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- Long-range risk planning for pension assets
- Performance monitoring and evaluation
- Evaluation of characteristics of alternative forms of investment
- Special system design projects and analytic studies for retirement plans

Educational Endowment Analysis

- Establishment of total-return spending procedures
- Investment policy simulation
- Performance monitoring and evaluation

LOCATIONS

General offices of Wilshire Associates are located at 100 Wilshire Boulevard, Santa Monica, California 90401 (213) 451-8728. The regional office is located at Fox Meadows Office Park, 3140 Harbor Lane North, Minneapolis, Minnesota 55441 (612) 559-3033.

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PROFESSIONAL STAFF

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Mr. Tito received a Bachelor of Science Degree from the New York University College of Engineering and a Master of Science Degree in engineering science from Rensselaer Polytechnic Institute. While at Rensselaer, Mr. Tito was an analytical engineer at United Aircraft Corporation. After graduating, he was a systems analyst and senior engineer at Jet Propulsion Laboratory, later a member of the technical staff at TRW Systems, and a consultant to Synergetic Sciences, Inc. Prior to founding Wilshire Associates, he was manager of the Management Sciences Department at Jas. H. Oliphant & Co.

Mr. Tito also attended the University of California Graduate School of Management as a Ph.D. candidate in finance and has completed all course work required for the degree. While at UCLA, he co-authored an article entitled "Risk-Return Measures of Ex-Post Portfolio Performance," which was published in the December 1969 issue of the Journal of Financial & Quantitative Analysis.

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Mr. Cuneo received a Bachelor of Science Degree in mathematics from California State Polytechnic College. After graduation, he became a senior project leader in the Management Sciences Department at Wells Fargo Bank. Later he was a consultant to the Financial Analysis Department of Wells Fargo, developing computer-aided portfolio management tools and financial simulation models.

Mr. Cuneo co-authored a paper on the cost of trading stocks, which he delivered at the Center for Research in Security Prices in May 1972. Mr. Cuneo directs the development activities of Wilshire Associates.

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Mr. Silverness received Bachelors Degrees in both law and business finance from the University of Minnesota. While in the military, he served with the U. S. Army Finance Corps. Prior to joining Wilshire Associates, Mr. Silverness was a vice president of the Capital Management Systems Division of Piper, Jaffray & Hopwood, Inc., where he served as an investment management consultant. Earlier he served as the manager of Pension Financial Administration in the Treasurer's Department of General Mills, Inc. Mr. Silverness operates the Minneapolis office of Wilshire Associates.

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Mr. Wagner is a graduate in business administration from the University of Wisconsin and received a Masters Degree in management science from Stanford University. After graduation, he joined International Business Machines Corporation in San Francisco as a systems engineer. Later he was associated with Wells Fargo Bank, progressing to assistant vice president in the Management Sciences Division. Most recently, he was a private consultant in investment management procedures.

Mr. Wagner has published several papers on practical applications of capital market theory, including an article in the October-November 1971 issue of the Financial Analysts Journal entitled "The Effect of Diversification on Risk," which was awarded the Graham & Dodd Scrol by the Financial Analysts Federation. Mr. Wagner directs the investment systems consulting activities of Wilshire Associates.

SUZANNE TITO, VICE PRESIDENT AND SECRETARY-TREASURER

Ms. Tito is a graduate of the University of California, Riverside. After receiving her Bachelors Degree, she joined Broker Cashiering, Inc., where she supervised the Purchases & Sales Department. Later she served in the capacity of supervisor of Management Review and Performance Reporting for the Analytical Services Division of Jas. H. Oliphant & Co. Ms. Tito is a founder of Wilshire Associates.

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Mr. Chen received a Bachelor of Arts Degree in business from Waseda University, Tokyo, and a Masters Degree in business administration from UCLA. After graduation, he became an operation research analyst at United California Bank. Later he was a consultant to R. C. Brown & Co., developing portfolio management information systems.

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Ms. Miller received her Bachelor of Arts Degree from the University of California, Los Angeles. Prior to joining Wilshire Associates, Ms. Miller was employed with Jas. H. Oliphant & Co., first as a data analyst and finally as assistant supervisor of Client Services for the Management Sciences Division. Ms. Miller coordinates the Performance Measurement and PRISM services for Wilshire Associates.

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Ms. Rydbeck directs the publication activities of Wilshire Associates. Her background includes experience as an editor, copywriter, and production coordinator in the aerospace industry, medicine, and educational research. Ms. Rydbeck is an alumnus of the University of California, Los Angeles.

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Carpenters Pension Trust for Southern California
Motion Picture Industry Pension Plan
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Wilshire Associates, Inc., provides consulting services and investment management analyses for pension and endowment trusts and for managers of trust portfolios. The basic services offered are:

POLICY CONSULTING AND SIMULATION

This unique service allows pension system officers and their portfolio managers to examine the effect of alternative investment policy on average funding levels and extreme funding levels which may be associated with more aggressive investment policies. This service includes consideration of:

- The projected future liability and payout growth
- The calculation of the fund's assigned asset value
- The calculation of the annual funding requirement
- Special procedures which may have been adopted or are under consideration to moderate the effects of instability of the fund's assets when valued at market

PORTFOLIO MANAGEMENT ANALYSIS

This service permits the owners and managers of portfolios to assess portfolio structure against the investment policy, and assess the impact of successive portfolio changes on the portfolio return, market sensitivity and diversification.

Structure and Design

- Market sensitivity
- Diversification
- Projected portfolio returns given assumed future market levels and assumed levels of security
- Undervaluation
- Impact of non-market factors on expected portfolio returns

Market Timing and Security Selection

- Incremental return due to shifts in portfolio volatility posture
- Incremental return due to specific securities selected
- Analysis of sales list and purchases list

PERFORMANCE MEASUREMENT AND COMPARISON

- Internal and time-weighted rate of return
- Volatility history
- Comparison with other professionally managed funds

SECURITIES RESEARCH EVALUATION

- Risk-adjusted analysis of securities research
- Comparison of internally and externally generated securities analysis

FINANCIAL DATA BASES

- Historical returns on securities on a weekly, monthly, quarterly and annual basis
- History of security beta coefficients and associated statistics
- History of risk-adjusted security returns (historical "alphas")
- History of mutual fund total returns, beta levels and alphas
- History of adjusted (Bayesian variance weighted) beta coefficients

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INVESTMENT SYSTEMS CONSULTING
"PUTTING YOUR IDEAS INTO ACTION"

Wilshire Associates provides investment systems consulting services to investment management organizations, corporate pension funds, and educational endowments. Recent systems consulting clients include The Northern Trust Bank, Shell Oil, The Common Fund, Continental Illinois Bank, and Harris Trust.

The Wilshire systems consultants work closely with the client to develop the application in accordance with his needs and desires. The experience of Wilshire consultants results in an effective, easy-to-use application that is relevant to the client and his particular situation.

The participation of Wilshire consultants varies with the nature of the specific project being undertaken. Activities performed in previous projects include:

- Decision assistance and recommendations
- System design and specification
- Programming and implementation
- Preparation of executive guides and operator manuals
- Preparation of client materials

Wilshire consultants often coordinate with in-house systems staff or third-party system developers.

Whenever possible, projects are bid on the basis of a written proposal, to be completed within a specific time frame at a fixed price. Where project goals are not well formulated and a fixed bid cannot be given, we recommend a preliminary analysis to define the problem and delineate potential solutions.

Some of the recent projects undertaken are:

- A system design and preparation of user and client materials for a trust investment performance measurement system for the Manufacturers Hanover Trust Company.
- The design and development of a performance measurement system for General Tire & Rubber Company.
- An evaluation of portfolio accounting requirements for National Investment Services, Milwaukee.
- The development and installation of a trust investment account profile system for the Pittsburgh National Bank.

PENSION WORLD

Models of Behavior?

Using Simulation To Chart the Way

By Frank C. McLaughlin

A clear and detailed written statement of investment objectives appears to be a *sine qua non* given the fiduciary relationship between a pension fund sponsor and its investment manager. Investment experience in 1973-74 brought into sharp focus this vital function mostly, to enable the plan administrator or trustees to ascertain what happened and where they were going. The lessons learned in expanding communications between pension fiduciaries on subjects such as risk and diversification were valuable standing alone but should also be considered good practice for what appears to be a fundamental requirement of the Pension Reform Act.

Does this experience suggest, in the sense of "practice makes perfect," that the process of setting investment objectives is clear, uniform and easy to accomplish? You know better. The simulation of liabilities with the aid of computers, as well as the simulation of the impact of alternative investment policies on plan assets, is one area of developing methodology in objective setting which is a good example of the thoroughness that this process requires if the probable requirements of a prudent fiduciary are to be met — both by the trustees of a pension plan and the portfolio manager.

The design and implementation of suitable investment objectives and the choice of the actuarial basis are crucial to a pension plan's financial health. Too often actuarial decisions are made without concern for the pension fund's investment program and its implications; the reverse error also occurs. Making a better selection among today's alternatives in either area requires an understanding of the possible future consequences of those decisions.

To assist our clients in this difficult but vital area, we have explored the use of pension fund financial planning models to determine which alternative investment policies will be most responsive to the characteristics of their plans; as well as those of their workforce, their labor costs, and their entire business — that is, their investment needs. These models simulate the future impact of investment performance on a pension fund. They permit a plan sponsor to test alternative investment assumptions on paper before deciding what their investment objectives should be and how assets should be deployed to meet plan requirements.

Planning models also examine the relationships between a proposed

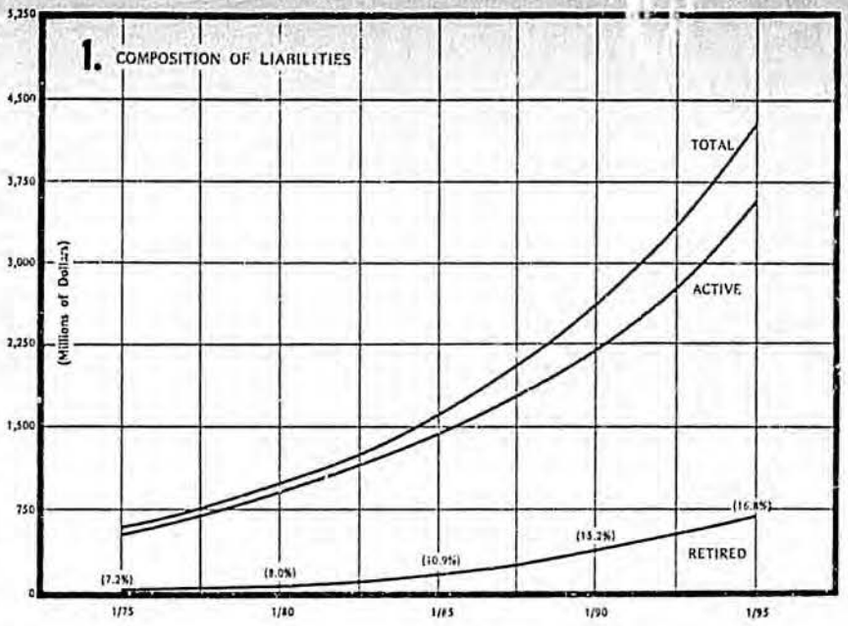
Frank McLaughlin, CFA, is a vice president of Thorndike, Doran, Paine & Lewis, an investment counseling firm in Boston. His article is adapted from the speech he delivered at PJW's New York Conference on Employee Benefits.

investment policy and several important ingredients of the plan's actuarial basis, such as the investment return assumption and the asset valuation method. The models simulate a dynamic capital market environment — the real world in which capital values go up and down in response to interest rates, inflation trends, investor psychology, and other business and economic forces.

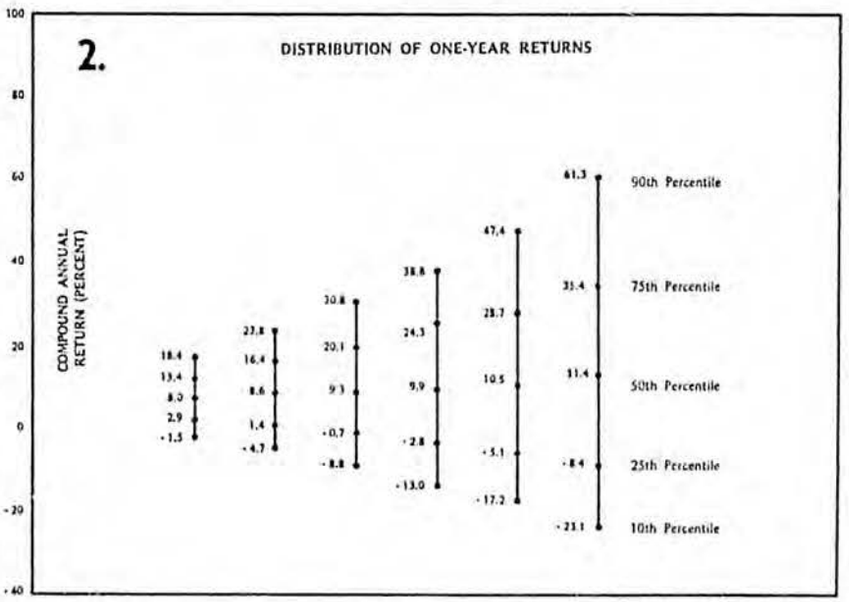
The presence of this new dimension distinguishes these models from usual actuarial projections of pension funds, which typically assume a uniform annual growth of a plan's assets. While these models will undoubtedly undergo continued refinements, they fulfill a critical need in the pension planning process.

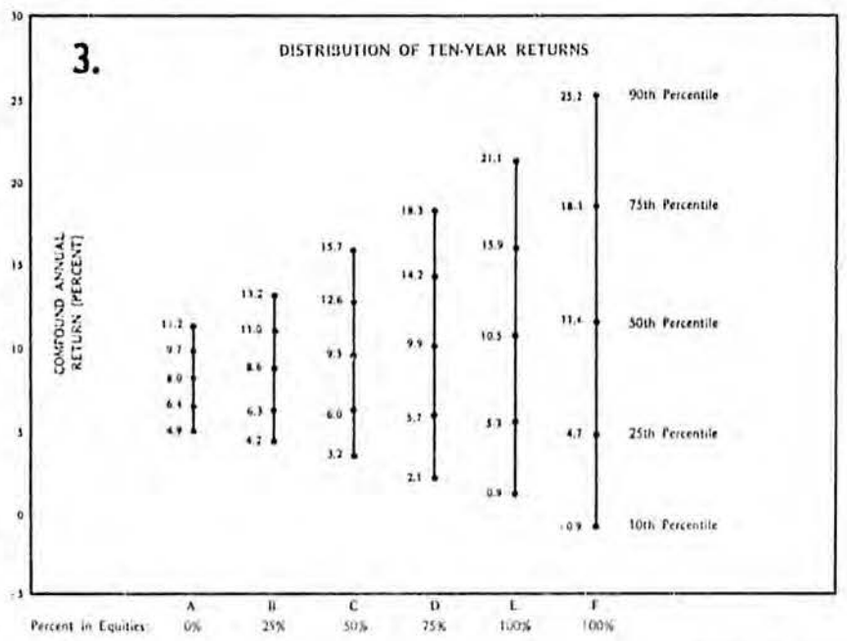
What do these models show and what is necessary in the way of input to perform the simulations? A determination of plan liabilities is critical to the planning model. Without a realistic projection of the needs, it is obviously impossible to choose an investment policy which may best meet them. Either the census data provided by the plan sponsor to his actuary or a model best approximating the present and anticipated company profile can be used to start the projection process. The data from the latest actuarial report is necessary to construct a model. While the latter method is not precise by definition, it has the advantage of much lower cost and will probably be used more frequently, at least initially, as this type of study becomes more widely accepted.

The determinants of liability must be assumed. These include factors such as the expected growth rate of active and retired participants and raise a series of questions such as: What is the anticipated male to female hiring ratio? What growth in the wage base is anticipated to cover expected inflation? What real wage increases are expected? What are the assumptions for mortality, separation, and retirement? Lastly, what is the actuarially assumed rate of interest? The assumptions for salaries to be paid to newly entering participants and the proportion of persons to be



Dynamic dimension: Start with the 'real world' . . .





Fabian Bachrach

. . . says this Prudent Man

hired at various age groups can be derived from the census data or from a model.

By computer simulation this data can be progressed through time periods up to 20 years or more to ascertain the anticipated growth patterns for plan participants, both active and retired, by number and age. Wage and benefit trends can likewise be simulated. These factors are then combined to provide a composite of liability trends as shown by Chart 1, developed in an actual case study.

Capital market assumptions must also be made. These include a distribution of annual equity and fixed income market returns over various time preiods. The anticipated average return from cash equivalents must be ascertained to determine future returns from reserves. The impact of anticipated inflation rates on returns is also important. It is vital that the same inflation rate assumption is applied to both liabilities and returns. It has been our experience that, in many cases, this requirement has not been adhered to. Combining these projections of liabilities and expected investment returns allows the plan sponsor to simulate his annual funding costs. These distributions are shown by percentile ranges to ascertain the most likely case.

Once this information is fitted into the model, alternative investment policies can be simulated to determine median and extreme rates of return over various time periods — one, five, ten, and 20 years. While the mix of investment policies to be used has to be selected on a judgmental basis in each case, the objective categories listed in Table I show the characteristics of one set which can be used for this purpose.

Table I: Investment Characteristics Of Alternative Investment Policies

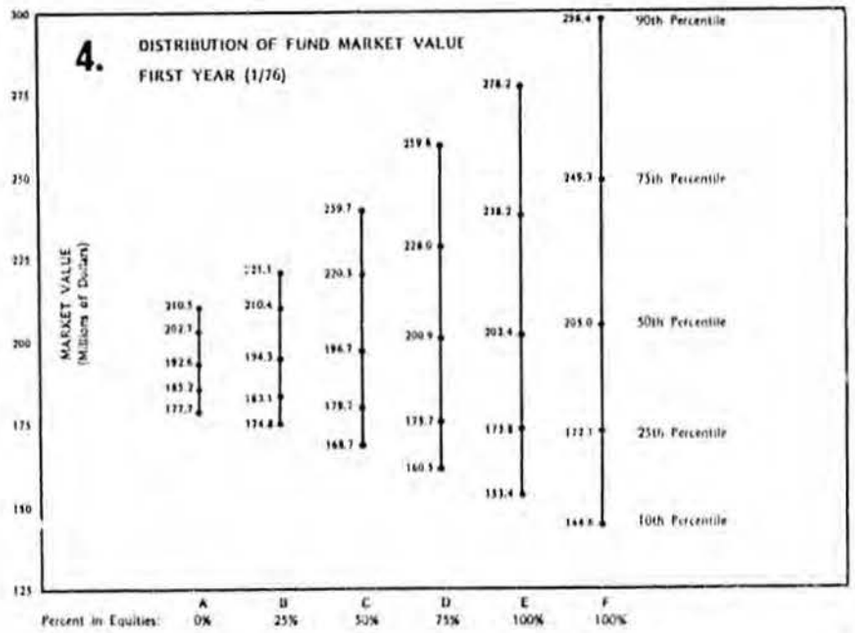
Objective	Balance (%) Stocks	Balance (%) Bonds Or Cash	Portfolio Volatility	Portfolio Diversification (%)	Expected Total Return	Risk (Std. Dev.) (%)	Current Yield (%)
Fixed Income	—	100	.3	—	4.0	7.4	4.4
Income	50	50	.5	60	6.7	10.8	4.5
Conservative	75	25	.7	90	8.1	15.1	4.6
Growth & Income	90	10	.95	96	8.9	20.0	4.8
Growth	90	10	1.10	96	10.3	25.3	5.5
Aggressive Growth	95	5	1.25	80	12.2	33.5	3.0

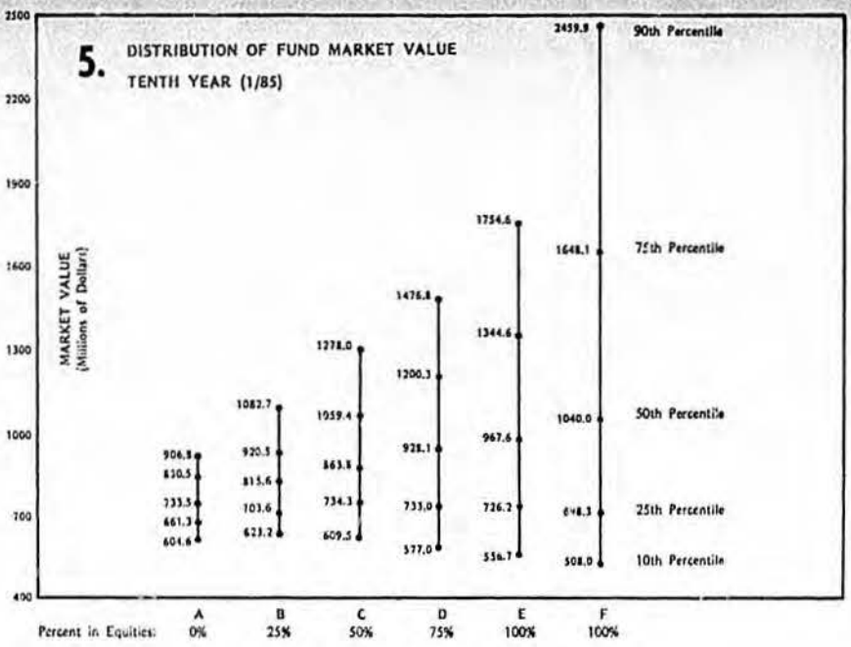
A distribution of investment returns is derived by applying the investment policies used to a capital market analysis. Results are grouped by percentile to reduce the simulation output to information upon which decisions can be made. That is, what is the most likely expected return and the extreme ranges from the bottom 10th percentile to the top 10th percentile? A sample is depicted in Charts 2 and 3. The value of these projections, of course, depends on the validity of the capital market assumptions utilized.

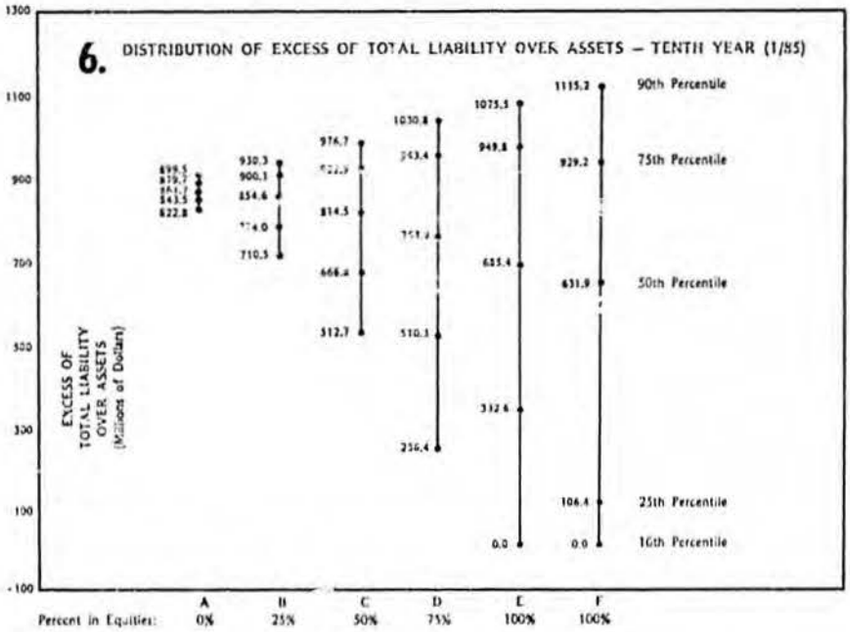
A distribution of pension plan total market values, based on the foregoing return input, is then simulated to determine if extreme expected ranges fall within the projected total liability and plan termination liability at given points in the future. Charts 4 and 5 are used with these liability projections to determine potential future compliance with ERISA's requirements.

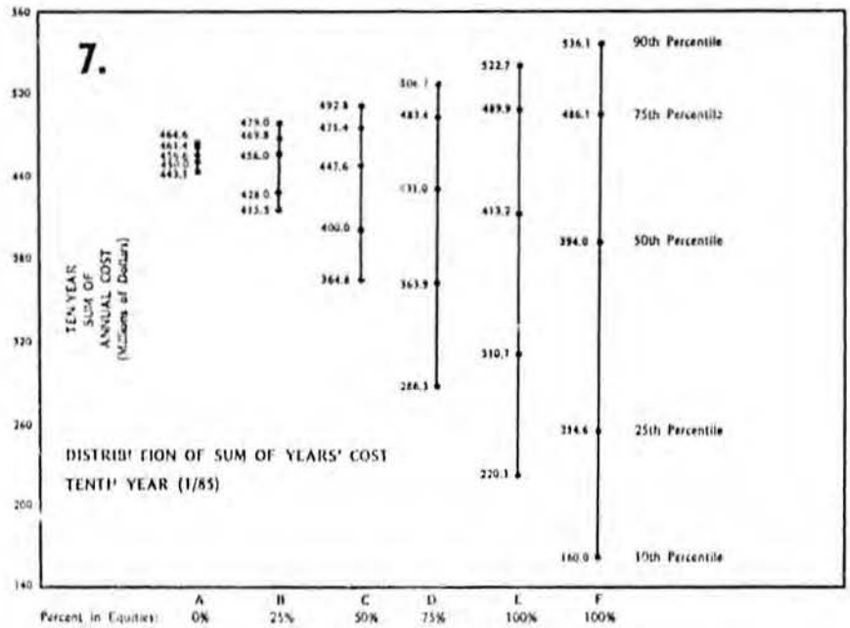
The distribution of excess of total liability over assets at given future dates, which can in due course approach zero, are also determined. This is projected in Chart 6 for ten years in the example used.

Assets and liabilities are then compared for each of the investment policies simulated to determine where the median asset values and liabilities will fall. Taking another step, expected actuarial earnings as a percent of annual total









cost are simulated for each investment policy to arrive at projected annual pension expense. This is displayed in Chart 7 for a ten year period.

The need for and use of this data may be difficult to envision without referring to an entire actual case study. Its importance can be highlighted by considering some of the questions which the process is designed to help answer. These are:

1. What mix of assets represents the optimal combination in terms of an adequate total investment return and acceptable volatility?

2. What spread between anticipated bond and stock returns is required to justify equity or fixed income media selection?

3. Can a pension plan afford to reject the historically high rate of return currently available on bond investments?

4. What is the funding goal? How rapidly should he sponsor reach it?

5. What is the relationship between investment rate of return, level of benefits, and contributions?

6. What is the actuarial policy? Is it consistent with their other accounting and financial practices?

7. What are realistic expectations for investment returns on bonds and stocks over the next ten (or 20) years?

8. What investment return goals are appropriate for a pension plan? For each of the investment managers? For fixed income? For equity?

9. Is it practical to expect investment counselors to make major shifts in portfolio structure in anticipation of stock market cycles and interest rate trends?

10. What monitoring procedures are most effective for assuring that investment objectives are being prudently pursued?

We believe that the use of pension planning models makes the process of selecting an investment policy more rational. It's basic purpose is to help ensure that the policy chosen is suitable to the future needs of the plan and it enhances the monitoring process to ascertain if they are being pursued. It may also be a requirement of prudence. ■

Diversification: old and new

A little diversification goes a long way, but not nearly far enough. The differences can swamp you.

James H. Lorie

Before the development of the modern theory of investment, investors relied on either of two homilies for guidance in diversifying their portfolios. The first homily is, "Don't put all of your eggs in one basket." The second is, "Put all of your eggs in one basket and watch it carefully." The homilies suffer from obvious deficiencies, including but not limited to the facts that they are contradictory and have no precise operational meaning. This article briefly discusses these and other shortcomings as well as, at greater length, the advantages of the guidance to be derived from the modern theory of investment.

THE HOMILIES

The first homily implies the wisdom of diversification, a policy which is probably the most important practical implication of the modern theory of investment. The shortcoming of the homily is not that it implies a foolish policy, but that it provides no sensible guide to its implementation.

The most common rule of thumb prescribes maximum percentage commitments in the securities of individual firms and industries but tells us nothing about the definition of an industry. Perhaps the most common maxima are 10% for an industry and 5% for the securities of any price. A narrow definition of an industry would permit great concentration (less diversification) than a broader definition. For example, if firms which manufacture men's apparel, women's apparel, and children's apparel were considered part of a single industry, only 10% of a portfolio could be invested in their stocks. If the firms were considered to be three different industries, 30% could be invested. There is no theoretical or empirical justification for the particular maxima selected. No one has ever been able to determine that limits of 5% in a firm and 10% in an industry are superior to higher or lower limits.

A more fundamental complaint is that diversification by conventional industrial categories may not be an efficient way to achieve the reduction in risk which is the purpose of diversification. For the purpose of reducing risk, the important thing is the financial characteristics of the securities -- particularly their volatility and the strength of their tendencies to move in step with the market — rather than the characteristics of the goods or services which the firms sell. There are dramatic differences in the financial characteristics of securities of firms in the same industry. In sum, the homily expresses a sensible view but offers little help in achieving efficient diversification.

The second homily is even less helpful. Implicit is the idea that serious study of individual assets is financially rewarding. Focusing on fewer assets makes serious study possible. The second homily, like the first, appears to make sense. If by study or any other means an investor acquires special knowledge about a security or group of securities, concentrating of investment in securities should normally follow. The second homily, like the first, provides no precise guide to action and has not even generated plausible rules of thumb. Another difficulty is that the homilies suggest the wisdom of contrary policies.

"DISCOVERY" OF RISK-AVERSION

Although dating the beginning of an important intellectual development in any field is somewhat arbitrary, most students of investment would probably agree that the flowering of the modern theory began with the publication of Harry Markowitz' work on portfolio selection in 1952. The theory is unusually satisfying, both because it has been extensively tested

This article originally appeared in the Winter 1975 issue of the Journal of Portfolio Management.
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and confirmed with the abundant hard data from the real world of security prices and returns, and because it provides precise guides for investing.

Many fruitful insights stem from pondering the meaning of the obvious and overlooked. Newton had his apple, and Markowitz had the almost universal practice of diversification by investors. Markowitz concluded that diversification meant that investors do not try to maximize returns. If they did, they would put all of their money in the one security which had the greatest promise. Diversification implied a concern about risk as well as expected returns. From that simple and virtually indisputable fact, Markowitz developed a theory and a technique for identifying the portfolio of risky assets which maximized expected return at each level of risk. His work led to further effort on the measurement of risk and the relationship between risk and rates of return. More will be said on these subjects later.

THE RANDOM WALK: A COMPLEMENT

Paralleling the work on risk and return was varied and ingenious study of the process by which security prices adjust to new information and changed perceptions of value. This originally led to the provocative conclusion that prices of common stocks follow a "random walk." The meaning of this work, which was generally misunderstood, was less provocative and upsetting than the phrase by which it was identified. The popular misconception was that the work indicated that stock prices were determined by, or at least that changes in stock prices were determined by, a senseless, random process. In fact, it indicated merely that study of the historical sequence of stock prices did not hold the secret of great wealth — or more modestly that such study does not produce abnormally high returns.

Subsequent work on changes in stock prices produced further understanding and a change in the descriptive phrase used to designate the work. The "random walk" theory evolved into the "efficient market" theory. The change in name reflects a change in understanding. Whereas the earlier name indicated merely a statistical fact, namely, the independence of successive changes in prices of common stocks, and an important conclusion about the value of most (perhaps all) technical analysis, the latter name indicated that prices react very rapidly and in an unbiased way to new information. This adjustment is precipitated by the ardent and presumably competent efforts of security analysts and asset managers to keep informed about current developments in corporations and in their economic environment. The result is to cause prices at all times to be "appropriate" or near their intrinsic or equilibrium values. Thus, investors who pick stocks without study can expect to do as well, taking risk into account, as those who pick stocks after much study. Ironically, it is the "much study" which causes prices to be appropriate and relieves many individuals of the need to investigate before they invest. At least, study of individual securities should not be expected to produce abnormal returns.

RISKY ASSETS AND RISKY ASSETS

About ten years after Markowitz' original work, William Sharpe developed the theory further. He thought of risk as having two sources. The first was uncertainty about the future value of all risky assets, designated collectively as the "market." Even if an investor owned all risky assets, risk would remain since the value of the entire collection or portfolio would change in ways which could not be precisely foreseen. This market risk could not be eliminated by diversification. Market risk is equivalent to and sometimes called "systematic risk."

No actual portfolio contains all risky assets. Actual portfolios, therefore, contain another kind of risk, usually called "non-systematic" or independent risk. Such portfolios are risky not only because future values of the market cannot be predicted, but also because changes in actual portfolios will differ from changes in the market in ways which cannot be precisely predicted. Diversification can diminish unsystematic risk by causing actual portfolios to resemble more and more closely the entire market.

Sharpe's theory, leaning essentially on the hypothesis that capital markets for risky assets are extremely efficient, indicates that investors can expect to be paid, that is, receive risk premia in the form of higher returns, for assuming systematic or market risk but not for assuming unsystematic or independent risk.

This theory, which is supported by much competent empirical work, leads to some interesting conclusions not always in accord with intuition. The first is that investors should hold portfolios of risky assets that replicate as closely as possible movements in the entire market of risky assets. That is the modern meaning of diversification. Diversification is measured not in terms of maximum commitments to individual industries or securities but in terms of the elimination of unsystematic or independent risk. The statistic which measures diversification in the modern sense is the correlation coefficient between the portfolio and the market as a whole. A correlation of 1.0 means that diversification is perfect, no unsystematic risk remains, and the investor assumes only risk for which he can expect a risk premium.

The argument presented so far might seem to suggest that all investors should hold identical portfolios except for differences in scale. That misconception could exist because the idea of a riskless asset has not yet been introduced. Riskless assets do exist, at least in terms of dollars. Treasury bills are the standard example of riskless assets; their returns in dollars can be precisely predicted. According to modern theory, adjustments in the riskiness of portfolios to suit the circumstances and tastes of individual investors, be they persons, endowed institutions, or pension funds, should be in the proportions of the portfolio allocated to risky and to riskless assets and not in the mix of risky assets.

According to this theory, all efficient portfolios — in the Markowitzian sense of maximizing expected returns per unit of risk — are perfectly correlated with the market. All such portfolios vary solely because of movements in the market. The sensitivity of a portfolio to market movements is measured by its beta coefficient (β). A beta of one for an efficient portfolio will cause it to rise and fall in perfect step with and just as fast as the market. A beta of one-half, achieved by putting half the investable funds in the riskless asset and half in the market, will move in perfect step with and half as fast as the market.

In sum, modern theory states that additional return should be expected solely from assuming systematic risk. Thus, all unsystematic risk should be eliminated by diversification. Perfect diversification produces a correlation of 1.0 between the portfolio and the market. Variations in risk are achieved by varying the proportions of investable funds allocated to the perfectly diversified portfolio of risky assets and to the riskless asset. The beta coefficient, indicating the sensitivity of the portfolio or market movements, measures risk, all of which is systematic, for efficient portfolios.

THE PRACTICE OF PROFESSIONAL PORTFOLIO MANAGEMENT

The modern theory of investments suggests that it is extraordinarily difficult consistently to identify undervalued or overvalued securities and thereby achieve abnormally high returns. And the record of professionally managed portfolios, including investment companies, bank-administered funds, and others, indicates that the theory has great validity. Nevertheless, with very few exceptions, professional portfolio managers reject the theory in its pure or extreme form. They use security analysis to attempt to identify investments which will produce abnormally high returns, thereby departing from perfect diversification and incurring unsystematic risk.

USING THEORY IN PRACTICE

Though professional portfolio managers reject the pure form of the modern theory, they are beginning to use it for setting investment policy, controlling its implementation, and evaluating results. Accumulating evidence on the difficulty of consistently picking winners implies that the selection of an investment policy is of great — perhaps dominant — importance. If the prescription of policy is to have clear operational meaning, modern theory can be helpful. Policy can be and increasingly is being set by specifying a level of systematic risk (β) and a required degree of diversification (correlation between the portfolio and the market). Control is exercised by monitoring actual beta and correlation coefficients.

Evaluation of results for portfolios controlled in this way is simple. Evaluation of decisions on market timing can be made by seeing the effect on returns of temporary departures in a beta from the prescribed level. The effect of departures from perfect diversification, i.e., the effort to pick winners, can be evaluated by comparing actual returns with returns from perfectly diversified portfolios with the same systematic risk (β) and the same total risk (measured by some statistic indicating total variation, perhaps the mean absolute deviation). The total effect of active portfolio management can thus be broken down into its traditional components, timing and selection.

Other refinements based on modern theory are beginning to be used. Portfolios are being broken down into three components: the riskless asset, a market portfolio of risky assets, and a portfolio of risky assets selected because they are judged to be undervalued. Theoretical work has been done to guide the rational allocation of funds between the market component and the specially selected component of the portfolio of risky assets. The essence of the theory is that the proportion which should be allocated to the specially selected component, be it a single stock or a group of stocks, increases with the magnitude of the predicted abnormal return and with the confidence in the prediction. Computer programs exist for allocating funds among this third element of the total portfolio so as to maximize the effectiveness of the diversification.

For example, a portfolio of the 50 stocks with the largest market values and with allocation of funds among stocks in proportion to market values had, during a recent period, 96.5% of its returns determined by movements in the market. The use of a computerized optimization program shifted funds among stocks so as to increase the percentage of returns explained by the market to 98.2%, leaving the beta unchanged. This apparently trivial improvement diminished indepen-

dent risk by about one-third, substantially increasing the predictability of the portfolio's reaction to the market. In other words, techniques exist for minimizing unsystematic risk, given any group of stocks that the portfolio manager wants to hold.

A LITTLE MEANS A LOT

At last, portfolio managers are beginning to understand the practical importance of scientific techniques for maximizing diversification. For too long there has been too little appreciation of how much uncertainty or risk is created by even apparently small departures from perfect diversification. Part of this failure was caused by work showing that about 90% of the possible reduction in the total variation in returns is generally achieved by holding only about 32 stocks. A reduction of about 95% is achieved with portfolios of only 64 stocks. Only recently has adequate attention been given to the importance of the remaining 5% to 10%.

The following exhibits dramatize the importance of scientific techniques of diversifying. Exhibit 1 shows the relationship of the number of securities in

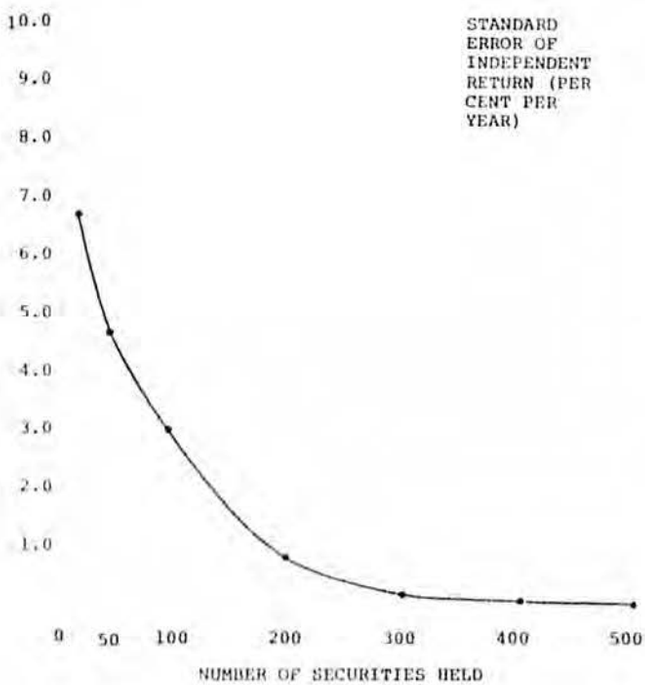

Exhibit 1 – Independent risk and portfolio size

Source: O'Brien Associates, Inc.

the portfolio to the standard error of annual independent returns. For example, a portfolio of the 50 stocks from the S&P 500 with the largest market values (and with allocation of funds among included stocks proportional to market value) produces returns that could

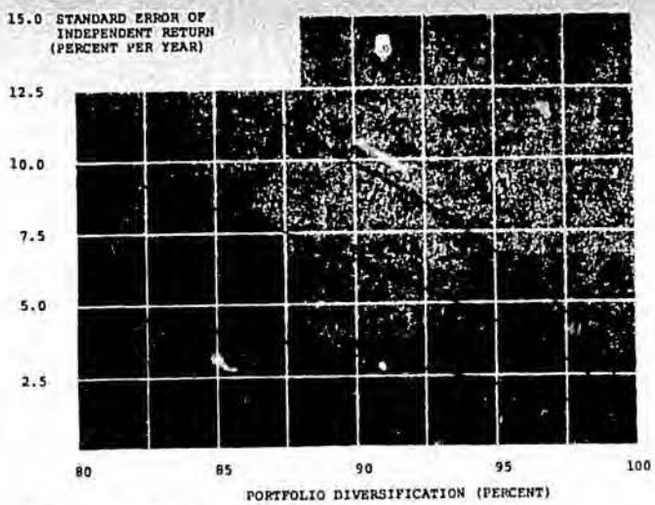

Exhibit 2 – The effect of beta and diversification on the level of unexplained return from a portfolio

Source: O'Brien Associates, Inc.

easily differ from returns for the entire 500 stocks by as much as 4.5 percentage points per year. Portfolios of 100 stocks could easily differ by as much as 3.0 percentage points. Investors who rely heavily on beta coefficients to predict returns and who do not understand the importance of scientific diversification are frequently surprised and not always pleasantly.

Exhibit 2 makes the same point somewhat differently. It shows for each level of diversification (measured by the coefficient of determination and expressed as a percent of possible diversification) and for three different betas the standard error of independent annual returns. For example, a portfolio with a beta of 1.0 and diversified 95% (coefficient of determination of 0.95) would fairly often have returns as much as 4.5 percentage points different from the market as a whole.

THEORY APPLIED TO HOMILY

The modern theory of investment, based on the theory of efficient markets and the pricing of risky assets, implies the wisdom of extreme diversification. The old homilies or rules of thumb provide some guidance, but their deficiencies are of great practical importance. Techniques derived from the modern theory can easily be used to make diversification more complete, thereby reducing independent risk for which payment in the form of higher returns cannot confidently be expected. The techniques help in setting policy, in controlling its implementation, and in evaluating the impact on performance of the judgement exercised by the portfolio manager in changing the systematic risk of the portfolio and in departing from perfect diversification in an attempt to identify undervalued securities.

SCOMM

#9:47

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FIRST VICE PRESIDENT
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CABLE ADDRESS-"WHITEWELD"

October 1, 1976

Alaska State Investment Advisory Committee
State of Alaska

Dear Committee Member:

In accordance with your request, we have undertaken a sur ·ey of domestic, foreign and international development banks, funds and development programs for your use in determining the future structure and objectives of the Alaska Permanent Fund. In performing our survey, we have selected those banks, funds or development programs which are of major importance, as well as those which are particularly relevant to Alaska's situation in that they are either based upon natural resource revenues or confined to a limited geographic area.

Our analysis of domestic permanent funds focused on those states which received income from a finite natural resource and the manner in which that income was expended. The majority of states receiving income from finite natural resources spend that income on a current basis. Those states and the application of income are set forth in tabulation form. States which accumulate natural resource income in a trust fund are set forth individually.

Each state has created programs to assist and encourage economic developments. A description of the Government Development Bank of Puerto Rico and the Pennsylvania Industrial Development Authority has been included in this study. A summary of state general assistance, incentives and special services to industry has also been included. In depth information on each particular economic development program has been requested from each state's development agency and will be sent along, as received, to Mr. Edenso for inclusion in the source file of all background information we are putting together for the Committee.

Substantially all of the less developed nations of the world, and a certain number of the more developed nations, have government owned or controlled entities whose purpose is to participate in the financing of local economic development projects. In most of the small nations, these entities

function principally as the vehicle through which development funds are dispersed to the economy by the government and are consequently heavily involved in the internal political process. In many cases, these entities also act as the conduit through which development funds provided by the larger international development banks and funds are invested in smaller projects in the country concerned. One of the advantages of the latter process is that the use of the local bank as a vehicle permits the larger institution's loan to receive a government guarantee, which is commonly a prerequisite for the extension, or the initial extension, of credit to the country. In most countries, the development banks and funds that perform the above functions also serve as the means through which internal economic growth is directed and channeled in accordance with national economic policies and are, in effect, extensions of the local economic ministry.

The institutions covered by our survey which fall into this category are the Swedish Investment Bank, Japan Development Bank and National Financiera S. A. (Mexico). All of these entities are government owned institutions which both borrow funds in various capital markets and lend domestically for development purposes. In each case, the institutions are responsible for carrying out national economic policy through their activities and enjoy various degrees of autonomy from the national political process. The most independent is the Swedish Investment Bank and the least is National Financiera S. A. Both National Financiera and Japan Development Bank appear to be heavily involved in the political process in their respective countries, and the former has acted as a conduit for World Bank lending in Mexico.

The larger development banks and funds are international institutions whose memberships consist of several countries and whose purpose is to foster the economic growth and development of a particular region or its members. In general, these entities represent potent world-scale economic forces and tend to be both non-political and commercial in their operations. The financial stength of these entities is typically based on the uncalled capital subscriptions of their members, and virtually all of them borrow heavily, both locally and in the international capital markets. Substantially all of the activities of these institutions consist of direct lending for specific projects in the various countries, and lending policies appear to be determined on social benefit as well as economic grounds. As a result, and to the extent that many major industrial nations are commonly among the larger contributing members of these institutions and receive no benefits, they can be viewed as quasi "foreign aid" banks.

Among such international and regional development institutions covered by our survey, the most significant is the International Bank for Reconstruction and Development (World Bank), both in terms of its worldwide membership and the international scope and significance of its lending activities. Importantly, all of the other international institutions included in our review (Inter-American Development Bank, Asian Development Bank and African Development Bank)

have been created with the assistance of, or modeled after, the World Bank, both operationally and in financial structure. Of these three derivative institutions, only the African Development Bank is not a significant international borrower and depends heavily on loans from other institutions, such as the World Bank. This characteristic results from the fact that its uncalled capital funds are to be provided by countries that are not viewed as being particularly strong by the world capital markets and that a significant private capital market in black Africa does not exist. Two other institutions which fall somewhat into this category in that their activities are regionalized are the European Investment Bank and the European Coal and Steel Community, both of which are related to the European Economic Community (Common Market). Significantly, while both borrow in various capital markets and relend for projects consistent with their purpose, the credit strength of the European Coal and Steel Community is based fundamentally on the strength of the private steel industry in Europe. European Investment Bank is modeled along the lines of the World Bank and depends on the credit of the various EEC member states.

The remaining type of institution is one which functions in a limited geographic area or within a particular industry to promote economic growth and development or to achieve a social objective and is based on local or regional resources. Of the three basic groups of international development institutions, this group contains the smallest number of entities and is, perhaps, the most analagous to the situation in Alaska. These development institutions or funds are new and, to a large degree, based on natural resource revenue. Significantly, only two are international in scope; others are modeled after the World Bank but limited in their activities to a defined geographic region, ethnic grouping or social purpose. The remainder are "national" investment funds. The majority of these funds are based in the Middle East and dependent upon oil related revenues. Those that have an international scope are the Saudi Development Fund and the Arab Bank for Economic Development in Africa, both of which were created after the increase in world oil prices in recognition of the balance of payments and development problems created in the developing states by such increase. The remaining funds (Arab Fund for Economic and Social Development, Abu Dhabi Fund for Arab Economic Development, the Islamic Development Bank and the Kuwait Fund for Arab Economic Development), although created at approximately the same time, reflect in both the source of their capital (member states' subscriptions or allocation of national revenues) and their purposes the Arab nationalism which emerged after the Mid-East wars. Importantly, most of these funds have yet to become fully operational, and it is too early to judge their potential significance. The two "national" investment funds, the two which you may find are the most directly related to the proposed Alaska Permanent Fund, are the Fondo de Inversiones de Venezuela and the Alberta Heritage Savings Trust Fund. The similarities extend to both source and purpose, as can be seen in the studies included herewith.

Alaska State Development
Advisory Committee

October 1, 1976

It is premature to recommend to the Committee certain key features of any one of these banks, funds or development programs over the others until it has had a chance to digest the information in our survey and to review the source file we are also providing. We are available to detail the differences as we see them and to discuss other alternatives available to Alaska.

Following the Committee's meeting on October 13, which we will be attending, we will want to sponsor visits by Committee members at least to Alberta to meet with their Heritage Savings Trust Fund counterparts. Visits to New Mexico and to New York would also appear advisable.

We look forward to our next meeting in Anchorage.

Sincerely yours,

Charles J. Fuhrmann II
First Vice President

CJF:yu
Attachment

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Alberta Heritage Savings Trust Fund

Exhibit I

Institution:	(Montana) Resource Indemnity Fund created in 1974
Location:	Helena, Montana
Size:	
Capital Funds:	$4.5 million
Purpose:	The Resource Indemnity Fund was created to accumulate income from a Severance Tax on Coal and other minerals for the purpose of providing moneys to enhance the State ecological environment and rectify damage thereto. Accumulations in the Fund shall continue until the Fund reaches $100 million.
Source of Funds:	Moneys are deposited in the Fund from a severance tax on various minerals and 2½% of the Severance Tax on Coal.
Management Structure:	Moneys are collected and deposited in the Fund by the Department of Revenue. Investments in the Fund are made in accordance with guidelines established by the State Board of Investments which is composed of five private citizens appointed by the Governor for 5 year terms.
Management of Funds:	Moneys are invested in debt instruments authorized by State Statutes.
Portfolio:	Moneys are currently invested in corporate bonds that have been rated A or better by Moody's Investors Service and Standard & Poor's Corporation.
Income:	Income from investments remain in the Fund until $10 million has been accumulated. After the accumulation of $10 million, income may be used for enhancement or repair of the environment.

Institution:	(New Mexico) State Permanent Fund created in 1898
Location:	Santa Fe, New Mexico
Size:	
Assets:	10 million acres
Capital Funds:	$675 million
Purpose:	The State Permanent Fund was established to collect royalties and other income from the lease of State-owned land. Income from the Fund is applied to the New Mexico public school systems and educational and eleemosynary institutions.
Source of Funds:	Moneys in the Fund were initially provided from the sale of State land. Currently, revenues to the Fund are provided from royalties and income from State-owned lands under lease. Such revenues include oil and gas royalties and grazing and timber leases. In addition, any capital gains on investments remain in the Fund.
Management Structure:	The State Permanent Fund is managed by the State Investment Council. Members of the Council include the Governor, the State Treasurer, the Commissioner of Public Lands, the Finance Officer and four public members who are appointed by the Governor for terms of five years.
Management of Funds:	The State Investment Officer is responsible for investing moneys in the State Permanent Fund. Fifty per cent of the Fund must be invested in Federal Securities. The remainder may be invested according to State Statutes.
Portfolio:	The Fund is currently invested as follows: 18% equity, 32% corporate obligations and 50% U.S. Government and Federal Agency Obligations.
Income:	Income from the Fund is distributed to the public school system (80%) and the remainder to educational and eleemosynary institutions.

Institution:	(New Mexico) Severance Tax Bonding Fund, created in 1941
Location:	Santa Fe, New Mexico
Size:	
Capital Funds:	$9,040,756.02
Purpose:	The Severance Tax Bonding Fund was created to secure tax-exempt bonds issued for public capital projects.
Source of Funds:	Moneys derived from the levy of the New Mexico Severance Tax on severed natural resources are paid in their entirety to this Fund. Additional sources of income include revenues from projects financed with Severance Tax Bonds and receipts from ground rentals of Public Buildings. Moneys in excess of the next two semi-annual payments on all outstanding Severance Tax Bonds are transferred to the Severance Tax Permanent Fund.
Management Structure:	The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for two year terms. The State Treasurer is responsible for repayment of principal and interest on Severance Tax Bonds.
Management of Funds:	Moneys in the Fund are invested in debt instruments authorized by State Statutes.
Portfolio:	N.A.
Income:	All moneys in the Severance Tax Bonding Fund except an amount sufficient to repay principal and interest on the Severance Tax Bonds on the next ensuing semi-annual payment date is transferred to the Severance Tax Permanent Fund.
Indebtedness Limitation:	The State Board of Finance may issue additional Severance Tax Bonds payable from the Severance Tax Bonding Fund provided that aggregate annual debt service on Bonds outstanding including the proposed issue be equal to no more than 50% of previous fiscal year's deposits into the Severance Tax Bonding Fund.

Institution:	(New Mexico) Severance Tax Permanent Fund created in 1971
Location:	Santa Fe, New Mexico
Size:	
Capital Funds:	$103 million, currently accruing at rate of $4 million per month.
Purpose:	The Severance Tax Permanent Fund was created to encourage economic development in the State of New Mexico.
Source of Funds:	Moneys in the Severance Tax Permanent Fund are provided from the New Mexico Severance Tax levied for the privilege of severing natural resources including oil and gas, potash, copper, uranium, timber, coal and certain other minerals. Proceeds from the Severance Tax are deposited in the Severance Tax Permanent Fund after the required payments to the Severance Tax Bonding Fund.
Management Structure:	The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for terms of two years.
Management of Funds:	Moneys in the Fund may be invested at the discretion of the State Board of Finance. Moneys currently are invested by the State Treasurer in Certificates of Deposit of State banks who in turn make loans for capital projects to the private sector. Loan feasibility and appropriateness of the capital project is left entirely up to the bank. Participation by the Fund in sizeable loans by State banks requires the approval of the State Board of Finance. The principal of the Fund may be used for economic development purposes upon the approval of the State Board of Finance. An amendment to require 3/4's approval of the legislature prior to invasion of the principal of the Severance Tax Permanent Fund is on the November ballot.
Portfolio:	Approximately $94 million of the Fund is invested in Certificates of Deposits of State banks maturing one to five years at a floating rate of short term treasury obligations plus 50 basis points. The remainder is invested under Repurchase Agreements.
Income:	Income from the Severance Tax Permanent Fund is transferred to the Severance Tax Income Fund.

Institution:	(New Mexico) Severance Tax Income Fund created in 1971
Location:	Santa Fe, New Mexico
Size:	
Capital Funds:	$2.2 million as of 9/27/76
Purpose:	The Severance Tax Income Fund was created to finance public capital improvement projects.
Source of Funds:	Income from the investments of the Severance Tax Permanent Fund is deposited in this Fund.
Management Structure:	Moneys are invested and disbursed by the State Treasurer under the supervision of the State Legislature.
Management of Fund:	Pending appropriation for capital projects, moneys are invested under Repurchase Agreements.
Portfolio:	N.A.
Income:	Income from the Fund is transferred to the State General Fund.

Institution: Texas Permanent University Fund created in 1881

Location: Austin, Texas

Size:

Assets: 2,100,000 acres of land in nineteen West Texas counties
Book value 8/31/75 $781,771,634.49

Purpose: Fund created by provisions of the Texas Constituion in order to enable the State Legislature to carry out the purpose, as declared by the Republic of Texas and later in early State Constitutions, of creating a State University. The Constitutional provisions set aside all lands previously appropriated for the creation of a State University, together with the proceeds of any sale thereof, to create a Permanent University Fund. All moneys available in the Fund are to be invested in securities, the income from which will be appropriated by the Legislature, in order to accomplish the purpose of creating, maintaining, supporting and directing a university for the promotion of literature, and the arts and sciences, including an agricultural and mechanical department.

Source of Funds: Funds are accumulated annually in the Fund from oil, gas and water royalties, gains on investments, mineral lease rentals, lease bonuses, and any proceeds of land sold. The Permanent Fund shall be forever kept intact and all annual income shall become part of the Fund.

Management Structure: The Fund is held by the Treasurer of the State of Texas and invested by direction of the Board of Regents of the University of Texas. The Board of Regents consists of nine members who serve without compensation. They are appointed by the Governor for six year terms subject to approval by the Senate.

Management of Funds: The Fund is invested in permitted securities which are bonds of the United States, the State of Texas, or counties of the State, or in school bonds of municipalities in the State, or bonds of any city in the State, or in bonds issued under the Federal Farm Loan Act. In addition, the Fund may be invested in securities, bonds or other obligations issued, insured or guaranteed in any manner by the U.S. Government, or any of its agencies, and in bonds, debentures, or obligations, and preferred and common stocks issued by corporations, associations, or other institutions as the Board of Regents deem to be proper, provided that not more than 1% of the Fund will

Management of Funds: continued

be invested in the securities of any one corporation nor more than 5% of the voting stock of any one corporation be owned. In addition, stocks purchased will be only in companies incorporated in the U.S. and who have paid dividends for at least five consecutive years and, except for bank or insurance company stocks, are listed on a registered stock exchange.

Portfolio:

Capital Funds (August 31, 1975)

Securities, cash and equivalent at cost	$781,771,634.49
U.S. Governments	
Direct Obligations	106,828,987.45
Guaranteed	103,089,999.03
Corporate Bonds	279,571,990.53
Convertible Debentures & Preferreds	16,440,190.64
Common Stocks	254,425,102.52
Short Term Securities & Cash	21,415,364.32
Total	$781,771,634.49

Income:

The income from Fund investments is appropriated annually by the State Legislature; two-thirds to the University of Texas and one-third to Texas A & M. The income of the Fund may be used only for permanent improvement and not for current expenses. Prior to the distribution of the income of the Fund, provision is made for the expenses of administering the Fund.

Institution:	(Wyoming) University Permanent Land Fund created in 1881
Location:	Cheyenne, Wyoming
Size:	
Assets:	34,492 acres
Capital Funds:	$8,565,000
Purpose:	The University Permanent Land Fund was created to receive income from lands granted to Wyoming to be used for the financial benefit of the University of Wyoming. Income from the Fund is used to support capital projects of the University.
Source of Funds:	Moneys in the Fund are provided from income received on specific State-owned lands.
Management Structure:	The State Treasurer is responsible for investing the Fund. Income from the Fund is transferred to the Treasurer of the University of Wyoming.
Management of Funds:	The State Treasurer invests the Fund in debt instruments authorized by State Statutes.
Portfolio:	N.A.
Income:	Income from the Fund is transferred to the University of Wyoming.

Institution:	(Wyoming) Permanent Mineral Trust Fund created in 1974
Location:	Cheyenne, Wyoming
Size:	
Capital Funds:	$51,250,000
Purpose:	The Permanent Mineral Trust Fund was created to retain moneys collected from a Severance Tax on all minerals. Moneys in the Fund may be used for loans to political subdivisions upon legislative approval.
Source of Funds:	Collections of a Severance Tax on all minerals are placed in the Fund.
Management Structure:	The State Treasurer is responsible for managing and investing this Fund.
Management of Funds:	Moneys are invested in debt instruments authorized by State Statutes.
Portfolio:	N.A.
Income:	Income from the Permanent Mineral Trust Fund is transferred to the State's General Fund.

Institution:	(Wyoming) Government Royalties Fund created in 1973
Location:	Cheyenne, Wyoming
Size:	
Assets:	3.1 million acres
Capital Funds:	N.A.
Purposes:	Moneys collected in the Fund are applied as follows: 50% to Public School System 35% to State General Fund 9% to University of Wyoming for capital projects 6% to counties
Source of Funds:	Mineral royalties and lease payments from operators on U.S. Government-owned lands in Wyoming are divided between the U.S. Government and Wyoming. Prior to 1976 the State of Wyoming received 37 1/2% and the U.S. Government 62 1/2%. As of 1976 the U.S. Government and Wyoming divide the mineral royalties and lease payments equally.
Management Structure:	Mineral royalties and lease payments are collected by the U.S. Government and disbursed to the State semi-annually.
Management of Funds:	Moneys remitted to the State are deposited with the State Treasurer. The Wyoming legislature intends to address the management and application of additional income received pursuant to the State's increased share of mineral royalties and lease payments.
Portfolio:	N.A.
Income:	N.A.

The following is a summary of States that have not created permanent trust funds to receive income derived from taxation on or royalties from finite natural resources.

STATE	APPLICATION OF SEVERANCE TAX AND ROYALTY INCOME
Alabama	Proceeds of the Timber Severance Tax support State Conservation Department timber restoration activities. The Coal Severance Tax is used to pay debt service on Alabama State Docks Department, Seaport Facility Revenue and Special Tax Bonds. $15,000,000 originally issued. $13,075,000 presently outstanding. No additional bonds may be issued with the Coal Severance Tax as security.
Arkansas	Revenue from severance taxes are returned to the county level after the State deducts all claims against the county, plus a 1 1/2% charge. The 1 1/2% charge is deposited in State General Fund.
California	Fifty-six percent for capital outlay programs in California's Higher Education System. Twenty-two percent for special projects including irrigation aqueducts and improvement in navigable waterways. Eight percent to State Conservation Department to support various activities. Fourteen percent deposited in State General Fund.
Colorado	Severance tax deposited in State General Fund
Idaho	Severance tax deposited in State General Fund.
Kansas	All revenue from Oil, Gas and Minerals Severance Tax is deposited in State General Fund. All revenue from Sand and Gravel Royalty Tax is returned to counties.
Kentucky	Proceeds from severance tax are placed in short term investments. Semi-annually counties receive money for special projects. All remaining money is deposited in State General Fund.

STATE	APPLICATION OF SEVERANCE TAX REVENUE
Louisiana	Ninety percent of severance tax revenue is retained by the State for general purposes. The remaining 10% is allocated to parishes (counties).
Minnesota	Minnesota deposits 10% of the Taconite Production Tax in their general fund. Ninety percent is returned to districts where taconite is produced. All proceeds from the Ore Royalty Tax are deposited in State General Fund.
Mississippi	Of the Timber Severance Tax, 50% is allocated to the Forest Redevelopment Fund, 25% is returned to counties and 25% is deposited in State General Fund. The State levies taxes on gas production with 30% going to participating counties and 70% to State General Fund. Mississippi also imposes a tax on oil production. Counties receive 30% of the first $600,000, 10% of the next $600,000 and 5% thereafter. The balance is deposited in State General Fund.
North Dakota	Thirty-five percent of the taxes which North Dakota levies on coal extraction goes to the Coal Impact Office. The Office then allocates money on the basis of application for public projects in the areas where coal is mined. Thirty percent is allocated to the Land Board Trust Fund. Two-thirds of this is used to finance environmental studies. One-third is invested with interest proceeds deposited in State General Fund. Thirty percent is deposited in State General Fund. Remaining 5% allocated to counties.
Ohio	Seventy-five percent of severance taxes are used for the restoration of orphaned strip mining land. Twenty-five percent is allocated to replug abandoned oil and gas wells which are deemed as hazards.
Oklahoma	State General Fund receives 85% of severance tax revenue. Fifteen percent is allocated to counties.
Utah	All revenue from severance taxes is deposited in State General Fund. Expenditures are then allocated by State legislature.

Exhibit II

Institution:	Government Development Bank of Puerto Rico
Location:	San Juan, Puerto Rico
Size:	
Assets:	$782,101,951 - 1975
Purpose:	The Government Development Bank was created in 1948 as an instrumentality and public corporation of the Commonwealth of Puerto Rico. Its two principal functions are to act as fiscal agent for the Commonwealth, its municipalities and public agencies, and to make loans to private enterprises which will aid in developing the economy of Puerto Rico. The Bank Charter provides that no changes in law may be made that impair the obligations of the Bank, that it shall have existence and that it is exempt from Commonwealth Banking Law.
Source of Funds:	The Bank was originally capitalized by legislative appropriations. Its capital is received from operations, capital notes (some of which are guaranteed by the Commonwealth) and lines of credit with U.S. and Commonwealth banks.
Management Structure:	The governing body is a seven-member Board of Directors who are appointed by the Governor and serve four year overlapping terms. Appointment is subject to approval by the Council of Secretaries of the Commonwealth. The Bank is under the supervision of and subject to examination by the Commonwealth's Secretary of the Treasury.
Management of Funds:	N.A.
Portfolio:	N.A.
Functions:	As fiscal agent, the Bank is responsible for the timing and sale of bonds and notes by the Commonwealth and its agencies, and, during the period 1944-75 it arranged or provided for nearly $11 billion of borrowings by these governmental units. The Bank also arranges or provides loans for the private sector. From 1944 to 6/30/75 it reportedly has disbursed over $337 million loans to private business (about 47% for manufacturing, 22% for commercial buildings, 6% for hotels). As of 6/30/76 there were $165.4 million business loans outstanding (45% industrial, 3.6% hotel and restaurant, 14% commercial buildings, 4% hospital, and remainder interium and other). The Bank also issues its own full faith and credit notes ($40,000,000 as of 6/30/75 issued to major mainland and Puerto Rican Banks). The Bank is the central clearing house for checks in the Commonwealth. On 9/11/75 the Bank negotiated a $612 million note purchase agreement (guaranteed by the Commonwealth) with major mainland and Commonwealth Banks to provide a revolving line of credit for the Commonwealth and its various public agencies. This line of credit will decline to $352 million by 7/15/79.

Institution:	The Pennsylvania Industrial Development Authority created in 1973
Location:	Harrisburg, Pennsylvania
Size:	
Assets:	$266,357,736 (as of March 31, 1976)
Capital Funds:	$226,309,289
Purpose:	The Authority was established to alleviate unemployment and economic stagnation within the Commonwealth of Pennsylvania by the promotion and development of industrial and manufacturing enterprises, research and development enterprises and agricultural enterprises in those areas where critical unemployment exists. To accomplish its purposes, the Authority is authorized to make mortgage loans to non-profit Industrial Development Agencies. The Agencies utilize funds borrowed from the Authority to finance industrial development projects on behalf of private industry at below market interest rates.
Source of Funds:	Moneys to make mortgage loans have been provided from aggregate legislative appropriations of $191,140,000 during fiscal years 1956 through 1975, from the proceeds of tax-exempt bond issues in the total principal amount of $72,500,000 and from repayment of principal and interest on outstanding mortgage loans.
Management Structure:	Membership of the Authority consists of the Secretary of Commerce who serves as Chairman, and the Secretaries of Labor and Industry, Community Affairs, Agriculture and Banking. In addition seven members are appointed by the Governor for terms of seven years. The Board meets monthly to review mortgage loan applications.
Management of Funds:	Disbursement of mortgage loan proceeds and receipt of mortgage loan repayments are the responsibility of a designated Trustee bank. Moneys held by the Trustee are invested according to State Statute.
Portfolio:	As of March 31, 1976 the Authority's portfolio was invested in $206 million mortgage loans yielding from 7/8 of 1% to 4% per annum. In addition the Authority has $56.5 million invested in U.S. Treasury Securities.

Income: Income from investments remains with the Authority.

Indebtedness Limitation: Additional tax-exempt bonds may be issued provided that estimated net revenues over the life of all outstanding bonds, including the proposed issue, will equal not less than 200% of the annual principal and interest requirements on all bonds to be outstanding.

FINANCIAL ASSISTANCE FOR INDUSTRY

	State Sponsored Industrial Development Authority	Privately Sponsored Development Credit Corporation	State Authority or Agency Revenue Bond Financing	State Authority or Agency General Obligation Bond Financing	City and/or County Revenue Bond Financing	City and/or County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment, Machinery	City and/or County Loans for Building Construction	City and/or County Loans for Equipment, Machinery	State Loan Guarantees for Building Construction	State Loan Guarantees for Equipment, Machinery	City and/or County Loan Guarantees for Building Construction	City and/or County Loan Guarantees for Equipment, Machinery	State Financing Aid for Existing Plant Expansions	State Matching Funds for City and/or County Industrial Financing Programs	State Incentive for Establishing Industrial Plants in Areas of High Unemployment	City and/or County Incentive for Establishing Industrial Plants in Areas of High Unemployment
Alabama	●	●			●	●1									●2			
Alaska	4	●	4	●	●3	●3	●	●							●			
Arizona		4			●													
Arkansas	●	●			●	●					●	●						
California		●5															●6	
Colorado		●			●													
Connecticut	●	●	●	●		●	●	●			●	●			●	●		
Delaware	●		●	●			●	●			●				●			
Florida		●			●													
Georgia		●	●3		●													
Hawaii			●		●	●	●	●							●	●		
Idaho		4																
Illinois	●	●			●													
Indiana	●		●		●	●					●	●			●	●		
Iowa		●			●													
Kansas		●			●	●												
Kentucky	●	●			●	●	●								●			
Louisiana	●	4			●	●												
Maine	●		●		●						●	●			●		●	
Maryland	●	●			●	●					●	●			●	●7	●7	
Massachusetts	●	●			●	●			●	●					●		●	●
Michigan	●	4	●		●		●				●				●	●	●	
Minnesota		●	●		●		●	●	●9	●9					●		●	
Mississippi	●	●			●	●									●2			●
Missouri	●	●			●	●		●8							●			
Montana		●			●				●17									
Nebraska		●			●										●2			
Nevada					●	●											●	●
New Hampshire	●	●	●				●				●	●			●			
New Jersey	●		●	●		●20					●	●			●	●	●	●
New Mexico	●	4			●	●												
New York	●	●	●10	●	●		●	●11	●	●					●		●12	●12
North Carolina		●																
North Dakota	●	●		●	●	●	●	●	●	●	●				●13		●	
Ohio	●	●	●		●				●	●	●	●			●			
Oklahoma	●	●	●	●	●	●	●	●	●	●					●			
Oregon		●	●3		●19													
Pennsylvania	●	●	●		●		●14		●14						●		●	●
Rhode Island	●	●	●		●						●	●			●			
South Carolina	●	●			●													
South Dakota					●													
Tennessee	●			●	●	●		●15			●	●			●15			
Texas					●13		●	●							●			
Utah	●	●	●		●													
Vermont	●	●	●		●		●	●			●	●			●	●	●	●
Virginia	●	●			●													
Washington	●	●			●3	●3				●3							●	
West Virginia	●	●			●		●	●							●			
Wisconsin					●	●16												
Wyoming		●			●													
STATE TOTALS	30	35	18	8	43	21	15	13	8	7	14	11	0	0	27	7	13	7
Puerto Rico	●	●	●	●	●	●	●	●			●	●			●	●	●	●

Source: Industrial Development
December 1975

TAX INCENTIVES FOR INDUSTRY ____ OTHER LAWS ____

	Corporate Income Tax Exemption	Personal Income Tax Exemption	Excise Tax Exemption	Tax Exemption or Moratorium on Land, Capital Improvements	Tax Exemption or Moratorium on Equipment, Machinery	Inventory Tax Exemption or Goods in Transit (Freeport)	Tax Exemption on Manufacturers' Inventories	Sales/Use Tax Exemption on New Equipment	Tax Exemption on Raw Materials Used in Manufacturing	Tax Credits for Use of Specified State Products	Tax Stabilization Agreements for Specified Industries	Tax Exemption to Encourage Research and Development	Accelerated Depreciation of Industrial Equipment	State Right-to-Work Law	State Minimum Wage Law	State Fair Employment Practice Code	Statewide Uniform Property Tax Evaluation Law	Statewide Air Pollution Control Law	Statewide Water Pollution Control Law	Statewide Industrial Noise Abatement Law
Alabama	●		●	●	●	●	●	●	●					●			●	●	●	
Alaska								●	●		●				●	●	●	●	●	
Arizona		●				●	●		●				●	●		●	●	●	●	
Arkansas						●		●	●					●	●		●	●	●	
California							●18	●19	●18				●20		●	●	●	●	●	●
Colorado						●21	●21		●21						●	●	●	●	●	●
Connecticut	●22				●23	●	●		●						●	●		●	●	●
Delaware			●24		●	●	●	●	●				●		●	●		●	●	
Florida	●	●25				●	●26		●26	●57				●			●	●	●	
Georgia								●	●				●59	●	●	●		●	●	
Hawaii		●	●		●	●	●	●					●		●	●	●	●	●	
Idaho						●	●	●	●				●		●		●	●	●	
Illinois						●			●						●	●	●	●	●	●
Indiana					●			●	●				●		●	●	●	●	●	
Iowa	●27				28	●	●28		●29				●59	●		●	●	●	●	●
Kansas				●30	●30	●		●30	●				●59	●		●	●	●	●	
Kentucky				●31	●31		●	●	●31				●		●	●	●	●	●	
Louisiana	●32			●33	●	●			●	●			●20					●	●	
Maine							●	●	●34			●	●59		●	●	●	●	●	●
Maryland				●31	●		●	●36	●			●37			●	●	●	●	●	●
Massachusetts	●38	●	●		●		●								●	●	●	●	●	●
Michigan		●		●38	●			●							●	●	●	●	●	
Minnesota		●		●20	●	●	●	●40	●		●	●	●59		●	●	●	●	●	●
Mississippi		●		●	●	●	●	●	●				●59	●				●	●	
Missouri	●	●				●		●	●							●		●	●	
Montana	●35			●	●	●	●39	●41									●	●	●	
Nebraska						●	●42		●					●	●	●	●	●	●	
Nevada	●25	●25				●	●							●	●	●	●	●	●	
New Hampshire		●25			●	●	●	●41	●				●59		●	●	●	●	●	●
New Jersey		●44		●		●43	●		●						●	●	●	●	●	●45
New Mexico						●	●		●				●59		●	●	●	●	●	
New York	●12,46,47	●47	●24	●12	●48	●48	●48	●	●48			●46			●	●	●	●	●	●
North Carolina						●43		●49	●50					●	●	●	●	●	●	
North Dakota	●		●	● 51	●48	●48	●48		●					●	●	●	●	●	●	●
Ohio	●25	●25				●		●	●						●	●	●	●	●	●
Oklahoma	●			●	●	●	●	●	●				●59		●	●	●	●	●	
Oregon		●	●52	●53		●	●	●	●						●	●	●	●	●	●
Pennsylvania					●54	●55	●55	●54	●54			●			●	●	●	●	●	
Rhode Island				●31	●31		●	●56	●		●	●			●	●		●	●	
South Carolina				●	●	●	●	●	●			●		●	●	●	●	●	●	
South Dakota	●	●	●	●	●	●	●		●					●	●	●	●	●	●	
Tennessee		●		●31	●31	●		●64	●	●57			●	●			●	●	●	
Texas	●25	●25		●58	●58	○		●20						●	●			●	●	
Utah						●	●							●	●	●	●	●	●	
Vermont						●		●	●		●		●59		●	●	●	●	●	
Virginia				●31	●31			●	●60			61	●59	●	○			●	●	
Washington	●25	●25		●	●	●	●		●						●	●	●	●	●	●
West Virginia	●		●					●	●						●	●	●	●	●	
Wisconsin	●62				●	●	●63	●	●				●		●	●	●	●	●	
Wyoming	●25	●25	●			●	●		●					●	●	●	●	●	●	
STATE TOTALS	19	19	10	21	27	38	34	33	43	3	4	7	21	19	40	40	41	50	50	17
Puerto Rico	●	●	●	●	●	●	●	●	●			●	●	●	●	●	●	●	●	●

SPECIAL SERVICES FOR INDUSTRIAL DEVELOPMENT

	State Financed Speculative Building	City and/or County Financed Speculative Building	State Provides Free Land for Industry	Cities and/or Counties Provide Free Land for Industry	State-Owned Industrial Park Sites	City and/or County-Owned Industrial Park Sites	State Funds for City and/or County Development-Related Public Works Projects	State Funds for City and/or County Master Plans	State Funds for City and/or County Recreational Projects	State Funds for Private Recreational Projects	State Program to Promote Research and Development	State Program to Increase Export of Products	University R&D Facilities Available to Industry	State and/or Universities Conduct Feasibility Studies to Attract or Assist New Industry	State Recruiting, Screening of Industrial Employees	State Supported Training of Industrial Employees	State Re-Training of Industrial Employees	State Supported Training of "Hard-Core" Unemployed	State Incentive to Industry to Train "Hard-Core" Unemployed	State Help in Bidding on Federal Procurement Contracts	State Science and/or Technology Advisory Council
Alabama		●		●65		●	●	●	●		●	●	●	●	●	●	●	●			●
Alaska						●	●		●	●	●	●	●	●	●	●	●	●	●		
Arizona						●					●	●	●	●	●	●	●	●			●
Arkansas						●			●		●		●	●	●	●	●				●
California				●65		●	●		●				●		●	●	●	●			●
Colorado		●65		●65		●	●	●	●			●	●	●	●	●	●	●			
Connecticut						●	●	●			●	●	●	●	●	●	●			●	●
Delaware						●	●	●66	●		●		●	●	●	●	●	●	●	●	●
Florida						●					●	●	●67	●	●	●68	●68	●68	●68		●
Georgia		●				●	●	●	●		●	●	●	●	●	●	●	●			●
Hawaii					●			●	●	●	●	●		●	●	●	●			●	●
Idaho						●	●		●		●	●	●	●	●	●	●				●
Illinois						●	●	●	●		●	●	●	●	●	●	●			●	●
Indiana				●65		●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●
Iowa												●	●	●	●	●	●	●			●
Kansas		●69		●65		●						●	●70	●	●	●					
Kentucky						●	●	●	●		●	●	●	●	●	●	●	●		●	●
Louisiana				●		●			●		●	●	●67	●	●	●	●	●			●
Maine	●			●71		●				●72		●	●67	●	●	●	●	●		●	●
Maryland						●	●		●	73		●		●	●	●	●	●	●		●
Massachusetts		●				●	●	●			●	●	●	●	●	●	●	●	●	●	●
Michigan						●		●	●		●	●	●	●	●	●	●			●	●
Minnesota						●	●	●	●	●		●	●	●	●	●	●	●	●	●	●
Mississippi		●		●74	●	●					●	●	●	●	●	●	●	●	●	●	●
Missouri						●						●	●	●	●	●75	●	●	●		●
Montana						●						●	●	●	●	●	●				●
Nebraska		●76		●76		●		●	●		●	●	●	●	●	●	●			●	●
Nevada						●						●	●	●	●				●		
New Hampshire	●				●	●	●	●	●	●	●	●	●	●	●	●	●			●	●
New Jersey	●				●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●
New Mexico		●				●					●	●	●	●	●	●	●			●	●
New York		●				●	●	●	●		●	●	●	●	●	●	●		●12	●	●
North Carolina						●	●	●	●		●	●	●	●	●	●	●	●	●	●	●
North Dakota		●		●		●			●		●	●	●	●	●	●	●	●	●	●	●
Ohio							●				●	●	●	●	●	●	●			●	●
Oklahoma		●		●	●	●		●	●		●	●	●	●	●	●	●	●	●	●	●
Oregon						●	●	●	●		●	●	●	●	●	●	●	●	●	●	
Pennsylvania		●				●	●	●	●		●	●	●	●	●	●	●	●	●		●
Rhode Island					●	●		●	●	●	●	●	●	●	●	●	●			●	●
South Carolina				●65		●		●	●		●	●	●	●	●	●	●	●			●
South Dakota		●		●74		●	●	●	●			●	●	●	●	●	●	●		●	●
Tennessee		●			●	●	●78	●79	●		●	●	●	●	●	●	●	●	●	●	●
Texas						●			●			●	●	●	●	●	●			●	●
Utah						●					●	●	●	●	●	●	●				●
Vermont	●					●	●	●	●		●	●	●	●	●	●	●	●		●	●
Virginia		●69				●69	●	●	●			●	●	●	●	●	●				●
Washington						●77	●		●			●	●	●	●	●	●	●	●	●	●
West Virginia		●				●				●			●	●	●	●	●	●			
Wisconsin						●	●	●	●		●	●	●	●	●	●	●	●			●
Wyoming						●			●		●	●	●	●	●	●	●	●		●	●
STATE TOTALS	4	16	0	13	7	47	27	27	33	8	35	46	48	49	50	49	48	33	19	28	44
Puerto Rico	●				●		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Footnotes for Tables on pages 12, 13, 14.

1—Permitted only in specified municipalities
2—State allows cities or counties to offer financial aid for existing plant expansions. In Louisiana, state financing aid is directly involved only in the case of those port authorities whose obligations are backed by the full faith and credit of the state
3—Activity is limited to Anchorage Port Authority in Alaska, to Ports Authority in Georgia and to port districts in Oregon. In Washington, port districts are municipal corporations operating under special state enabling legislation and are the only public bodies authorized to issue either revenue or general obligation bonds to finance industrial development
4—Authorized but none is active
5—State-sponsored but privately operated non-profit Regional Job Development Corporations may be established in low-income areas to provide loans to small businesses
6—State guarantee of loans from privately operated non-profit Regional Job Development Corporations serving low-income areas
7—Limited to EDA-designated areas
8—Loans also cover working capital, site improvements and inventories
9—Permitted for processing products of agriculture, including forestry and timber production
10—New York Job Development Authority and New York Urban Development Corp. have the power to issue non-guaranteed bonds
11—New York Job Development Authority is empowered to participate in loans for machinery and equipment in new manufacturing plants
12—Under the New York Job Incentive Program, a corporate franchise or unincorporated business tax credit is allowed to firms locating, expanding or improving facilities in a low-income section of a city of 50,000 or more population or in a low-income rural county. The firm must create or retain at least five jobs and provide an approved training program. In addition, the largest share of the facility's volume of business must be from outside the eligible area in which it is located, as in manufacturing or wholesaling. The credit is given for up to 10 years. The 2% credit described in footnote 46 may be taken instead of the job incentive credit. Under the Job Incentive Program real property tax exemption is a local option
13—Permitted for electric generation and transmission facilities in North Dakota, and for electric generation and transmission facilities and for wastewater treatment facilities in Texas
14—State and local program of participation in building construction
15—State loan guarantees of up to $250,000
16—For acquiring and developing sites
17—Authorized if a one-mill, multi-purpose tax levy is approved by local voters
18—A 15% reduction in assessed valuation of business inventories is allowed. Business inventories include raw materials used in manufacturing
19—Exemption is allowed on certain types of equipment, including rail freight cars, certain watercraft and vessels of more than 1,000 tons burden
20—Applies only to pollution control equipment
21—Law allows reduction in taxes but not exemption. Goods in transit, inventories and raw materials are assessed at 5%
22—Corporate income tax credit is allowed only for the cost of pollution control equipment
23—Equipment and machinery acquired after the 1973 assessment date is exempt from local property tax
24—Delaware and New York do not collect excise tax
25—Nevada, Ohio, Texas and Washington do not tax corporate or personal income. Florida and New Hampshire do not tax personal income
26—Raw materials are assessed at 25%, while most other tangible personal property is assessed at 100%
27—50% of federal tax paid is exempt
28—First $4,500 of assessed taxable value of personal property is exempt
29—Inventory is taxed only on the value of raw materials
30—Applicable to Industrial Revenue Bond financed property only. A 10-year exemption is allowed
31—In Kentucky, Rhode Island and Tennessee, the exemption is applicable at the local level only. In Maryland, the exemption may be applicable at the county or local level. In Virginia, localities have the option of exempting all or part of certified pollution control facilities and equipment from real or personal property taxes.
32—Applicable under the tax equalization law only.
33—Exemption applicable to capital improvements only
34—Allowed except for sales/use tax when purchased for use as an ingredient in tangible personal property for sale.
35—A 1% tax credit, based on wages paid, is allowed for the first three years to new and expanding industry engaged in the mechanical or chemical transformation of materials or substances into new products. "Expanding" means to expand a present operation so as to increase total permanent jobs by 30%
36—Taxed at 2% instead of usual 4%.
37—R&D equipment is classified as manufacturers' machinery and equipment and, as such, is eligible for tax exemptions
38—Local option, in designated redevelopment areas
39—Reduced 79%
40—Exemption is allowed on separate, detachable accessory tools and equipment which have a useful life of less than 12 months
41—State does not collect sales/use tax
42—1976 business inventories are allowed a 50% exemption; 1977 and thereafter, a 62.5% exemption will be allowed
43—Applicable to goods stored in bonded warehouses
44—New Jersey citizens employed in New York and Pennsylvania are not exempt
45—Noise abatement codes recommended by state for adoption by municipalities
46—A tax credit equal to 2% of qualified capital invested in new production facilities may be applied against a business corporate franchise, unincorporated business income or personal income tax liability. The tax credit is restricted to investment in buildings, equipment and facilities which have a useful life of at least four years and are used in manufacturing, processing, assembling, refining, mining, agricultural or commercial fishing. Experimental research and development facilities may elect this option in place of the write-off described in footnote 47. A particular investment is not eligible for both the investment credit and other state tax incentives. Corporate franchise taxpayers will continue to be required to pay a minimum tax of $125 annually. Any credit remaining may be carried forward
47—Costs paid or incurred in a taxable year by incorporated or unincorporated business for experimental R&D facilities, for industrial waste treatment facilities and/or for air pollution control facilities may be deducted from net income for tax purposes. The 2% credit described in footnote 46 may be taken in lieu of this credit
48—Tangible and intangible personal property is not subject to ad valorem taxes
49—New equipment is allowed a preferential rate of 1%, with a maximum tax of $80 per article
50—Leaf tobacco is allowed an exemption of 60% of tax rate; bales of cotton, 50%, and peanuts, 20%
51—Exemption extends only to new construction
52—Tax credits allowed to manufacturers and processors for property taxes paid on goods in process
53—Exemption allowed while facility is under construction only
54—Exclusion from sales and use tax on industrial purchases used directly in industrial production and research.
55—Exclusion of tangible personal property from taxation at local level.
56—Rhode Island's sales/use tax is being phased out over five years.
57—In Tennessee, tax credits are allowed for products of state soil. In Florida, tax credit applies only to alcoholic beverages produced from specified Florida-grown agricultural products.
58—Seven-year annexation or de-annexation exemption.
59—Allowable depreciation is similar to that which is permitted under federal laws.
60—Exempt from sales/use tax, but not from business capital tax.
61—Local governments may classify separately the tangible personal property of research and development firms from that of other taxpayers and tax it at different rates.
62—Deduction is allowed for sales tax paid on energy.
63—80% credit
64—Reduced rate of 1.5% (1% state and 5% local) applied to industrial machinery, installation and repairs.
65—Provided only in rare instances. In California, a few cities and counties will lease land they own at nominal rates.
66—Limited to technical assistance
67—Facilities available on a contract basis
68—State vocational education program keyed to federally funded program
69—Carried out through local development corporations
70—Available to industry on a contract and/or consulting basis
71—City-owned land only. Cities may not purchase land for purpose of providing free land to industry
72—Highway Commission will build first two miles of road into new ski areas
73—Maryland Industrial Development Financing Authority will guarantee up to 80% of the mortgages for land and 70% for equipment for recreational projects
74—Activity limited to certain units
75—State supplies 75% of cost of administering programs; no reimbursement to trainees
76—Cities and counties are authorized to use mill levy for industrial development purposes. Speculative buildings and free land have been provided in some instances.
77—Port districts only.
78—Funds are from Public Health for solid waste disposal projects
79—State matches funds from U.S. Dept. of Housing and Urban Development

Exhibit III

Institution:	Swedish Investment Bank Ltd.
Location:	Stockholm, Sweden
Size:	12/31/74
Assets:	U. S. $672.8 million
Capital:	U. S. $270.9 million
Purpose:	Swedish Investment Bank Ltd. ("SIB") was established in 1967 by an act of the Swedish Parliament to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalization, structural adaptation and development. The act establishing SIB contemplated that its lending will be consistent with national economic policies. All of the capital stock of SIB is owned by the Swedish Government. In addition, the Swedish Government has extended a limited guarantee of SIB's obligations.
Source of Funds:	Subscribed capital, reserves, net income, cash flow from lending operations and borrowing.
Management Structure:	Governed by a Board of Directors (9) and Deputy Directors (9). Ongoing operational responsibility rests with Managing Director and Staff. Total employees: 31, 22 of whom are managerial or professional. In certain loan and credit evaluations, SIB engages special consultants.
Management of Funds:	Internal. Bank's staff consists primarily of "lending officers" with previous commercial and investment banking experience.
Portfolio:	SIB makes medium (5-10 years) and long-term (10-20 years) loans and guarantees thereof principally to or for private Swedish companies to finance industrial projects in Sweden and, to a lesser extent, Swedish exports. Such financing is not generally available from other sources in Sweden and may involve additional risks especially those related to long-term developments, which would not normally be assured by conventional Swedish lending institutions. SIB is also authorized to make equity investments. In assessing individual projects, SIB pays particular attention to the commercial viability of the project concerned. SIB also considers the impact of the use

Portfolio: (cont'd.)

of proceeds on the Swedish economy. One of SIB's objectives is to earn a satisfactory return on its equity capital and it applies credit standards and negotiates loan terms consistent with this purpose.

At 12/31/74, SIB's outstanding loans totalled U. S. $517.6 million and its guarantees outstanding totalled U. S. $15.8 million.

Capital Structure:

	12/31/74		
Debt	U. S.	$487.8 million	64.3%
Capital	U. S.	270.9 million	35.7
	U. S.	$758.7 million	100.0%

Income:

10% of net income allocated to statutory reserve. Substantially all net income to date retained by SIB. Income not exempt from taxation.

Institution: Japan Development Bank

Location: Main office in Tokyo. Other offices in 9 cities in Japan and in Washington, D. C., New York City, London and Frankfurt.

Size:

	3/31/76
Assets:	¥ 3,521,391 million ($11,433 million)
Capital:	¥ 233,971 million ($759.6 million)

Purpose: Established in 1951 as a Japanese Government financial institution pursuant to the Japan Development Bank Law. Purpose is to supply long-term funds for the promotion of industrial development and economic and social progress. JDB makes loans to provide funds: (1) for acquisition and construction or improvement of plant and equipment; (2) for reclamation of land; (3) for acquisition of land and construction of buildings and equipment for urban redevelopment projects. A related authority (which JDB has not yet exercised) permits JDB to provide funds by subscription to corporate debentures issued to raise funds for above purposes. JDB can guarantee repayments of loans and has authority to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

Source of Funds: Principal sources are borrowings from Japanese Government, repayment of loans and internal sources. Outstanding government loans to JDB as of 3/31/76 amounted to $9.3 billion. Other sources have consisted of foreign currency borrowings from the World Bank, all guaranteed by the Japanese Government. Also, there have been 6 dollar issues (including 5 registered issues publicly offered in U. S.), 1 Swiss franc issue and 1 Deutsche Mark issue of external loan bonds and notes. JDB is authorized to borrow an amount equal to 10x its capital and statutory reserve.

Management Structure: JDB is managed by a Governor, a Deputy Governor and 8 Executive Directors. JDB also has 2 auditors and 6 Counsellors. The Governor, the Deputy and the Auditors are appointed by the Prime Minister for terms of 4 years. The Executive Directors and Counsellors are appointed by the Governor for terms of 4 years and 2 years, respectively. The Governor is the CEO. The Executive Directors exercise various management functions in accordance with delegations from the Governor. Final authority to make decisions for JDB in all matters resides exclusively with the Governor.

Management of Funds: JDB makes its loans at fixed rates no greater than rates charged by private financial lenders and in most cases at lower rates. Maximum rate has been 9.2% since 11-75. JDB has limited foreign currency loans to amount of borrowings from the World Bank and charges the same interest rate plus 0.3%. JDB charges 0.2% to 0.3% per annum on outstanding amounts of foreign credits guaranteed by it. JDB makes most of its loans with original maturity of 10 - 15 years. Most of JDB's lending operations involve the financing of projects in cooperation with private financial institutions, with JDB taking the intermediate and longer term maturities and private banks taking the shorter maturities.

Portfolio: From inception to late 1960's, JDB's lending activities were directed primarily to electrical power, ocean shipping, coal mining, and the iron and steel industry. In the late 1960's and 1970's, JDB began to become more involved in urban development and pollution control. As of 3/31/76, portfolio was as follows: urban development 16.9%; regional development 12.5%; pollution control 14.2%; quality of life improvement projects 2.8%; resources and energy 15.7%; ocean shipping 21.6%; technological development 7.6%; other 8.2%; foreign currency loans 0.5%.

Capital Structure:

3/31/76	($ Millions)	%
Long-term borrowing from government	$ 9,299	84.4%
Guaranteed long-term borrowing from World Bank	55	0.5
Guaranteed external loan bonds and notes	228	2.1
Capital and statutory reserve	1,437	13.0
Total capital	$11,019	100.0%

Income: For fiscal year ending 3/31/76 JDB earned $105.6 million. Of net earnings, $78.9 million were put into the statutory reserve, and $26.7 million was paid to the Japanese National Treasury.

Institution:	National Financiera S.A.
Location:	Mexico City, Mexico. Offices in New York and Tokyo.
Size:	12/31/75
Assets:	U. S. $6.1 billion
Capital:	U. S. $555 million (including reserves and special funds)
Purpose:	National Financiera S.A. ("Nafinsa") was established in 1934 and is the principal instrument of the Mexican Government for the financing of economic development in Mexico. By law, the Government must own 51% of Nafinsa's capital stock. At 12/31/75, the Government owned, directly and indirectly, 68% of such stock, with the balance owned by other Mexican institutions. Nafinsa's broad purpose is to assist in the financing of development projects which (1) create employment; (2) improve personal income; (3) expand regional development; (4) centralize industry; (5) promote exports; (5) stimulate capital formation; (6) foster economic independence.
Source of Funds:	Capital funds contributed by the Government, borrowings, retained earnings and cash flow from lending operations. Principal source is borrowings. By law, the Government can call up additional capital subscriptions from certain Mexican financial institutions. Nafinsa also administers 209 special purpose development trust funds for the account of the Government.
Management Structure:	Managed by Board of Directors (Minister of Finance is Chairman). Director General is responsible for ongoing operations and policy. President of Mexico may veto resolutions of Board under certain circumstances. Total staff approximately 1,600.
Management of Funds:	Internal.
Portfolio:	Nafinsa may participate in the financing of development projects through direct loans, loan guarantees or equity investments, all of which may be extended to or made in or on behalf of both public and private sector entities. Principal activity is direct lending (U. S. $4.9 billion outstanding) with public sector borrowers accounting for

Exhibit IV

Institution:	International Bank for Reconstruction and Development (World Bank)
Location:	Headquartered in Washington, D.C., U.S.A. Offices in London, Paris, Tokyo. Missions in 20 countries
Size:	3/31/76 (000's)
Assets:	U. S. $29.5 billion
Capital:	Authorized Capital: U. S. $30.9 billion Paid-in-Capital: U. S. $3.1 billion
Purpose:	Established 6/24/46 pursuant to articles of agreement drawn up at Bretton Woods Conference of July, 1944. Initial membership 29 soverign states. Present membership 127 soverign states. Purpose of World Bank is to function as intergovernmental financial institution to (a) assist in the reconstruction and development of member states by facilitating investment of capital for productive purposes; (b) supplement private foreign investment through guarantees of or participation in private investments; (c) supplement private investment via loans from its own resources or borrowed funds. See "Affiliated Institutions" below.
Source of Funds:	Capital provided by subscriptions of member states and borrowings in international and U. S. capital markets. Supplemented by internal cash flow from lending activities and sale of loans.
Management Structure:	Governed by Board of Governors composed of one from each member state. Executive Directors (20) appointed by Board function as Board of Directors. President selected by Executive Directors and is responsible for all operations. Operations are organized by geographic area, industry, and function. Total employees: approximately 3,500.
Management of Funds:	Internal. All loans to or guaranteed by member states. Loan portfolio monitored with respect to industry and country in relation to worldwide economic conditions. The bank has not suffered any losses on its loans to date and does not take part in debt rescheduling agreements.

Portfolio:

Loans made generally in conformity with 5 principles: (1) loans must be to governments, government agencies or authorities, or if to private enterprises, guaranteed by a government (only member governments eligible); (2) loans must be for productive purposes based on bank analysis; (3) bank must exercise prudence in making loans and consider ability of borrower to obtain foreign exchange necessary for loan service; (4) Bank does not make loans obtainable privately on reasonable terms; (5) use of proceeds supervised by Bank. Since inception, loans totalling $31.1 billion have been made to 95 countries. Current loans outstanding total $27.7 billion. Largest borrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philippines and Nigeria. Loans made for extended terms at fixed rates (1/2% above money cost to Bank adjusted quarterly).

Capital Structure:

Debt 73.2%; Capital Stock 26.8%. Capital Stock funds may only be used for lending with consent of each member state; otherwise such funds must be used for administrative purposes or to support guarantees and borrowings only.

Income:

Generally retained by Bank except portion transferred to International Development Association.

Affiliated Institutions:

International Finance Corporation. Makes loans and investments to private enterprises in member countries without government guarantee. 104 governments are members. Sources of funds are members' subscriptions and loans from Bank. Staff is substantially identical to that of Bank.

International Development Association. Purpose is to promote economic development in less developed member countries. 116 countries are members. Loans generally made for terms of 50 years without amortization. Service charge of 3/4% on outstanding balance levied in lieu of interest. Staff substantially identical to that of Bank.

Institution:	Inter-American Development Bank
Location:	Headquartered in Washington, D.C., U.S.A. Field offices in 23 South American locations
Size:	12/31/75
Assets:	U. S. $2.98 billion
Capital:	Authorized Capital: U. S. $6.3 billion Paid-in-Capital: U. S. $983 million
Purpose:	Established 10/1/60 pursuant to Inter-American Development Bank Agreement of December, 1959. Membership consists of 24 North and South American Governments, plus Belgium, Denmark, Israel, Japan, Spain, Switzerland, U.K., West Germany and Yugoslavia. Purpose of Bank is to further individual and collective economic and social development of regional developing member countries via: (1) promotion of public and private investment for development purposes; (2) financing, directly or through guarantees, of development and economic growth of members; (3) encouragement and/or supplement of private investment in development projects; (4) co-ordination of members' development, economic growth and foreign trade; (5) provision of techncial assistance on development projects.
Source of Funds:	Capital provided by members' subscriptions plus borrowings in U. S. and international capital markets, internally generated funds and sales of loan participations. See also "Special Funds" below.
Management Structure:	Governed by Board of Governors, one from each member state; executive powers delegated to Executive Directors (11), one U. S., 2 non-regional and 8 regional. Administrative responsibility centered in President, appointed by Board, and Executive Vice President, appointed by Executive Directors. Operations organized by region and function.
Management of Funds:	Internal. Loans made directly to or guaranteed by member governments (98%). Loans monitored with respect to country, industry and regional economic conditions. Since inception, defaults have occurred on 2 loans totalling $11.2 million, resulting in net loss of $1.8 million. The Bank does not take part in debt rescheduling agreements.

Portfolio:

Loans made pursuant to 6 principles: (1) loans made only on basis of formal analysis presented to Executive Directors; (2) in evaluating loan or guarantee, Bank must take into account ability of borrower to obtain private financing on terms it believes reasonable; (3) Bank must consider ability of borrower or guarantor to meet loan obligations; (4) in opinion of Bank, interest rate and other loan charges plus amortization schedule must be appropriate for the project being financed; (5) the Bank must receive adequate compensation for risks assumed by guaranteeing loans made by others; (6) loans made for special projects only and directly, except when amounts too small to warrant bank supervision. Since inception, Bank has made or authorized 889 loans aggregating $8.7 billion. Largest borrowers are Brazil, Mexico, Argentina, and Columbia. Loans made for terms of 10-25 years, including grace periods, at fixed rates. Current lending rate is 8%.

Capital Structure:

Debt 53.6%, capital funds and reserves 46.4%. Capital subscriptions of member states available for general use unless specifically restricted.

Income:

Income retained as reserve for loan losses.

Special Funds:

Social Progress Trust Fund. Administered by Bank from grant provided by U. S. Government. Resources of Fund may be used to improve land use, land settlement, low income housing, water supplies, sanitation or education. Assets consist of 119 loans aggregating U. S. $537.2 million.

Special Operations Fund. Established by Bank from separate contributions by members to finance projects to which special circumstances apply, principally need for loan terms to be more liberal than those normally offered by Bank. Assets consist of 453 loans aggregating U. S. $4.2 billion.

Venezuelan Trust Fund. Administered by Bank from U. S. $500 million grant provided by Venezuela in 1975. Purpose is to contribute to the financing of projects and programs that would have significant effect on development of Bank's smaller members. Approved loans aggregate U. S. $83.7 million.

Institution:	Asian Development Bank
Location:	Principal office in Manila, Philippines
Size:	3/31/76
Assets:	U. S. $2,834,910
Capital:	Authorized Capital: U. S. $3.3 billion Paid-in-Capital: U. S. $1.1 billion
Purpose:	Established in 1966 as an international inter-governmental institution pursuant to an agreement initially signed by 31 countries. Purpose is to foster economic growth and cooperation in Asia and the Far East (the "region") and to contribute to the acceleration of economic development in the developing member countries in the region, collectively and individually. The Bank's principal functions include: (1) promotion of public and private investment; (2) financing economic growth; (3) assisting in coordination of members' economic growth, plans and policies; and (4) providing technical assistance for the preparation, financing and execution of development projects and plans.
Source of Funds:	Capital provided by subscriptions of member states and borrowings in member countries and elsewhere. General principle is that borrowings should be diversified as to country of borrowing. These sources supplemented by internal cash flow from lending activities.
Management Structure:	Managed by Board of Governors, Board of Directors, President, Vice Presidents, other officers and staff. All powers are vested in Board of Governors (with certain powers which may be delegated to Board of Directors), with each member selecting a Governor and an alternate Governor. The Board of Directors (12) has responsibility for the direction of the general operations of the Bank.
Management of Funds:	Internal. Bank may make, participate in or guarantee loans to the governments of its developing member countries, to any of their agencies or political subdivisions and to public or private enterprises operating within such countries, as well as to international or regional entities

Management of Funds: (cont'd.)	concerned with economic development in the region. The Bank has not suffered any loan losses in its ordinary operations to date and follows a policy of not taking part in debt rescheduling agreements.
Portfolio:	Loans made generally in conformity with the following principles: (1) the Bank's loans cover only a portion of the total costs of each project financed; (2) goods and services must be purchased in the loan country, with competitive bids to be received on such; (3) realistic economic, technical, and financial feasibility of projects involved; (4) adequate borrowing capacity; (5) beneficial effects on domestic savings and balance of payments; and (6) assistance in expansion of employment opportunities. Loans made for projects in 15 member countries, including industrial development banks (27.3%), utilities (35.7%), transportation and communications (21.8%), agriculture (14.3%) and education (0.9%).
Capital Structure:	Debt 46.5%; Capital Stock 53.5%.
Income:	Generally retained by Bank.

Institution:	African Development Bank
Location:	Abidjan, Ivory Coast
Size:	Authorized Capital: U.A. 400 million; Issued Capital: U.A. 370 million (1 Unit of Account = 1 special drawing right of the IMF)
Purpose:	Established by African Governments in 1964, commenced operations in July 1966. Present membership consists of 39 of 42 countries which are members of Organization for African Unity, including 16 which are included in U. N.'s list of 25 least developed nations. Purpose of Bank is to promote the economic development of its member countries and social advancement of their peoples through gradual integration of their economies.
Source of Funds:	Subscribed capital, borrowings and retained income. Bank also operates African Development Fund, established from grants from 16 non-African exporting countries, which makes 50 year interest free loans and SIDFIDA, a Geneva-based internationally funded organization of private enterprises which assists in the mobilization of international private capital for development projects in Africa.
Management Structure:	Board of Governors, one from each member, oversees operations. Management responsibility and policy coordination rests with Board of Directors (9), President and staff.
Management of Funds:	Internal. Bank oversees projects for which funds have been dispersed.
Portfolio:	Alone or jointly with others, Bank (1) utilizes available resources to finance investment projects or programs consistent with its purpose; (2) promotes private and public capital investment in Africa; (3) provides technical and financial assistance in project evaluation and structure. All loans and investments in private sector must be government guaranteed. Portfolio at 9/30/74 consisted of one or more loans or equity investments in 31 countries totalling U. S. $192 million. Loan terms keyed to ability of borrower to repay and service debt.

Capital Structure:	Believed to be solely members' capital subscriptions, plus retained income. Discrepancy between issued capital and outstanding loans not reconcilable from existing data.
Income:	Believed to be reinvested in operations.

Institution:	European Investment Bank
Location:	Luxembourg
Size:	12/31/75
Assets:	U. S. $6.4 billion
Capital:	Authorized Capital: U. S. $4.1 billion Paid-in-Capital: U. S. $471.9 million Capital Subscriptions Due: U. S. $177.0 million
Purpose:	The EIB was established by the Treaty of Roure in 1957 which also established the EEC. The members of the EIB are the nine member states of the EEC. The purpose of the EIB is to contribute to the balanced and orderly development of a common market among the member states. The EIB grants and guarantees long-term loans to finance projects which are related to the development of the less advanced regions of the Common Market or the development of its conversion areas, where traditional activities are being supplanted by newer economic activities which serve the common interests of several member states. By unanimous decision the EIB grants loans for projects outside the EEC.
Source of Funds:	The EIB finances its loans from the capital paid in by the member states, from internally generated funds and from borrowings in European and international capital markets.
Management Structure:	The EIB is administered and managed by (1) a Board of Governors composed of one government minister (usually the minister of finance) appointed by each member state; (2) a Board of Directors composed of 18 Directors and ten Alternative Directors each appointed by the Board of Governors for a 5 year term on nomination by the member states and the Commission of the European communities; (3) a Management Committee, consisting of a President and four Vice Presidents appointed for 6 years by the Board of Governors on recommendation of the Board of Directors.
Management of Funds:	Management of funds is internal, and the EIB has not experienced any defaults on its loans or guarantees.

Portfolio: Loans and guarantees are made according to the following policy: (1) for projects that improve less developed regions of the EEC and that are of common interest to the member states (such projects preferably assist in the coordination of markets and the integration of the economies of member states), (2) for projects that are of sufficient size to avoid widespread dispersal of its resources; (3) loans made shall only supplement the resources otherwise available to the borrowers for such projects; (4) special attention is given to projects in which member countries' capital is invested. The EIB does not generally lend more than 40% of the cost of a project. At December 31, 1975 it had loans disbursed as follows: 30.5% energy projects; 24.8% industry; and 17.5% to transportation.

Capital Structure: 80% Funded Debt, 11% Capital, 9% Statutory Reserves. Subscribed capital is $4,129.5 million of which $648.9 is or will be paid in by members. Calls on subscribed capital are required to be in proportion to members' percentage of subscription obligations.

Income: Income is appropriated to statutory reserve. EIB's assets and income are exempt from all direct taxes of the member states.

Institution:	European Coal and Steel Community ("ECSC")
Location:	Brussels, Belgium; Luxembourg
Size:	At December 31, 1975, the assets of the ECSC amounted to U. S. $3.5 billion. ECSC's "capital" is provided solely from retained earnings and reserves.
Purpose:	Established 4/18/51 pursuant to treaty. Initial membership of 6 European nations. Present membership 9 European nations. Purpose is to aid the development of the economies of the member states through the creation of a common market for coal and steel. Also, ECSC facilitates the financing of capital investment programs in coal, coke, iron ore, iron, steel and scrap by lending funds which it obtains primarily through its own borrowing. ECSC also responsible for coordinating production in above-named products by methods such as determining general objectives for modernization and expansion of productive capacity, reviewing investment programs, making research grants, enforcing fair competition, fixing prices in emergencies and imposing fines for infringement of ECSC rules. Also active in promoting better living and working standards for workers in the coal and steel industries through housing loans and retraining and research grants.
Source of Funds:	Capital provided by: (1) a regular revenue levy collected monthly in the respective currencies of the member states from steel producers. Levy payments to be made in 1976 are expected to be $104.9 million; (2) borrowings through bonds or notes, both public and private. As of 3/31/76 ECSC had outstanding $3.3 billion of funds borrowed.
Management Structure:	Governed by a Commission comprised of 13 members who are nationals of the member states, not more than 2 of whom may have the same nationality. Over the Commission is a Council consisting of one representative of each member state. Certain actions of the Commission require the assent of the Council. The ECSC is also responsible to a European legislative assembly - the European Parliament, which consists of 198 representatives elected by the legislatures of the member countries. It reviews the ECSC and by a vote of consensus can compel the resignation of the members of the Commission. Also, the Court of Justice of European Communities, comprised of 9 judges, interprets and applies the provisions of the treaty. Decisions are binding.

Management of Funds: The Commission has the responsibility of borrowing, financing and managing funds. The primary responsibility for specific capital investment programs rests with the individual borrowers who decide what capital projects they want to undertake and whether to seek the assistance of the ECSC. The criteria applied by ECSC in selection of projects to be financed are based on normal banking practices. ECSC borrows in whatever currencies appear most advantageous to it and under the best conditions prevailing at the time in the capital markets in which the ECSC operates. In order to minimize risks, ECSC matches principal, interest rates, maturities and currencies of loans made with its own borrowings. A general policy is also to secure loans by guarantee of country, banks or industrial concerns or mortgages on the financed projects.

Portfolio: Since inception ECSC has granted loans (both from borrowed funds and from its own resources) aggregating $3.4 billion through 12/31/75, of which, as a result of repayments by the borrowers, $2.7 billion was then outstanding. Of this amount, about 26% was guaranteed by the member countries, 25% by banks and 18% by industrial concerns, and 27% was secured by mortgages on the projects financed. Since establishment, there have been defaults on 3 loans, totalling $1.8 million, less than 0.1% of the total amount of loans granted by the ECSC. Rescheduling of principal and interest payment dates and delays in the receipt of loan service charges have been insignificant. Guarantees granted by ECSC since inception have aggregated to $65.3 million through 12/31/75, of which $24.3 were outstanding at that date. ECSC's guarantees are secured by guarantees from member countries, banks, industrial concerns or by mortgages on the projects financed. ECSC has never been required to make payment on a guarantee.

Capital Structure:

	12/31/75	
Borrowings	$2,786 million	82.1%
Reserves	338	9.9
Revenue Funds	271	8.0
Total Capital	$3,395 million	100.0%

Income: In 1975 revenues of $307.96 million: 57.9% from interest on loans; 26.6% from levies and 15.6% from contributions, interest investments and other. 55.3% went to pay interest and fees payable; 6.3% for administration; 7.5% for research; and 14.9% went for other. Most of the 16% excess went to the Guarantee Fund, housing projects, and reconversion, technical and economic research.

Exhibit V

Institution:	Saudi Development Fund
Location:	Riyadh, Saudi Arabia
Size:	
Capital:	SR 10 billion (Saudi Riyals)
Purpose:	Established in September 1974, the SDF participates in financing development projects in the developing states by providing loans.
Source of Funds:	Believed to be direct contribution from Saudi Arabian revenues.
Management Structure:	The Fund is managed by a six man Board of Directors comprised of a Deputy Chairman, the Minister of Finance and National Economy, and four other members selected for three year terms of office by the Council of Ministers.
Management of Funds:	Internal
Portfolio:	The Fund will grant loans to projects of economic or social benefit to the recipient state on the condition that the loan is repaid in Saudi Riyals and that any one loan does not exceed 5% of the Fund's capital or 50% of the overall cost of the project being financed. In addition, any one country may not be extended loans totalling more than 10% of the Fund's capital. To date the Fund has extended more than fifty loans to a large cross-section of developing countries including Indonesia, Egypt, North Yemen, People's Republic of Congo and Niger.
Capital Structure:	N.A.
Income:	Believed to be retained.

Institution:	Arab Bank for Economic Development in Africa
Location:	Khartoum, Sudan
Size:	Authorized and subscribed capital: U. S. $231 million
Purpose:	Established in 1974 under aegis of Saudi Arabia and League of Arab States. Operations commenced in 1975. Membership consists of 18 Arab states which have contributed from U. S. $50 million (Saudi Arabia) to U. S. $1 million (Jordan, Bahrain, Sudan, Syria, Egypt, Mauritania, Palestine) to initial capital. Purpose is threefold: (1) assist in financing economic development in African countries; (2) stimulate the contribution of Arab capital to African development; (3) help provide technical assistance required by Africa's economic development.
Source of Funds:	Anticipated to be capital subscriptions by member states, plus borrowings (up to a limit of 2x paid in capital and reserves), deposits and retained earnings. Special funds also authorized.
Management Structure:	Board of Governors (one from each member country) oversees general operations and policies. Initiation and implementation of policies and direction of management via Board of Directors (12, based on share ownership) through President (Chairman of Board of Directors) and staff.
Management of Funds:	Internal policies prohibit disbursement of funds without prior provision for supervision of related project by bank staff.
Portfolio:	Operations of bank may take the form of (1) loans and guarantees granted to development financing institutions; (2) participation in financing of major economic projects, especially agriculture and industry, to make up any deficit from external sources of financing; (3) technical and financial assistance aimed at identifying and structuring economic development projects, especially Afro-Arab projects; (4) technical and financial aid with respect to technological development. Eligible recipients limited to (1) African governments and agencies; (2) public and private companies, organizations and projects in African

Portfolio: (cont'd.)	countries, majority owned by Aftrican governments or citizens; (3) mixed, African or Afro-Arab economic development companies. Present portfolio believed to consist of 20-25 loans in 20 African states. Maximum participation by Bank in any one project to be lesser of U. S. $10 million or 50%; term of loans to vary based on project; and interest charges to vary from 1% to 6%. All loans and investments must be guaranteed.
Capital Structure:	See "Source of Funds" above.
Income:	Allocated to reserves or members' capital accounts by Board of Governors.

Institution:	Arab Fund for Economic and Social Development
Location:	Kuwait City, Kuwait
Size:	Authorized Capital: KD 400 million (KD = Kuwaiti Dinars)
Purpose:	The AFESD was organized by the Arab Council of the Arab League in 1968. Operations did not commence until 1973 at which time the Fund had acquired 21 country members. The purpose of the Fund is to participate in financing economic and development projects in all Arab member states through: (1) financing economic development projects on easy terms to governments and to public or private organizations and institutions, giving preference to economic projects vital to overall Arab development and to joint Arab projects; (2) encouraging directly or indirectly the investment of public or private capital in such a manner as to ensure the development and growth of the Arab economy, (3) providing technical expertise and assistance to the various fields of economic development.
Source of Funds:	Believed to be solely member subscriptions at present.
Management Structure:	Believed to be internal.
Management of Funds:	Internal. Interest rates for loans made during 1975 ranged from 4% - 6%.
Portfolio:	Loan criteria emphasizes those projects that (1) assist less developed Arab countries in narrowing existing income differentials; (2) have infrastructures that link Arab countries; (3) facilitate cross-border funds flows; (4) intensify exploitation of agricultrual resources; (5) contain new ideas for public and private co-operation investment projects. Since 1973 the Fund has granted loans totalling KD 93.2 million for eighteen projects in nine countries. During 1976 AFESD is planning a major expansion of activities with cumulative loan commitments projected to rise to KD 177 million.
Capital Structure:	Of the KD 400 million committed capital, KD 102 million was paid up by the member states as of February 1976. The outstanding balance is to be paid over the next three years.
Income:	No information available on disposition of income.

Institution:	Abu Dhabi Fund for Arab Economic Development
Location:	Abu Dhabi, United Arab Eurates
Size:	Authorized Capital: DH 2 billion; Paid-in-Capital DH 1 billion (DH - Dirhams)
Purpose:	To offer economic aid to Arab countries in support of their ecconomic development through loans, participations, or guarantees. Also economic aid to African, Asian and other Islamic countries.
Source of Funds:	Believed to be internal allocation from Abu Dhabi revenues.
Management Structure:	N.A.
Management of Funds:	Believed to be internal.
Portfolio:	Loans outstanding to 11 countries totalling $500 million at December 1975. Mostly connected with industry and manufacturing.
Capital Structure:	Believed to be solely paid-in-capital at present.
Income:	No information available with respect to distribution of income.

Institution:	Islamic Development Bank
Location:	Jeddah, Saudi Arabia
Size:	ID = Islamic Dinars (equal to 1 Special Drawing Right of the International Monetary Fund)
Capital:	Authorized Capital: ID 2 billion Paid-in-Capital: ID 755 million
Purpose:	Bank established in 1975 based on agreement signed by members of Islamic conference in 1974. Purpose is to foster economic development and social progress of member and Muslim communities in accordance with Islamic principals. Present membership 29 countries. Bank permitted under agreement to (1) purchase equity in productive projects in member countries, (2) participate in economic and social infrastructure projects in member countries; (3) make loans to public and private sectors for project financing in member countries; (4) establish and operate trust or special funds; (5) accept deposits and borrow funds; (6) assist members in matters relating to development, foreign trade and economic co-operation; (7) invest surplus funds. Bank is to be non-political and governed by economic considerations only.
Source of Funds:	Members' capital subscriptions. Leverage permitted, but not yet used. Cash flow and income will also be used to fund activities of Bank in future.
Management Structure:	Board of Governors, composed of one from each member state, to appoint Executive Directors and President, to be responsible for operations and selection of personnel. All officers of Bank must be from member states. Executive Directors approve all loans.
Management of Funds:	All contracts will provide for internal follow-up and inspection by Bank.

Portfolio:	Selection and determination of investments to be based on the following criteria: (1) due regard to be paid to safeguarding interests of Bank, including obtaining guarantees; (2) the ability of recipient and/or guarantor to meet obligations to Bank; (3) consistency with principles of promotion of complimentary economic development among members, promotion of social and economic well being in member states and enlargement of employment opportunities; (4) avoidance of concentration of loans and investments in one country and maintenance of reasonable relation of loans and equity investments in each country; (5) reasonable diversification of equity investments; (6) in all cases, priority to be given to co-operative economic projects. Loans to be for terms based on project requirements. In view of interest prohibition under Islamic law, service fee to be charged.
Capital Structure:	Presently all member states' equity.
Income:	May be distributed to members after general reserve equals 25% of subscribed capital.

Institution: Kuwait Fund for Arab Economic Development

Location: Kuwait City

Size:

Capital: Authorized Capital: KD one billion;
Paid-in-Capital : KD 328 million (KD - Kuwaiti Dinars)

Purpose: To assist Arab and other developing states in implementing development projects by making KD loans. The Fund may also guarantee the obligations of such states or corporate entities. The Fund may not finance more than 50% of non-local project cost.

Source of Funds: 400 million KD's out of government reserves according to the needs of the Fund. 600 million KD's out of public revenues of the State. Amount to be appropriated determined annually.

Management Structure: Prime Minister - Chairman of Board of 9 Directors elected for an initial term of two years. Chairman appoints Director - General of the Fund (upon recommendation of the Board) who has responsibility for financial and administrative matters.

Management of Funds: Net profits of the Fund are credited to a reserve account until reserves equal 20% of capital. Thereafter profits are added to the capital of the Fund.

Portfolio:

	(KD Millions)
Cash	5.1
Bank deposits	174.5
Securities	110.4
Loans	62.0
Participations in Arab development institutions	25.9
Accrued interest	6.9
Total	384.8

Capital Structure: The Fund may borrow funds and give guarantees up to twice capital and reserves.

Paid-in-Capital	KD 328 (March 1975)
General Reserve	KD 56

Income: Financial information limited.

Total Income	KD 16.6 million
Income from Investments	14.4
Income from Loans	2.2

Loan Disbursement: Loans made to 12 countries by sector

Transport and storage	35.6%
Agriculture	23.2
Industry	20.6
Power	20.6
	100.0%

Institution:	Fondo de Inversiones de Venezuela
Location:	Caracas, Venezuela
Size:	12/31/75
Assets:	BS 22,470,317,537 (1 Bolivar (BS) = U. S. $0.233)
Capital:	BS 20,532,175,000
Purpose:	Fund established by Presidential decree in June 1974 following OPEC's increase in oil prices and consequent increase in Venezuelan government reserves. Stated purposes are fourfold: (1) to create a professionally managed reservoir for public funds that would be kept out of domestic money supply until needed, thereby avoiding inflationary pressures caused by over-rapid money supply growth; (2) to invest in external capital markets funds not immediately needed in Venezuela; (3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues; (4) to generate economic growth that creates full employment, redistributes national income and encourages technological independence.
Source of Funds:	Yearly allocation of oil revenues, the size of which is determined at the highest level of government and approved by President. Allocations in 1974 and 1975 aggregated slightly in excess of U. S. $5 billion.
Management Structure:	Fund operations overseen by General Assembly (consisting of State Ministers and high level government officials) which has power to dictate policy. Major policy directives typically originate from high level political sources and the Fund's internal Executive Directorate (2 internal and 2 external) and are ratified by Assembly. President of Fund (State Minister) is crossroads for policy and routine management operations. Major investment decisions made by Executive Directorate and all external investments discussed at senior management level committee meetings.
Management of Funds:	Internal staff divided into 3 groups by function: International Financial Group (investments in external markets); International Financial Cooperation Group (analysis and monitoring of loans to International and non-Venezuelan Government Agencies); National Investment Group (review and monitoring of debt and equity investments in Venezuelan entities). All groups have specialized sub-groups.

Institution:	Alberta Heritage Savings Trust Fund
Location:	Edmonton, Province of Alberta, Canada
Size:	
Capital:	C $1,500,000,000
Purpose:	Fund established in May 1976 to invest a substantial portion of non-renewable resource revenues for the benefit of the people of Alberta in future years.
	Fund permitted by Legislative Act to (1) invest up to 20% of its assets in projects which will provide long-term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Fund, provided the moneys are first specifically appropriated from the Fund by an act of the Legislature; (2) invest up to 15% of its assets in loans to the Crown in right of Canada or of any other province of Canada or in loans guaranteed by the Crown in right of Canada or of any other province of Canada; (3) make investments the Investment Committee, or the Legislative Assembly as expressed in an Assembly resolution, feels will yield a reasonable return or profit to the Fund and will tend to strengthen and diversify the economy of Alberta; (4) invest or reinvest moneys not invested according to 1, 2 or 3 above in any or all of the following: (a) evidences of indebtedness of, or fully guaranteed by, the Canadian Government, any Canadian provincial government, any Canadian municipal corporation, the government of a country other than Canada, a chartered bank or treasury branch, or any corporation if authorized by the Canadian and British Insurance Companies Act; and (b) mortgages or hypothecs of real estate or leaseholds in Canada under certain circumstances.
Source of Funds:	Original funding of Canadian dollars $1,500,000,000 plus 30% of the non-renewable resource revenues to be received in fiscal 1976-77 (and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such annual transfer from the General Revenue Fund) on a monthly basis.

Management Structure:	Heritage Savings Trust Fund Investment Committee consisting of all 24 members of the Provincial Executive Council (including Provincial Ministers and Treasurer) responsible to the Legislative Assembly in the operation of the Fund. Actually managed in the Provincial Treasurer's Office.
Management of Funds:	The Provincial Treasurer holds and administers the Fund in accordance with the Act. Fund has separate accounting record. The Investment Committee, except when directed by the Legislative Assembly, approves investments and dispositions of investments, although the Provincial Treasurer invests, reinvests and disposes of such with respect to Fund activities in investment category 4 under "Purpose" above. While all funds are managed internally, outside advisors may be used to review and package potential investments.
Portfolio:	As under "Purpose" above. No authority to guarantee the credit of others nor is it intended to allow for other than short-term borrowings from the General Revenue Fund in anticipation of fund transfers (i.e. - no leverage allowed).
Capital Structure:	See "Source of Funds", "Portfolio" and "Income".
Income:	The income of the Fund accrues to and forms part of the Trust Fund.

White, Weld & Co.
Incorporated

2

White, Weld today represents a worldwide group of investment banking and financial service units through which its knowledge of domestic and international financial matters is extended to meet the needs of individuals, institutions, corporations, and government entities.

White, Weld & Co. Incorporated, a wholly owned subsidiary of White, Weld Holdings, Inc., with over $50 million in capital funds, provides a full range of investor services and investment banking facilities for American and foreign clients. It has over 1,700 employees in 25 offices in the United States and seven overseas and has access to all capital markets of significance.

Société anonyme financière du Crédit Suisse et de White Weld (FCSWW) represents the combined international investment banking vehicle of White, Weld and Credit Suisse, one of the leading Swiss banks. With equity capital in excess of 110 million Swiss francs (U.S. $42 million) and 280 employees throughout the world, FCSWW offers the full spectrum of international investment banking services.

Our Objectives:

- ☐ To provide a diversified range of financial services in principal capital markets throughout the world.
- ☐ To protect and enhance our clients' capital.
- ☐ To emphasize quality and ethics in the selection and execution of business.
- ☐ To provide a stimulating and equitable working environment and a compensation system that attracts and retains the ablest people.
- ☐ To earn a favorable rate of return on the capital invested in the firm.


While Weld New York

Frederick S. Wonham, L. Emery Katzenbach, Paul Hallingby, Jr., Henry W. Meers, and Charles C. Lee, Jr.

To Our Clients and Friends

In 1975 the economies and financial institutions of the Western world successfully passed their most difficult test of the postwar period. One year ago, a sharp recession was under way. The rate of inflation was dangerously high, profits were dropping, unemployment was rising, and credit problems were multiplying. Pessimism was everywhere. In the United States, monetary policy was eased and a program of strong fiscal stimulation adopted. As a result our economy bottomed in the second quarter, sooner than generally expected, and has since moved ahead at a healthy rate. Liquidity has improved impressively throughout the economy, for consumer, corporate, and thrift institutions. New York City and New York State appear to be gradually surmounting the unexpected crisis in their financial affairs. Abroad, cooperation among governments and central banks did much to ease the financial strains of high inflation caused by the quadrupling of oil prices. Fortunately, the OPEC surplus has proven much smaller than many had feared and is expected to decline further. All of the foregoing was reflected in a sharp recovery in stock prices and lower interest rates.

With the ease in money and the decline in interest rates, our capital markets absorbed a record volume of fixed income securities, $37 billion of long- and intermediate-term bonds and $29 billion of municipal bonds. In corporates, interest centered upon issues of high quality, specifically those rated A or better. With the economy improving and profits rising, we expect more interest will develop in Baa credits as 1976 progresses. Equity underwritings increased to $6.8 billion, more than double the figure for 1974 but still below the level of 1973, as numerous major industrial companies strengthened their balance sheets. Utility offerings accounted for 35 percent of the total, down from 78 percent in 1974.

The improved market conditions and a number of internal developments combined to produce a healthy increase in White, Weld Incorporated's profitability. Our fixed income departments, an area of our business which we have expanded significantly in recent years, benefited strongly from the decline in interest rates and the extraordinarily large volume of U.S. Government, municipal, and corporate debt financings during the year. Our corporate and public finance activities were also aided by the large volume of new debt financings and by the establishment of a record number of new client relationships. Our increasing commitment to the market for individual investor services resulted in record levels of individual account revenues. While commission rates came under severe pressure in the institutional area, our competitive position in this business improved.

Our international affiliate, Société anonyme financière du Crédit Suisse et de White Weld, experienced a marked advance in revenues and net income in fiscal 1975, despite the detrimental impact of further appreciation of the Swiss franc. This uptrend has continued in the current year and the synergistic effect of the expanded relationship with Credit Suisse has proven beneficial to all concerned.

A number of important changes in organization and personnel took place during the year. Paul Hallingby, Jr., our chief executive officer, was elected chairman of the board, and Frederick S. Wonham was elected president and chief operating officer of White, Weld & Co., Incorporated; Charles C. Lee, Jr., was named vice chairman, and James W. Needham and Thomas C. Pryor were named executive vice presidents. L. Emery Katzenbach, the previous chairman of White, Weld & Co., Incorporated, remains chairman of our parent company, White, Weld Holdings, Inc., and in that capacity will continue to play an active role in our affairs.

The outlook is much brighter than it was 12 months ago, and the year has begun in a very positive fashion. We anticipate a continuing healthy recovery in the United States economy, followed by a recovery in most major economies elsewhere in the world. Inflation should continue to decline, which in turn should benefit long-term interest rates. We expect that corporate profits will record a substantial gain. Notwithstanding the existence of many difficult problems, all of the foregoing could bring about healthier securities markets and a greater degree of investor confidence than have been in evidence the past few years.

Paul Hallingby, Jr.
Chairman

Frederick S. Wonham
President

February 12, 1976

Alexander M. White, Jr., George G. Montgomery, Jr., Richard S. Ellwood, Paul A. Downey, and Robert K. Green.

Corporate Finance

Internally generated corporate funds have lagged behind capital spending and dividends by increasing amounts over the past decade. The cumulative shortfall exceeded $82 billion in the past four years alone, reflecting industry's inability to fully offset a rising rate of inflation. While inflation is now moderating, the punitive nature of our present tax structure and the distorted earnings results presented under historic cost accounting seriously impede capital formation.

The year was one of record activity as many corporations, either unwilling or unable to raise long-term capital in 1974, came to market. Despite the large volume of financing, the capital market was not open to all comers, creating problems—and opportunities—for investment banking firms such as White, Weld and our clients.

Underwriting

During 1975, White, Weld managed or co-managed approximately $3.5 billion of publicly offered securities in over 70 separate issues in the United States. Major debt issues in 1975 included offerings for such clients as Tenneco Inc., Houston Natural Gas Corporation, Montreal Urban Community, Northern States Power Company, The Cleveland Electric Illuminating Company, Banque Française du Commerce Extérieur, Florida Power & Light Company, Pennzoil Company, and International Minerals & Chemical Corporation. United States Government guaranteed ship bonds were sold for subsidiaries of The El Paso Company and Offshore Logistics, Inc.

White, Weld acted as manager or co-manager for such equity issues as a $47 million common stock offering for The El Paso Company, a sinking fund preference stock for The Quaker Oats Company, and convertible debenture issues for West Point-Pepperell, Inc., Pizza Hut, Inc., and Wal-Mart Stores, Inc. The firm continued its efforts to help the electric utilities meet their financing needs, managing or co-managing a number of equity offerings including Union Electric Company, Pacific Power & Light Company, Madison Gas and Electric Company, and Florida Power & Light Company. There were a very limited number of initial public offerings during the year. We managed an issue for Oceaneering International, Inc., the world leader in underwater diving services.

Private Placements

The private market continued to provide an important share of permanent capital for American industry in 1975, especially for medium-sized companies for which the public debt market was effectively closed. White, Weld's services to its clients during the year included both the placement of new debt and the revision of terms of existing loan agreements. The firm acted as agent in some 20 transactions aggregating over $400 million.

Major private placements of securities closed during 1975 included those for St. Regis Paper Company, Keystone Consolidated Industries, Inc., Graniteville Company, Associated Spring Corporation, Southwest Forest Industries, Inc., and Meredith Corporation.

Specialized Financing

White, Weld's Corporate Finance Department includes groups whose activities are concentrated in real estate, leveraged lease, and pollution control and solid waste disposal facilities financing. These groups endeavor to provide economic choices for the firm's corporate clients and to seek out innovative financing opportunities to fund new projects.

One such project financing, the first of its kind, was a public offering of tax-exempt solid waste disposal revenue bonds for the Town of Saugus, Massachusetts, for a facility built by Wheelabrator-Frye, Inc. In the leveraged lease area, the firm arranged such transactions as the financing of a semisubmersible drilling vessel for a subsidiary of Tenneco Inc.

In what was a continuation of a very difficult real estate market, White, Weld continued to be active in the arranging of equity and permanent debt financing for projects. Transactions during the year included a permanent mortgage financing for Mercantile Stores Company Inc., net lease financings for The Mead Corporation and General Signal Corporation, and private placements of equity interests in a major new office building complex in Atlanta, Georgia, and a residential apartment development in Montreal, Quebec.

Financial Consulting

White, Weld was active in 1975 in providing specialized financial consulting in connection with clients' merger, acquisition, and divestiture programs. In addition, valuation studies and opinions on the fairness of merger terms were provided to a number

of corporations in a wide variety of industries. Senior officers of the firm also appeared as expert witnesses on behalf of clients in litigation and before various government agencies.

White, Weld completed two major consulting assignments during the year, one of which was to serve as financial advisor to the United States Railway Association in connection with the establishment of the Consolidated Rail Corporation. The other was to render an independent evaluation of the shares of Creole Petroleum Corporation at the request of Exxon Corporation. Other activities included providing an opinion in connection with the proposed conversion of Fidelity Federal Savings and Loan Association to a California-chartered stock company, consulting for Blue Cross/Blue Shield of Indiana, and acting as advisors to the trust department of the Bank of America NT & SA with regard to The Ralph M. Parsons Trust.

International

Cross-border financial transactions continue to be an important aspect of the business of White, Weld and of Credit Suisse White Weld Limited. Foreign financing in the domestic U.S. market attained record levels in 1975, a year which marked the true reopening of our capital markets for non-Canadian international borrowers. Public financings under the management of White, Weld were completed for Banque Française du Commerce Extérieur ($100,000,000) and Montreal Urban Community (two financings totaling $125,000,000). White, Weld assumed a leading position in the secondary market for foreign bonds sold in the United States, complementing the position of our affiliate in the Eurobond secondary market.

The failure of the U.S. Congress to eliminate the withholding tax on long-term debt interest payments to non-U.S. residents was an unfortunate development. Nevertheless, we continued where possible to assist American corporations in raising capital overseas. Offshore financings were arranged for Miles Laboratories, Inc., Tenneco Inc., and Pacific Power & Light Company.

The Canadian government's removal of the withholding tax on corporate interest payments opened up an active Eurobond market for Canadian corporations alongside that for Canadian provinces and governmental agencies, in which the group has for many years played a leading role. Through Credit Suisse White Weld Limited, the White, Weld group served as a manager in several Eurobond offerings by Canadian borrowers. These included financings for Massey Ferguson, Canadian Pacific Securities Limited, The City of Montreal, Genstar Limited, Quebec-Hydro, and RoyMarine Leasing Limited. In addition two private placements of $100,000,000 each were arranged in the Middle East for British Columbia Hydro and Power Authority with the guarantee of the Province of British Columbia.

In 1975, the White, Weld group continued among the leaders in the arrangement of acquisitions in the United States by European and Canadian companies. Under our management, tender offers were successfully concluded on behalf of the Nationale Nederlanden N.V., Boehringer Ingelheim GmbH, and George Weston Limited.

Staff

In a continuing effort to expand White, Weld's Corporate Finance Department capabilities and to improve services provided to our clients, the firm added to its professional staff and made organizational changes.

Robert L. Huston joined the firm as a senior vice president to augment the staff of the energy group serving the industries for which White, Weld has been a major underwriter since the 1930's. Mr. Huston is the former head of the petroleum department of the First National City Bank. In addition, Robert E. Benson and Kenneth N. Davis, Jr., joined the firm as senior consultants in 1975 to assist the Corporate Finance Department in the private placement and new business areas, respectively. Mr. Davis is a former chief financial officer of International Business Machines Corporation and of Syntex Corporation, and Mr. Benson is a former vice president of The Equitable Life Assurance Society of the United States and of International Telephone and Telegraph Corporation.

Other new senior additions to the department included Paul E. Tierney, Jr., and Louis Perlmutter, who joined the firm as first vice presidents. Mr. Tierney, formerly with the United States Railway Association, specializes in the transportation industries, and Mr. Perlmutter, a specialist in mergers and acquisitions, has taken over responsibility for that activity. William P. Donohue, who joined the firm as a vice president, concentrates on international business in Latin America.

Paul A. Downey, senior vice president and director, returned to New York from our San Francisco

Todd Goodwin, Louis Perlmutter, Jeremiah K. Ross, and John B. Adams.

office to head the Business Development Group within the department. Nigel S. MacEwan, senior vice president and director, was appointed director of our International Corporate Finance Department. In addition, a number of senior officers, including Charles C. Lee, Jr., Thomas C. Pryor, and Alexander M. White, Jr., assumed corporate finance responsibilities.

As a result of these officer additions and the firm's active recruitment program, the Corporate Finance Department had 70 full-time professionals as of January 1, 1976.

Regional corporate finance officers resident in Chicago, Los Angeles, San Francisco, Atlanta, Boston, Philadelphia, and Providence combine the advantages of regional knowledge with the advantages of a large staff of specialists and help to bring our full range of services to each client.

Public Finance

The financing of state and local governments moved out of obscurity and into the headlines in 1975. The New York City financial crisis, the recession's impact on government budgets at all levels, and continued inflation fears through much of the year pushed tax-exempt interest rates to an historic high. In the face of this unfavorable market climate, state and local governments issued a record $29.2 billion of tax-exempt bonds, 28 percent ahead of 1974. Continuing its leadership role in this key area of finance, White, Weld as a manager or major underwriter underwrote 380 issues with an aggregate par value of $9.5 billion, or 34 percent of the total. Alone, White, Weld distributed $1.078 billion in municipal bonds in calendar 1975, versus $610 million the previous year.

To keep pace with record tax-exempt activity, White, Weld instituted a Retail Customer Service Department and expanded its branch office sales staff and New York trading operations to meet unprecedented demand by individual investors. Our municipal research staff responded to the increasing volume of client inquiries about municipal credit with analyses and evaluations of the nation's tax-exempt issuers.

Highlighting our 1975 investment banking activities was the introduction of three new major issuers into the tax-exempt market: Town of Saugus, Massachusetts Solid Waste Disposal Revenue Bonds; Platte River Power Authority, Colorado; and Gwinnett County Water and Sewerage Authority, Georgia.

In August, White, Weld as sole manager underwrote $30,000,000 waste disposal revenue bonds to fund a refuse-to-energy facility in Saugus, Massachusetts. The facility, with a 1,500-ton-per-day capacity, will be the largest of its kind in the United States. It is the first major solid waste facility to be constructed from proceeds of tax-exempt revenue bonds secured solely from the revenues of the facility.

The Platte River Power Authority, Colorado, issued $35,000,000 electric revenue bonds in August. This issue contained a unique provision for intermediate-term debt, providing the Authority with increased financing flexibility.

The $35,000,000 Gwinnett County issue represented the largest water and sewerage authority financing in the State of Georgia.

William F. Fuller

John A. Bult
Richard A. Kimball
Eugene L. Cooke

Tod D. Mann
David K. Sims
Donald H. Rundlett

Investor Services

Our individual client business grew significantly in 1975 and presently accounts for approximately one half of total brokerage revenues. Since we regard our account executives as the critical links between our clients and our research, trading, and investment policy staff, we place great emphasis on the selection, training, and direction of this professional staff. In 1975 these policies continued to result in our achieving substantially higher revenues per broker and per agency transaction than the industry averages.

During the past year, we concentrated greater effort on providing our individual account executives with the full benefits of our institutional research and investment policy talents. We also strengthened significantly our professional capabilities in the options business, a growing area of interest to many of our clients. The placement of tax-sheltered investments, carefully selected by our Corporate Finance Department personnel, has also become a meaningful service for those clients whose circumstances justify the risks involved.

Three additional domestic offices were opened during the year—Washington, D.C.; Seattle, Washington; and Century City, California. This brought the total number of branch offices to 32—25 domestic, four located in Europe, one in South America, one in the Far East, and one in Canada.

Institutional Equity Marketing

The end of fixed commission rates on May 1, 1975, set in motion forces which have altered dramatically the institutional equity business. As the legal pressures of fiduciaries to seek lowest cost executions increased, and as many securities firms indicated a preference to meet the lowest rates charged by any competitor rather than lose business and market share, commission rates were forced steadily downward throughout the last eight months