for disbursement for fiscal year 1983.

3 (b) The amount equal to the reduction in income under (a) of this  
4 section shall be transferred to the general fund.

5 (c) In this section "income available for disbursement" shall be deter-  
6 mined as set out in AS 37.13.140 before amendment by this Act.

7 \* Sec. 16. This Act takes effect July 1, 1982.

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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 9, 1982

The Honorable Jalmar Kerttula  
President of the Senate  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a sponsor substitute for Senate Bill No. 684, introduced at my request on January 27, 1982. Since the introduction of the bill regarding investment and management of the Permanent Fund, the Board of Trustees of the Alaska Permanent Fund Corporation has met and reviewed the bill and requested that four changes be made. The changes included in the sponsor substitute are as follows:

(1) In sec. 6 of the bill, AS 37.13.120(g)(19) and (20) are amended by deleting the condition that foreign investments must be held in safekeeping by an entity which is subject to the jurisdiction of the United States courts. The Board has determined that the benefits and risks associated with this condition are not capable of precise calculation and that this condition or a similar one would be better imposed by regulation, in order to ensure the flexibility necessary for prudent investment of the fund.

(2) In sec. 7 of the bill (AS 37.13.120(i)), a limit on investment in real estate equal to 15 percent of the fund is added. A 15 percent limit is now applicable to privately insured mortgages under existing AS 37.13.120(i). In addition, modifying references are added to clarify the limitations on investments in mortgages ("under (g)(16) of this section,") in corporate stocks and debt securities ("under (g)(8), (9) and (18) of this section"), in foreign securities ("under (g)(19) of this section") and foreign certificates of deposit ("under (g)(20) of this section.")

(3) In secs. 10 and 11 of the bill, AS 37.13.140 and 37.13.145 are both reworded in order to retain the five-year averaging provision for income available for distribution which is contained in current law at AS 37.13.140, while still providing for reinvestment of 50 percent of the fund's annual net income.

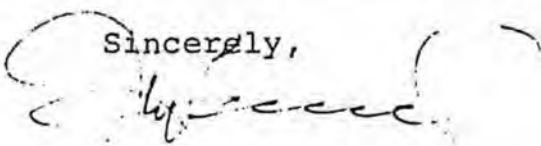
This result is accomplished without amending the dividend fund statute, AS 43.23.050(b), or diminishing the

flow of income to the dividend fund under that statute which provides that 50 percent of the income available for distribution under AS 37.03.140 is transferred to the dividend fund. Secs. 10 and 11, as written in the substitute bill, provide for the 50 percent of net income which is not transferred to principal to be retained in an undistributed income account. Money in the undistributed income account will be invested by the corporation until it is transferred to the dividend fund or appropriated by the legislature. The amount of income available for distribution equals the average net income for the last five years but may not exceed net income for the fiscal year just ended plus the balance in the undistributed income account.

Thus the rewritten sections retain the income-averaging characteristic designed to provide an even flow of revenue to the dividend fund while still allowing reinvestment of 50 percent of the annual net income earned on principal of the fund in order to preserve the value of the fund in inflationary times. The other 50 percent of net income earned on principal will retain its character as income and be invested to yield additional income, all of which will be available for transfer to the dividend fund or for appropriation. The definition of "income available for distribution" as the average net income for the last five fiscal years is retained in order to avoid any effect of this bill on the flow of money to the dividend fund. The changes to secs. 10 and 11 have been drafted with the advice of the independent accountants who performed the corporation's 1981 audit, and have been approved as understandable and workable from an accounting standpoint.

(4) AS 37.13.140 (sec. 10 of the bill) has been amended to provide that unrealized gains and losses are excluded when computing net income. This provision is consistent with the present generally accepted accounting principles (GAAP) which are incorporated by AS 37.13.140, but we are advised that the GAAP may be revised to allow inclusion of unrealized gains and losses when computing net income. While it is important for sound management to know the market value of the fund, this concern is satisfied by the reporting requirement of AS 37.13.170. The Board of Trustees has determined, and I concur, that since the amount of income available for distribution is fixed by statute and may not be altered by the Board, it is imperative for sound management of the fund to ensure the exclusion of unrealized gains and losses when computing distributable income.

Sincerely,

  
Jay S. Hammond  
Governor

Original sponsor: Rules/Governor

Offered: 5/7/82  
Referred: Finance

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE  
2 HOUSE CS FOR CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 684 (State Affairs)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUST-  
13 EES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-  
14 tion consists of six members appointed by the governor. Two [THREE] of  
15 the members shall be heads of principal departments of state government,  
16 one of whom shall be the commissioner of revenue. Four [THREE] members  
17 shall be appointed by the governor from the public and may not hold any  
18 other state or federal office, position or employment, either elective  
19 or appointive, except as a member of the armed forces of either the  
20 United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF  
21 REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF  
22 THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. The board shall  
6 determine the compensation of the public members of the board subject  
7 to approval by the legislature in accordance with AS 37.07. Compensa-  
8 tion for public members of the board shall be requested as part of the  
9 operating budget of the board (AS 37.13.150). Members [PUBLIC MEMBERS  
10 OF THE BOARD RECEIVE AN HONORARIUM OF \$400 FOR EACH MEETING DAY IF THEY  
11 ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem  
12 and travel allowances as provided by law for members of state boards and  
13 commissions.

14 \* Sec. 5. AS 37.13.120(g) is amended to read:

15 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
16 section, the board may invest corporation assets at competitive national  
17 market rates or prices applicable to each investment in

18 (1) obligations of, or obligations insured by or guaranteed  
19 by, the United States or agencies or instrumentalities of the United  
20 States;

21 (2) obligations secured by reserves paid in by the United  
22 States or agencies or instrumentalities of the United States or obliga-  
23 tions of corporations in which the United States is a shareholder or  
24 member;

25 (3) certificates of deposit and term deposits of [ISSUED BY]  
26 United States domestic banks which are members of the Federal Deposit  
27 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
28 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
29 which are fully secured at all times as to pay ment of principal and

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

Original sponsor: Rules/Governor

Offered: 5/7/82  
Referred: Finance

1 IN THE SENATE BY THE STATE AFFAIRS COMMITTEE  
2 HOUSE CS FOR CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 684 (State Affairs)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 TWELFTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the investment and management of  
7 the Alaska permanent fund and to the computation of the  
8 income of the fund available for distribution; and  
9 providing for an effective date."

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

11 \* Section 1. AS 37.13.050 is amended to read:

12 Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUST-  
13 EES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-  
14 tion consists of six members appointed by the governor. Two [THREE] of  
15 the members shall be heads of principal departments of state government,  
16 one of whom shall be the commissioner of revenue. Four [THREE] members  
17 shall be appointed by the governor from the public and may not hold any  
18 other state or federal office, position or employment, either elective  
19 or appointive, except as a member of the armed forces of either the  
20 United States or of this state. [MEMBERS OTHER THAN THE COMMISSIONER OF  
21 REVENUE SHALL BE SEPARATELY CONFIRMED BY A MAJORITY OF THE MEMBERS OF  
22 THE LEGISLATURE IN JOINT SESSION.]

23 (b) The four [THREE] public members of the board shall have recog-  
24 nized competence and wide experience in finance, investments, or other  
25 business management-related fields.

26 (c) The board shall annually elect a chairman from among its  
27 members.

28 \* Sec. 2. AS 37.13.060 is amended to read:

29 Sec. 37.13.060. TERM OF OFFICE. The public members of the

1 board shall be appointed for terms of four [THREE] years, and they may  
2 be reappointed [SUBJECT TO CONFIRMATION BY A MAJORITY OF THE MEMBERS OF  
3 THE LEGISLATURE IN JOINT SESSION]. The terms of the public members  
4 [TERMS] shall be staggered so that no more than one term of a public  
5 member expires each year. [INITIAL TERMS FOR MEMBERS OTHER THAN THE  
6 COMMISSIONER OF REVENUE SHALL BE TWO MEMBERS SERVING FOR ONE YEAR, TWO  
7 MEMBERS SERVING FOR TWO YEARS, AND ONE MEMBER SERVING FOR THREE YEARS.]

8 \* Sec. 3. AS 37.13.070 is amended to read:

9 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may  
10 for good cause remove a member of the board from office. [HOWEVER, THE  
11 REMOVAL OF A MEMBER OF THE BOARD IS SUBJECT TO DISAPPROVAL BY A VOTE OF  
12 A MAJORITY OF THE MEMBERS OF THE LEGISLATURE AT THE FIRST JOINT SESSION  
13 HELD 10 OR MORE DAYS AFTER THE LEGISLATURE RECEIVES NOTICE OF THE REMOVAL  
14 FROM THE GOVERNOR.] A removal by the governor shall be in writing and  
15 shall state the reason for the removal. A member who is removed by the  
16 governor may not participate in board business and may not be counted  
17 for purposes of establishing a quorum after [BETWEEN THE TIME] he  
18 receives written notice of his removal from the governor [AND THE TIME  
19 THAT THE LEGISLATURE'S POWER TO DISAPPROVE THE REMOVAL UNDER THIS SUB-  
20 SECTION EXPIRES. IF THE LEGISLATURE DISAPPROVES THE REMOVAL OF A BOARD  
21 MEMBER, THE BOARD MEMBER SHALL BE REINSTATED].

22 (b) A vacancy on the board shall be promptly filled by appointment  
23 by the governor [AND CONFIRMATION BY A MAJORITY OF THE MEMBERS OF THE  
24 LEGISLATURE IN JOINT SESSION]. An appointee to a vacancy shall hold  
25 office for the balance of the term for which his predecessor on the  
26 board was appointed. [IF A VACANCY ARISES ON THE BOARD WHILE THE LEGIS-  
27 LATURE IS NOT IN SESSION, THE GOVERNOR MAY APPOINT AN INTERIM BOARD  
28 MEMBER WHO SHALL EXERCISE THE POWERS OF A BOARD MEMBER UNTIL THE LEGIS-  
29 LATURE FAILS TO CONFIRM THE APPOINTMENT OF THE INTERIM BOARD MEMBER.]

1 (c) A vacancy on the board does not impair the authority of a  
2 quorum of the board to exercise all the powers and perform all the  
3 duties of the board.

4 \* Sec. 4. AS 37.13.090 is amended to read:

5 Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. The board shall  
6 determine the compensation of the public members of the board subject  
7 to approval by the legislature in accordance with AS 37.07. Compensa-  
8 tion for public members of the board shall be requested as part of the  
9 operating budget of the board (AS 37.13.150). Members [PUBLIC MEMBERS  
10 OF THE BOARD RECEIVE AN HONORARIUM OF \$400 FOR EACH MEETING DAY IF THEY  
11 ATTEND THE MEETING. ALL MEMBERS] of the board are entitled to per diem  
12 and travel allowances as provided by law for members of state boards and  
13 commissions.

14 \* Sec. 5. AS 37.13.120(g) is amended to read:

15 (g) Subject to the limitations contained in [(h) AND (i) OF] this  
16 section, the board may invest corporation assets at competitive national  
17 market rates or prices applicable to each investment in

18 (1) obligations of, or obligations insured by or guaranteed  
19 by, the United States or agencies or instrumentalities of the United  
20 States;

21 (2) obligations secured by reserves paid in by the United  
22 States or agencies or instrumentalities of the United States or obliga-  
23 tions of corporations in which the United States is a shareholder or  
24 member;

25 (3) certificates of deposit and term deposits of [ISSUED BY]  
26 United States domestic banks which are members of the Federal Deposit  
27 Insurance Corporation and [FOR] which may be readily sold in a [GENERALLY  
28 RECOGNIZED] secondary market at prices reflecting fair value [EXISTS] or  
29 which are fully secured at all times as to pay ment of principal and

1 interest as [BY INVESTMENTS] described in (m) [(1), (2), (8) OR (12) -  
2 (16)] of this section [SUBSECTION; THE SECURITY PLEDGED UNDER THIS  
3 PARAGRAPH SHALL BE AT LEAST EQUAL TO THE FACE VALUE OF THE DEPOSIT AND  
4 THE BOARD MAY REQUIRE SUBSTITUTION OF COLLATERAL];

5 (4) certificates of deposit and term deposits [SHARES] of  
6 federally chartered savings and loan [LOANS] associations in Alaska  
7 which may be readily sold in a secondary market at prices reflecting  
8 fair value or which are fully secured at all times as to payments of  
9 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
10 of this section [SUBSECTION];

11 (5) [SAVINGS] certificates of deposit and term deposits of  
12 [ISSUED BY] state chartered savings and loan associations in Alaska  
13 which may be readily sold in a secondary market at prices reflecting  
14 fair value or which are fully secured at all times as to payments of  
15 principal and interest as [BY INVESTMENTS] described in (m) [(1), (2)]  
16 of this section [SUBSECTION];

17 (6) certificates of deposit and term deposits of [DEPOSITS  
18 WITH] mutual savings banks in Alaska which may be readily sold in a sec-  
19 ondary market at prices reflecting fair value or which are fully secured  
20 at all times as to payments of principal and interest as [BY INVESTMENTS]  
21 described in (m) [(1), (2)] of this section [SUBSECTION];

22 (7) fixed-term certificates of indebtedness of federally in-  
23 sured credit unions in Alaska which may be readily sold in a market at  
24 prices reflecting fair value or which are fully secured at all times as  
25 to payments of principal and interest as [BY INVESTMENTS] described in  
26 (m) [(1), (2)] of this section [SUBSECTION];

27 (8) corporate debt securities which are rated AA or better by  
28 a nationally recognized rating service;

29 (9) short-term corporate promissory notes of the highest

1 ratings assigned by a nationally recognized rating service;

2 (10) bankers' acceptances drawn on and accepted by United  
3 States banks each of which have a combined capital and surplus aggregat-  
4 ing at least \$200,000,000;

5 (11) repurchase agreements, the securities underlying the  
6 agreements being any of the items in (1) - (3) and (8) - (10) of this  
7 subsection;

8 (12) the guaranteed portion of Federal Small Business Admin-  
9 istration loans;

10 (13) the portion of first lien real estate mortgages guaran-  
11 teed by the Federal Veterans Administration [ASSOCIATION];

12 (14) the portions of business and industrial loans made under  
13 the Rural Development Act of 1972 which are guaranteed by the Farmer's  
14 Home Administration;

15 (15) the guaranteed portion of Farmer's Home Administration  
16 loans;

17 (16) notes secured by mortgages granting a first lien on com-  
18 mercial or [OF] residential real estate improved by completed buildings  
19 if the mortgages are insured by a private mortgage insurance corporation  
20 which is authorized to do business in Alaska and has combined capital,  
21 surplus and reserves aggregating at least \$20,000,000, and if loan-to-  
22 value ratios do not exceed 75 percent for commercial mortgages and 90  
23 percent for residential mortgages; however, [THE MINIMUM COVERAGE SHALL  
24 BE 10 PERCENT FOR LOANS HAVING A LOAN-TO-VALUE RATIO OF LESS THAN 90  
25 PERCENT, AND THE MINIMUM COVERAGE SHALL BE 20 PERCENT FOR LOANS HAVING A  
26 LOAN-TO-VALUE RATIO OF 90 PERCENT OR MORE.]

27 (A) no mortgage insurance is necessary for commercial  
28 loans having loan-to-value ratios of less than 50 percent and the  
29 minimum coverage of other commercial loans shall be 10 percent for

1 those having a loan-to-value ratio of 50-60 percent and 15 percent  
2 for those having a loan-to-value ratio greater than 60 percent but  
3 no more than 75 percent, and

4 (B) no mortgage insurance is necessary for residential  
5 loans having a loan-to-value ratio of less than 70 percent and the  
6 minimum coverage of other residential loans shall be 10 percent for  
7 those having a loan-to-value ratio greater than 70 percent but less  
8 than 90 percent and 20 percent for those having a loan-to-value  
9 ratio of 90 percent;

10 (17) notes secured by mortgages granting a first lien on com-  
11 mercial real estate improved by completed buildings if the originating  
12 financial institution retains at least 25 percent of the mortgage until  
13 maturity;

14 (18) preferred and common stock of corporations incorporated  
15 in the United States, on which dividends have been paid in each of the  
16 three years immediately preceding the investment;

17 (19) debt securities of foreign governments or corporations  
18 and preferred and common stock of foreign corporations which are of sub-  
19 stantially equivalent quality as those domestic securities permitted  
20 under this section;

21 (20) certificates of deposit, term deposits, bankers' accep-  
22 tances, or equivalent instruments, which are issued by a United States  
23 or foreign bank or trust company located in a foreign country and are  
24 denominated in either United States or foreign currency, if either (A)  
25 they may be readily sold in a secondary market at prices reflecting fair  
26 value, or (B) the issuing bank or trust company has capital and surplus  
27 at the date of issue equalling at least \$500,000,000; investments made  
28 under this paragraph are not subject to the collateral requirements for  
29 domestic certificates under (m) of this section;

1                   (21) equity interests in, and debt obligations secured by  
2 mortgages granting a first lien on, real property improved by completed  
3 and substantially rented buildings and located in the United States, if  
4 these investments are made

5                   (A) in a corporation, partnership, trust, or other  
6 entity in which, at the conclusion of each investment transaction,  
7 at least 60 percent of the beneficial ownership interests are  
8 held by other institutional investors, and which is organized and  
9 operated for the purpose of making real estate investments by a  
10 bank, insurance company, or other manager of institutional funds  
11 which has had at least five years of experience in the management  
12 of real estate investments of institutional investors; or

13                   (B) in conjunction with and on substantially the same  
14 terms as an entity described in (A) of this paragraph;

15                   (22) limited partnership interest in venture capital funds,  
16 if these investments are made

17                   (A) in a partnership in which, at the conclusion of  
18 each investment transaction, at least 60 percent of the beneficial  
19 ownership interests are held by other institutional investors and  
20 which is organized and operated for the purpose of making venture  
21 capital investments by a manager of institutional funds who has  
22 had at least five years of experience in the management of venture  
23 capital investments of institutional investors; and

24                   (B) in a partnership that agrees to make venture capital  
25 investments in the state equal to the investment of the Alaska  
26 permanent fund in the partnership to the extent that in-state in-  
27 vestments that have a risk level and expected yield comparable to  
28 alternate investment opportunities are available.

29                   (23) obligations issued by an agency of the state if the

1 obligations and the interest on them are taxable under federal law.

2 \* Sec. 6. AS 37.13.120(i) is repealed and reenacted to read:

3 (i) At the time of each investment, the aggregate investment of  
4 the Alaska permanent fund in each stated category of investment may not  
5 exceed the following stated percentage of the total investments of the  
6 fund: mortgages under (g)(16) of this section, 15 percent; real estate  
7 investments under (g)(21) of this section, 15 percent; venture capital  
8 limited partnerships under (g)(22) of this section, 15 percent; foreign  
9 securities under (g)(19) of this section, 10 percent; foreign certifi-  
10 cates of deposit or the equivalent under (g)(20) of this section, 20  
11 percent; corporate stocks and debt securities under (g)(8), (9), and  
12 (18) of this section, 50 percent. The Alaska permanent fund may at no  
13 time own more than five percent of the voting stock of a corporation.  
14 Domestic stocks, except for bank and insurance company stocks, must be  
15 listed at the date of purchase on an exchange registered with the  
16 Securities and Exchange Commission.

17 \* Sec. 7. AS 37.13.120 is amended by adding new subsections to read:

18 (m) Certificates of deposit or the equivalent instruments which  
19 are not of a quality that may be readily sold in a secondary market at  
20 prices reflecting fair value must be secured by a pledge as collateral  
21 of investments authorized for the Alaska permanent fund under (g)(1),  
22 (2), (8) or (12) - (17) of this section, which investments have value at  
23 least equal to the face value of the certificate of deposit. The board  
24 may require substitution of collateral in order to ensure continued  
25 satisfaction of the requirements set out in this subsection.

26 (n) Certificates of deposit or the equivalent instruments may not  
27 be purchased from a bank doing business in Alaska unless the in-state  
28 loan-to-deposit ratio of that bank as determined by the division of  
29 banking of the Department of Commerce and Economic Development for the

1 last full quarter preceding the purchase is not more than five percent  
2 less than the in-state loan-to-deposit average ratio for all banks doing  
3 business in Alaska for that quarter.

4 (o) Certificates of deposits or the equivalent instrument may not  
5 be purchased from a bank doing business in Alaska if state and state  
6 agency deposits in the bank are in excess of 400 percent of the bank's  
7 combined capital and surplus.

8 \* Sec. 8. AS 37.13 is amended by adding a new section to read:

9 Sec. 37.13.145. DISPOSITION OF INCOME. At the end of each fiscal  
10 year, an amount equal to 50 percent of net income as defined in AS 37.-  
11 13.140, excluding any income on the undistributed income account in the  
12 Alaska permanent fund, shall be transferred to principal of the fund for  
13 reinvestment. The other 50 percent of the net income shall be trans-  
14 ferred to the undistributed income account. Money in the undistributed  
15 income account shall be invested in investments authorized under AS 37.-  
16 13.120. Income from the investment of the undistributed income account  
17 shall be treated as an addition to that account.

18 \* Sec. 9. AS 37.13.150 is amended to read:

19 Sec. 37.13.150. CORPORATION [BOARD] BUDGET. The revenues genera-  
20 ted by the corporation's investments must be identified as the source  
21 of the operating budget of the corporation in the state's operating  
22 budget under [BOARD IS FROM THE GENERAL FUND AND IS SUBJECT TO] the  
23 Executive Budget Act (AS 37.07.010 - 37.07.130). The unexpended bal-  
24 ance of the corporation's annual operating budget does not lapse at  
25 the end of the fiscal year but shall be treated as income under AS 37.  
26 13.140.

27 \* Sec. 10. AS 37.13.160 is amended to read:

28 Sec. 37.13.160. AUDITS. The Legislativ Budget and Audit Commit-  
29 tee may [SHALL] provide for an annual post audit and annual operational

1 and performance evaluations of the corporation's investments and invest-  
2 ment programs.

3 \* Sec. 11. AS 37.13 is amended by adding a new section to read:

4 Sec. 37.13.205. REGULATIONS. The board may adopt regulations  
5 under the Administrative Procedure Act (AS 44.62) to interpret and  
6 implement this chapter.

7 \* Sec. 12. Transition to four-year terms for members of the Board of  
8 Trustees of the Alaska Permanent Fund Corporation as provided in AS 37.13.060  
9 as amended in sec. 2 of this Act shall be implemented as follows: at the  
10 expiration of the present term of each public member, the governor shall  
11 appoint a replacement, or reappoint the present member, for a term of four  
12 years. Within 90 days after the effective date of this Act, the governor  
13 shall appoint a public member to replace one of the two present heads of  
14 principal departments other than the commissioner of revenue, to serve for a  
15 term of four years or less which term expires in a year when no other public  
16 member's term expires. The head of a principal department who is to be  
17 replaced shall continue to serve on the board until the appointment of a  
18 replacement.

19 \* Sec. 13. This Act takes effect July 1, 1982.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

EFFECTS OF INFLATION ON THE REAL CAPITAL AND REAL INCOME OF THE PERMANENT FUND

Assumptions

- (1) \$10.0 billion (starting) capital, no further contributions
- (2) 10% inflation rate, using the GNP Deflator (which puts aside tax payments), the national Consumer Price Index (which includes tax payments), or the Anchorage CPI (a local reference for price changes in private and, to a lesser extent, public goods and services).
- (3) 15% total return on investment, which includes interest, dividends, realized and unrealized capital gains and losses. This is deemed to include returns from the reinvestment of income during the course of the year.

	<u>Capital</u> <u>Year 1</u>	<u>Income</u>	<u>Capital</u> <u>Year 10</u>	<u>Real</u> <u>Capital</u> <u>Year 10</u>	<u>Income</u>	<u>Real</u> <u>Income</u>	<u>Capital</u> <u>Year 20</u>	<u>Real</u> <u>Capital</u> <u>Year 20</u>	<u>Income</u>	<u>Real</u> <u>Income</u>	<u>Capital</u> <u>Year 30</u>	<u>Real</u> <u>Capital</u> <u>Year 30</u>	<u>Income</u>	<u>Real</u> <u>Income</u>
All Returns Paid Over	\$10.0	1.500	10.0	3.860	1.500	.578	10.0	1.490	1.500	.223	10.0	.570	1.500	.036
Real Returns (5%) Paid Over	10.0	.500	25.940	10.0	1.297	.500	67.270	10.0	3.364	.500	174.490	10.0	8.720	.590
All Returns Retained in Fund	10.0		40.460	15.599	2.023	.780	163.670	24.329	8.184	1.217				

Prepared by James B. Rhode  
Special Assistant to the Trustees  
Alaska Permanent Fund

19 August 1981

Pat Williams  
Additional materials for  
master file SB684  
5/10 - Provided by  
Permie fund employee  
(given directly to SFC  
members)

ALASKA PERMANENT FUND CORPORATION

POUCH SB - JUNEAU, ALASKA 99811  
TELEPHONE 907-465-2351

BOARD OF TRUSTEES:

ELMER E. RASMUSON - CHAIRMAN  
THOMAS K. WILLIAMS - VICE-CHAIRMAN  
WILSON L. CONDON  
PETER B. MCDOWELL  
GEORGE W. ROSE  
ROBERT W. WARD

RESPONDENT ADDRESS:

TO: Senator Arliss Sturgulewski, Chairperson  
Legislative Budget & Audit Committee

FROM: James B. Rhode  
Special Assistant to the Trustees

DATE: 26 April 1982

SUBJECT: Section Analysis of CS for Sponsor Substitute  
for SB 684 (Finance)

At your request, we have compared the above bill with that offered by the Governor and the Trustees of the Alaska Permanent Fund. We find only the changes noted below.

Section 4. COMPENSATION OF BOARD MEMBERS. (page 3, line 5)  
Instead of a part-time salary equal to that of legislators, or a part-time salary to be proposed by the Trustees in their annual budget request (CS by L&C), compensation is to be the existing honorarium for each day spent at board and subcommittee meetings or at public meetings where a trustee represents the board.

No provision is made for compensating public members for lost income resulting from travel during regular business hours; commissioners, of course, draw their salaries at such times. A majority of Trustees do not agree with this amendment, particularly because of the extended travel that will be required to meet with financial advisors, investment managers, and officials at similar funds.

Investments

Section 5. (g) (3-6) (page 3, line 24)  
The phrase "or equivalent instruments" was struck after each reference to "certificates of deposit, term deposits". The intent is to limit, clearly, this investment authority.

The Trustees concur in this policy. The original phrase was technical, to cover the possible creation of an instrument with slightly different features. For example, a time deposit may be adjusted every six months rather than bear a flat rate. Our counsel and financial advisors have assured us this would be a time deposit in the normal sense.

Section 5. (g) (19) (page 6, line 17)  
The addition of "which are denominated in United States currency" has the result of limiting the purchase of foreign

corporate debt solely to "Eurodollars" (overseas U.S. dollars), such as the offerings of SONY and many other multi-nationals, and to dollar offerings by foreign governments, as have often been made by Japan and Germany.

The Trustees concur in this change, as they had not intended to have any foreign exchange considerations when buying these fixed-return investments.

Section 5. (g) (20) (page 6, line 21)

The deletion of "or foreign" [bank or trust company located in a foreign country] has the effect of permitting the purchase of Eurodollars from the New York branch of Lloyd's but not the bank's London office. In both cases, the final security is the same, namely the net worth of the parent bank. However, the Eurodollars sold by the U.S. branch have a somewhat lower yield because this market is largely for U.S. institutions that are unable to buy abroad because of this very restriction. The Trustees ask that "or foreign" be restored after the words "United States" on line 21; this would bring access to the largest share of the world market for Eurodollars.

Among the selected foreign assets that are proposed in this bill, the Trustees are most supportive of entering the Eurodollar market. The principals in this market are banks and corporations as large, or larger, than the major banks and firms of the U.S. The governments are those with the highest rated credit internationally. As no industrial country besides the U.S. has our requirements for bank reserves (and given the frequent, heavy demand by leading U.S. corporations), Eurodollars pay from one-half to three percent more than like offerings in the U.S.

## THE CASE FOR INTERNATIONAL DIVERSIFICATION

International diversification of an investment portfolio can provide four benefits: reduction in the volatility of the portfolio; an increase in the return; an increase in the marketability of the portfolio as a whole; and protection against an unexpectedly high rate of inflation in the United States.

### 1. Protection from Inflation

Diversification into markets of different countries with different economic cycles and different rates of inflation reduces the risk that an entire portfolio will show a low real rate of return. The return of the international element of the portfolio will not be impaired by an unexpectedly high level of inflation in the United States. Indeed it will tend to benefit since the growth of the inflation differential is likely to be reflected in exchange rates so that overseas holdings will rise in terms of the United States dollar. A rise in the exchange rate of the United States dollar might lead, on the other hand, to the returns on overseas investments not matching those on United States investments. Any fall in the United States rate of inflation would, however, be highly beneficial to the performance of United States investments. Since the proportion invested in overseas markets would likely be relatively small, the overall performance of a portfolio with 90 per cent invested in the United States and 10 per cent in overseas markets would still be quite satisfactory during this period of low domestic inflation. International diversification protects the assets of a fund in that it provides a higher return on overseas securities at the time it is most needed - when the rate of domestic inflation is unexpectedly high.

### 2. Reduced Volatility

The prices of different shares in any one market tend to move fairly closely together, but the correlation between share price movements in different markets is low.

Correlation coefficients between United States and Foreign Stock Markets 1970-1979.

United States	1.00
United Kingdom	.54
Japan	.52
Germany	.51
France	.48
Hong Kong	.45

One study has indicated that the reduction in volatility for the period 1959 to 1979 for a portfolio with 90 per cent invested in the Standard & Poor's Composite Index and 10 per cent equally divided among the equity markets of France, Germany, Japan, and the United Kingdom (as represented by the Capital International Index for each of these markets) from the volatility of a portfolio invested wholly in the Standard & Poor's Composite Index would have been nearly half that which would have been obtained by holding 10 per cent of the portfolio in cash equivalents. International diversification thus leads to a substantial reduction in volatility.

### 3. Greater Return

The rate of return in the years 1959 to 1979 was generally greater in the major markets outside North America than in the United States. A study made by InterSec Research Corporation shows the rates of return achieved by investment in the Capital International Indices of the markets of Canada, France, Germany, Japan, and the United Kingdom and in the Standard & Poor's Composite Index in the United States over four periods (1959 to 1979, 1965 to 1979, 1970 to 1979, and 1974 to 1979), after taking account of dividend yield and adjusting for fluctuations in exchange rates. The returns in every period were higher in each of the overseas markets than in the United States except in the case of the French market in the longest period. The rate of return of a portfolio divided equally among the four markets outside North America would have been higher by about 70 per cent in the first period, 150 per cent in the second period, 160 per cent in the third period and 85 per cent in the final period. The investment of even a small proportion of a United States portfolio in international markets would, therefore, have resulted in a significant increase in the return of the whole portfolio.

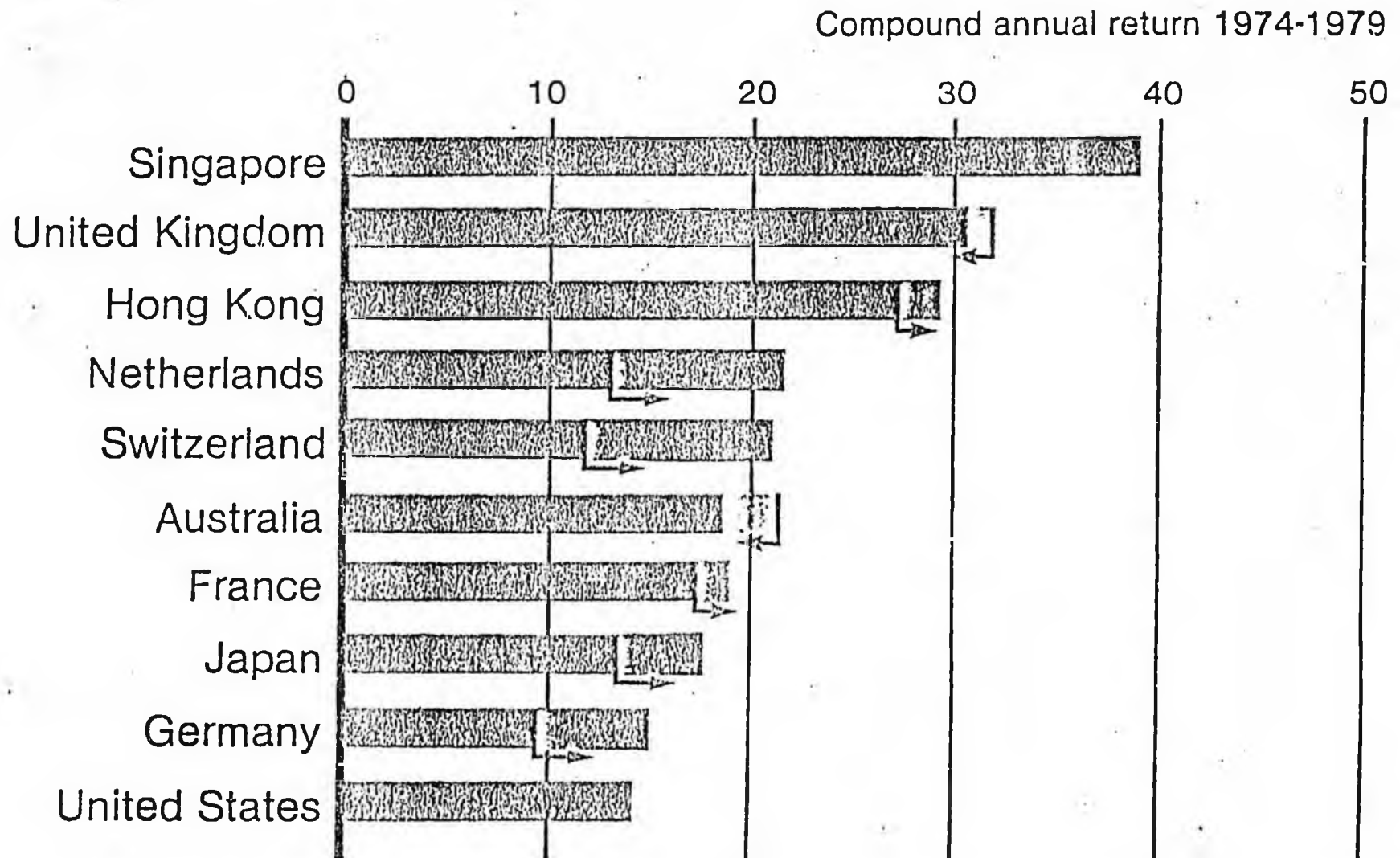
### 4. Increased Marketability

Capital International has published figures for turnover in 1979 in 14 stock markets in Europe and the Far East. Turnover in these 14 markets amounted to \$220.7 billion, over 86 per cent of the turnover of the United States and Canadian equity markets in the same year. Capital International has also published figures for the market capitalization of equities on 16 stock exchanges outside North America. At the end of 1979 the total amounted to \$755 billion, almost 71 per cent of the combined market capitalizations of the United States and Canadian stock markets at that time. The size of markets outside North America is thus considerable, and turnover forms a larger proportion of market capitalization in them, taken as a whole, than in North America. Moreover, there were 127 companies listed on these 16 markets outside North America with a market capitalization which was greater than that of the 200th largest listed United States company at the end of 1979. There is thus considerable opportunity for large scale investment in markets outside the United States and Canada.

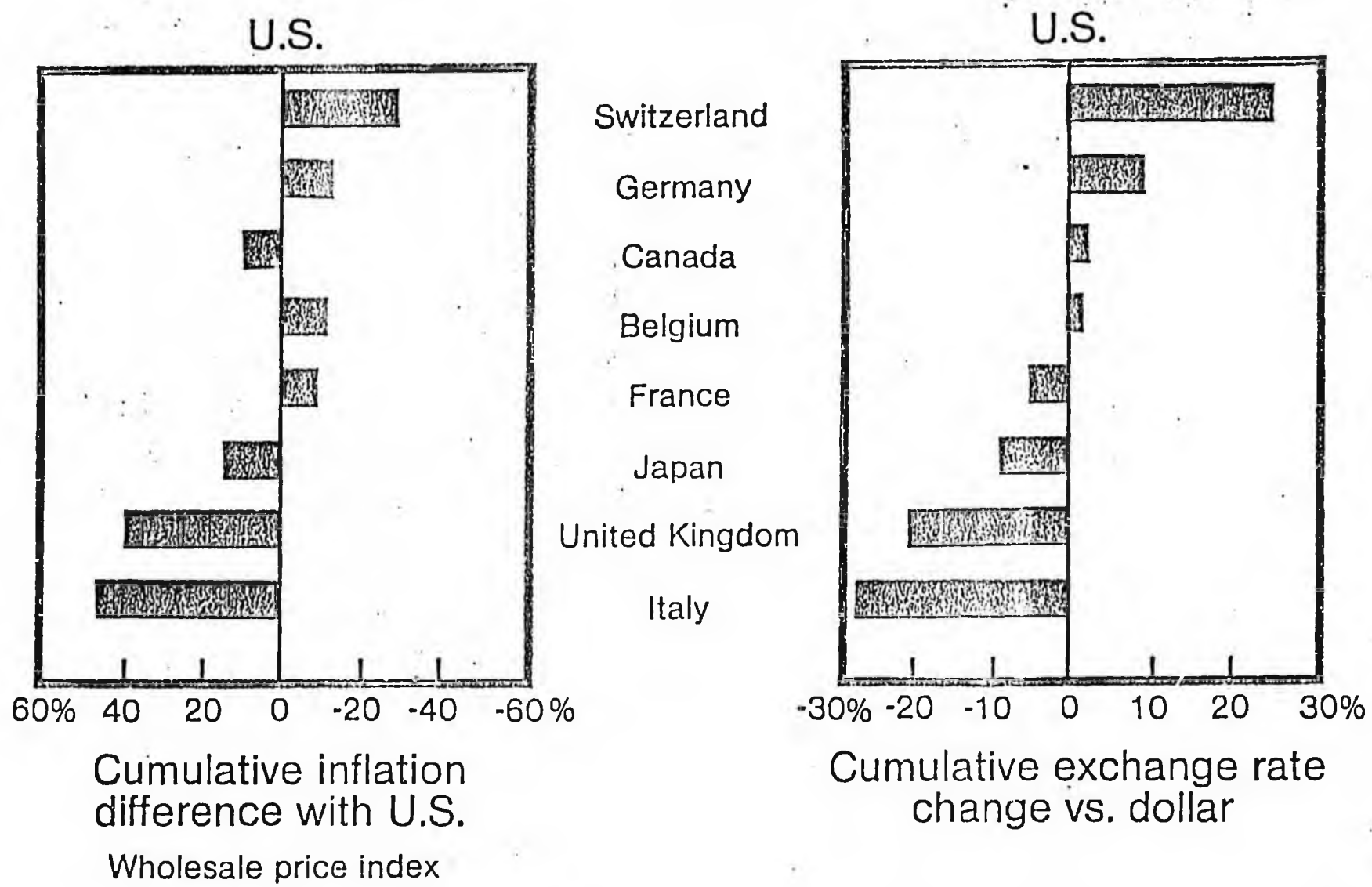
5. Investment in International Bond Markets

The total capitalization of the Eurobond market and the nine national bond markets of Australia, Denmark, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom at the end of 1979 was about \$1,414 billion. By comparison, the taxable bond market in the United States had an estimated capitalization of about \$1,400 billion and that of Canada a capitalization of about \$105 billion. The large size of international bond markets provides United States investors with a further means of benefiting from international diversification, but with a lower degree of volatility than that involved in equity investment.

Some return comes from currency exchange rate changes.

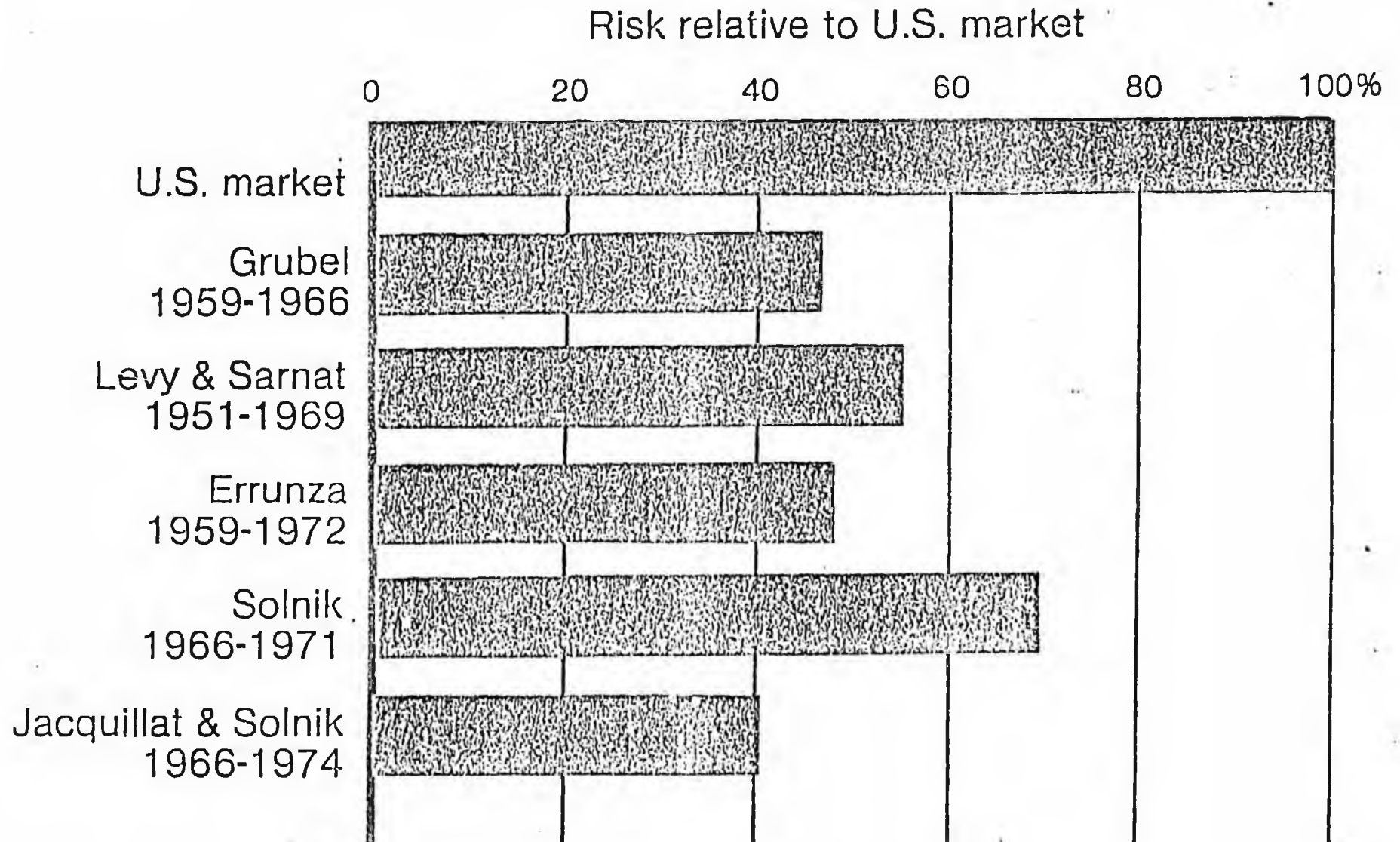


# Currency exchange rates (longer term) depend on differences in inflation rates.

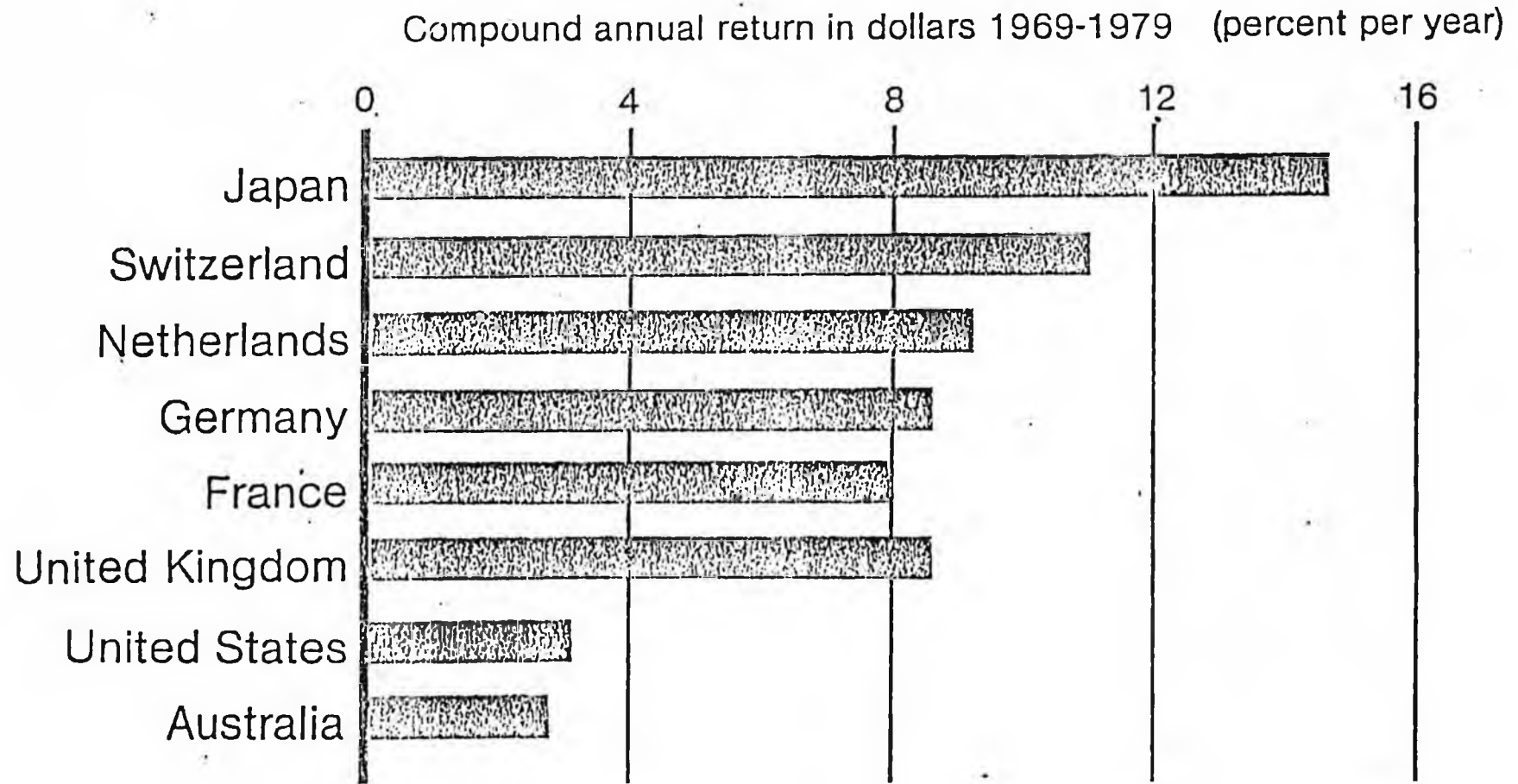


Source: Kemp    Period: March 1973-December 1976

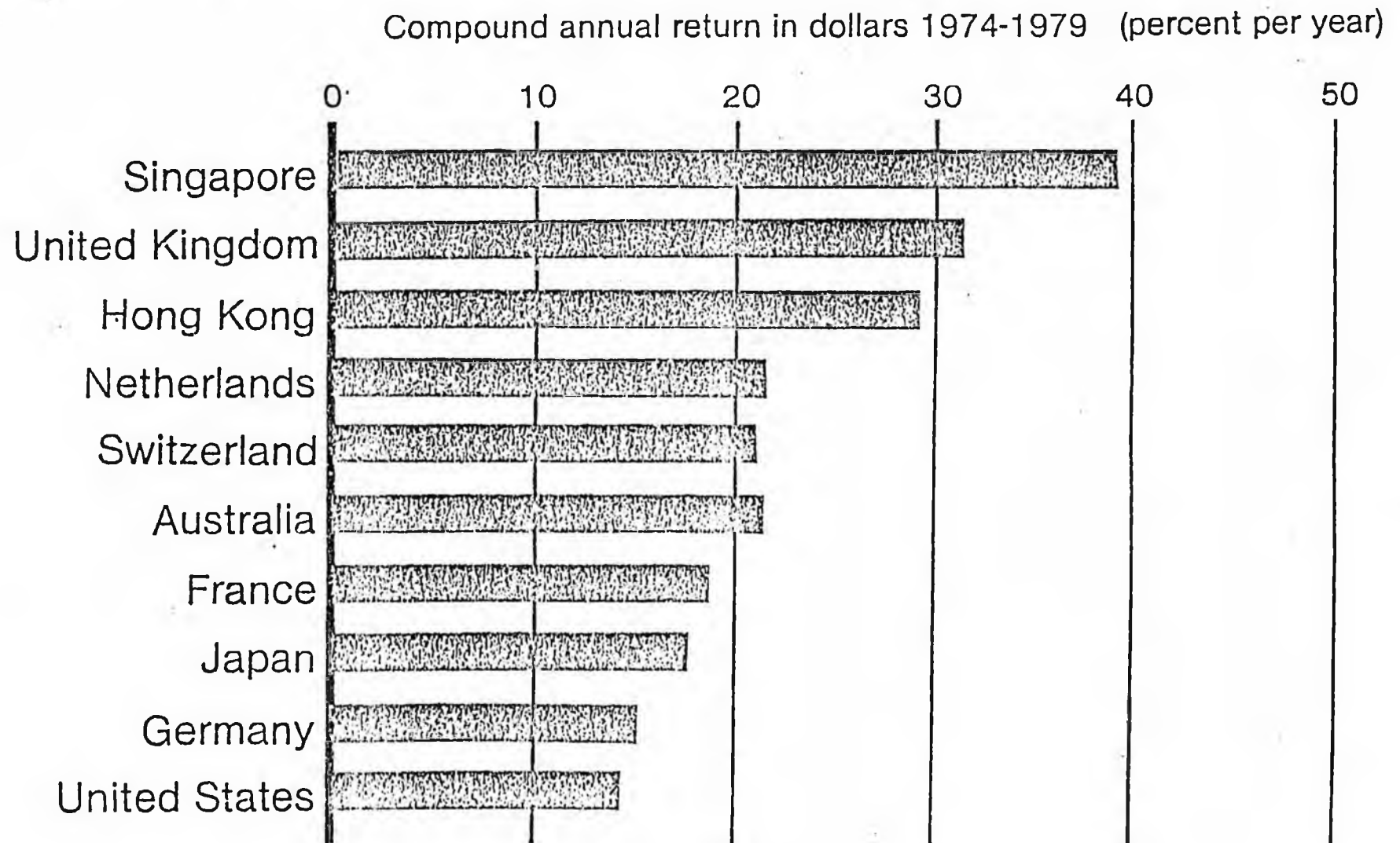
Studies show that international diversification reduces risk substantially.



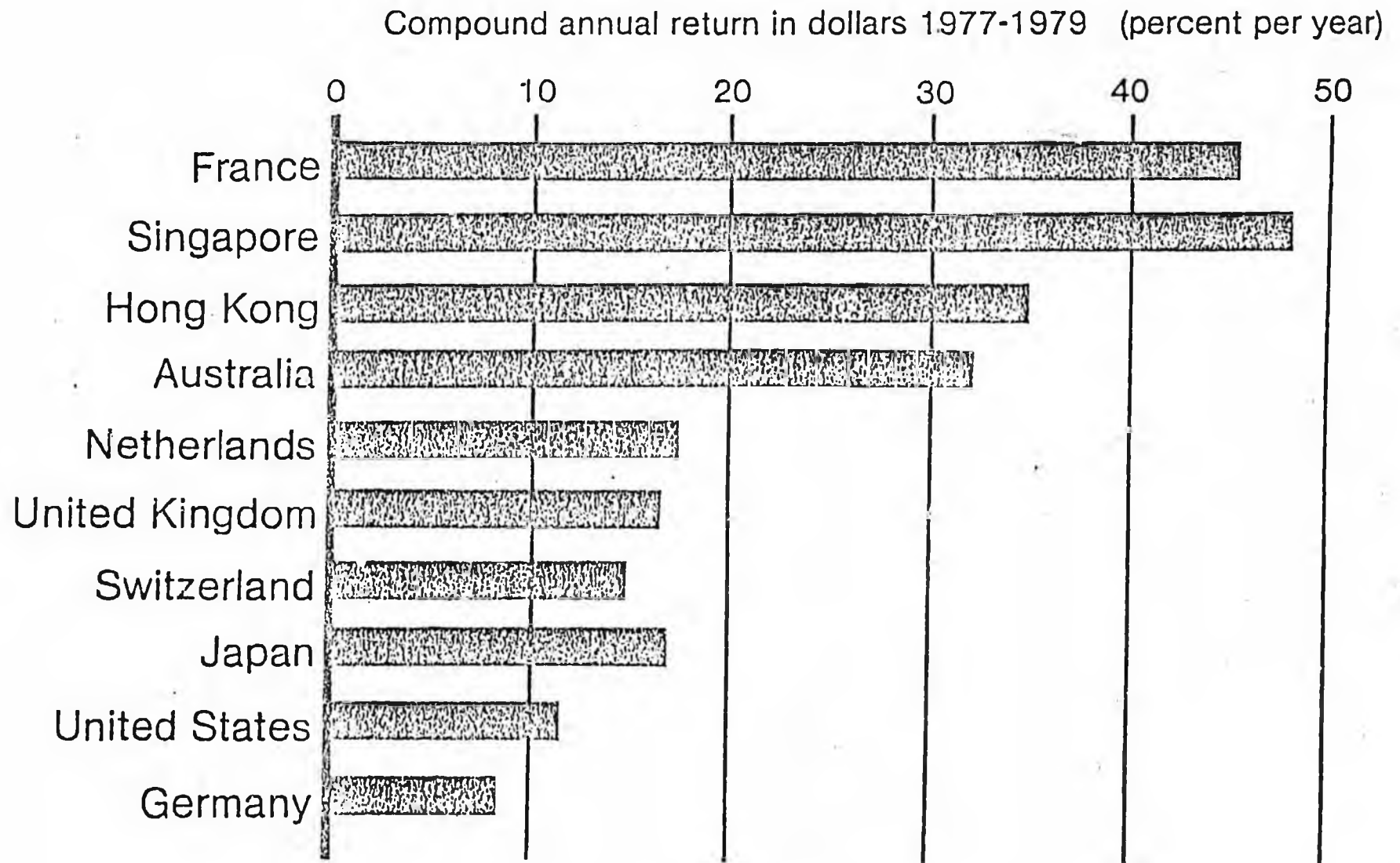
Foreign markets have shown better returns than the U.S. market for the past ten years.



Foreign markets have shown better returns than the U.S. market for the past five years.



Foreign markets have shown better returns than the U.S. market for the past two years.





**INTERSEC RESEARCH CORP.**  
Registered Investment Advisers

Consultants on International Diversification  
for Pension Managers

TOTAL RETURNS ON INVESTMENT FROM MAJOR WORLD STOCK MARKETS  
BEFORE AND AFTER U.S. INFLATION FOR THE FIVE YEARS 1974-'78+

	TOTAL RETURNS LOCAL CURRENCY	TOTAL RETURNS U.S. \$ TERMS	INFLATION in U.S.	TOTAL RETURNS AFTER U.S. INFLATION
U.S.	4.29	4.29	7.94	-3.38
Japan	9.48	17.72		-9.06
U.K.	14.54	11.61		3.40
Germany	11.85	21.04		12.14
France	6.70	10.13		2.03
Switzerland	1.37	16.84		8.25
Australia	9.92	4.44		-3.24
Canada	5.40	1.93		-5.57
EAFE*		12.11		3.86

\*Europe, Australia, Far East Indices of sixteen markets, weighted according to their size. Prepared by Capital International, Geneva.  
+ percent per annum, compounded.



**INTERSEC RESEARCH CORP.**  
Registered Investment Advisers

Consultants on International Diversification  
for Pension Managers

TOTAL RETURNS ON INVESTMENT FROM MAJOR WORLD STOCK MARKETS  
BEFORE AND AFTER U.S. INFLATION FOR THE THREE YEARS 1976-'78+

	TOTAL RETURNS LOCAL CURRENCY	TOTAL RETURNS U.S. \$ TERMS	INFLATION in U.S.	TOTAL RETURNS AFTER U.S. INFLATION
U.S.	6.92	6.92	6.86	.06
Japan	24.49	30.73		22.33
U.K.	17.12	17.42		9.88
Germany	3.82	19.49		11.82
France	10.28	12.93		5.68
Switzerland	2.34	20.76		13.00
Australia	10.31	7.16		0.28
Canada	14.77	9.13		2.12
EAFE*		18.39		10.79

\*Europe, Australia, Far East Indices of sixteen markets, weighted according to their size. Prepared by Capital International, Geneva.  
+ percent per annum, compounded.

250

225

200

175

150

125

100

75

50

MORGAN GUARANTY INTERNATIONAL EQUITIES FUND  
COMPARATIVE PERFORMANCE-JAN. 1974 = 100 : DIVIDENDS  
REINVESTED

— INTERNATIONAL EQUITIES FUND  
- - - CAPITAL INTERNATIONAL INDEX-EUROPE,  
AUSTRALIA AND FAR EAST  
+ + + S&P 500

1974

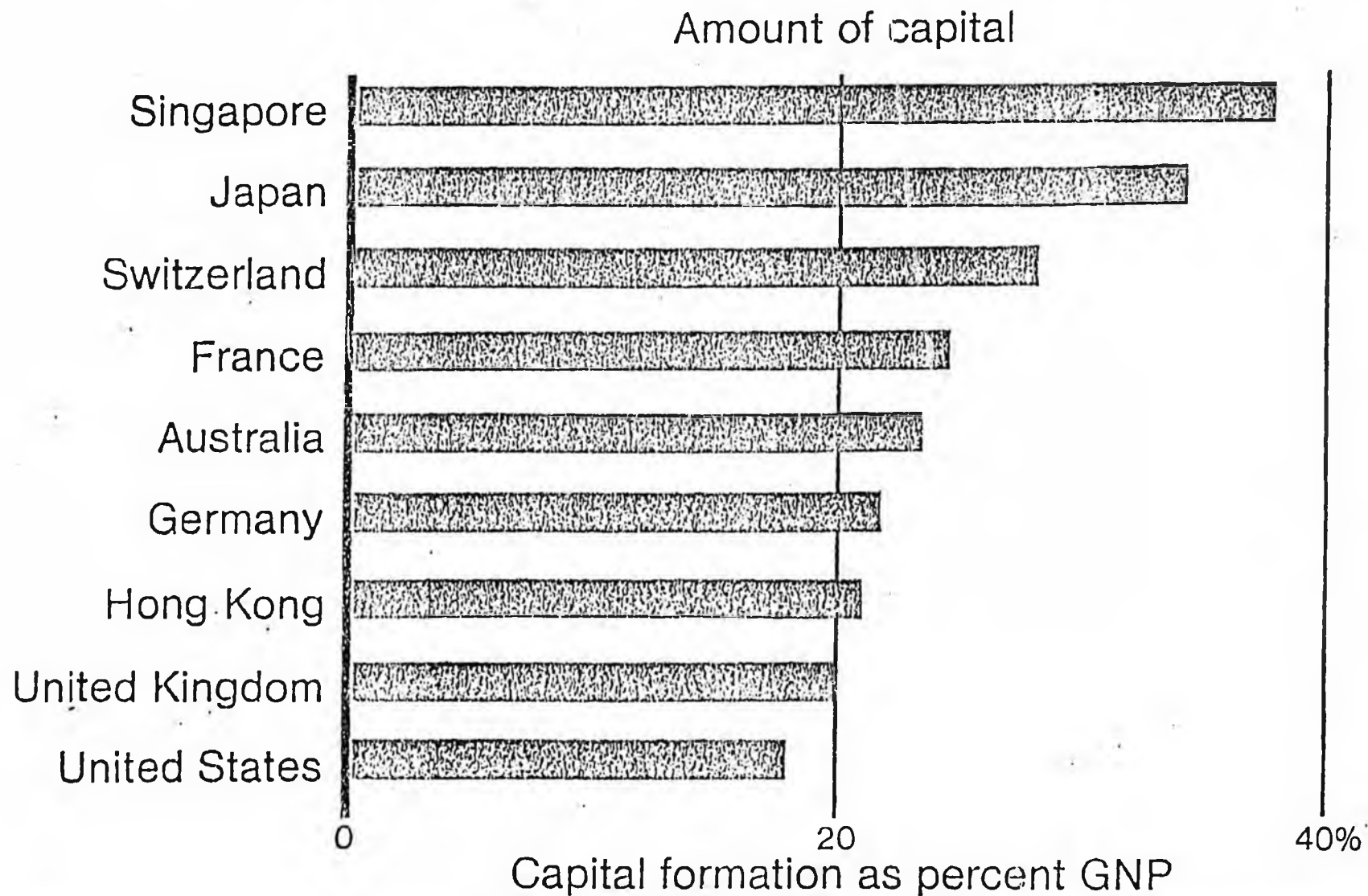
1975

1976

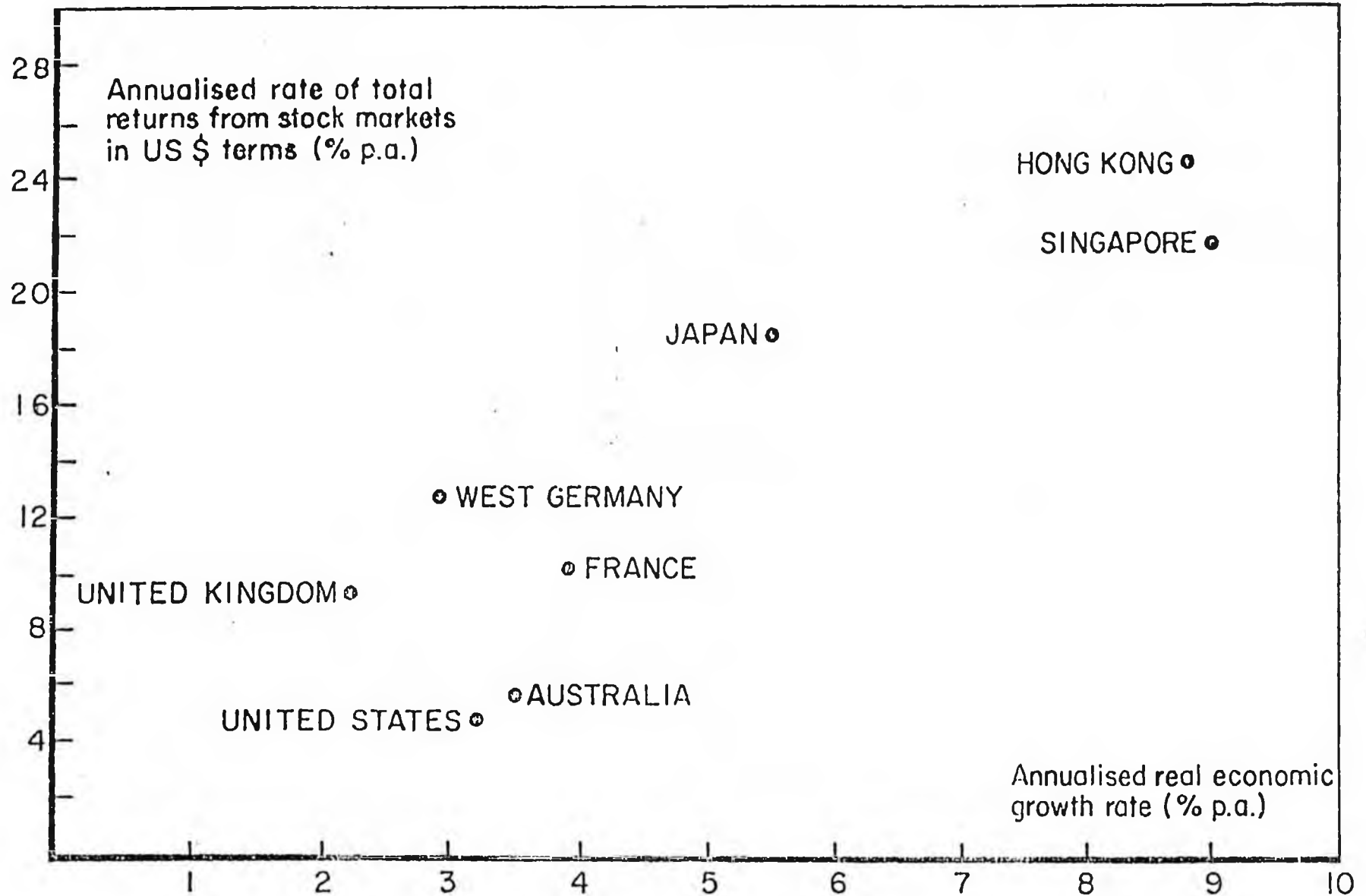
1977

1978

Greater capital formation in foreign countries leads to greater economic growth.



# I. RELATION BETWEEN REAL ECONOMIC GROWTH AND STOCK MARKET RETURNS 1970-1979

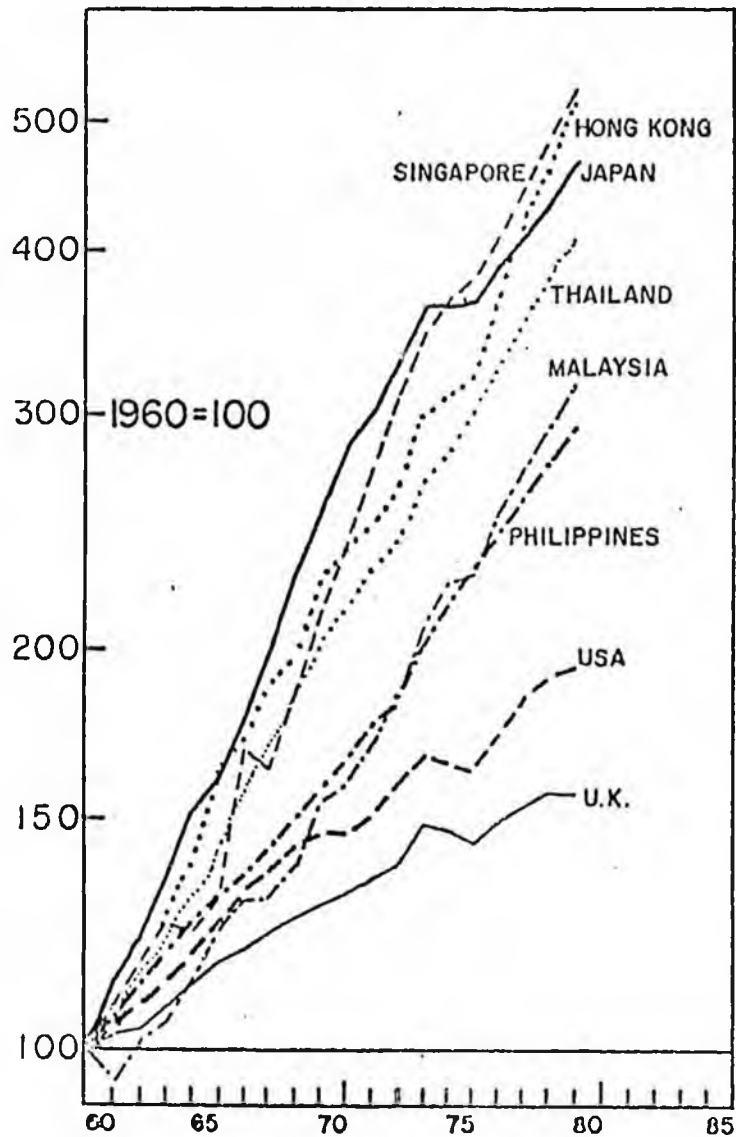


## V. PROSPECTS FOR PROSPERITY IN THE 1980's

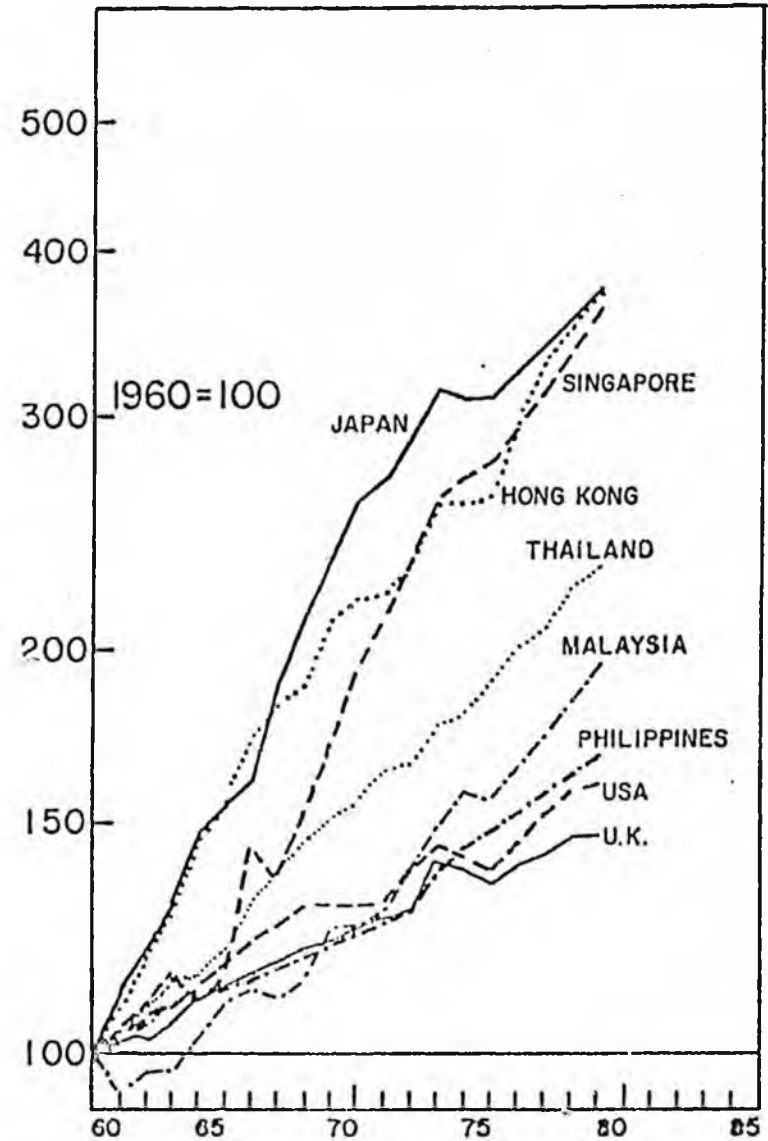
<u>GOVERNMENT CONSUMPTION AS % OF GNP IN 1978</u>	<u>SAVINGS RATE IN 1977</u>	<u>PRIVATE FIXED CAPITAL FORMATION AS % OF GNP IN 1978</u>
UNITED STATES 20.5	JAPAN 21.5	SINGAPORE 22.9
UNITED KINGDOM 20.2	FRANCE 16.1	WEST GERMANY 22.9
WEST GERMANY 20.0	WEST GERMANY 14.0	JAPAN 20.4
AUSTRALIA 16.9	UNITED KINGDOM 13.9	HONG KONG 18.2
FRANCE 15.3	UNITED STATES 5.1	UNITED STATES 15.5
SINGAPORE 11.1		AUSTRALIA 14.1
JAPAN 9.5		UNITED KINGDOM 9.7
HONG KONG 6.0	Not Available: Australia, Hong Kong, Singapore	Not Available: France

# IV ECONOMIC PROGRESS IN THE FAR EAST

## GROSS DOMESTIC PRODUCT GROWTH IN ASIA



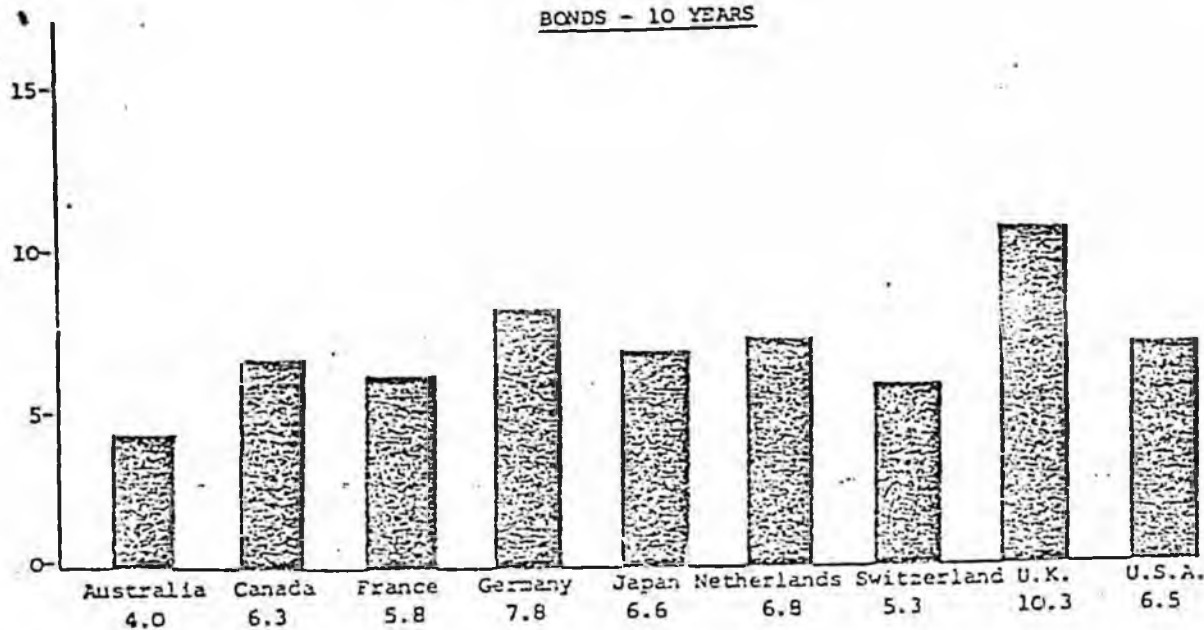
## REAL PER CAPITA GDP IN ASIA



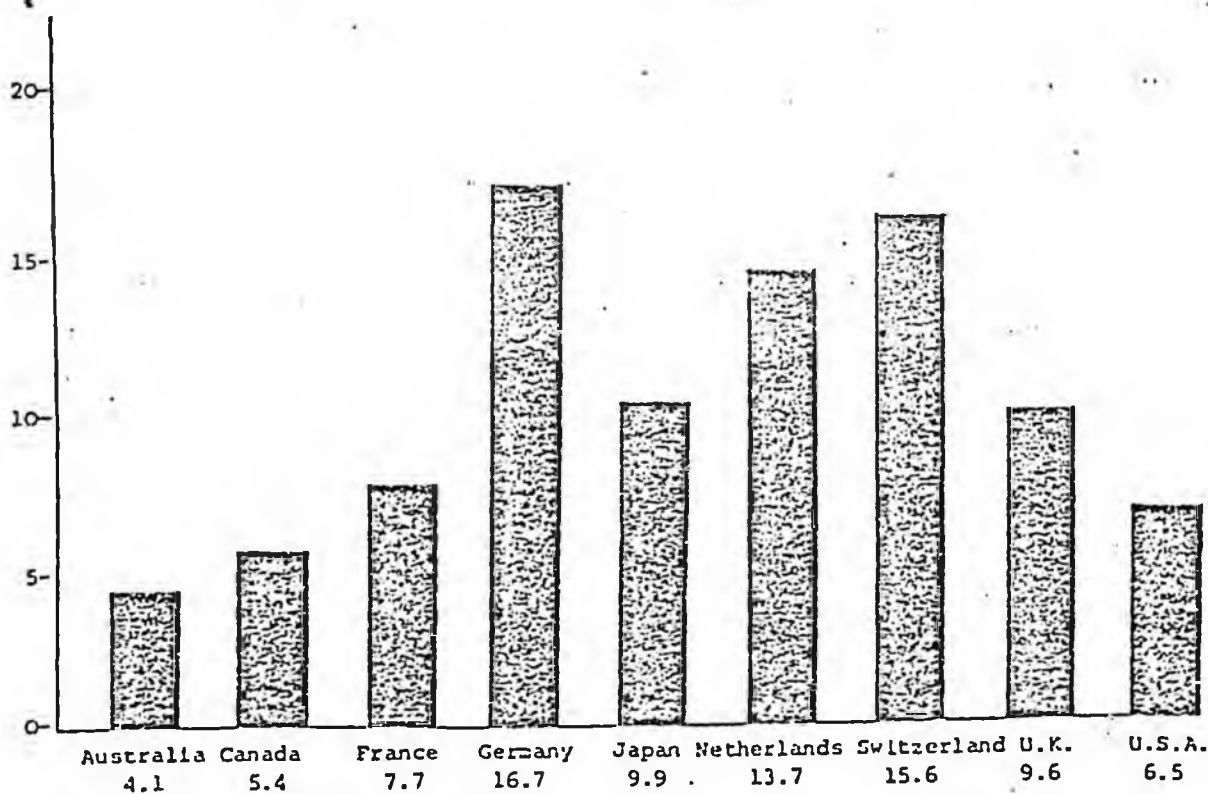
Average Annual Rates of Total Return  
Bond Markets - No Currency Adjustment

1970-1979

BONDS - 10 YEARS



Average Annual Rates of Total Return  
Bond Markets - Adjusted for Currency Movements relative to Dollar

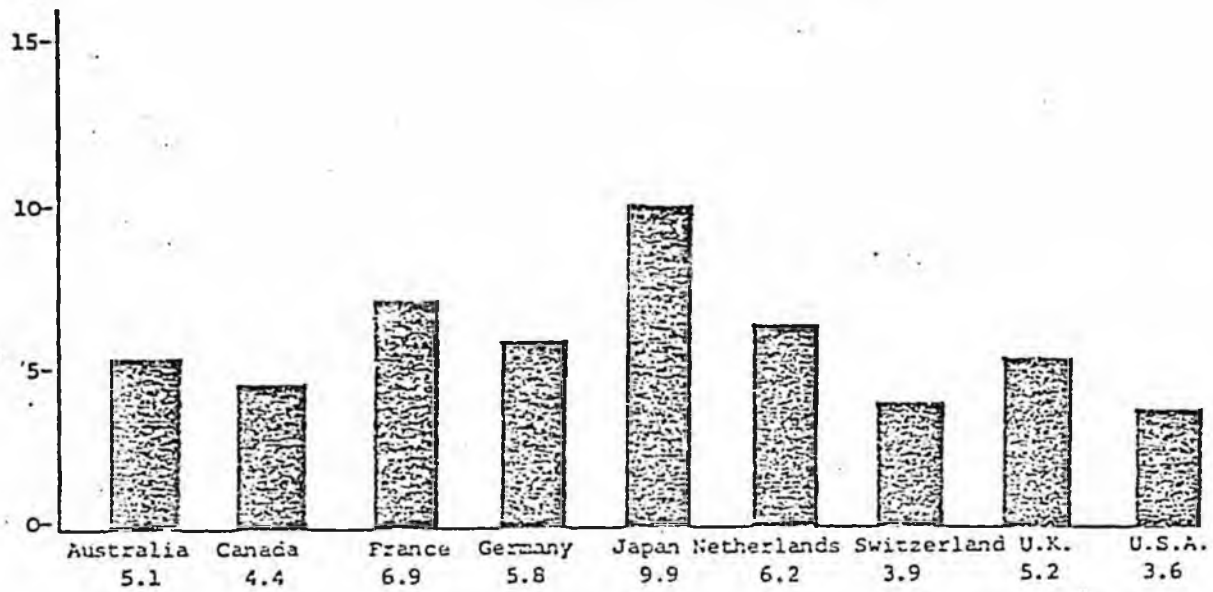


Source: Kleinwort, Benson Ltd., London

Average Annual Rates of Total Return  
Bond Markets - No Currency Adjustment

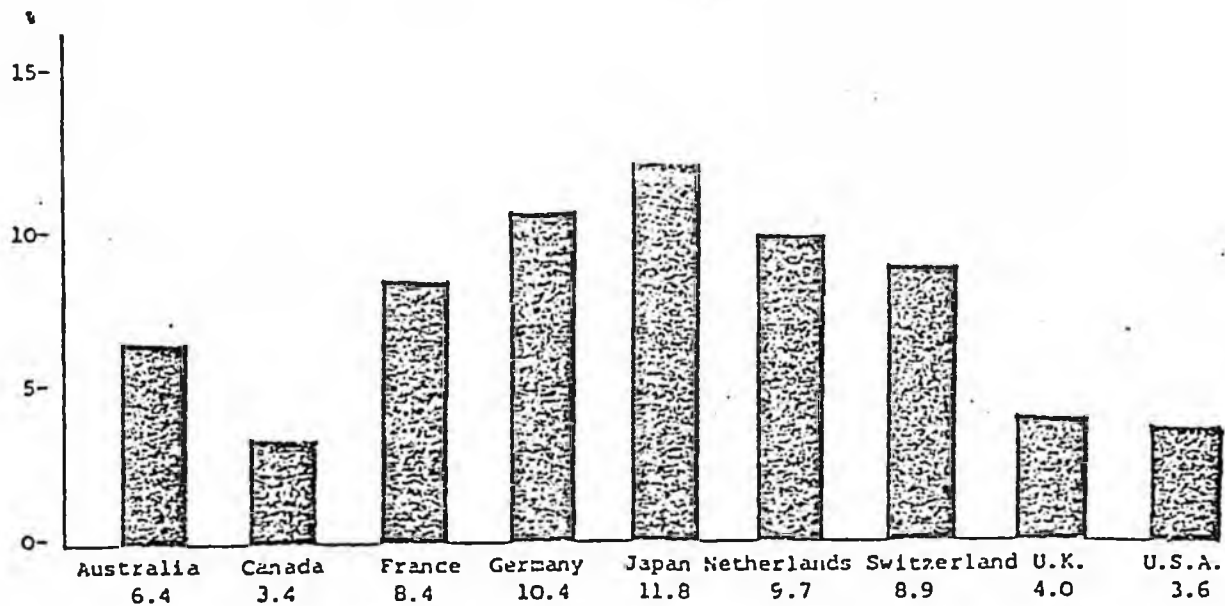
1960-1979

BCWDS - 20 YEARS



Average Annual Rates of Total Return  
Bond Markets - Adjusted for Currency Movements Relative to Dollar

1960-1979



Source: Kleinwort, Benson Ltd., London

## THE CASE FOR COMMON STOCK

One investment paradox is that common stock can be used to reduce portfolio risk. For example, adding small amounts of common stock to bond portfolios will usually reduce the standard deviation of total portfolio returns. This is due to the "magic" of diversification. In many years, such as 1979-80, stock prices go up while bond prices go down and stocks thereby provide a cushion against bad bond markets. To make this point even more specific, Salomon Brothers reports that an average which they maintain of a variety of both short and long term debt, securities provided total returns of 1.2% in 1979 and .1% in the first nine months of 1980. By contrast, the Standard & Poor's Composite Index produced total returns of 18.2% and 20.6% for the respective periods. Listed below are the total returns for common stock management achieved by Alliance Capital Management Corporation for the Alaska Teachers' Retirement System for the past six calendar years.

### Performance Review

Yearly Summary	Rate of Return
1980 through Sept. 30	27.5%
1979	18.5%
1978	7.8%
1977	-3.4%
1976	23.4%
1975	28.8%
1974	-17.5%

Cumulative Return Since Inception - 106.5%

Even though there has been seemingly endless streams of negative news including ever-higher oil prices, the Iran crisis, continued double digit inflation, and rising interest rates, there are good reasons for viewing the common stock market as affording a good, long term investment opportunity.

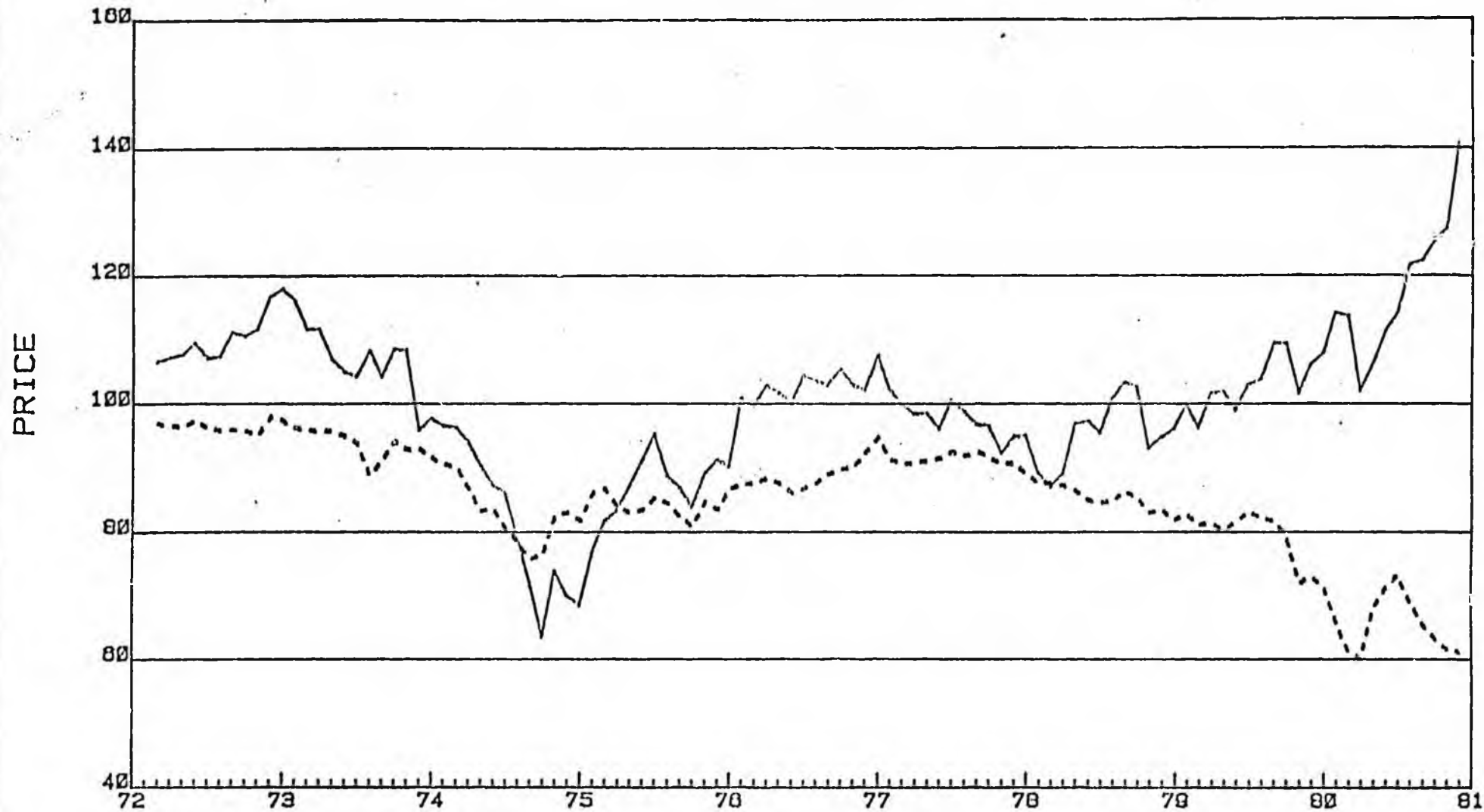
The common stock of many companies is selling well below book value at a time when replacement costs are rising more rapidly than general price levels. At a time when diamonds, paintings, and condominiums in California have reached record levels, the assets of many American corporations are still selling at a fraction of their replacement value. From an earnings standpoint, the progress of American corporations, notwithstanding two recessions, has been dramatic. From 1969 to 1979, the Standard & Poor's 500 was flat. Corporate profits during the same period tripled.

Since 1969, private pension funds have substantially reduced their holdings in common stocks. Insurance companies have reduced their equity positions to extreme low points. For example, fire and casualty companies hold only 12% of their assets in equities. Foreigners likewise hold a

record low percentage of their funds in U. S. common stocks. While foreign investors commitments to the U. S. market have fallen, their assets in gold and other currencies have multiplied many times, making their potential purchases extremely large. Japanese pension funds have been recently authorized, for the first time, to hold up to 20% of their assets in foreign securities. Individuals are another potential source of demand, having been net sellers of stock for years. On the other hand, there are estimates that \$30 billion in common stock have been taken off the market in recent years through direct corporate purchases. Given the right set of circumstances, perhaps moderating inflation, or improved tax treatment of dividends and capital gains, and a generally more favorable attitude towards capital formation this obvious potential demand could well be converted into real purchasing power producing substantially higher valuations for common stocks in general.

It is also true that over the long-term the best rates of return have been provided by the common stock market. From 1926-1979 common stocks as represented by the Standard & Poor's Composite Index have provided a 6.1% real rate of return while long-term corporate bonds have provided a real rate of return of only 1%. The cumulative impact of these differentials is graphically displayed in "Wealth Indices of Investments in the U. S. Capital Markets 1926-1978".

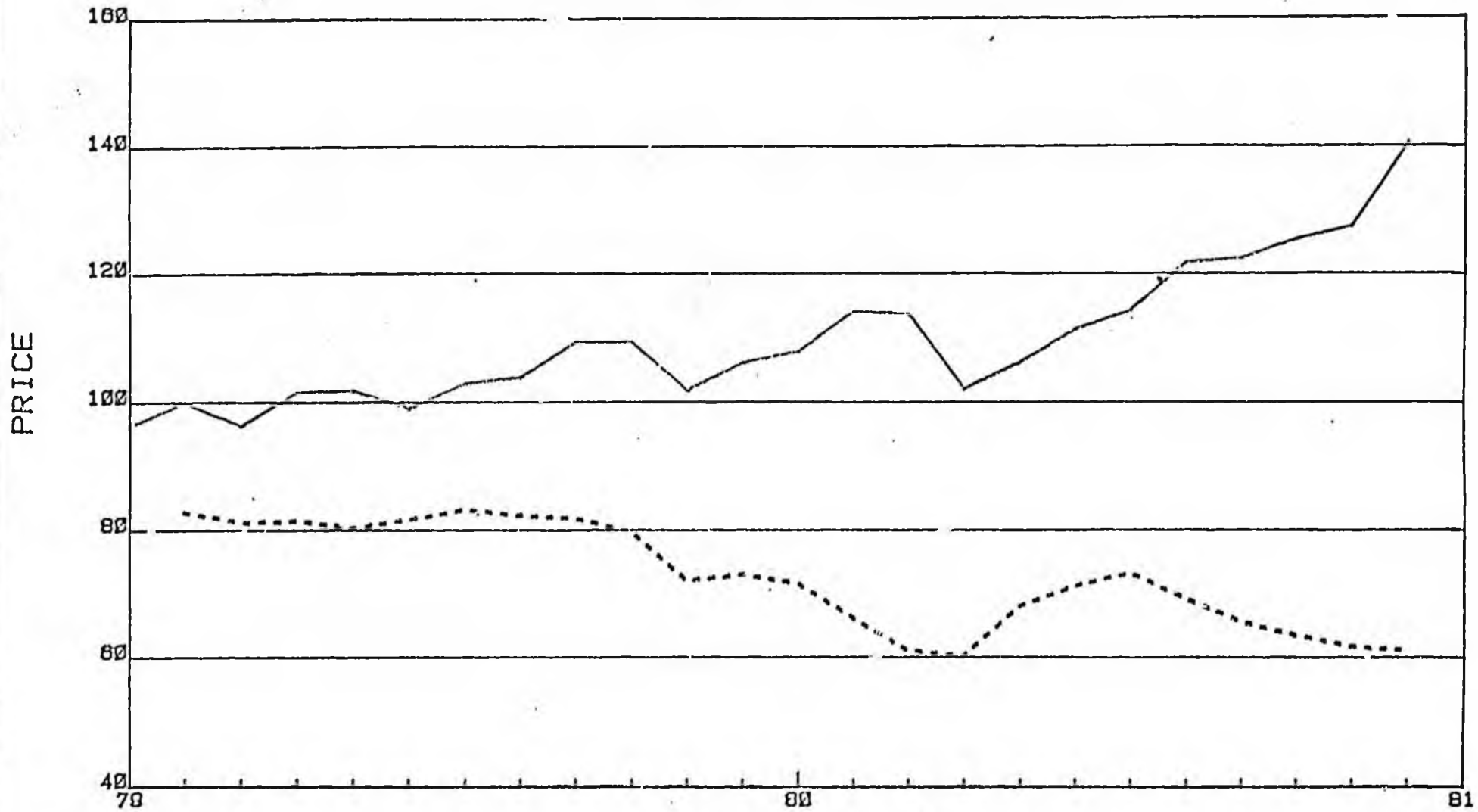
PRICE PROFILE  
PREPARED FOR THE STATE OF ALASKA  
MONTHLY DATA



———— S&P 500  
- - - - - SALOMON BOND INDEX

# PRICE PROFILE

MONTHLY DATA - 12/78 TO 12/80



———— S&P 500  
- - - - - SALOMON BOND INDEX

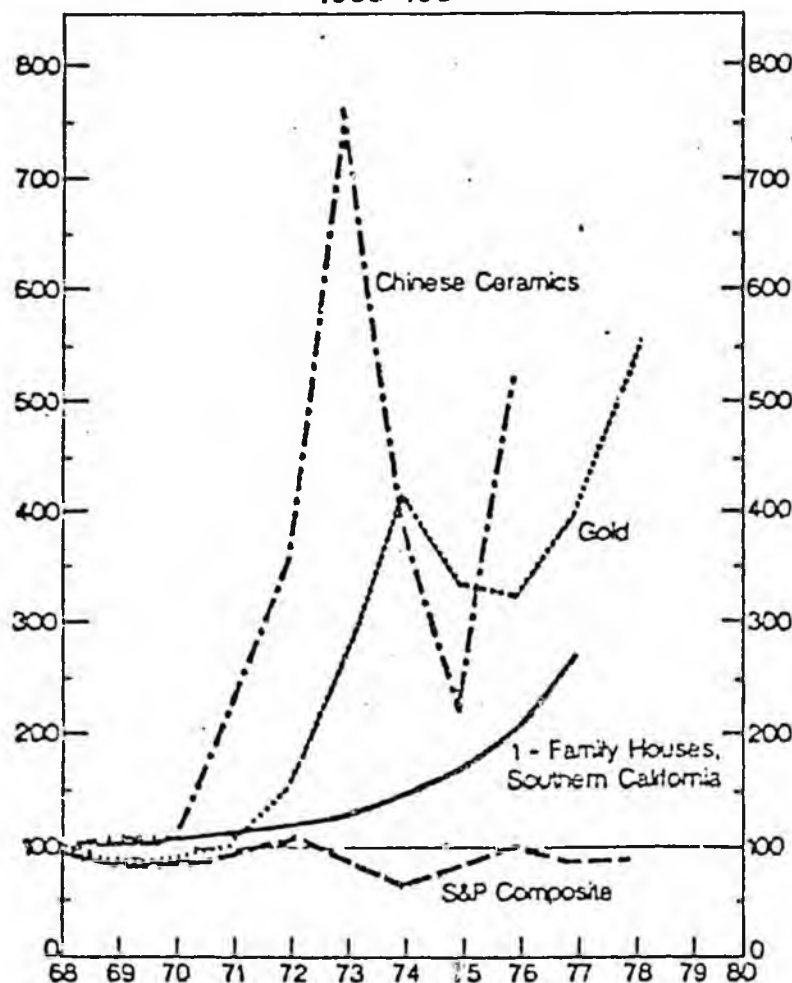
ALLIANCE CAPITAL MANAGEMENT CORPORATION

INFLATION IMPACT

	<u>1975-1979</u>	<u>9 MOS. 1980</u>
CONSUMER PRICE INDEX	47.9%	9.6%
STANDARD & POORS 500	99.9	21.0
ALLIANCE EQUITY FUND COMPOSITE	141.1	28.0

FIGURE IV

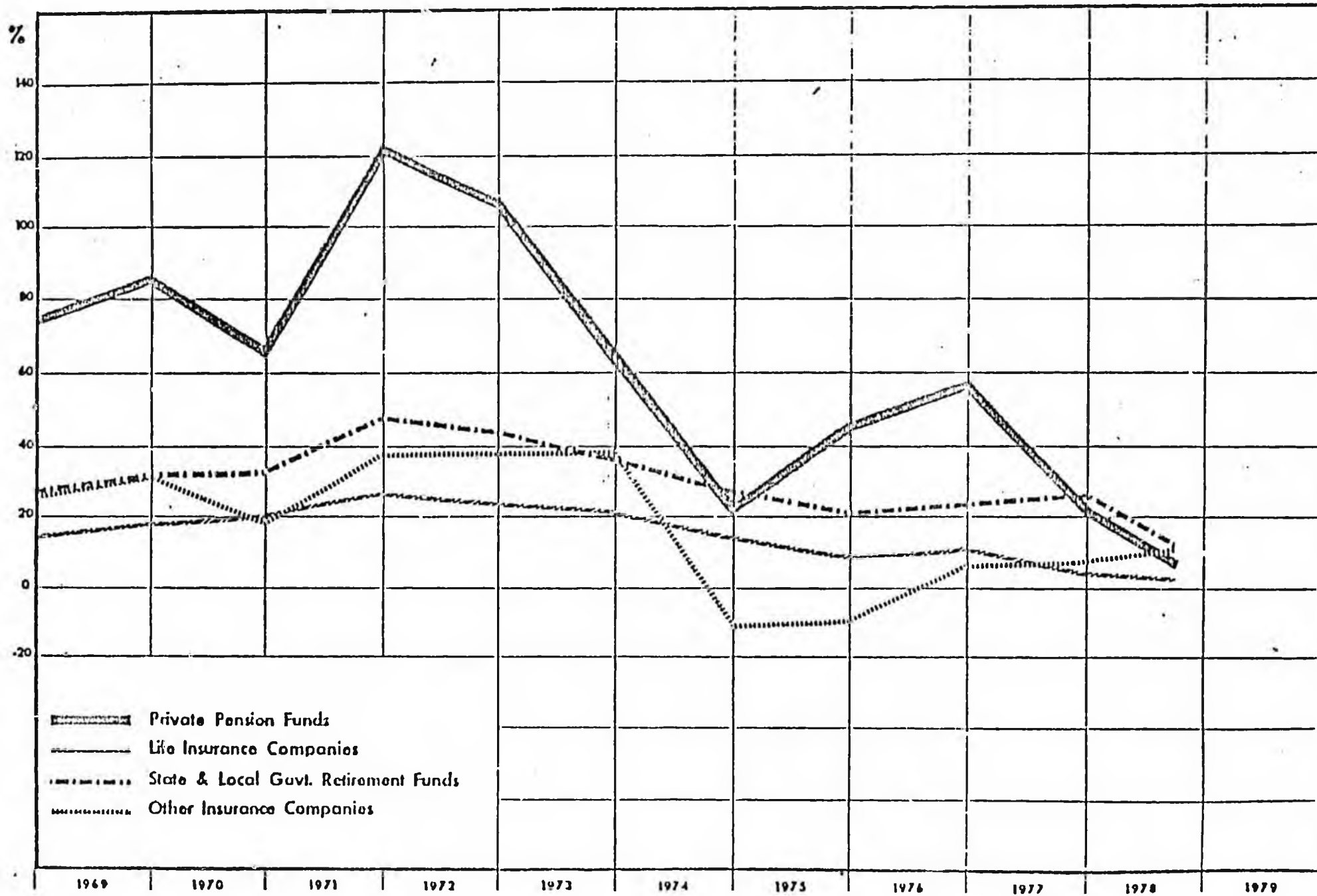
MOVEMENT OF TANGIBLE ASSET INDICES  
1958=100



Source: Lehman Brothers Kuhn Loeb Research, Commodity Research Bureau, Real Estate Research Council of Southern California, Sotheby's and Parke-Bernet.

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Gold	100	84	90	104	155	268	417	336	322	395	541
Year to Year % Change		-16	7	16	49	73	55	-19	-4	23	45
Chinese Ceramics	100	110	111	229	359	762	391	223	530	N/A	N/A
Year to Year % Change		10	1	106	57	112	-43	137	N/A	N/A	N/A
1-Family Homes So. Cal.	100	105	109	114	119	128	146	168	205	267	N/A
Year to Year % Change		5	4	4	5	8	14	15	22	30	N/A
S&P Composite	100	86	95	93	110	89	63	83	98	88	90
Year to Year % Change		-14	-3	10	13	-19	-29	32	18	-10	2

# Net Purchases of Equities as a Percentage of Cash Flow



STOCKS, BONDS, RISK FREE ASSETS & INFLATION

COMPOUND GROWTH RATES: 1926 - 1979

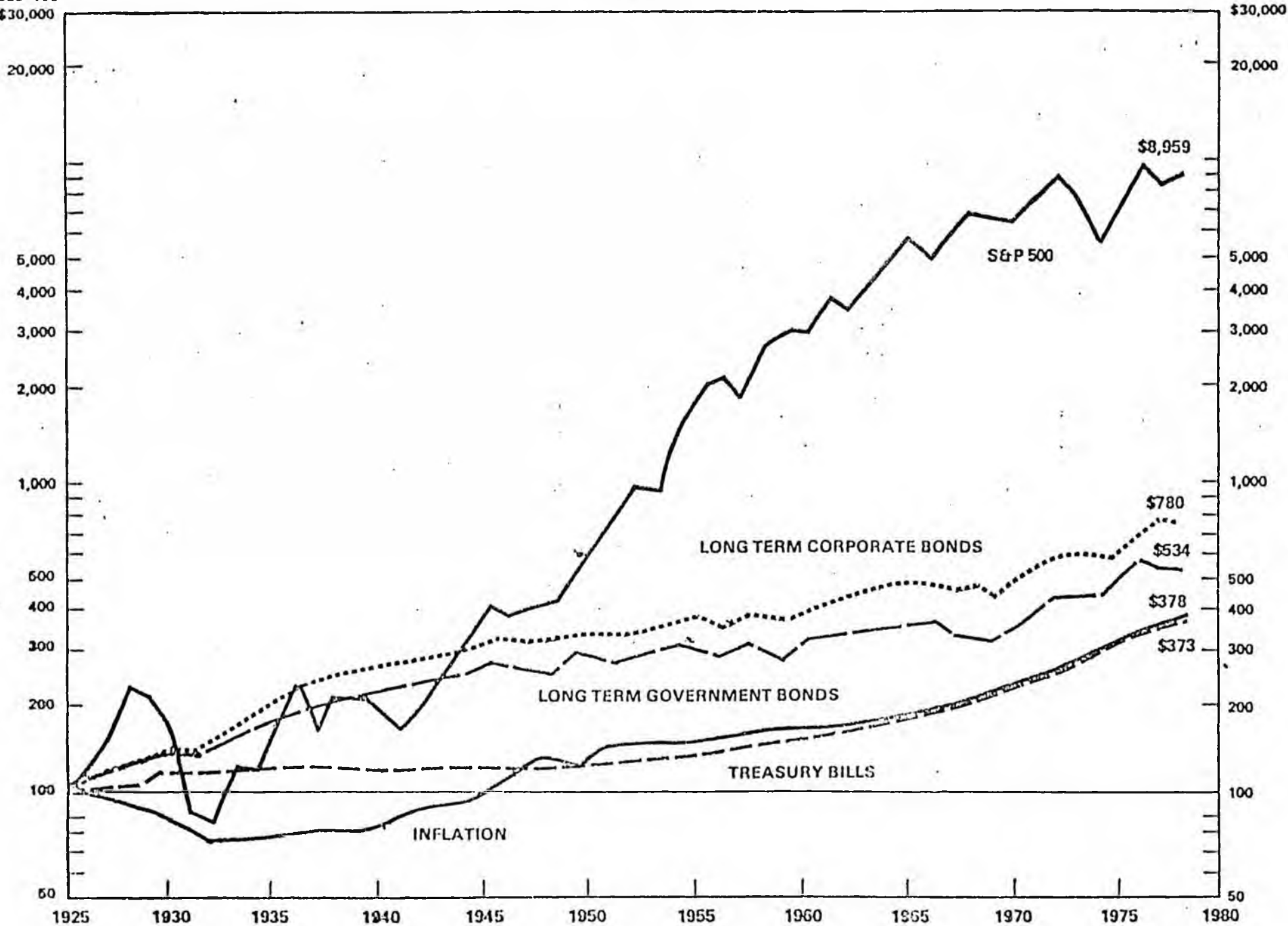
	NOMINAL	REAL
COMMON STOCKS (S & P 500)	9.0%	6.1%
LONG-TERM CORPORATE BONDS	3.8%	1.0%
TREASURY BILLS	2.7%	(0.1%)
INFLATION	2.7%	----

Source: Ibbotsen-Sinquefield

# WEALTH INDICES OF INVESTMENTS IN THE U.S. CAPITAL MARKETS

1926-1978

Index:  
1925=100  
\$30,000



Prepared by Alliance Capital Management Corporation based upon data presented in *Stocks, Bonds, Bills and Inflation: The Past (1926-1976) and The Future (1977-2000)* published in 1977 by the Financial Analysts Research Foundation.