ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
145 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

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 IV

ORGANIZATION AND MANAGEMENT

Tentative Organizational Structure

Governor

- Appoints Public Members of Policy Board of Directors

Legislative

- Confirms Public Policy Board of Directors Appointments
- Determines Use of Fund Income
- Determines Percentage Allocation of Natural Resource Revenues to Fund if over 25%

Policy Board of Directors

- 12 Members
- 4 Permanent/Government Members
  - 2 Legislators
  - 2 Commissioners
- 7 Public (Appointed Members) - Staggered Terms
- Fund President (Non-voting)

Duties and Responsibilities

- Determines Fund Policies
- Reports to the Legislature and to the Public on Fund Operations
- Selects Fund President
- Approves Fund Budgets
- Performs Audit, Operational and Performance Analysis of Fund
- Responsible for Sectoral Analysis of Alaskan Economy
- Approves Loans and Investments in Excess of Specified Amounts
- Appoints Public Members of Investment Committee

Investment Committee

- 5 Members
  - Fund President (Chairman)
  - 4 Public/Appointed Members

Duties and Responsibilities

- Approval of Loans and Investments
- Determination and Review of Funds' Organization and Operating Policies

Fund Personnel/Advisors

. Fund President
  - Chief Operating Officer
. Fund Staff
  - Invest or Re-invest Moneys not subject to Investment Committee or Policy Board Approval
  - Evaluate Loan and Investment Proposals; Prepare and Package Loan and Investment Proposals for Presentation to Investment Committee for Approval
  - Supervision and Monitoring of Investments
. Employ External/Internal Advisor (s) to assist in above functions
. Operating Management
  - Accounting and Control

Exhibit V

Exhibit IV

INVESTMENTS

Corporate Securities

The purpose of the following discussion is to summarize briefly the principal characteristics of the various types of debt and equity securities most frequently issued by publicly owned corporations in the U. S. Although the discussion confines itself to the characteristics of publicly issued securities, these characteristics also apply generally to privately sold securities. The last section discusses the primary difference between publicly issued and privately sold corporate securities.

Debt Securities

Debt obligations are incurred by corporate entities for various reasons, the most important of which are to provide funds for the acquisition of fixed assets or to add additional cash resources to the borrower's supply of general working funds on a semi-permanent basis. The issuance of debt generally permits the borrower to accelerate its rate of growth beyond that which it would be capable of achieving were it solely dependent upon its own internally generated capital funds. Although debt securities can be of various types, all rely on the borrower's future revenues as the principal means of repayment.

Corporate Debt Holders

The holders of corporate debt instruments are creditors of the borrower; they generally cannot exercise control over its affairs and do not have a voice in its management unless it has violated certain of the provisions of the contract governing the borrowing. In addition, debt holders are not entitled to participate in the residual earnings of the borrower; instead, their return is limited to the fixed coupon rate of the security. Further, a debt security has a specified maturity date whereas a share of common or preferred stock has no fixed maturity. Importantly, the claims of creditors rank prior to those of common and preferred stockholders, although there may be differences in priority of claim among the various creditors themselves.

Principal Features of Debt Securities

The five principal aspects of a debt instrument are its fixed return (or "coupon"), its maturity, its repayment provisions, its redemption provisions and its restrictive covenants.

The coupon of debt instrument is determined by many factors, principally the credit standing of the issuer, the term of the borrowing and the market rates for similar issues of comparable companies at the time of the borrowing. Generally, the lower the credit standing of the issuer and the longer the term of the borrowing, the higher will be the interest coupon. An additional important influence

on the level of the interest coupon is the form of the security, and senior or secured obligations commonly carry lower interest coupons than unsecured or subordinated obligations. Certain subordinated obligations convertible into the common stock of an issuer may, however, carry a lower coupon than the same borrower's senior obligations in recognition of the conversion feature. Other factors also impact the level of the interest coupon on certain types of debt securities, with the repayment schedule over the term of the borrowing and the length of the period during which the issue cannot be optionally prepaid by the issuer bearing importantly on the interest coupons of long term borrowings. A more rapid repayment schedule and a longer prohibition on prepayment will usually contribute to a lower interest coupon. Finally, borrowings with extremely liberal contractural provisions commonly require higher rates of interest.

The maturity of a debt security denotes the date on or by which the entire principal amount of the borrowing must be repaid. In the U. S., the most common maturities for publicly issued debt securities are 5, 10, 20, 25 and 30 years. Intermediate term securities (securities with maturities up to ten years) frequently are repayable only at maturity via a single lump sum payment. Longer term issues (securities with maturities of 20 to 30 years) generally require periodic repayment, beginning after a certain number of years, through the means of a sinking fund. If a debt security has a sinking fund, the issuer must make periodic payments to a trustee, who uses these funds to purchase the securities in the market and retire them. A sinking fund is valuable to securities holders as it provides support for the market price of the issue and provides for the orderly repayment of the borrowing. The amount of a required sinking fund payment may be fixed or variable, depending on the terms of the borrowing. Most issues either require fixed payments during the repayment period (referred to as a level sinking fund), increasing payments over the repayment period, or fixed payments in each year except the last when a larger (or "balloon") payment is required. In certain cases borrowers are permitted to anticipate future sinking fund payments by "doubling up" or to surrender securities purchased in the open market in lieu of making a cash payment. Types of sinking fund schedules other than the above, including schedules which only require repayments to be made when earned, are used infrequently.

Some debt issues are serial issues. Instead of being a single issue subject to a sinking fund, a serial issue consists of separate securities which mature periodically until the final redemption date. Because of the differences in the maturities of the securities comprising a serial issue, it is common for a serial issue to be split into two or more tranches each bearing a different interest coupon.

In most debt issues, the borrower is given the right to buy back (or "call") all or a portion of its issue prior to maturity at a specified price. Commonly, the borrower is only allowed to exercise this right after a certain number of years. In some circumstances, the borrower is allowed to call its issue immediately. A call provision favors the borrower over the investor as, if an issue is called to permit the borrower to refinance at a lower interest cost, an investor may not be able to reinvest at an equally high yield. As a result, a borrower usually has to pay a premium over par value when it calls its securities, which normally amounts to one year's interest and declines to zero one year prior to maturity. Many intermediate term issues are callable only one or two years prior to maturity, however, at no premium.

For most debt issues, the contract between the borrower and the lender contains restrictive provisions designed to provide a measure of protection for the lenders' investment over the term of the borrowing. Usually these covenants limit such items as the amount of the borrower's additional debt, dividend payments, leases and mergers. Two of the most important restrictive provisions are the negative pledge provision - which prohibits a borrower from pledging its assets to secure future debts - and the cross default provision - which accelerates the repayment of the issue if the borrower defaults on certain of its other debts. Frequently, these covenants are contained in an indenture between a corporate trustee (generally a bank) and the issuer. If no indenture is used, these covenants are usually contained in the terms of the security itself. The extent of the restrictions placed on a borrower depends on his credit standing and the term of the issue.

Types of Debt Instruments

The two principal types of corporate debt securities are generally referred to as "notes" and "bonds" or "debentures". Notes are typically short to intermediate term obligations which are either payable in full at maturity or subject to a limit l sinking fund, are callable at par one to two years prior to maturity and are not governed by a formal indenture. The restrictive covenants of a note issue are generally contained in the security itself and the provisions governing the operational aspects of repayment are found in an accompanying fiscal agency agreement between the borrower and a bank. Notes of the form described above are generally unsecured obligations. Notes, however, may be secured obligations and subject to a formal borrowing agreement with a corporate trustee.

The terms "bonds" and "debentures" are used interchangably to refer to unsecured long term obligations governed by a formal indenture between a corporate issuer and a trustee. Bonds and debentures usually require a sinking fund and permit a call by the borrower only after a certain number of years.

A mortgage bond is a bond issue secured by a lien on specific assets (usually fixed assets) of the borrower. The mortgage providing the lien to the bondholders may be closed-end or open end. Under a closed-end mortgage, no further bonds can be issued against the specific property. Under an open-end mortgage, the borrower can issue additional bonds under the same lien. To prevent an unlimited amount of indebtedness from being issued against specific property, most open-end mortgage bonds contain restrictions limiting the total debt under the mortgage to a certain percentage of the value of the pledged assets. Many mortgage bonds also contain an after-acquired clause which extends the lien to properties acquired after the date of the initial issue. Although mortgage bonds are secured by specific assets, a bondholder is nevertheless required to look to the earning power of the issuer as his primary source of repayment.

The most common type of mortage bond is a first mortgage bond and is so called because its security is a first lien on the pledged assets. A second mortgage bond is exactly the same as a first mortgage bond except that it is secured by a second lien on the pledged property. Second mortgage bonds are used less frequently than first mortgage bonds.

Collateral trust bonds are bonds secured by stocks or bonds or other securities pledged by the issuer to a trustee. In the event of default, the trustee sells the collateral and repays the bondholders. This type of bond, popular in the 1920's and 1930's, is now used infrequently.

Income bonds are securities whose interest is required to be paid only when earned by the issuer. This type of issue offers an investor little hope of a fixed return and its use has generally been restricted to corporate reorganizations.

A subordinated debenture is a security which is subordinated in right of payment to other indebtedness of the issuer. Such securities, however, are senior to both common and preferred stock in liquidation. Because of their status, subordinated debentures are commonly regarded by senior lenders as near-equity and consequently can support further senior borrowings. It is possible for an issuer to have several issues of subordinated debt outstanding and for one issue to be subordinate to another; such issues are called junior subordinated debentures.

Convertible debentures are debentures which may be converted into the common stock of the issuer at a specified price. Such debentures are usually subordinated and from the standpoint of a senior creditor are viewed as equity when the market price of the related stock is reasonably close to or above the specified conversion price. When the market price of the related stock is well below the conversion price, convertible debentures are viewed as non-convertible subordinated issues.

INVESTMENTS

Equity Securities

Common Stock

The most important type of equity security is common stock. Collectively, holders of a company's common stock are its owners and are entitled to share in its residual earnings if dividends are paid. They are also required to bear the risks of ownership, but their liability is generally limited to the amount of their original investment. In liquidation, common stockholders have a claim on the assets of the company only after the claims of all creditors and preferred stockholders have been settled in full. Unlike a debt security, common stock has no fixed maturity date; the only way in which a shareholder can realize his investment is to sell his shares in the secondary market.

Authorized common stock is the number of shares which a company can issue without amending its charter. Issued shares are shares which have been sold to the public. Outstanding shares are shares which are in the hands of the public. Treasury shares are shares which have been repurchased but not cancelled by the company.

The par value of a common stock is a stated figure in the corporate charter. Although it is used in the preparation of accounting material, the par value of common stock has little economic significance. Stocks may be authorized without par value and there is no difference in value between a par value and a no par value stock.

The book value of a common stock is derived by dividing the net worth of the issuing company, less the par value of any preferred shares outstanding, by the number of common shares. In theory, the book value of a common stock is its liquidating value, but in reality the actual liquidating value may be higher or lower than the book value. Like par value, the book value of a common stock is of little economic significance.

The market price of a common stock is the price at which the shares are being traded in one of the stock exchanges or in the over-the-counter market. The market value of a common stock usually will differ considerably from its par value, book value or liquidating value as it is a function of the company's current and anticipated future earnings and dividends and the perceived risk of the stock on the part of investors. The market capitalization of a company is equal to the number of outstanding shares times the market price per share.

As owners, common shareholders are entitled to elect the company's board of directors which, in turn, selects management and runs the business. The only recourse a shareholder has against management is via the board of directors. If a director acts in a manner which results in personal gain, he is liable to suit. In electing directors, a shareholder is entitled either to vote all of his shares for each director (majority voting) or to vote all of his shares, multiplied by the number of directors to be elected, for less than the total number of directors being elected (cumulative voting).

Certain companies may have one or more classes of common stock differing in their claims on income and as to voting power. One class of stock may have no voting privilege but be entitled to a prior claim on dividends while another may have voting power but a junior claim on dividends. The use of various classes of common stock is generally adopted when it is desired to concentrate the voting control of the company in a single group.

Occasionally, a common stock has preemptive rights. A preemptive right entitles a shareholder to maintain his proportional ownership interest in the company by giving him the first opportunity to purchase, on a pro-rata basis, any new common stock or convertible securities being sold to the public.

Preferred Stock

Preferred stock is a hybrid type of security, combining certain features of both debt and common stock. Like debt holders, holders of preferred stock do not participate in the residual earnings of the issuer and their rate of return is limited to the specified dividend of the preferred stock. Unlike interest payments on debt issues, however, preferred dividends can be omitted without resulting in the insolvency of the company. When preferred dividends are omitted, holders of preferred shares are usually entitled to elect a certain number of directors; otherwise, preferred shareholders do not participate in the management of the issuing company. Most preferred dividends are cumulative and if they are omitted, all arrearages must be made up before common dividends can be resumed. Preferred dividends are a contractural obligation, and are senior in right of payment to common dividends.

Preferred stock, like common stock, has no specified maturity. However, preferred stock is rarely viewed as a permanent means of financing and provisions are usually made for an issue's orderly retirement via a sinking or purchase fund. A preferred stock sinking fund operates in the same manner as a bond sinking fund. A purchase fund requires the issuer to expend a certain sum each year to acquire and retire the outstanding shares, but this requirement is usually limited by restricting the price which can be paid for the shares to par value. If the market price is above par, no purchases will be made for the purchase fund.

Practically all preferred stocks have call provisions similar to those of corporate bonds. Certain preferred stocks are convertible into the common shares of the issuer. Other preferred stock issues are participating and share in the residual earnings of the issuer according to certain formulae, usually based on common dividends.

Differences Between a Public and a Private Securities Issues

A securities issue which has been registered with the Securities and Exchange Commission and sold in an underwritten offering by a syndicate of investment banking firms is referred to as a public issue. Such issues, whether listed on a major stock exchange or traded between dealers, are freely transferable between holders and consequently offer an investor a high degree of liquidity.

A securities issue which has been sold directly by an issuer to an institutional investor (such as an insurance company) without registration with the Securities and Exchange Commission is referred to as a private issue. Because they are not registered, private issues are not freely transferable and their marketability is consequently very limited. To compensate an investor for this lack of liquidity, private debt issues usually carry higher interest coupons and more restrictive covenants than similar public debt issues. Similarly, private equity issues generally cannot be sold at as advantageous prices as public equity issues.

INVESTMENTS

Long Term Government Securities

The direct obligations of the U. S. government and its agencies, together with securities bearing the full faith and credit guarantee of the government, constitute the highest quality debt securities in the U. S. Although certain of such securities, principally Treasury bills, are issued for very short maturities, a substantial amount is issued for maturities ranging from three to thirty years. Short term government securities are considered in the following section on Money Market Instruments.

The principal long term direct obligations of the U. S. government are Treasury notes and bonds which are usually issued for maturities of up to ten and thirty years, respectively. Such bonds and notes are sold periodically directly by the Treasury and a substantial amount is outstanding at all times; secondary market trading is very active.

Along with the direct obligations of the Treasury, the government also raises funds through its agencies which issue both short and long term securities either guaranteed by the government directly or backed by the agencies, which are themselves instrumentalities of the government. Many government agencies issue such securities, but principal among these are the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Land Bank and the Bank for Cooperatives. Issues of these borrowers are generally sold through public offerings underwritten by banks and investment firms.

Through Acts of Congress, the government has also authorized certain quasi-government entities to issue securities bearing its full faith and credit guarantee including the Export Import Bank of the U. S. and Private Export Funding Corporation. Congress has also authorized the application of its guarantee to securities of private corporate issuers for specific purposes, including bonds issued to finance the construction of U. S. flag ships under the provisions of Title XI of the Maritime Act. Such bonds have recently begun to be issued in significant amounts and are generally referred to as Title XI bonds.

Exhibit VI

Exhibit V

INVESTMENTS

Money Market Instruments

Money market instruments are short-term, high grade debt instruments that carry a minimum amount of risk and which can readily be turned into cash without material loss. Because of their relatively short maturity, generally no more than twelve to twenty-four months, money market instruments have a readily stable market value at all times. The principal types of money market securities are Treasury bills, notes and bonds, securities guaranteed by the government or issued by its agencies, municipal securities, bank certificates of deposit, bankers acceptances and corporate commercial paper. These securities are frequently purchased by investors seeking a temporary investment for surplus cash resources.

Treasury Securities

The Treasury securities which are most often referred to as money market instruments are Treasury bills and Treasury notes and bonds maturing within two years. Treasury bills, issued at auction each week and maturing in periods from three months to one year, are the backbone of the money market. Because of the large volume of Treasury bills outstanding and their continual issuance, a short term investor can normally find an issue with a maturity on or close to the date when his surplus funds will be required for their intended purpose.

Treasury bills are issued in bearer form and on a discount basis. The holder receives the full face value of the security at maturity in lieu of interim interest payments.

Treasury notes and bonds are government secuirities which have original maturities of over one year. Both are issued in bearer form and interest is payable upon presentation of a coupon. Treasury notes by law may not have a maturity in excess of ten years while Treasury bonds generally mature in more than ten years. As either Treasury bonds or notes move into the under two-year money market maturity range, they become attractive investments for investors who wish to invest for longer maturities than offered by Treasury bills.

Other Government Securities

A large number of government agencies also issue securities which are either guaranteed directly by the government or fully backed by the agencies themselves which are conservatively run entities chartered by Congress and supervised and/or owned by the government. Among such issuers are the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Land Banks, the Government National Mortgage Association, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Securities of these issuers are sold on both a coupon and a discount basis and for various maturities from three months to twenty years. Most issues are relatively short-term, however, and fall either directly into the money market or are drawn in as their maturity date approaches.

The attraction of these securities to money market investors is that their yields are somewhat higher than those of Treasury securities in light of the fact that they are indirect rather than direct obligations of the government.

Municipal Securities

Municipal securities possess two characteristics that are important prerequisites for a money market instrument: a large outstanding supply of obligations of various types and maturities and an active secondary market. The principal types of municipal securities traded in the money market are short term notes and long term bonds, drawn into the money market as their maturity approaches. Municipal securities are attractive to investors because of their tax-exempt yields.

Certificates of Deposit

A Certificate of Deposit is a negotiable instrument representing an interest bearing time deposit in a commercial bank. Certificates of deposit (CD's) began to be issued by commercial banks in 1961 and are ideal instruments for the investment of short term idle cash because a purchaser (lender) can negotiate with the bank seller (borrower) to tailor a CD to his exact maturity needs. Moreover, there is a very substantial amount of CD's outstanding and the secondary market is extremely active; if unforeseen circumstances arise an investor can sell his CD's in the marketplace. The interest rate on CD's is higher than that for either Treasury or agency securities of the same maturity.

Banker's Acceptances

A banker's acceptance is created when a commercial bank "accepts" (endorses) a draft drawn on it for the account of one of its customers for payment on a specified future date. Time drafts are usually associated with the payment for goods shipped in international trade. By accepting a time draft, a bank substitutes its credit for that of its customer and an accepted draft thus becomes similar to a security of the bank itself. Because of the very short maturity of most banker's acceptances, usually not more than ninety days, they are readily sold in the money market.

Commercial Paper

Commercial Paper is an unsecured promissory note of relatively short maturity issued by a well known corporation with good credit ratings to finance short term borrowing needs. Commercial Paper, because of Securities and Exchange Commission requirements, may not be issued for maturities longer than 270 days. All commercial paper is sold in bearer form at a discount with rates running slightly higher than Treasury bills. Because of their short maturity and high liquidity, commercial paper is an ideal money market instrument.

Exhibit VII

INVESTMENT COUNSEL ASSOCIATION OF AMERICA

STANDARDS OF MEASUREMENT AND USE FOR INVESTMENT PERFORMANCE DATA

INTRODUCTION

In recent years, the measurement of investment performance has become a topic of widespread interest. The techniques employed and the uses of the results have been varied and remain in a considerable state of change. Consequently, it is often impossible to gain perspective through comparisons of different investment records measured with different calculation methods. The principal problem is that there are no minimum, uniform standards for measurement and use guiding all organizations providing investment management services.

This report will formulate standards to provide the Investment Counsel Association of America membership with some guidelines and background information for compiling and using portfolio performance data. The problems associated with measuring investment results are complex and make it extremely difficult to arrive at a satisfactory and still simple solution to them. The central problem is that rarely, if ever, do two distinct portfolios have identical characteristics and investment objectives. Therefore, an attempt to compare the success of different investment programs solely on the basis of quantitative, statistical results without regard to the qualitative, individual, subjective circumstances must have limited value. However, despite the imperfect character of purely numerical measurements, the Investment Counsel Association of America does endorse certain standards of measurement and use. The recommendations are not intended to deal with

every facet of performance measurement. Some areas are intentionally treated in a general way in order to provide scope for adapting the subject to varying circumstances and also because being too specific on some subjects would result in having to establish more "rules" to deal with exceptions than seems practical. Therefore, this report is confined primarily to recommendations of minimum standard on how to calculate performance data and how best to use this information. Moreover, while performance measurement of specific portfolios for manager or client use has unquestioned individual value, this report is written with the objective of facilitating performance comparisons between portfolios and the recommendations are stated accordingly.

No firm is required to adopt these recommendations unless it wishes to make the statement regarding the presentation of investment performance figures that: "All Representations are in Accordance with Standards Approved by the Investment Counsel Association of America."

There are many purposes served through comparisons of different portfolio performance records. Perhaps the purpose which is the most controversial is the presentation of a performance record in an effort to demonstrate to prospective clients the abilities of an investment manager. It is very difficult to construct a sample of data which is an accurate picture or is representative of a manager's work. The difficulties of data construction and interpretation exist whether the data sample is one account, ten accounts, or all of a manager's accounts, either of a certain class (by account type, size, performance rank, etc.) or in total. A major goal of the recommendations in this report is to provide a systematic approach to this problem. The solution, and the concept of this report, is that the following recommendations are not

isolated from each other but stand together as flexible parts of a unified filtering process. In most instances, the recommendations act as guides and are not narrowly restrictive. They encompass many filtering alternatives and the only general restrictions are disclosure and willingness to substantiate representations if requested.

Performance figures might be selected for presentation including (1) total portfolios of (2) all (3) corporate pension funds (4) managed continuously (5) during a five-year period and (6) with assets at the end of the period in excess of $1 million. The rates of return would be (a) calculated and displayed along the lines of the techniques described in this report, (b) captioned and/or footnoted to disclose that they include accounts filtered or selected with the six above criteria and (c) substantiated, upon request, as being representative, for example, if a median statistic, one account or ten accounts were used to represent all accounts. Within these same conditions, one account with a very favorable rate of return could be held out as an example of a firm's work so long as (a) the return calculations are appropriate, (b) it is disclosed that the account was selected and has one of the best rates of return of all accounts managed and (c) it is substantiated that it is only representative of itself and no other account managed by the firm.

RECOMMENDATIONS:

I Standards of Measurement

1. Total Return: Investment results should be computed on a total return basis.

2. Rates of Return: Investment results should be computed as "time weighted" rates of return for use in making comparisons with market indices and results of other portfolios.

3. Total Portfolio and Various Portfolio Segments: Investment results should be computed on the total portfolio and, where useful to demonstrate the ingredients of the total results or specific areas of investing, on the portfolio's various segments.

4. Definitions within Portfolio Segments: Investment result for portfolio segments should be based on comparable characteristics such as types, marketability and size of holdings.

5. Total Time Period Shown: Investment results quoted to third parties should include at least five years' experience where possible.

6. Time Intervals Used: Investment results should indicate the total rate of return on an annual basis and on a compound annual basis for multiple time periods.

7. Variability of Return: Investment results should be characterized not only by the magnitude attained but also by the degree of variability experienced in reaching the return.

II Standards of Use

1. Management Discretion: Investment results should be used to reflect the manager's performance only if he operated with effective discretion.

2. Number of Results Shown: Investment results should be shown for all portfolios within the designated category. Adequate disclosure should be made regarding the description of the sample shown. If requested, substantiation should be provided of representations made.

3. Tax-Exempt Portfolios: Because of the differences in impact on investment results of various tax brackets, some common base should be used when comparing rates of return. Tax-exempt portfolios automatically solve this problem and are preferred for use.

4. Similarity of Investment Objectives: Comparisons of investment results should be made only for portfolios with similar objectives.

5. Size: Comparisons of investment results should be made only for portfolios within reasonable categories of size.

6. Relevance to Third Parties: The selection of investment results shown should relate in some logical way to the circumstances of those receiving the information.

7. Comparative Format: Investment results should be shown in a way to facilitate comparisons.

8. Distribution of Information: The distribution of investment results is regulated under the Investment Advisers Act of 1940 and care should be taken to comply with these regulations.

DISCUSSION

I Standards of Measurement

Total Return

The investment results of a portfolio should be measured in terms of all the results produced. This includes the income generated as well as capital gains and losses both realized and unrealized. These are the three ingredients of performance and, even though a portfolio might not be managed on a "total return" concept, the only proper approach is to measure all of the portfolio's output. There is a considerable body of disagreement on this, particularly regarding the accounting for unrealized capital gains. We recommend that investment results be measured on an accrual accounting basis from period to period and not on a cash accounting basis that might require that the capital gains be realized or income (e.g., bond interest income paid out semi-annually) be received before being credited to portfolio performance. An acceptable procedure to account for income accruals is to estimate income by using the indicated annual rate of income at the beginning of the period. In each quarterly performance computation, this amount would be dividend by four.

Rates of Return

Rates of return are of two general types: dollar weighted (or internal) and time weighted. The dollar weighted rate of return has specific value in measuring a given portfolio's results and this is the most appropriate figure for comparison with actuarial assumptions for corporate pension funds. However, when comparing investment results between portfolios, the differences

in size and timing of cash flows can create considerable distortions. It can be argued that a dollar weighted rate of return is appropriate for use when measuring only the common stock portion of a portfolio because the investment manager has control over the timing and amounts of cash flows into and out of equities within the portfolio. However, whereas this is true to some extent, these judgments are often influenced by cash flows into and out of the total portfolio. We have concluded that the time weighted rate of return is appropriate for use in making comparisons between total portfolios as well as various segments of portfolios and, also, with market indices which are by default time weighted because there are no cash flows.

It is difficult for many organizations to provide an exact time weighted rate of return measurement because of the necessity to revalue the entire portfolio whenever significant cash contributions or distributions are made. Therefore, we believe that an approximate time weighted rate of return is satisfactory in most cases and recommend the following principles be observed:

1. The portfolio be valued at least quarterly.

2. A formula should be used to minimize the impact of cash flows on performance results within a measurement period. One such formula is:

$$R = \frac{V^2 - V^1 - C + I}{V^1 + 1/2C}$$

Where V_2^1 = beginning market value = $1,000,000.
V^2 = ending market value = $1,200,000.
(including reinvested income)
C = net cash flow = $ 100,000.
(from any source including reinvested income)
I = total measurement period income = $ 10,000.
R = rate of return

$$R = \frac{\$1,200,000. - \$1,000,000. - \$100,000. + \$10,000.}{\$1,000,000. + 1/2(\$100,000.)}$$

$$R = \frac{\$ \ 110,000.}{\$1,050,000.} = 10.5\%$$

The formula states that the total rate of return for the time period is equal to what was earned in both price change and income (the numerator) as a percentage of the capital at work (the denominator). The amount earned is the difference between the beginning and the ending market values, adjusted for the net of all capital additions and withdrawals because they are not part of the return, and adjusted again for income because it is part of the total return. The capital at work is the beginning market value plus one-half of the net of all capital additions and withdrawals. The one-half is used because no effort is being made to identify the dates of cash flows. They are being netted together and the assumption is being made that they all took place at the mid-point of the time period. So, rather than saying the entire cash flow was at work for half the time, the formula says one-half the cash flow was at work the entire time. When the contribution C is very large relative to the beginning market value V^1 (e.g., over 10%) it may be necessary to modify the use of the above formula or value the portfolio as of the date of the cash flow to remove possible distortions by eliminating any sub-period containing an overly large cash flow.

3. A linked index should be used in keeping a record of this performance data over time and provides a means of developing annual figures from separate quarterly calculations. Such an index would be as follows:

	% Change	Index
Beginning Value	-------	100.0
Period 1	+5.0	105.0
Period 2	-3.6	101.2
Period 3	+1.8	103.0
Period 4	+6.2	109.4

Overall Return +9.4%

Total Portfolio and Various Portfolio Segments

The most appropriate comparison between portfolios is to show the results of the total portfolio investments. An extra dimension is given when the total portfolio returns are supplemented by percentage figures showing the proportions held in various portfolio segments. It is often useful to demonstrate bond management or stock management using the bond and stock segments of a total portfolio balanced between bonds and stocks. Therefore, it is also recommended that segments of different portfolios be used for comparisons to measure selection and also the impacts of timing of shifts between portfolio segments. The procedure described above for calculating rates of return on total portfolios is the same used for portfolio segments such as common stocks. When computing the performance of an equities only segment, however, it is necessary to compute the net cash flow as equal to the difference between the total of all common stock purchases and the total of all common stock sales during the period.

Definitions within Portfolio Segments

When comparing segments of portfolios such as the common stock segment of one portfolio with the common stock segment of another portfolio, it is important that the segments have comparable characteristics. It would not, for example, be appropriate to compare the common stock portfolio of a corporate pension fund which was 25% invested in the company's own stock with the common stock portfolio of another pension fund which had no such distortion. Managers inherit portfolios from a variety of sources which might hold concentrations in poorly marketable securities which would take time to

work out of successfully. The manager should not be charged with the distortions produced, good or bad, during a prolonged period of liquidation. There are also differences in treatment of types of holdings. In the case of convertible securities, some treat them as part of the portfolio's bond holdings, some treat them as common stocks and some divide them between those convertible issues selling near their base investment value as a straight bond and those convertible issues selling more on a common stock equivalent basis. Finally, it is not appropriate to compare results for diversified and undiversified portfolios. For example, "bond performance" should not be compared on the basis of one portfolio which has 30% invested in bonds including a diversified list of issues and another portfolio which might be of equal total dollar size but have a much smaller percentage of the total portfolio devoted to bonds and, perhaps, use only one or two issues.

Total Time Period Shown

The five-year time period for investment results is designed to be long enough to cover most business and market cycles. The minimum objective should be a length of time encompassing at least one market cycle containing rising market and declining market periods in order to permit an assessment of investment performance during both types of markets. Depending on the timing of market cycles and the fact that they do not usually open and close in consonance with the calendar, there will inevitably be occasions when a total time period of less than five years will be more appropriate.

Time Intervals Used

Within the total time period shown, the time interval recommended is one year with some indication of results for multiple time periods on a compound annual basis. An example of this type of presentation is illustrated below:

	Annual Rates of Return					Compound Annual Rates of Return			
	1969	1970	1971	1972	1973	2 years '72-'73	3 years '71-'73	4 years '70-'73	5 years '69-'73
Fund 1	-5.2	8.3	12.8	19.0	-15.5	0.3	4.3	5.3	3.1

(All figures are hypothetical)

Variability of Return

It is not sufficient to know that a certain magnitude of return was attained. It is also valuable to know the degree of variability experienced in reaching the return. An appropriate way to express this variability is through the use of some statistical measure of dispersion of the sub-period rates of return around their average rate of return. The standard deviation is recommended as a means of quantifying dispersion. It is a widely used measure and, although there are a number of other techniques to measure dispersion, it is appropriate as a minimum supplement to rate of return figures.

The standard deviation indicates the limits within which the sub-period returns vary in producing an average return for a total time period. In normal distributions of a series of returns, plus or minus one standard deviation from the average would encompass approximately 68% of the returns. Plus or minus two standard deviations from the average would encompass 95% and plus or minus three standard deviations would encompass 99%. The task, then, is to calculate one standard deviation as the basic unit.

It is suggested that the sub-period returns be quarterly figures. The standard deviation of the quarterly rates is found by:

(1) obtaining the arithmetic average
(2) calculating the deviations of each rate from the average
(3) squaring each individual deviation
(4) taking the average of these squares
(5) extracting the square root of this average

Since these calculations produce the standard deviation of the quarterly rates, it is necessary to make a conversion so the standard deviation can be used as a supplement to rate of return figures expressed as compound annual rates. This is accomplished by multiplying the standard deviation of the quarterly rates by 2, the square root of the number of quarters in one year.

NOTE: See calculations at end of report.

II Standards of Use

Management Discretion

A primary purpose for generating performance figures is to provide a quantitative basis for evaluating the job done by the portfolio manager. It is only fair, then, for the results to reflect truly the manager's performance without an undue overlay imposed by others. This overlay may take the form of policy constraints (e.g., a current income requirement, ceilings on percentage to be invested in common stocks, restrictions as to the types of securities to be purchased, etc.) or approval mechanisms involving rejection of proposed investments. The investment results should reflect the portfolio manager's decision process. Although we recognize that the effective discretion of a portfolio manager might not be within the legal

definition of "discretionary," we believe a portfolio should be presumed to be discretionary if the portfolio manager can arrange purchases and sales of securities of his selection (within reasonable limits) and vary the portfolio mix between stocks, bonds, or cash equivalents without undue restrictions on his own best professional judgment.

Number of Results Shown

Selection criteria for a statistical sample of any size must be accurately disclosed to identify what the sample includes. The criteria might be complex (e.g., common stocks only of accounts which are fully discretionary, tax-exempt, managed by a firm's New York office for five years, etc.) or simple (e.g., "our best account" or "our three largest accounts") but they must be disclosed. Whatever the basis for selection of investment results to be shown, all accounts described by the selection criteria must be included. Although the quantity of accounts shown can be controlled by the specifics of categorization filters, the account sample must be complete as described.

A broad sample is desirable because the record of one portfolio or several portfolios is not statistically significant as the record of a portfolio manager or an entire firm of portfolio managers managing many portfolios. One account cannot be presumed to be representative of an individual's or firm's work unless the individual or firm so states and is prepared to substantiate. Therefore, it would not usually be appropriate to compare two firms of portfolio managers by comparing one account

of one firm with one account of another firm. This is true for any type of portfolio, including mutual funds or any other commingled funds. The use of one account may be appropriate in representing itself when it is desirable to show the results of specific types of investing such as with a high risk mutual fund, a mutual fund of international securities or a mutual fund whose policy it is to keep pace with general market averages. Furthermore, a single portfolio, pension fund, mutual fund or otherwise, should not be used by any firm as representative of another firm unless that firm has so stated and substantiated. It is not one firm's realm to present another firm's record. A firm's responsibility is to represent itself and not others.

In presenting investment performance results, it is appropriate to use summary statistical techniques such as averages, medians, etc., as long as they are representative of a broad sample of similar portfolios. Statistical and graphic representations should be specifically footnoted to disclose what they represent and a firm using them should be prepared to substantiate the representations by standing ready to describe the details of the underlying calculations. This substantiation should at a minimum contain the data presented in the attached worksheets.

Tax-Exempt Portfolios

The purpose of showing investment results of existing clients to third parties is to provide an illustration of what has been achieved under varying conditions. Due to differences in impact on investment results of various tax brackets, it is difficult to compare the results of different taxable portfolios. In order to demonstrate the investment process, the

common base of tax-exempt portfolios can be used with both tax-exempt and taxable third parties.

Similarity of Investment Objectives

No two portfolios are exactly the same. Inevitably, there is some variation between different portfolios and their objectives. However, comparisons of investment results should be made only for portfolios with generally similar objectives and involving acceptance of the total return approach.

Size

Size is an important consideration and effort should be made to compare portfolios only within reasonable categories of size. It is inappropriate to compare the investment results of very small portfolios with very large portfolios due to the great differences in operational flexibility. The use of a size threshold is suggested such as including only portfolios over $1 million

Relevance to Third Parties

The selection of investment results to be shown should have some relationship to the circumstances of those receiving the information. For example, it is logical to show investment results which include a number of employee benefit funds in response to an inquiry from an employee benefit fund.

Mutual fund performance data are often used because they are a "public record." We conclude that this general use relates more to the integrity of an audited public statement rather than to the relevance of this record

and recommend that specifically selected investment results be used which have as close as possible a relationship to the third party viewing them.

Comparative Format

There are three general comparisons which might be drawn by those receiving a statement of investment results and the statement format should facilitate such comparisons.

1. The investor should be interested in the absolute level of accomplishment compared to his own goals. This does not speak to the realism of these goals whether they be achieving an actuarial assumption or some other prestated quantitative objective. He wants to assess the accomplishment relative to his own special standard.

2. The investor should be interested in the relative level of accomplishment within various market environments.

3. The investor should be interested in the relative level of accomplishment compared to some general representation of how others fared during the same time.

The first comparison uses the investor's own calculations and standards.

The second comparison requires some representation of the market environment. The widely used market averages involve a variety of calculation methods so that the results vary depending on market circumstances. This means a given index is not necessarily consistent in its reflection of the environment. The most appropriate answer (although not entirely satisfactory) is to review records of several market indices on a total return basis and assess the flow of experience over a sufficient period of time.

The third comparison requires the selection of representative universes of other managed money. This type of information has not been available for

many years but there are available universes of pension funds, mutual funds, bank commingled funds, insurance company separate accounts, etc. The integrity of the information has been high to date and provides a valuable means of comparison.

Distribution of Information

Care should be taken that any information provided third parties regarding portfolio investment results is in compliance with the Investment Advisers Act of 1940 and other guideposts, statutes, rules and court cases. In certain states, for example, any registered investment adviser must file new business materials. The judicial definitions of so-called federal "anti-fraud rules" are continually expanding to include prospect and client communications.

Outlined below are guidelines of what is deemed permissible and not permissible within the context of this report in distributing portfolio investment results.

Permissible:

Investment performance data may generally be shown which are:

1. clear disclosures of all relevant facts,
2. accurate,
3. for objectively justifiable time periods, and
4. for generally recognized categories within portfolios (e.g., total portfolio, total bonds, total common stocks) and for overall categories of portfolios (e.g., large pension funds, all tax-exempt institutional accounts).

Not Permissible:

Investment performance data may not be shown which are:

1. unclear, untrue or otherwise false or misleading and/or,
2. in the case of advertisements as defined under the Investment Advisers Act of 1940, in violation of the rules relating to advertisements.

In the Investment Advisers Act of 1940, a specific guideline is found in Rule 206(4)-1. This rule concerns "advertisements" by investment advisers and, in relation to the subject matter of this report, the most important provisions of the rule define the conditions under which distribution of an "advertisement" may constitute fraud or deception. For these purposes, "advertisement" is defined broadly as any written communication sent to more than one person (The term "person" is defined to include any organized group or persons, so that, for example, a corporate pension fund would be one person, even though it may have four people on its Finance Committee.) or any other notice or announcement in any publication or on radio or television which offers any investment advisory service with regard to securities.

One noteworthy example of circumstances under which an "advertisement" may not be distributed involves any situation where reference is made to past specific recommendations of the investment adviser which were or would have been profitable to anyone, unless the advertisement sets out or offers to furnish a list of all recommendations made by the investment adviser for the immediately preceding period of not less than one year -- a list which must contain specified, detailed information. The list must also contain

language in large type stating "IT SHOULD NOT BE ASSUMED THAT RECOMMENDATIONS MADE IN THE FUTURE WILL BE PROFITABLE OR WILL EQUAL THE PERFORMANCE OF THE SECURITIES ON THIS LIST."

Calculation Worksheet

The attached calculation worksheet utilizes quarterly rates of return derived from the formula described on Pages 7 and 8. The quarterly rates are used to develop:

1. Annual Rates - calculated by linking the quarterly rates geometrically through multiplication (not the same as the arithmetic average).

2. Compound Annual Rates - calculated by linking the annual rates for the specified time period and, then, reference to compound interest tables.

3. Standard Deviation of the Five-Year Quarterly Rates - calculated as indicated (also refer to Page 11 of report).

NOTE: The calculations described are basic to the production of investment performance figures. Of course, in large volume applications, appropriately programmed computers perform these tasks and the calculation worksheet is unnecessary.

Sample Report Format

The attached sample report format embodies the recommendations contained in this report. It is an example of how the recommendations can be used. There are a variety of alternatives and display methods which involve the use of the return figures or graphic representations of the rates of return. This example provides a basic standard for presentation or is appropriate substantiation of statistical or graphic representations. The two pages are companion pieces and the recommendations on Pages 4-5 of this report should be used as a checklist for completeness.

CALCULATION WORKSHEET *
FUND 1

Quarterly Periods	Quarterly Rates	Annual Index	Annual Rates	Compound Annual Rates	Deviation** from Average	Deviations Squared
		100.0				
1.	- 3.3	96.7			6.3	39.69
2.	14.0	110.2			11.0	121.00
3.	2.2	112.7			0.8	0.64
4.	1.5	114.4	14.4	11.4 (5 years)	1.5	2.25
		100.0				
5.	- 2.5	97.5			5.5	30.25
6.	- 2.3	95.3			5.3	28.09
7.	- 0.4	94.9			3.4	11.56
8.	4.5	99.1	- 0.9	10.7 (4 years)	1.5	2.25
		100.0				
9.	- 2.1	97.9			5.1	26.01
10.	-18.0	80.3			21.0	441.00
11.	14.6	92.0			11.6	134.56
12.	9.8	101.0	1.0	14.9 (3 years)	6.8	46.24
		100.0				
13.	8.4	108.4			5.4	29.16
14.	- 1.5	106.8			4.5	20.25
15.	0.9	107.7			2.1	4.41
16.	9.2	117.6	17.6	22.5 (2 years)	6.2	38.44
		100.0				
17.	8.4	108.4			5.4	29.16
18.	4.6	113.4			1.6	2.56
19.	5.6	119.7			2.6	6.76
20.	6.6	127.6	27.6	27.6 (1 year)	3.6	12.90
Total	60.2					1,027.18
Average	3.0					51.36
					Standard Deviation	7.2
					(Conversion Factor to annualize)	x 2
					5 Year Variability	14.4

*squares, square roots and compound rates are readily available in standard statistical tables
**squaring deviations makes them all positive so minus signs can be ignored

SAMPLE REPORT FORMAT
(Hypothetical Figures Used Below)

COMPARATIVE PERFORMANCE
(All figures are total return including price change plus income)

	Annual Rates of Return					Compound Annual Rates of Return				
	1969	1970	1971	1972	1973	2 years '72-'73	3 years '71-'73	4 years '70-'73	5 years '69-'73	5 Year Variability
ABC INVESTMENT COUNSEL, INC.										
Equity Performance of Selected Tax-Exempt Portfolios										
Fund 1	- 7.6	7.2	12.4	14.2	- 6.8	4.6	8.2	7.1	4.8	8.5
Fund 2	- 5.2	2.8	12.4	22.2	-11.0	3.3	4.1	3.7	2.2	7.9
Fund 3	1.2	- 1.5	19.0	25.6	-10.0	6.7	6.6	5.1	4.5	9.4
Fund 4	3.5	- 2.6	13.9	19.5	-14.4	2.4	8.7	3.6	4.6	8.1
Fund 5	2.0	2.6	15.0	22.6	-17.4	2.1	8.6	5.0	3.0	8.8
Fund 6										
Fund 7										
Fund 8	- ETC. -									
Fund 9										
Fund 10										
Fund 11										
Fund 12										
Fund 13	- ETC. -									
Fund 14										
Fund 15										
Equity Market Averages										
Dow Jones	-11.8	9.3	9.9	18.5	-13.3	1.4	4.1	5.4	1.7	8.6
S & P 500	- 8.5	3.9	14.3	19.0	-14.9	0.7	5.0	4.7	2.0	7.5
Mutual Fund Averages*										
Growth Funds	-15.6	-16.0	19.8	8.5	-27.8	-11.5	- 2.1	- 5.8	- 7.8	15.2

*Lipper Analytical Services

ALL REPRESENTATIONS IN ACCORDANCE WITH STANDARDS APPROVED BY THE INVESTMENT COUNSEL ASSOCIATION OF AMERICA

SAMPLE REPORT FORMAT

KEY TO EQUITY PERFORMANCE*

	TYPE	SIZE 12/31/73
Fund [illegible]	Corporate Pension Fund	$10.5 million
Fund [illegible]	Corporate Profit Sharing Fund	$ 6.8 million
Fund [illegible]	College Endowment	$12.6 million
Fund [illegible]	Charitable Foundation	$18.4 million
Fund 5	Religious Institution	$ 5.4 million
Fund 6		
Fund 7		
Fund 8	- - - - - - - - - - - - ETC. - - - - - - - - - - - -	
Fund 9		
Fund 10		
Fund 11		
Fund 12		
Fund 13	- - - - - - - - - - - - ETC. - - - - - - - - - - - -	
Fund 14		
Fund 15		

*Discretionary Management

Exhibit VIII

Selection of Discretionary Fund Managers

Studies: We have found no single investment manager or investment method with exceptional performance in all market environments.

It is, therefore, necessary to set forth the philosophy of the investment organizations, their approaches to the investment of discretionary funds and the resources they bring to bear on this part of their business.

The first priority should be to identify those characteristics felt to be most important to the fund. The more information one has about managers, the better the chances are of selecting a manager that has the characteristics the fund feels are important.

The following items are important areas of inquiry by the fund in discussions with prospective investment managers.

Organization: An understanding of the business base of the organization and its parent (if any), its current status and any conflicts with the parent's business, and the nature of ownership and capital give an indication of whether the investment management organization is likely to remain structured as it presently is or whether change is likely. The important points to review with the manager may be the importance of the investment entity's profits to the whole, the nature of its client base, how potential conflicts of interest within the management organization are resolved, and what motivation for the staff the form of ownership may provide.

Staff: Staff must be sufficient to support the investment philosophy, system, research capabilities and assets under management. In conjunction with biographies, interviews may provide the basis to assess the experience, maturity and capability of key staff members and portfolio managers, make certain the fund would receive the level of attention it deserves, and determine whether the investment philosophy is accepted throughout the organization.

Assets Under Management: The relative emphasis is on the types of accounts under management at one point in time. It may be important to know whether this reflects the organization's direction for the future. The fund should compare the mix of stock, bond and cash reserve assets to the philosophy, consider the number of stock and bond accounts, and find out how these may differ from the past.

Philosophy: The fund must discern the investment organization's central philosophy and method of implementation to determine whether such organization suits the fund uirements, especially with respect to asset mix, flexibility in

the use of cash reserves, and diversification of securities and issues within a portfolio. The fund must be certain that there is sufficient staff and a defined system in order to implement the philosophy. The fund should also know whether the philosophy is new or relatively long-standing and how it may be affected by extreme market conditions.

System: For a fund to be able to have confidence in a manager, the system must be understandable. It must fit the manager's organization, philosophy and personnel. From biographies or interviews the fund should discern whether key people are performing the most important functions in the system. Along with an understanding of how the system functions should come a sense of how ideas are generated, the main sources of input and the importance of the individual portfolio manager to the process. The account load per manager should also be considered at this point.

Research: This function may not be equally important for all investment philosophies and systems, but its importance and depth should be understood.

Fees: These are very often negotiable and flexible; so the fund should inquire specifically as to fees in relation to the size of the fund and special services required.

Performance: Performance reflects the results of the past and is not a prediction for the future. The performance of most investment organizations is dependent in great measure on general market conditions and must be viewed in relation to market conditions during the specific time period covered. It is important to understand the reason for the organization's performance results in the past (staff, philosophy, style, issue selection or industry weightings, among others).

Types of Money Management Organizations -

Banks
Insurance Companies
Investment Management Firms
Internal Staff

The great bulk of monies are still managed by banks. A major portion of this money is managed in individual accounts, and the treatment of those funds is very much like that provided by independent investment management companies. The banks have also established pooled investment trusts for funds. These are vehicles that serve a variety of purposes. For small funds they provide a way of getting intensive management in a way that is not practical if they were to be individually handled. For larger funds they offer a way of providing specialized investment opportunities, either in risky securities or in specialized holdings such as short-term investments where it is desirable to get a spread of holdings rather than concentrating in a limited number of issues.

Over the years, banks have emphasized their fiduciary responsibility for the monies under their supervision, and that has been a major selling point with them.

Insurance companies have become increasingly competitive in recent years in offering investment services. The great bulk of the monies which they handle for such funds are held in their general accounts. These are portfolios largely invested in bonds and mortgages but which also include stocks, real estate and various miscellaneous investments. These are massive pools of capital, and the insurance companies are able to offer guarantees with respect to contracts they offer based on their general accounts. Some of those contracts involve one-shot guarantees on a lump-sum deposit made at a specific time, and others provide a guarantee over some period of years.

In addition, insurance companies offer a broad range of separate account investments which are very similar to the pooled trust vehicles offered by banks. They include equity investment, separate accounts, bond investment, short-term investment accounts and, in the case of a few companies, real estate accounts.

The third major category of organizations offering services to funds are investment management firms. These include independent ones and those that are affiliated with brokerage houses or other financial institutions. These organizations typically offer services in the form of managing an individual account and tying the investment management of those funds to the particular needs and circumstances of their fund clients. Some of these organizations are specialists focusing on particular types of securities.

Finally, there are some funds, generally the vary largest ones, who use internal staff for management of their assets. That is a possibility that is worth consideration if you are confident that you can hire and retain competent professionals who will be able to work with the trustees of the fund in establishing policies and procedures that will meet their particular needs.

Conclusion: It is clear that there is a very broad menu to choose from in the investment advisory field. A systematic procedure for considering the various characteristics of the different organizations in light of your particular fund's requirements, can substantially increase the likelihood that you are going to be able to satisfy your long-term investment needs.

Exhibit IX

EXHIBIT 3

BASIC SERIES

INVESTMENT TOTAL ANNUAL RETURNS
1926 - 1976

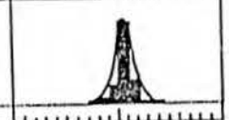
Series	Geometric Mean	Arithmetic Mean	Standard Deviation	Distribution
Common Stocks	9.2%	11.6%	22.4%	
Long Term Corporate Bonds	4.1%	4.2%	5.6%	
Long Term Government Bonds	3.4%	3.5%	5.8%	
U.S. Treasury Bills	2.4%	2.4%	2.1%	
Inflation	2.3%	2.4%	4.8%	

EXHIBIT 31

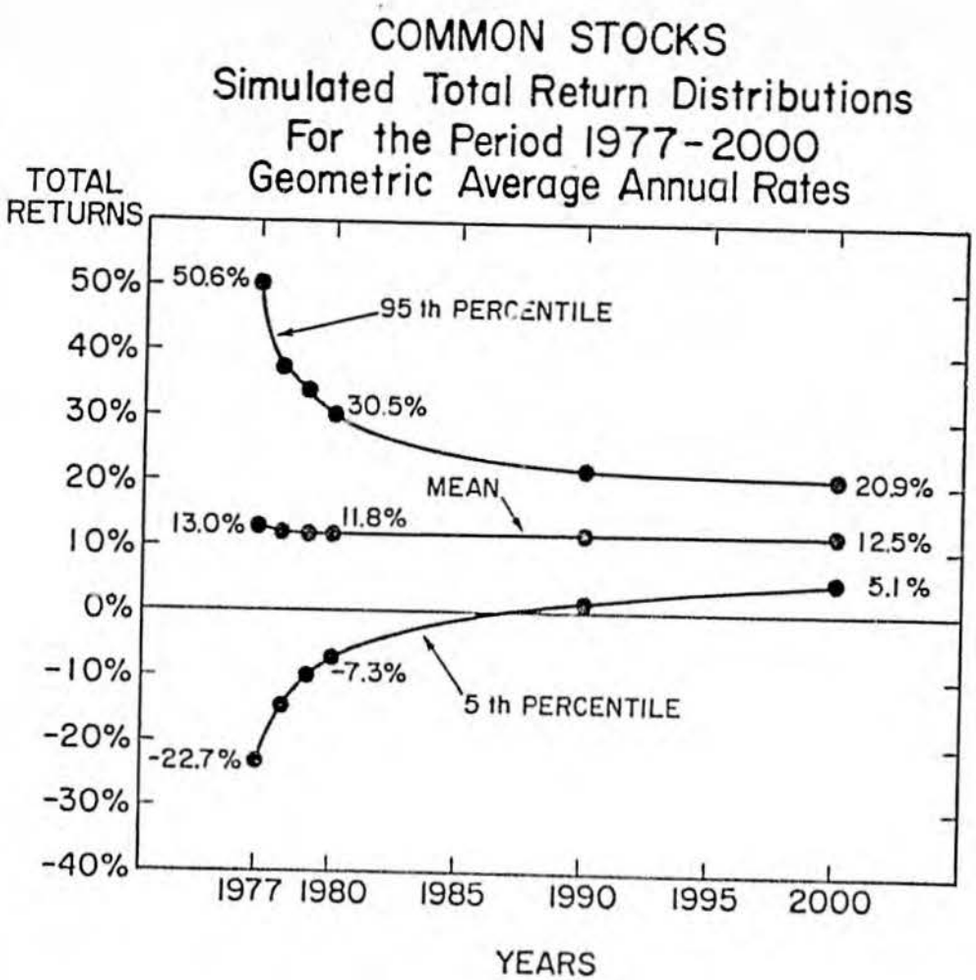

COMMON STOCKS
Simulated Total Return Distributions
For the Period 1977-2000
Geometric Average Annual Rates
TOTAL RETURNS
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
50.6%
95 th PERCENTILE
30.5%
MEAN
20.9%
13.0%
11.8%
12.5%
5.1%
-7.3%
5 th PERCENTILE
-22.7%
1977
1980
1985
1990
1995
2000
YEARS

EXHIBIT 33

LONG TERM CORPORATE BONDS
Simulated Total Return Distributions
For the Period 1977-2000
Geometric Average Annual Rates

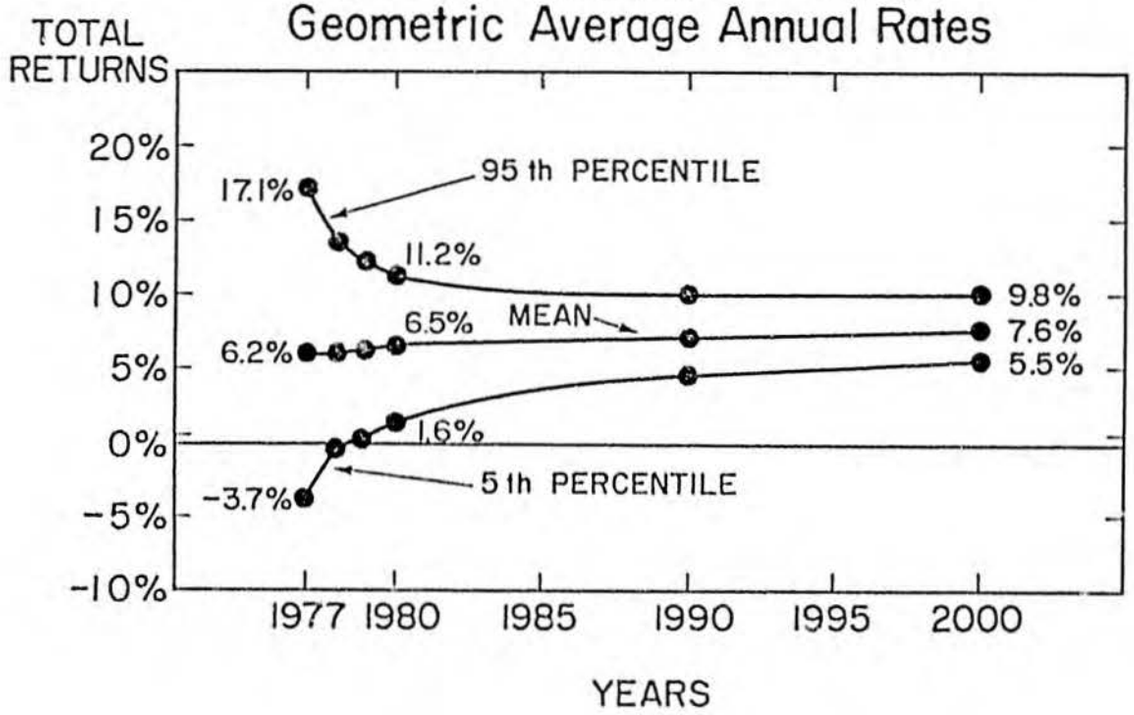


EXHIBIT 35

INFLATION

Simulated Rate Distributions For the Period 1977-2000 Geometric Average Annual Rates

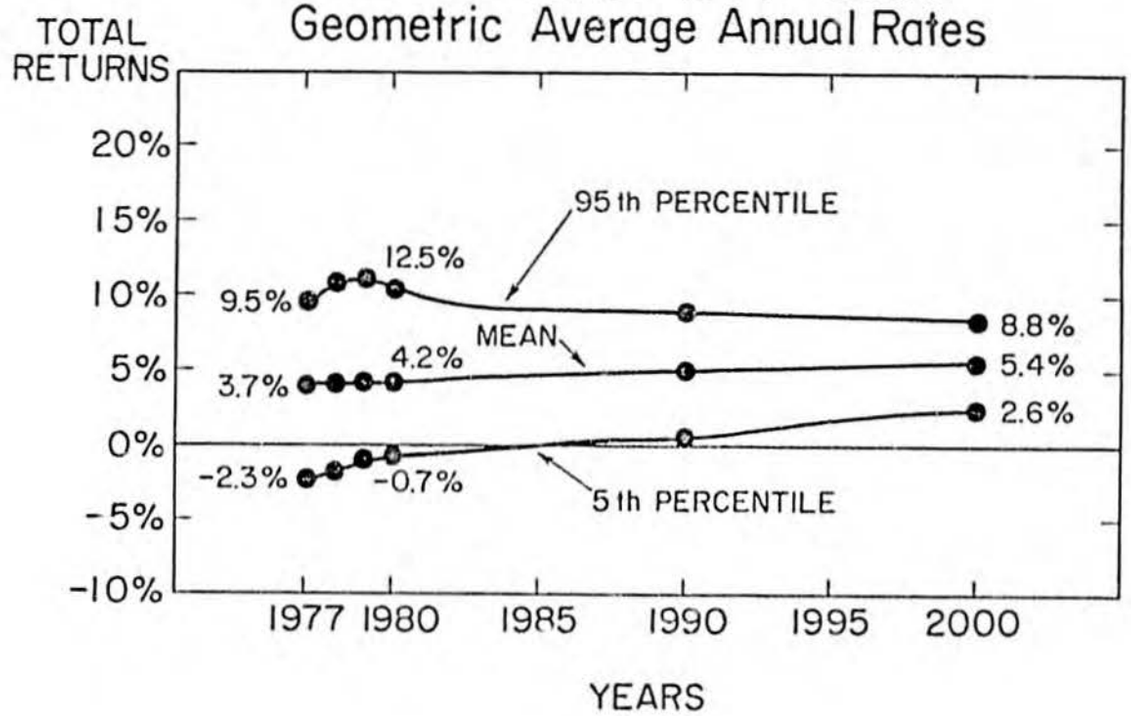
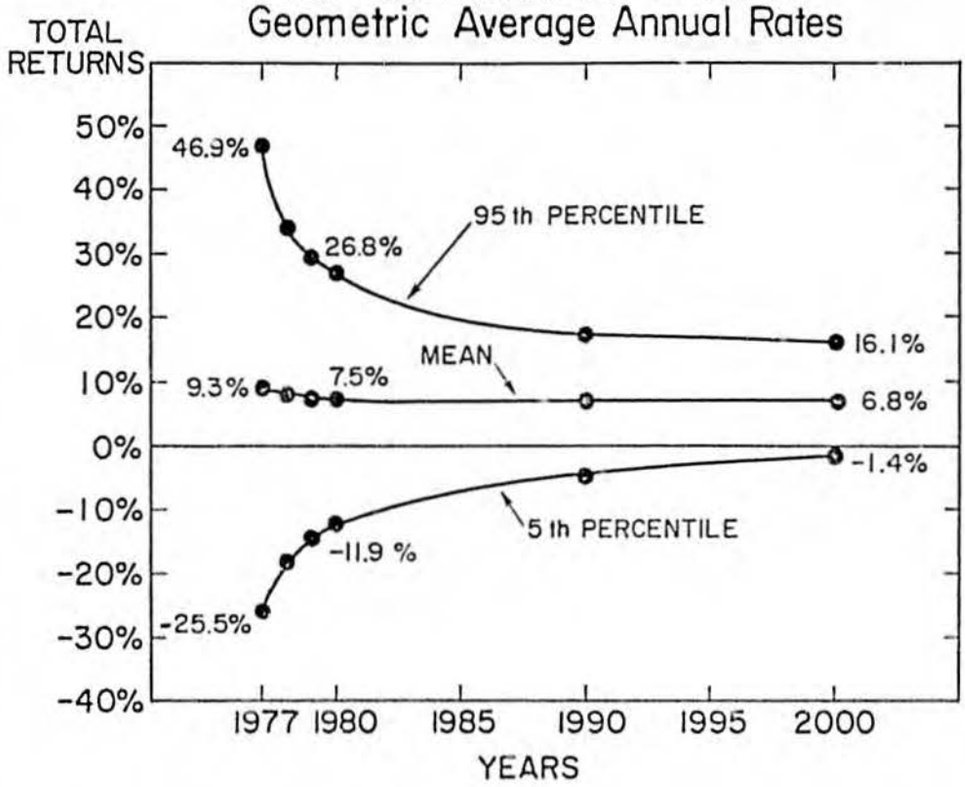


EXHIBIT 37

COMMON STOCKS, INFLATION ADJUSTED
Simulated Total Return Distributions
For the Period 1977-2000
Geometric Average Annual Rates



SCOMM

#9:48

WHITE, WELD & CO. INCORPORATED

December 8-9, 1976

LAA FILE #48

WHITE, WELD & CO. INCORPORATED

December 8-9, 1976

INDEX

Exhibit I

ATTENDEES

State of Alaska

Sterling Gallagher
Commissioner,
Department of Revenue

Jim Edenso
Deputy Commissioner,
Department of Revenue

Clark Gruening
House of Representatives

Ms. Donna Lehr
Deputy Director,
Policy Development and
Planning

Bob LeResche
Director,
Policy Development and Plann
Planning

Jim Rhode
Administrative Aide to the
Chairman, House Finance
Committee

Leo Rhode
House of Representatives

White, Weld & Co. Incorporated

Paul Hallingby, Jr.
Chairman

Charles C. Lee, Jr.
Vice Chairman

Thomas C. Pryor
Executive Vice President

Paul A. Downey
Senior Vice President ✓

Edward D. Little
Senior Vice President ✓

Anthony V. Leness
Senior Vice President 12/9/76 ratings

Nigel S. MacEwan
Senior Vice President inter Dept

E. Corprew Reed
Senior Vice President money market

Charles J. Fuhrmann II ✓
First Vice President

Theodore P. Swick / fed
First Vice President

Kenneth D. Butler ✓
Vice President

Gordon H. Taylor
Vice President

Exhibit II

AGENDA *

Wednesday, December 8th

9:30 AM	Reception
10:00-10:45 AM	Organization and Management
11:00-11:45 AM	Investments: Corporate Securities
12:00-12:45 PM	Investments: Money Market Instruments
1:00-2:15 PM	Luncheon
2:30-3:30 PM	Break.
3:45-4:30 PM	Portfolio Analysis and Monitoring
4:45-5:30 PM	Management of Discretionary Funds

Thursday, December 9th

9:30-10:15 AM	Utilization of Leverage
10:30-11:15 AM	Guarantees of Obligations of Others
11:30-12:15 PM	Determination and Impact of Credit Ratings
12:30-	Luncheon

*All meetings will be held in Conference Room F, White Weld & Co. Incorporated, 44th Floor, 91 Liberty Street.

Exhibit III

ORGANIZATION AND MANAGEMENT

Potential Problem Areas

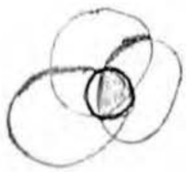
- Public Scrutiny
- Political Sensitivities/Insulation from Politics
- Avoiding Bureaucracy
- Maintaining Flexibility
- Responsibility
- Accountability
- Organizing to Administrate

- Evaluating Loan and Investment Proposals
- Structuring Transactions
- Execution of Transactions — WW
- Monitoring Loans and Investments
- Impact of Loans and Investments

- Project Evaluation and Selection
- Economic Sector Analysis
- Accessing Advice/Data
- Evaluating Advice/Data
- Using Advice/Data
- Selecting and Evaluating External Managers (if any)
- disclosure
- discretionary management vs in-house

independent performance audit

[illegible] funds money

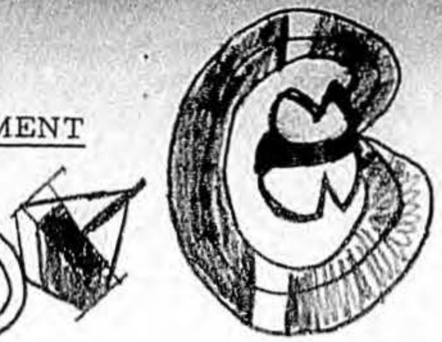


- definition of irrevocable contributions of principal from GF over 25% — whether or not to define additional irrevocable

pledge of income to cover loss of principle bad debt issue

ORGANIZATION AND MANAGEMENT

Principal Considerations



1) Autonomous organization.

2) Independent of and different from existing government agencies that presently deal with financing development projects and investments.

3) "Joint Stock" company - private and public sectors represented on policy boards.

4) Organizational structure should reflect cooperative and concerted action between government and private communities.

5) Directives and policies of operation should come primarily from boards, in cooperation with investment and development programs and policies of government.

6) Active government participation is necessary for establishment. In order to avoid concentration of power and decision making in the hands of government officials, policy boards must represent private citizens in majority.

7) Some members of the policy boards and all of the administrative body should be appointed by the elected bodies.

8) Bureaucratic delays should be avoided by decentralization of decision-making and power.

Overall policy board is the [illegible] immediate policy b[illegible] should be insulated somewhat

delegation

9. Strict & comprehensive loan & fiscal disclosure

10. Staff — Technical v discretionary advice v. in house assistance (comparative cost etc)

ORGANIZATION AND MANAGEMENT

Tentative Organizational Structure

Governor

- Appoints Public Members of Policy Board of Directors

Legislative

- Confirms Public Policy Board of Directors Appointments
- Determines Use of Fund Income
- Determines Percentage Allocation of Natural Resource Revenues to Fund if over 25%

Policy Board of Directors

- 12 Members
  - 4 Permanent/Government Members
    - 2 Legislators
    - 2 Commissioners
  - 7 Public (Appointed Members)
  - Fund President (Non-voting)

Duties and Responsibilities

- Determines Fund Policies
- Reports to the Legislature and to the Public on Fund Operations
- Selects Fund President
- Approves Fund Budgets
- Performs Audit and Operational Analysis of Fund
- Responsible for Sectoral Analysis of Alaskan Economy
- Approves Loans and Investments In Excess of Specified Amounts
- Appoints Public Members of Management Board of Directors

Management Board of Directors

- 5 Members
  - Fund President (Chairman)
  - 4 Public/Appointed Members

Duties and Responsibilities

- Approval of Loans and Investments
- Determination and Review of Fund's Organization and Operating Policies

Fund Personnel/Advisors

- Fund President
  - Chief Operating Officer
- Fund Staff
  - Invest or Re-invest Moneys not subject to Management Board Approval
  - Evaluate Loan and Investment Proposals; Prepare and Package Loan and Investment Proposals for Presentation to Management Board for Approval
  - Supervision and Monitoring of Investments
- Employ External/Internal Advisor (s) to assist in above functions
- Operating Management
  - Accounting and Control

Exhibit IV

Exhibit IV

INVESTMENTS

Corporate Securities

The purpose of the following discussion is to summarize briefly the principal characteristics of the various types of debt and equity securities most frequently issued by publicly owned corporations in the U. S. Although the discussion confines itself to the characteristics of publicly issued securities, these characteristics also apply generally to privately sold securities. The last section discusses the primary difference between publicly issued and privately sold corporate securities.

Debt Securities

Debt obligations are incurred by corporate entities for various reasons, the most important of which are to provide funds for the acquisition of fixed assets or to add additional cash resources to the borrower's supply of general working funds on a semi-permanent basis. The issuance of debt generally permits the borrower to accelerate its rate of growth beyond that which it would be capable of achieving were it solely dependent upon its own internally generated capital funds. Although debt securities can be of various types, all rely on the borrower's future revenues as the principal means of repayment.

Corporate Debt Holders

The holders of corporate debt instruments are creditors of the borrower; they generally cannot exercise control over its affairs and do not have a voice in its management unless it has violated certain of the provisions of the contract governing the borrowing. In addition, debt holders are not entitled to participate in the residual earnings of the borrower; instead, their return is limited to the fixed coupon rate of the security. Further, a debt security has a specified maturity date whereas a share of common or preferred stock has no fixed maturity. Importantly, the claims of creditors rank prior to those of common and preferred stockholders, although there may be differences in priority of claim among the various creditors themselves.

Principal Features of Debt Securities

The five principal aspects of a debt instrument are its fixed return (or "coupon"), its maturity, its repayment provisions, its redemption provisions and its restrictive covenants.

The coupon of debt instrument is determined by many factors, principally the credit standing of the issuer, the term of the borrowing and the market rates for similar issues of comparable companies at the time of the borrowing. Generally, the lower the credit standing of the issuer and the longer the term of the borrowing, the higher will be the interest coupon. An additional important influence

on the level of the interest coupon is the form of the security, and senior or secured obligations commonly carry lower interest coupons than unsecured or subordinated obligations. Certain subordinated obligations convertible into the common stock of an issuer may, however, carry a lower coupon than the same borrower's senior obligations in recognition of the conversion feature. Other factors also impact the level of the interest coupon on certain types of debt securities, with the repayment schedule over the term of the borrowing and the length of the period during which the issue cannot be optionally prepaid by the issuer bearing importantly on the interest coupons of long term borrowings. A more rapid repayment schedule and a longer prohibition on prepayment will usually contribute to a lower interest coupon. Finally, borrowings with extremely liberal contractural provisions commonly require higher rates of interest.

The maturity of a debt security denotes the date on or by which the entire principal amount of the borrowing must be repaid. In the U. S., the most common maturities for publicly issued debt securities are 5, 10, 20, 25 and 30 years. Intermediate term securities (securities with maturities up to ten years) frequently are repayable only at maturity via a single lump sum payment. Longer term issues (securities with maturities of 20 to 30 years) generally require periodic repayment, beginning after a certain number of years, through the means of a sinking fund. If a debt security has a sinking fund, the issuer must make periodic payments to a trustee, who uses these funds to purchase the securities in the market and retire them. A sinking fund is valuable to securities holders as it provides support for the market price of the issue and provides for the orderly repayment of the borrowing. The amount of a required sinking fund payment may be fixed or variable, depending on the terms of the borrowing. Most issues either require fixed payments during the repayment period (referred to as a level sinking fund), increasing payments over the repayment period, or fixed payments in each year except the last when a larger (or "balloon") payment is required. In certain cases borrowers are permitted to anticipate future sinking fund payments by "doubling up" or to surrender securities purchased in the open market in lieu of making a cash payment. Types of sinking fund schedules other than the above, including schedules which only require repayments to be made when earned, are used infrequently.

Some debt issues are serial issues. Instead of being a single issue subject to a sinking fund, a serial issue consists of separate securities which mature periodically until the final redemption date. Because of the differences in the maturities of the securities comprising a serial issue, it is common for a serial issue to be split into two or more tranches each bearing a different interest coupon.

In most debt issues, the borrower is given the right to buy back (or "call") all or a portion of its issue prior to maturity at a specified price. Commonly, the borrower is only allowed to exercise this right after a certain number of years. In some circumstances, the borrower is allowed to call its issue immediately. A call provision favors the borrower over the investor as, if an issue is called to permit the borrower to refinance at a lower interest cost, an investor may not be able to reinvest at an equally high yield. As a result, a borrower usually has to pay a premium over par value when it calls its securities, which normally amounts to one year's interest and declines to zero one year prior to maturity. Many intermediate term issues are callable only one or two years prior to maturity, however, at no premium.

For most debt issues, the contract between the borrower and the lender contains restrictive provisions designed to provide a measure of protection for the lenders' investment over the term of the borrowing. Usually these covenants limit such items as the amount of the borrower's additional debt, dividend payments, leases and mergers. Two of the most important restrictive provisions are the negative pledge provision - which prohibits a borrower from pledging its assets to secure future debts - and the cross default provision - which accelerates the repayment of the issue if the borrower defaults on certain of its other debts. Frequently, these covenants are contained in an indenture between a corporate trustee (generally a bank) and the issuer. If no indenture is used, these covenants are usually contained in the terms of the security itself. The extent of the restrictions placed on a borrower depends on his credit standing and the term of the issue.

Types of Debt Instruments

The two principal types of corporate debt securities are generally referred to as "notes" and "bonds" or "debentures". Notes are typically short to intermediate term obligations which are either payable in full at maturity or subject to a limited sinking fund, are callable at par one to two years prior to maturity and are not governed by a formal indenture. The restrictive covenants of a note issue are generally contained in the security itself and the provisions governing the operational aspects of repayment are found in an accompanying fiscal agency agreement between the borrower and a bank. Notes of the form described above are generally unsecured obligations. Notes, however, may be secured obligations and subject to a formal borrowing agreement with a corporate trustee.

The terms "bonds" and "debentures" are used interchangably to refer to unsecured long term obligations governed by a formal indenture between a corporate issuer and a trustee. Bonds and debentures usually require a sinking fund and permit a call by the borrower only after a certain number of years.

A mortgage bond is a bond issue secured by a lien on specific assets (usually fixed assets) of the borrower. The mortgage providing the lien to the bondholders may be closed-end or open end. Under a closed-end mortgage, no further bonds can be issued against the specific property. Under an open-end mortgage, the borrower can issue additional bonds under the same lien. To prevent an unlimited amount of indebtedness from being issued against specific property, most open-end mortgage bonds contain restrictions limiting the total debt under the mortgage to a certain percentage of the value of the pledged assets. Many mortgage bonds also contain an after-acquired clause which extends the lien to properties acquired after the date of the initial issue. Although mortgage bonds are secured by specific assets, a bondholder is nevertheless required to look to the earning power of the issuer as his primary source of repayment.

The most common type of mortage bond is a first mortgage bond and is so called because its security is a first lien on the pledged assets. A second mortgage bond is exactly the same as a first mortgage bond except that it is secured by a second lien on the pledged property. Second mortgage bonds are used less frequently than first mortgage bonds.

Collateral trust bonds are bonds secured by stocks or bonds or other securities pledged by the issuer to a trustee. In the event of default, the trustee sells the collateral and repays the bondholders. This type of bond, popular in the 1920's and 1930's, is now used infrequently.

Income bonds are securities whose interest is required to be paid only when earned by the issuer. This type of issue offers an investor little hope of a fixed return and its use has generally been restricted to corporate reorganizations.

A subordinated debenture is a security which is subordinated in right of payment to other indebtedness of the issuer. Such securities, however, are senior to both common and preferred stock in liquidation. Because of their status, subordinated debentures are commonly regarded by senior lenders as near-equity and consequently can support further senior borrowings. It is possible for an issuer to have several issues of subordinated debt outstanding and for one issue to be subordinate to another; such issues are called junior subordinated debentures.

Convertible debentures are debentures which may be converted into the common stock of the issuer at a specified price. Such debentures are usually subordinated and from the standpoint of a senior creditor are viewed as equity when the market price of the related stock is reasonably close to or above the specified conversion price. When the market price of the related stock is well below the conversion price, convertible debentures are viewed as non-convertible subordinated issues.

INVESTMENTS

Equity Securities

Common Stock

The most important type of equity security is common stock. Collectively, holders of a company's common stock are its owners and are entitled to share in its residual earnings if dividends are paid. They are also required to bear the risks of ownership, but their liability is generally limited to the amount of their original investment. In liquidation, common stockholders have a claim on the assets of the company only after the claims of all creditors and preferred stockholders have been settled in full. Unlike a debt security, common stock has no fixed maturity date; the only way in which a shareholder can realize his investment is to sell his shares in the secondary market.

Authorized common stock is the number of shares which a company can issue without amending its charter. Issued shares are shares which have been sold to the public. Outstanding shares are shares which are in the hands of the public. Treasury shares are shares which have been repurchased but not cancelled by the company.

The par value of a common stock is a stated figure in the corporate charter. Although it is used in the preparation of accounting material, the par value of common stock has little economic significance. Stocks may be authorized without par value and there is no difference in value between a par value and a no par value stock.

The book value of a common stock is derived by dividing the net worth of the issuing company, less the par value of any preferred shares outstanding, by the number of common shares. In theory, the book value of a common stock is its liquidating value, but in reality the actual liquidating value may be higher or lower than the book value. Like par value, the book value of a common stock is of little economic significance.

The market price of a common stock is the price at which the shares are being traded in one of the stock exchanges or in the over-the-counter market. The market value of a common stock usually will differ considerably from its par value, book value or liquidating value as it is a function of the company's current and anticipated future earnings and dividends and the perceived risk of the stock on the part of investors. The market capitalization of a company is equal to the number of outstanding shares times the market price per share.

As owners, common shareholders are entitled to elect the company's board of directors which, in turn, selects management and runs the business. The only recourse a shareholder has against management is via the board of directors. If a director acts in a manner which results in personal gain, he is liable to suit. In electing directors, a shareholder is entitled either to vote all of his shares for each director (majority voting) or to vote all of his shares, multiplied by the number of directors to be elected, for less than the total number of directors being elected (cumulative voting).

Certain companies may have one or more classes of common stock differing in their claims on income and as to voting p[illegible]r. One class of stock may have no voting privilege but be entitled to a prior claim on dividends while another may have voting power but a junior claim on dividends. The use of various classes of common stock is generally adopted when it is desired to concentrate the voting control of the company in a single group.

Occasionally, a common stock has preemptive rights. A preemptive right entitles a shareholder to maintain his proportional ownership interest in the company by giving him the first opportunity to purchase, on a pro-rata basis, any new common stock or convertible securities being sold to the public.

Preferred Stock

Preferred stock is a hybrid type of security, combining certain features of both debt and common stock. Like debt holders, holders of preferred stock do not participate in the residual earnings of the issuer and their rate of return is limited to the specified dividend of the preferred stock. Unlike interest payments on debt issues, however, preferred dividends can be omitted without resulting in the insolvency of the company. When preferred dividends are omitted, holders of preferred shares are usually entitled to elect a certain number of directors; otherwise, preferred shareholders do not participate in the management of the issuing company. Most preferred dividends are cumulative and if they are omitted, all arrearages must be made up before common dividends can be resumed. Preferred dividends are a contractural obligation, and are senior in right of payment to common dividends.

Preferred stock, like common stock, has no specified maturity. However, preferred stock is rarely viewed as a permanent means of financing and provisions are usually made for an issue's orderly retirement via a sinking or purchase fund. A preferred stock sinking fund operates in the same manner as a bond sinking fund. A purchase fund requires the issuer to expend a certain sum each year to acquire and retire the outstanding shares, but this requirement is usually limited by restricting the p[illegible]ce which can be paid for the shares to par value. If the market price is above par, no purchases will be made for the purchase fund.

Practically all preferred stocks have call provisions similar to those of corporate bonds. Certain preferred stocks are convertible into the common shares of the issuer. Other preferred stock issues are participating and share in the residual earnings of the issuer according to certain formulae, usually based on common dividends.

Differences Between a Public and a Private Securities Issues

A securities issue which has been registered with the Securities and Exchange Commission and sold in an underwritten offering by a syndicate of investment banking firms is referred to as a public issue. Such issues, whether listed on a major stock exchange or traded between dealers, are freely transferable between holders and consequently offer an investor a high degree of liquidity.

A securities issue which has been sold directly by an issuer to an institutional investor (such as an insurance company) without registration with the Securities and Exchange Commission is referred to as a private issue. Because they are not registered, private issues are not freely transferable and their marketability is consequently very limited. To compensate an investor for this lack of liquidity, private debt issues usually carry higher interest coupons and more restrictive covenants than similar public debt issues. Similarly, private equity issues generally cannot be sold at as advantageous prices as public equity issues.

INVESTMENTS

Long Term Government Securities

The direct obligations of the U. S. government and its agencies, together with securities bearing the full faith and credit guarantee of the government, constitute the highest quality debt securities in the U. S. Although certain of such securities, principally Treasury bills, are issued for very short maturities, a substantial amount is issued for maturities ranging from three to thirty years. Short term government securities are considered in the following section on Money Market Instruments.

The principal long term direct obligations of the U. S. government are Treasury notes and bonds which are usually issued for maturities of up to ten and thirty years, respectively. Such bonds and notes are sold periodically directly by the Treasury and a substantial amount is outstanding at all times; secondary market trading is very active.

Along with the direct obligations of the Treasury, the government also raises funds through its agencies which issue both short and long term securities either guaranteed by the government directly or backed by the agencies, which are themselves instrumentalities of the government. Many government agencies issue such securities, but principal among these are the Federal Home Loan Banks, the Federal National Mortgage Association, the Federal Land Bank and the Bank for Cooperatives. Issues of these borrowers are generally sold through public offerings underwritten by banks and investment firms.

Through Acts of Congress, the government has also authorized certain quasi-government entities to issue securities bearing its full faith and credit guarantee including the Export Import Bank of the U. S. and Private Export Funding Corporation. Congress has also authorized the application of its guarantee to securities of private corporate issuers for specific purposes, including bonds issued to finance the construction of U. S. flag ships under the provisions of Title XI of the Maritime Act. Such bonds have recently begun to be issued in significant amounts and are generally referred to as Title XI bonds.

INVESTMENTS

Tax-Exempt Bonds

Tax-exempt bonds are issued by public borrowers for a broad range of purposes subject to two basic restrictions. First, tax-exempt bond proceeds may not be used to finance projects in the private sector (except for solid waste and pollution control which are specifically excepted by the IRS). Second, tax-exempt bonds may not be used for arbitrage (reinvesting tax-exempt bond proceeds in higher yielding taxable debt securities). Capital items traditionally financed by tax-exempt bonds issued by state and local governments are local streets and roads, drains, water, sewer, schools and electric power generation, transmission and distribution. In recent years a growing volume of municipal bonds have been issued for housing (generally through a state housing finance authority), hospitals, airports, recreational facilities, transportation facilities (turnpikes, ports, etc.), bulk power supply systems (financed by a combination of both public and private electric utilities), pollution control and solid waste recovery systems.

There are essentially two basic types of tax-exempt bonds: (1) tax supported general obligations bearing an issuer's full faith and credit; (2) limited liability bonds payable solely from a specific source of revenues. The former is used primarily to finance non-revenue producing capital items such as a school building, courthouse, or local road. These facilities are supposed to benefit the general public and, therefore, debt issued for them is secured by the general taxing power of a local government. The latter, on the other hand, helps finance new capital for revenue producing projects that can be self-supporting from income derived from charges to those who use the facilities. Examples of "user-pay" municipal enterprises include toll roads, electric utilities, and water and sewer systems. The bond purchaser, or lender of money, is compensated by the issuer in terms of interest rate, which reflects perceived risk of the bonds and supply and demand factors of the tax-exempt bond market.

Exhibit V

Exhibit V

INVESTMENTS

Money Market Instruments

Money market instruments are short-term, high grade debt instruments that carry a minimum amount of risk and which can readily be turned into cash without material loss. Because of their relatively short maturity, generally no more than twelve to twenty-four months, money market instruments have a readily stable market value at all times. The principal types of money market securities are Treasury bills, notes and bonds, securities guaranteed by the government or issued by its agencies, municipal securities, bank certificates of deposit, bankers acceptances and corporate commercial paper. These securities are frequently purchased by investors seeking a temporary investment for surplus cash resources.

Treasury Securities

The Treasury securities which are most often referred to as money market instruments are Treasury bills and Treasury notes and bonds maturing within two years. Treasury bills, issued at auction each week and maturing in periods from three months to one year, are the backbone of the money market. Because of the large volume of Treasury bills outstanding and their continual issuance, a short term investor can normally find an issue with a maturity on or close to the date when his surplus funds will be required for their intended purpose.

Treasury bills are issued in bearer form and on a discount basis. The holder receives the full face value of the security at maturity in lieu of interim interest payments.

Treasury notes and bonds are government securities which have original maturities of over one year. Both are issued in bearer form and interest is payable upon presentation of a coupon. Treasury notes by law may not have a maturity in excess of ten years while Treasury bonds generally mature in more than ten years. As either Treasury bonds or notes move into the under two-year money market maturity range, they become attractive investments for investors who wish to invest for longer maturities than offered by Treasury bills.

Other Government Securities

A large number of government agencies also issue securities which are either guaranteed directly by the government or fully backed by the agencies themselves which are conservatively run entities chartered by Congress and supervised and/or owned by the government. Among such issuers are the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Land Banks, the Government National Mortgage Association, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Securities of these issuers are sold on both a coupon and a discount basis and for various maturities from three months to twenty years. Most issues are relatively short-term, however, and fall either directly into the money market or are drawn in as their maturity date approaches.

The attraction of these securities to money market investors is that their yields are somewhat higher than those of Treasury securities in light of the fact that they are indirect rather than direct obligations of the government.

Municipal Securities

Municipal securities possess two characteristics that are important prerequisites for a money market instrument: a large outstanding supply of obligations of various types and maturities and an active secondary market. The principal types of municipal securities traded in the money market are short term notes and long term bonds, drawn into the money market as their maturity approaches. Municipal securities are attractive to investors because of their tax-exempt yields.

Certificates of Deposit

A Certificate of Deposit is a negotiable instrument representing an interest bearing time deposit in a commercial bank. Certificates of deposit (CD's) began to be issued by commercial banks in 1961 and are ideal instruments for the investment of short term idle cash because a purchaser (lender) can negotiate with the bank seller (borrower) to tailor a CD to his exact maturity needs. Moreover, there is a very substantial amount of CD's outstanding and the secondary market is extremely active; if unforeseen circumstances arise an investor can sell his CD's in the marketplace. The interest rate on CD's is higher than that for either Treasury or agency securities of the same maturity.

Banker's Acceptances

A banker's acceptance is created when a commercial bank "accepts" (endorses) a draft drawn on it for the account of one of its customers for payment on a specified future date. Time drafts are usually associated with the payment for goods shipped in international trade. By accepting a time draft, a bank substitutes its credit for that of its customer and an accepted draft thus becomes similar to a security of the bank itself. Because of the very short maturity of most banker's acceptances, usually not more than ninety days, they are readily sold in the money market.

Commercial Paper

Commercial Paper is an unsecured promissory note of relatively short maturity issued by a well known corporation with good credit ratings to finance short term borrowing needs. Commercial Paper, because of Securities and Exchange Commission requirements, may not be issued for maturities longer than 270 days. All commercial paper is sold in bearer form at a discount with rates running slightly higher than Treasury bills. Because of their short maturity and high liquidity, commercial paper is an ideal money market instrument.

Exhibit VI

INVESTMENT COUNSEL ASSOCIATION OF AMERICA

STANDARDS OF MEASUREMENT AND USE FOR INVESTMENT PERFORMANCE DATA

INTRODUCTION

In recent years, the measurement of investment performance has become a topic of widespread interest. The techniques employed and the uses of the results have been varied and remain in a considerable state of change. Consequently, it is often impossible to gain perspective through comparisons of different investment records measured with different calculation methods. The principal problem is that there are no minimum, uniform standards for measurement and use guiding all organizations providing investment management services.

This report will formulate standards to provide the Investment Counsel Association of America membership with some guidelines and background information for compiling and using portfolio performance data. The problems associated with measuring investment results are complex and make it extremely difficult to arrive at a satisfactory and still simple solution to them. The central problem is that rarely, if ever, do two distinct portfolios have identical characteristics and investment objectives. Therefore, an attempt to compare the success of different investment programs solely on the basis of quantitative, statistical results without regard to the qualitative, individual, subjective circumstances must have limited value. However, despite the imperfect character of purely numerical measurements, the Investment Counsel Association of America does endorse certain standards of measurement and use. The recommendations are not intended to deal with

every facet of performance measurement. Some areas are intentionally treated in a general way in order to provide scope for adapting the object to varying circumstances and also because being too specific on some subjects would result in having to establish more "rules" to deal with exceptions than seems practical. Therefore, this report is confined primarily to recommendations of minimum standards on how to calculate performance data and how best to use this information. Moreover, while performance measurement of specific portfolios for manager or client use has unquestioned individual value, this report is written with the objective of facilitating performance comparisons between portfolios and the recommendations are stated accordingly.

No firm is required to adopt these recommendations unless it wishes to make the statement regarding the presentation of investment performance figures that: "All Representations are in Accordance with Standards Approved by the Investment Counsel Association of America."

There are many purposes served through comparisons of different portfolio performance records. Perhaps the purpose which is the most controversial is the presentation of a performance record in an effort to demonstrate to prospective clients the abilities of an investment manager. It is very difficult to construct a sample of data which is an accurate picture or is representative of a manager's work. The difficulties of data construction and interpretation exist whether the data sample is one account, ten accounts, or all of a manager's accounts, either of a certain class (by account type, size, performance rank, etc.) or in total. A major goal of the recommendations in this report is to provide a systematic approach to this problem. The solution, and the concept of this report, is that the following recommendations are not

isolated from each other but stand together as flexible parts of a unified filtering process. In most instances, the recommendations act as guides and are not narrowly restrictive. They encompass many filtering alternatives and the only general restrictions are disclosure and willingness to substantiate representations if requested.

Performance figures might be selected for presentation including (1) total portfolios of (2) all (3) corporate pension funds (4) managed continuously (5) during a five-year period and (6) with assets at the end of the period in excess of $1 million. The rates of return would be (a) calculated and displayed along the lines of the techniques described in this report, (b) captioned and/or footnoted to disclose that they include accounts filtered or selected with the six above criteria and (c) substantiated, upon request, as being representative, for example, if a median statistic, one account or ten accounts were used to represent all accounts. Within these same conditions, one account with a very favorable rate of return could be held out as an example of a firm's work so long as (a) the return calculations are appropriate, (b) it is disclosed that the account was selected and has one of the best rates of return of all accounts managed and (c) it is substantiated that it is only representative of itself and no other account managed by the firm.

to be done by an independent performance audit.

RECOMMENDATIONS:

I Standards of Measurement

1. Total Return: Investment results should be computed on a total return basis.

2. Rates of Return: Investment results should be computed as "time weighted" rates of return for use in making comparisons with market indices and results of other portfolios.

3. Total Portfolio and Various Portfolio Segments: Investment results should be computed on the total portfolio and, where useful to demonstrate the ingredients of the total results or specific areas of investing, on the portfolio's various segments.

4. Definitions within Portfolio Segments: Investment results for portfolio segments should be based on comparable characteristics such as types, marketability and size of holdings.

5. Total Time Period Shown: Investment results quoted to third parties should include at least five years' experience where possible.

6. Time Intervals Used: Investment results should indicate the total rate of return on an annual basis and on a compound annual basis for multiple time periods.

7. Variability of Return: Investment results should be characterized not only by the magnitude attained but also by the degree of variability experienced in reaching the return.

II Standards of Use

1. Management Discretion: Investment results should be used to reflect the manager's performance only if he operated with effective discretion.

2. Number of Results Shown: Investment results should be shown for all portfolios within the designated category. Adequate disclosure should be made regarding the description of the sample shown. If requested, substantiation should be provided of representations made.

3. Tax-Exempt Portfolios: Because of the differences in impact on investment results of various tax brackets, some common base should be used when comparing rates of return. Tax-exempt portfolios automatically solve this problem and are preferred for use.

4. Similarity of Investment Objectives: Comparisons of investment results should be made only for portfolios with similar objectives.

5. Size: Comparisons of investment results should be made only for portfolios within reasonable categories of size.

6. Relevance to Third Parties: The selection of investment results shown should relate in some logical way to the circumstances of those receiving the information.

7. Comparative Format: Investment results should be shown in a way to facilitate comparisons.

8. Distribution of Information: The distribution of investment results is regulated under the Investment Advisers Act of 1940 and care should be taken to comply with these regulations.