

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

3732 HSTA HCR 17 (FILE 1) - HCR 17 (FILE 2) 608

(3)

Bankers Trust

COLUMN WRITE

| | No. of Shares | Cost | Mkt. | Gain (Loss) |
|--|---------------|------|------|----------------|
|--|---------------|------|------|----------------|

| | | | | | |
|----|--------------------|---------|-----------|-----------|----------|
| 1 | NC R Corp. | 28,600 | 1,555,870 | 1,969,688 | 413,818 |
| 2 | Newmont Mining | 24,400 | 1,098,774 | 1,091,700 | 1,126 |
| 3 | Occidental Petrol | 54,500 | 1,668,140 | 1,839,375 | 171,235 |
| 4 | Owens Corning | 18,000 | 372,919 | 342,500 | 25,419 |
| 5 | Owens Ill Ind | 22,700 | 897,044 | 1,135,000 | 237,956 |
| 6 | Pepsico Inc. | 40,700 | 1,788,574 | 2,330,025 | 541,501 |
| 7 | Perkin Elmer Corp. | 48,700 | 1,252,701 | 1,327,075 | 74,374 |
| 8 | Pfizer Inc. | 69,700 | 2,732,950 | 3,363,025 | 630,075 |
| 9 | Phibro Salmon | 62,800 | 2,109,715 | 2,684,700 | 574,985 |
| 10 | Phillips Petrol | 123,102 | 1,600,682 | 1,523,387 | <77,295> |
| 11 | Raytheon Co. | 33,200 | 1,434,981 | 1,643,400 | 208,419 |
| 12 | Red Lion Inc. | 26,500 | 888,384 | 1,116,313 | 227,929 |
| 13 | Reynolds, RJ | 111,937 | 2,900,763 | 3,190,205 | 289,442 |
| 14 | Rock & Hvac Co. | 5,500 | 374,207 | 394,625 | 20,418 |
| 15 | Schering Plough | 22,700 | 396,884 | 1,089,600 | 192,716 |
| 16 | Seale GP | 21,200 | 1,118,315 | 1,370,050 | 251,735 |
| 17 | SmithKline Beckman | 32,700 | 1,915,480 | 2,227,688 | 312,207 |
| 18 | Sperry Corp. | 31,827 | 1,369,604 | 1,631,134 | 270,525 |
| 19 | Squang O Co. | 33,000 | 1,247,682 | 1,233,325 | <14,357> |
| 20 | Sunibe Corp. | 24,000 | 1,293,279 | 1,668,000 | 374,720 |
| 21 | Stand. Oil - Ohio | 109,608 | 4,928,439 | 5,096,722 | 168,333 |
| 22 | Stanley Mfg. | 8,800 | 251,115 | 253,000 | 1,885 |
| 23 | Starling Drug | 39,000 | 1,102,280 | 1,204,125 | 101,845 |
| 24 | Tektronix Inc. | 18,400 | 1,199,157 | 1,163,800 | <35,357> |
| 25 | Tenneco Inc. | 59,998 | 2,370,553 | 2,527,416 | 156,863 |
| 26 | Texaco Inc. | 112,700 | 4,092,611 | 4,057,200 | <35,411> |
| 27 | Thomas & Betts | 9,400 | 339,080 | 344,275 | 5,195 |
| 28 | Time Inc. | 25,000 | 1,169,804 | 1,428,125 | 258,321 |
| 29 | Times Mirror Co. | 26,900 | 1,119,642 | 1,415,613 | 295,970 |
| 30 | Timken Inc. | 11,100 | 564,712 | 622,681 | 57,969 |
| 31 | TRW Inc. | 15,600 | 1,126,726 | 1,203,150 | 76,424 |
| 32 | UAL Inc. | 20,300 | 752,362 | 1,116,500 | 164,138 |
| 33 | Union Carbide | 30,500 | 1,539,223 | 1,586,000 | 46,777 |
| 34 | Unid. Technologies | 53,100 | 1,966,365 | 2,203,650 | 237,285 |
| 35 | Upjohn Co. | 12,400 | 798,312 | 1,426,000 | 627,688 |
| 36 | V F Corp. | 32,400 | 1,139,726 | 1,215,000 | 75,274 |
| 37 | Warner Commun. | 38,878 | 922,539 | 1,190,639 | 268,100 |
| 38 | Warner Lambert | 35,500 | 1,263,885 | 1,411,125 | 147,240 |
| 39 | Wat. Mt. Depprell | 3,800 | 201,677 | 162,450 | <39,227> |
| 40 | Westinghouse Elec. | 75,900 | 2,019,862 | 2,684,963 | 674,100 |
| | Xerox Corp. | 43,800 | 1,829,787 | 2,359,725 | 529,938 |

① Co. in South Africa Batterymarch
7/31/85

WRITE
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| | No. of Shares | Cost | Mkt. | Gain (Loss) | |
|----|------------------------|--------|-----------|----------------|-------------|
| 1 | Allis-Chalmers | 18,800 | 315,276 | 94,000 | < 221,276 > |
| 2 | Amay Inc. | 21,300 | 459,688 | 343,462 | < 116,226 > |
| 3 | Amer. Hospital Sup. | 5,700 | 188,936 | 255,787 | 66,861 |
| 4 | Ameco Inc. | 52,600 | 567,161 | 565,450 | < 1,711 > |
| 5 | Baker Int'l Corp. | 28,200 | 563,697 | 500,500 | < 63,197 > |
| 6 | Black & Decker | 11,000 | 225,720 | 213,125 | < 12,595 > |
| 7 | Boeing Co. | 10,350 | 635,131 | 808,400 | 173,268 |
| 8 | Caterpillar Tractor | 27,200 | 1,078,244 | 1,003,000 | < 75,244 > |
| 9 | Celanese Corp. | 2,800 | 197,456 | 354,900 | 157,444 |
| 10 | Chesebrough-Pond's | 21,100 | 709,722 | 691,025 | < 18,697 > |
| 11 | Chicago Pneumatic Tool | 24,500 | 585,427 | 637,000 | 51,572 |
| 12 | Chevron Corp. | 17,700 | 641,140 | 650,475 | 9,334 |
| 13 | Control Data | 26,500 | 856,680 | 702,250 | < 154,430 > |
| 14 | Crown Cork | 7,500 | 400,162 | 477,187 | 77,025 |
| 15 | Cummins Engine | 3,300 | 213,741 | 215,325 | 1,584 |
| 16 | Deere & Co. | 27,400 | 787,798 | 804,875 | 17,077 |
| 17 | Diamond Shamrock | 11,200 | 258,899 | 194,600 | < 64,299 > |
| 18 | Dresser Ind. | 28,800 | 590,276 | 669,600 | 79,324 |
| 19 | DuPont E.I. | 21,800 | 972,036 | 1,305,275 | 333,239 |
| 20 | Eaton Corp. | 12,000 | 567,640 | 658,500 | 90,860 |
| 21 | Ford Motor | 23,800 | 906,251 | 1,062,075 | 155,824 |
| 22 | Motor Wheel | 500 | 6,010 | 6,875 | 865 |
| 23 | Gen. Corp. | 2,100 | 59,104 | 63,262 | 4,158 |
| 24 | Gen. Motors, Class E | 680 | 12,866 | 30,600 | 17,733 |
| 25 | Gen. Motors Corp. | 10,400 | 258,616 | 735,800 | < 22,816 > |
| 26 | Goodyear Tire | 21,501 | 535,247 | 620,841 | 85,598 |
| 27 | Harco Corp. | 22,200 | 629,285 | 660,450 | 31,165 |
| 28 | Hannaford | 11,000 | 647,807 | 720,500 | 72,692 |
| 29 | Hoffman Co. | 32,700 | 584,929 | 572,250 | < 12,679 > |
| 30 | ITT Corp. | 34,000 | 434,305 | 289,000 | < 145,305 > |
| 31 | Midland-Down | 9,100 | 160,569 | 167,212 | 6,643 |
| 32 | Mobil Corp. | 28,800 | 805,301 | 253,200 | 47,899 |
| 33 | NEH Corp. | 3,500 | 63,945 | 75,250 | 11,305 |
| 34 | NEA Corp. | 22,600 | 635,352 | 776,875 | 141,523 |
| 35 | Newmont Mining | 20,100 | 926,383 | 899,475 | < 26,908 > |
| 36 | Norton Co. | 20,300 | 747,118 | 761,250 | 14,131 |
| 37 | Occidental Petroleum | 17,800 | 538,806 | 600,750 | 61,944 |
| 38 | Phillips Dodge | 7,000 | 196,140 | 166,250 | < 29,890 > |
| 39 | Phillips Petroleum | 17,619 | 205,672 | 218,035 | 12,363 |
| 40 | Robins & Co. Inc. | 28,300 | 571,766 | 300,687 | < 271,078 > |
| | SPS Technologies | 8,600 | 232,372 | 264,450 | 32,078 |

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Bathory March

COLUMN WRITE

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| No. of Shares | | East | West | Gain | |
| | | | | Loss | |

| | | | | | |
|----|------------------|---------|--------------|--------------|------------|
| 1 | ST. Oil - Oliver | 8,900 | 419,111 | 404,550 | 14,561 |
| 2 | Taxes due | 83,800 | 834,651 | 835,800 | 10,548 |
| 3 | Murphy | 500 | 7,578 | 10,687 | 3,115 |
| 4 | | 754,550 | \$ 2,125,993 | \$ 2,247,953 | \$ 521,260 |
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Co. in South Africa
7/31/85

Eaton/Vance

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| | No. of Shares | Cost | Mkt | Gain (Loss) | |
|----|--------------------|----------------|---------------------|---------------------|--------------------|
| | | \$ | \$ | \$ | |
| 1 | Amar. Broadcasting | 10,000 | \$ 730,613 | * 1,138,750 | * 408,138 |
| 2 | Bausch & Lomb | 65,000 | 1,596,987 | 2,136,875 | 539,886 |
| 3 | Coca Cola | 20,000 | 1,167,420 | 1,445,000 | 277,580 |
| 4 | Deere & Co | 50,000 | 1,506,950 | 1,468,750 | < 38,200 > |
| 5 | Duke (John) | 42,050 | 1,148,151 | 1,082,787 | < 65,364 > |
| 6 | Int'l Bus. Machs. | 21,000 | 2,740,450 | 2,758,275 | 18,425 |
| 7 | Loctite Corp. | 15,000 | 1,553,660 | 1,428,750 | < 124,910 > |
| 8 | Meyrow Hill Inc. | 33,000 | 1,524,194 | 1,555,125 | 30,931 |
| 9 | Northrop & Co. | 15,000 | 1,409,750 | 1,693,125 | 283,375 |
| 10 | Motorola Inc. | 45,000 | 1,704,865 | 1,631,250 | < 73,615 > |
| 11 | Pepsico Inc. | 35,000 | 1,490,300 | 2,003,750 | 513,450 |
| 12 | Raytheon Co. | 40,000 | 1,786,965 | 1,980,000 | 193,035 |
| 13 | Rockwell Corp. | 33,000 | 1,575,000 | 2,293,500 | 718,070 |
| 14 | Stanley Ind. | 45,000 | 1,026,280 | 1,293,750 | 267,470 |
| 15 | Thomson & Betts | 40,000 | 1,421,450 | 1,465,000 | 43,550 |
| 16 | | | | | |
| 17 | | <u>539,050</u> | <u>* 22,393,037</u> | <u>* 25,384,858</u> | <u>* 2,991,821</u> |
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Co. in South Africa

Lehman

7/31/86

COLUMN WRITE

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No. of Shares Cost Unit Gain (Loss)

| | No. of Shares | Cost | Unit | Gain (Loss) |
|---------------------|---------------|---------------|---------------|--------------|
| Abbott Labs | 12,900 | \$ 503,448 | \$ 715,950 | \$ 212,502 |
| Air Good & Chem. | 10,900 | 476,509 | 611,762 | 135,253 |
| Amer. Intl. Group | 16,700 | 1,417,412 | 1,446,637 | 29,225 |
| Black & Decker | 26,700 | 579,879 | 517,312 | < 62,567 |
| Caterpillar Tractor | 13,900 | 438,073 | 512,563 | 74,540 |
| Chase Manhattan | 11,700 | 685,621 | 669,825 | < 15,796 |
| Citicorp | 27,200 | 1,004,521 | 1,302,200 | 297,679 |
| Coca Cola | 22,000 | 1,496,673 | 1,589,500 | 92,827 |
| Control Data | 44,300 | 1,278,248 | 1,173,950 | < 104,298 |
| Dart & Kraft | 23,500 | 857,744 | 816,625 | < 41,119 |
| Deere & Co. | 25,500 | 781,034 | 749,062 | < 1,972 |
| Dow Chemical | 26,500 | 762,814 | 777,187 | 208,374 |
| Dupont E & I | 34,900 | 1,875,087 | 2,089,637 | 214,550 |
| Edison Corp. | 27,200 | 1,263,402 | 1,428,000 | 164,598 |
| Ford Motor | 31,500 | 1,262,073 | 1,405,687 | 143,614 |
| General Electric | 35,900 | 1,992,442 | 2,302,087 | 309,645 |
| General Motors | 20,100 | 1,438,191 | 1,422,075 | < 16,116 |
| Gillette Co. | 3,100 | 179,335 | 186,387 | 7,052 |
| Intl. Bus. Machs. | 39,200 | 4,716,438 | 5,149,900 | 433,461 |
| Johnson & Johnson | 12,800 | 600,393 | 867,150 | 266,757 |
| Marck & Co. | 4,000 | 340,157 | 451,500 | 111,343 |
| NCR Corp. | 23,800 | 573,682 | 818,125 | 244,443 |
| Novaco Inc. | 9,900 | 424,876 | 566,775 | 141,899 |
| Orlon Inc. | 26,700 | 930,570 | 1,124,737 | 194,227 |
| Rich-Vicks Inc. | 12,200 | 324,787 | 445,300 | 120,513 |
| Richardson-Vega | 7,100 | 263,389 | 340,800 | 77,410 |
| Seal & O. | 13,900 | 735,936 | 898,287 | 162,351 |
| Spermin Corp. | 3,200 | 163,357 | 164,000 | 643 |
| Std. Oil - Ohio | 15,500 | 681,275 | 720,250 | 39,475 |
| Tenneco | 27,100 | 1,130,014 | 1,141,587 | 11,573 |
| | 615,900 | \$ 29,153,372 | \$ 32,605,458 | \$ 3,452,086 |

Co. in South Africa

Rosenberg

7/31/85

COLUMN WRITE

| | No. of Shares | Cost | Inst | Gain (Loss) | |
|----|---------------------|---------|---------------|---------------|--------------|
| 1 | Abbott Labs | 17,000 | \$ 776,129 | \$ 943,500 | \$ 167,371 |
| 2 | Amer. Hospital Sup. | 10,000 | 382,910 | 448,750 | 65,840 |
| 3 | Amer. Intl. Group | 30,000 | 2,022,823 | 2,598,750 | 575,927 |
| 4 | Amer. Cyanamid | 6,500 | 313,161 | 345,312 | 32,151 |
| 5 | Amer. Express | 33,000 | 1,398,256 | 1,460,250 | 61,993 |
| 6 | Amer. Oil | 32,000 | 1,201,408 | 1,544,000 | 342,591 |
| 7 | Baxter Travenol | 18,300 | 279,455 | 267,637 | < 11,818 > |
| 8 | Beatrice Co. | 16,000 | 501,081 | 480,000 | < 21,081 > |
| 9 | Boeing Co. | 10,000 | 301,825 | 482,500 | 180,675 |
| 10 | Cristal Myers | 10,000 | 458,348 | 601,250 | 142,901 |
| 11 | Chesbrough Bonds | 11,000 | 377,358 | 360,250 | < 17,108 > |
| 12 | Coca Cola | 20,600 | 1,383,947 | 1,488,350 | 104,403 |
| 13 | Colgate Palmolive | 20,700 | 515,918 | 577,012 | 61,094 |
| 14 | Dun & Bradstreet | 6,000 | 357,199 | 461,250 | 104,051 |
| 15 | Eastman Kodak | 17,500 | 596,428 | 609,187 | 12,759 |
| 16 | Gen. Electric | 35,000 | 1,973,663 | 2,244,375 | 270,712 |
| 17 | Gillette Co. | 10,000 | 590,502 | 601,250 | 10,747 |
| 18 | Intergroup Group | 15,000 | 508,136 | 624,375 | 116,239 |
| 19 | Intl. Bus. Machs. | 30,000 | 3,774,482 | 3,941,250 | 166,768 |
| 20 | Marathon Co. | 13,000 | 1,308,166 | 1,467,375 | 159,208 |
| 21 | McIntire + Papp | 25,000 | 1,958,031 | 2,000,000 | 41,968 |
| 22 | Nabors | 3,102 | 180,276 | 258,629 | 78,353 |
| 23 | Parke-Davis | 25,000 | 776,064 | 843,750 | 67,686 |
| 24 | Pfizer | 28,500 | 1,227,225 | 1,375,125 | 147,899 |
| 25 | Rockwell Dodge | 20,000 | 418,425 | 475,000 | 62,575 |
| 26 | Reynolds R. T. | 8,250 | 248,260 | 235,125 | < 13,135 > |
| 27 | Schering Plough | 14,000 | 610,701 | 672,000 | 61,299 |
| 28 | Squibb Co. | 8,000 | 499,005 | 556,000 | 56,995 |
| 29 | Westinghouse | 7,000 | 184,302 | 247,625 | 63,323 |
| 30 | Xerox | 21,000 | 1,029,481 | 1,131,375 | 101,893 |
| 31 | | | | | |
| 32 | | 517,452 | \$ 26,147,565 | \$ 29,368,514 | \$ 3,220,949 |
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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y. State Capitol
Juneau, Alaska 99811
(907) 465-3991

February 16, 1984

MEMORANDUM:

TO: Representative Tony Vaska

FROM: Jay Livey
Legislative Analyst

RE: Divestment of State of Alaska Public Funds Invested in
Corporations and Firms that Do Business in South Africa
Research Request 84-008

You asked that we investigate the impact on Alaska of a law that would require the public investment funds of the State to divest holdings of all corporations and banks that do business with South Africa. Specifically, we were asked to:

1. identify the funds that would be affected by this investment restriction;
2. determine the amount of funds that would be affected: and
3. analyze the financial consequences to the State of these divestment requirements.

Public Investment Funds in Alaska

We identified the following seven public investment funds that would be affected by a divestment law: Alaska Permanent Fund, Public School Fund, International Airport Fund, General Fund, University of Alaska Permanent Fund, Teachers Retirement Fund, and Public Employees Retirement Fund. Table 1 provides an investment profile of each of these funds.

Table
State of Alaska Investment Funds
Balance as of 12/30/83
(\$ Thousands)

| | Permanent Fund | General Fund | Public Employees Retirement Fund | Teacher Retirement Fund | Public School Fund | Internat'l Airport Fund | U of A Permanent Fund | Total*** | % of Total |
|---------------------------|----------------------|----------------------|---|-------------------------------|--------------------------|-------------------------------|-----------------------------|----------------------|---------------|
| Repurchase Agreements | \$ 144,000.0 | \$ 172,100.0 | \$ 12,900.0 | \$ 6,480.0 | \$ --- | \$ --- | \$ --- | \$ 335,480.0 | 4.3 |
| United States T. Bills | 275,000.0 | 461,000.0 | 42,000.0 | 35,000.0 | --- | --- | --- | 813,000.0 | 10.3 |
| Commercial Paper | 25,000.0 | --- | 3,415.0 | --- | --- | --- | --- | 28,415.0 | |
| Certificat of Deposit | 90,000.0 | --- | --- | --- | --- | 500.0 | --- | 90,500.0 | 1.2 |
| U.S. Bonds & Notes | 4,104,000.0 | 1,395,000.0 | 408,500.0 | 218,500.0 | 39,527.9 | 13,451.9 | 8,436.3 | 6,187,416.2 | 78.3 |
| Corporate Bonds | 29,500.0 | 3,430.0 | 31,846.1 | 25,547.8 | --- | --- | --- | 90,323.8 | 1.2 |
| Corporate Stock | 100,327.2 | --- | 89,594.5 | 75,060.2 | --- | --- | --- | 264,981.8 | 3.3 |
| Agency Holdings | --- | 8,000.0 | 34,182.2 | 29,174.3 | 5,983.3 | --- | 1,927.4 | 79,267.2 | 1.0 |
| Savings | <u>92.4</u> | <u>17.1</u> | <u>.6</u> | <u>11.4</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>121.5</u> | |
| TOTAL*** | \$4,767,919.5 | \$2,039,547.1 | \$622,438.4 | \$389,773.7 | \$45,511.2 | \$13,951.9 | \$10,363.7 | \$7,889,505.5 | |

*Includes Treasury Bills

**Fund Balance is as of 1/05/84

***Totals may not add due to rounding

Prepared by: House Research February 1984.

Permanent Fund. The Permanent Fund was established by AS 37.13.010 and is composed of funds generated by mineral lease rentals, royalties, royalty sale proceeds, certain federal mineral revenue sharing proceeds and other money appropriated by law to the fund.

Investment decisions concerning fund assets are made by the Board of Trustees of the Alaska Permanent Fund Corporation (AS 37.13.120), and are based on both statute and flexible guidelines established by the Permanent Fund board. Paragraph (a) of section 120 states that the prudent man rule shall be applied by the board in the management and investment of the fund's assets. The paragraph goes on to say that:

...the prudent-man rule as applied to investments of the corporation means that in making investments the board shall exercise the judgement and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it not in regards to speculation but in regards to the permanent disposition of funds, considering probable safety of capital as well as disposable income.

Paragraphs (b) and (c) of section 120 specify that assets shall be used only for income-producing investments and that the board shall maintain reasonable diversification among investments, respectively. Paragraph (g) lists allowable investments and states that the board may invest corporation assets in these investments "at such competitive national market rates or prices as are applicable to the investment." (emphasis added).

Public School Fund. The public school fund is established by AS 37.14.110 and its assets are derived from "a sum equal to one-half of one percent of the receipts derived from the management of State land, including amounts paid to the State as proceeds of sale or annual rent of subsurface rights, mineral lease rentals, royalties, royalty sale proceeds and mineral revenue sharing payments or bonuses" (AS 37.14.150). The proceeds of the fund investments are to be used to support education programs.

The Public School Fund is managed by the Public School Fund Advisory Board composed of the Commissioner of the Department of Education, three members elected by the Board of Education from among its membership and the Commissioner of the Department of Revenue. The Commissioner of Revenue, with the approval of the advisory board, may invest the funds in the same manner as specified in AS 39.35.110 which lists the guidelines used for investing the Public Employees Retirement Fund.

International Airport Fund: The International Airport fund receives all revenue, fees, charges and rentals derived by the State from the ownership, lease, use and operations of international airports owned by the State. (Currently this includes only the Anchorage and Fairbanks airports.) The money in the revenue fund is only used to pay or secure the payment of principal and interest of bonds issued by the legislature to acquire, improve, or construct facilities at these airports (AS 37.15.140). The investment of the assets of the International Airport Fund is made at the discretion of the State Bond Committee (created by AS 37.15.110) composed of the Commissioners of Commerce and Economic Development, Administration and Revenue.

General Fund. All of the receipts and fees received by the Department of Revenue are deposited in the treasury (AS 37.10.060). When the Commissioner of Revenue determines that there is a surplus of State funds, the surplus shall be invested at national market rates (AS 37.10.070).

University of Alaska Permanent Fund. This fund includes all the money derived from the sale or lease of lands granted to the Territory of Alaska by the U.S. Congress (Act of January 21, 1929) and any additional gifts, bequests or endowments made to the University of Alaska. The Commissioner of Revenue, through the Governor, is given the responsibility for investing the funds and is guided by the prudent man rule (AS 14.40.400).

Teachers Retirement Fund (TRS): AS 14.25.180 authorizes the Commissioner of Revenue to be the custodian of the assets of the fund and to invest the assets as provided for in the statutes. The investment options include, among others, federal government securities, corporate stocks and bonds, commercial paper, bankers acceptances and obligations of agencies of the federal government. The income from these investments is used to pay the benefits of the TERS system.

Public Employees Retirement Fund (PERS). AS 39.35.110 authorizes the Commissioner of Revenue to invest the surplus funds of the PERS fund at competitive market rates in a variety of investments similar to those allowed by the TRS fund. The proceeds from these investments are used to pay for the public employees retirement system (AS 39.35.110).

Fund Assets Affected by Divestment

Table 1 shows the assets of all State investment funds and the particular market instruments in which they are invested. The source for this table is Department of Revenue and Permanent Fund investment reports dated December 30, 1983 and January 5, 1984 respectively. Because the portfolios of these funds are constantly changing, Table 1 only reflects the actual makeup of these funds on the date of the report. However,

representatives of the Department of Revenue stated that the funds' composition on these dates was representative of their usual holdings.

It can be seen in Table 1 that the predominant investment in all of the funds is U.S. government securities which consists of U.S. bonds and notes, treasury bills and agency issues. Because investments in these issues are generally considered to be risk free, it is not surprising that public funds, whose primary aim is to protect principal, have close to 90 percent of their assets invested in this way. These investments would not be affected by a law that requires the divestment of holdings in banks or corporations that do business in South Africa.

However, the remaining 9.2 percent of the total funds could be affected by investment restrictions as these funds are invested in market instruments of either banks or corporations that could potentially do business in South Africa. Table 2 shows these market instruments, the total funds invested in each instrument and the percent of the total funds attributable to each instrument. Two funds, the Public School Fund and the University of Alaska Permanent Fund, currently contain no market instruments other than U.S. government securities. The remaining five funds all have at least one instrument that could be invested with a firm or bank that does business with South Africa.

TABLE 2

MARKET INSTRUMENTS HELD IN STATE OF ALASKA INVESTMENT FUNDS THAT
COULD POTENTIALLY BE INVESTED IN FIRMS OR BANKS THAT DO BUSINESS IN
SOUTH AFRICA

| <u>Market Instrument</u> | <u>Amount</u> | <u>Percent of Total Funds</u> |
|--------------------------|---------------|-----------------------------------|
| Repurchase Agreements | \$335,480,000 | 4.3 |
| Corporate Stock | 264,981,831 | 3.3 |
| Corporate Bonds | 90,323,810 | 1.2 |
| Commercial Paper | 28,415,000 | .4 |
| Total | \$719,200,641 | 9.2% |

Source: Department of Revenue Investment Reports
Permanent Fund Investment Reports

Prepared by: House Research Agency, February 1984.

A list of the individual corporations and banks in which the State invests public fund money can be compiled from investment reports. This list can then be compared to a list of all United States corporations and banks that do business in South Africa. From this comparison, the current holdings in Alaska's portfolio that would have to be divested if investment restrictions were adopted can be calculated. Table 3 provides a summary of these calculations and shows that Alaska currently has a total of \$222,060,635 of public funds invested in corporations and banks that do business in South Africa. (Appendix A provides a list of the specific holdings that would need to be divested.)

The source used to identify the corporations and banks that do business in South Africa is a list compiled by the United States Consulate General in Johannesburg, South Africa. Although the list may not be complete, Rich Knight of the American Committee on Africa states that it is the most reliable guide available.¹ Mr. Knight also noted that it is difficult to identify banks that do business in South Africa because of the ripple effect of financial transactions and the difficulty of tracing funds through the investment system.

Mr. Bob Schaeffer, legislative aide to Senator Jack Backman (who sponsored a divestment law in Massachusetts), noted this problem also.² He said that the Massachusetts treasurers office contacted each bank with which the state had investments. Unless the bank certified that it had no business dealings with South Africa, Massachusetts assumed that the bank had such investments and divested all holdings with the bank.

It should be noted that Table 3 only includes investments in banks that appear on the U.S. Consulate list. It is possible that other bank holding would need to be divested at a later date.

Consequences of Divestment Legislation

Determining the financial impact to Alaska of divesting public funds invested in corporations and banks that do business in South Africa is very difficult. In fact, the final impact depends upon the particular holdings in the portfolio, the characteristics of the market and other economic conditions at the time of divestment.

¹Mr. Richard Knight, American Committee on Africa, 198 Broadway, New York, New York, 10038, (212) 962-1210.

²Mr. Bob Schaeffer, Legislative Aide to Senator Jack Backman, State House, Boston, Massachusetts, (617) 722-1639.

However, based on conservative assumptions, we have attempted to estimate the costs of divestment to Alaska. To provide a context for our analysis, the following three issues are discussed.

- transaction costs;
- effect of divestment on portfolio value; and
- potential Performance of the fund after divestment.

TABLE 3
 SUMMARY OF HOLDINGS IN ALASKA PUBLIC FUNDS PORTFOLIOS INVESTED
 WITH CORPORATIONS AND BANKS THAT DO BUSINESS WITH SOUTH AFRICA

| <u>Market Instrument</u> | <u>Market Value</u> |
|--------------------------------|----------------------|
| Corporate Bonds (all funds) | \$14,078,350 |
| Corporate Stocks | |
| Permanent Fund | - \$40,138,020 |
| Public Empl. Ret. Fund | 30,453,427 |
| Teachers Ret. Fund | <u>28,375,838</u> |
| | 98,967,285 |
| Commercial Paper* | |
| Permanent Fund | 25,000,000 |
| Public Empl. Ret. Fund | <u>1,915,000</u> |
| | 26,915,000 |
| Repurchase Agreements* | |
| General Fund | 72,100,000 |
| Teacher Ret. Fund | 3,100,000 |
| Public Empl. Ret. Fund | <u>6,900,000</u> |
| | <u>82,100,000</u> |
| TOTAL | \$222,060,635 |

*These are generally short-term investments. If divestment was to occur over a period of time greater than one year, these investments would mature and new investments made in nonrestricted corporations and banks. In that case, these holdings would technically not have to be divested.

Source: Department of Revenue investment reports
 Permanent Fund investment reports

Prepared by: House Research Agency, February 1984.

Transaction Costs. Transaction costs are the administrative fees and expenses incurred when purchasing or selling investments, most notably common stocks. Divesting a portfolio of common stocks would require payment of transaction costs both to sell securities and to purchase new ones. Dave Rose, Executive Director of the Alaska Permanent Fund, estimates that the Permanent Fund pays transaction costs, on the average of five cents to buy and five cents to sell a share of stock.³ This estimate is applied to the other funds in calculating their transaction costs.

Table 4 contains a summary of the estimated transaction costs to Alaska of divesting the holdings of companies that do business with South Africa. It can be seen that to divest all of the common stock would cost approximately \$127,200. It should be noted that this number is an estimate as the exact number of shares to be divested from the Teachers Retirement and Public Employee Funds is not known.

Also, the estimated cost does not account for the normal turnover of stocks in a portfolio. If divestment occurred over a period of time, it is probable that some of the stocks requiring divestment would be traded regardless of investment restrictions. Although the transaction costs would still be incurred, they would not be the result of the divestment law alone.

The purchase and sale of corporate bonds are virtually free of transaction costs, because they are sold by underwriters who are paid a fee by the bond issuer to sell the bonds. However, Joe Davis of Foster and Marshall Investment Brokers, notes that administrative fees totaling fifty cents for every \$1,000 in market value of bonds sold could be incurred in selling bonds.⁴ Assuming this expense, it would cost the State approximately \$7,000 in transaction costs to divest its portfolio of corporate bonds. Adding this to the transaction costs to divest corporate stocks would result in a total of approximately \$134,000 to divest both the stocks and bonds of corporations that do business in South Africa.

Effect on Fund Value. We noted earlier that determining the impact of divestment on an investment fund is very difficult. Some of these difficulties can be illustrated by examining the efforts to determine the impact that divestment has had in Massachusetts.

³Mr. Dave Rose, Executive Director, Alaska Permanent Fund Corporation, Juneau, Alaska, 465-2047.

⁴Mr. Joe Davis, Foster and Marshall Investment Brokers, Juneau, Alaska, 586-6000.

TABLE 4

ESTIMATED COSTS TO DIVEST HOLDINGS OF CORPORATIONS AND BANKS THAT
DO BUSINESS IN SOUTH AFRICA FROM ALASKA INVESTMENT FUNDS

| | | |
|---|---------------|--------------------|
| <u>Corporate bonds</u> (difference between cost and market price as of 2/30/83) | | \$4,696,165 |
| Transaction costs (.50 per \$1000 market value or .50 x (\$14,078,350 /1000))* | | 7,039 |
| <u>Corporate Stocks</u> | | |
| Transaction costs @ .05 per share: | | |
| Permanent Fund | \$83,055 | |
| Public Employees Retirement Fund** | 22,950 | |
| Teachers Retirement Fund** | <u>21,200</u> | |
| | | <u>127,205</u> |
| TOTAL | | <u>\$4,830,409</u> |

*\$14,078,350 is the market value of all corporate bonds to be divested.
(see table 3).

**Shares to be divested from Public Employees Retirement Fund and
Teachers Retirement Fund are estimated.

Prepared by: House Research Agency, February 1984.

Massachusetts, in January 1983, passed legislation that required the sale, from their public pension portfolio, of all investments in firms doing business in South Africa. The state treasurer's office initially projected a \$16 million loss to the state as a result of this divestment, mostly from the sale of corporate bonds. This loss was determined by calculating the difference between the market value of the bonds and the face value of the bonds (which is their value at maturity).

This method of determining the financial impact of divestment has been criticized by several pro divestment groups who claim that it overstates the loss to the state. They claim that the \$16 million dollar decline in the value of the bonds had already taken place and was unrelated to the divestment law. In addition, proponents of the divestment law claim that by "bond swapping", exchanging old bonds for new ones, Massachusetts could realize a \$2,377,987 net gain if the transactions had been effective as of November 30, 1982.

Mr. Robert Schwartz, investment advisor for Shearson-American Express, supports bond swapping as a method of minimizing loss in bond value:

A restructuring of the portfolio to exclude debt of corporations with activities in South Africa, I believe, could be done in a reasonable period of time, with no adverse effects on the returns earned by the fund. Bonds that are presently valued below their cost could be swapped for other bonds with similarly depressed prices and the fund would recover the loss when the bond matures at par value. There would not be any loss of income or additional risk with regard to this part of the portfolio.⁵

A third way to calculate the effect of divestment on the bond portfolio is the difference between the cost of the bonds and the market value of the bonds. This is the approach taken in calculating the loss to Alaska's investment funds that appears in Table 4. It should be noted again that, according to some investors, some or all of this loss can be avoided depending on the success of bond swapping at the time of divestment.

Most analysts agree that the divestment of repurchase agreements, commercial paper and corporate stocks would have little adverse impact on the value of the portfolio. Commercial paper and repurchase agreements are short-term investments that would mature normally and the

⁵Dr. Robert Schwartz, Vice President, Shearson-American Express Company, 666 5th Avenue, New York, New York 10103, 212-974-3200. Testimony before the Subcommittee of Fiscal Affairs and Health of the House District of Columbia Committee, January 31, 1984.

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proceeds could be reinvested in holdings of companies and banks that do not do business with South Africa.

Corporate stocks are generally held for longer periods of time, but the market value of stocks fluctuates sufficiently, that, over a period of time, stocks could be sold to minimize loss. Dave Rose noted that, currently, the market value of securities held by the Permanent Fund is higher than the cost of the securities. Therefore, although some stocks might be sold at a loss, this loss would be offset by gains from the sale of others. Generally, the value of the portfolio would be unchanged by the divestment of corporate stock. This is the assumption used in this report.

Future Performance of the Portfolio. Some investment professionals that we talked with criticized divestment laws because they felt that these laws infringed upon their fiduciary responsibility to produce the highest possible return on investments.

In recent years, three following empirical studies of stock performance have attempted to analyze the effect on large portfolios of excluding investments in banks and corporations doing business in South Africa:

- (1) "Pension Funds and Ethical Investments" prepared for the State of California Retirement System by the Council on Economic Priorities examined the effects on large portfolios of excluding firms that have investments in South Africa and firms with poor employee relations;⁶
- (2) a report published by Franklin Research and Development of Boston that analyzed the effects of divestment on the Washington D.C. retirement portfolio;⁷ and
- (3) an internal study by Chemical Bank of New York that reviewed the banks own "buy list", assuming exclusion of corporations that do business in South Africa.⁸

⁶Pension Funds and Ethical Investment, Council on Economic Priorities, 84 Fifth Avenue, New York, New York.

⁷Franklin Research and Development Corporation, 222 Lewis Wharf, Boston, Mass., 02110, 617- 723-1670.

⁸Chemical Bank of New York, 20 Pine, New York, New York, 10017, 212-770-1234.

Robert Schwartz, summarizing the findings of these studies concludes:

Each of these studies has in their own way found that for virtually any given period of time in the past, portfolio performance would have been no worse, and in some cases would have been better if a screen of avoiding investments in South Africa would have been placed on the fund... Each of these studies has documented the statistical fact that, all other things being equal, a portfolio that avoided stocks of United States companies in South Africa would have outperformed a portfolio that had included these companies.⁹

It is important to note however; that there are two generic problems with the studies discussed above. The most important is that the past performance of a stock should not be used to predict its future performance. Therefore, although the studies indicate that past performance would not have been worse if South Africa related stocks were excluded, this does not mean that future performance will follow the same pattern.

The second problem is that for the majority of the time period covered by the studies, small companies have performed better in the stock market than the larger multi-national companies which tend to be invested in South Africa. This problem is compounded by the recent poor market performance of major petroleum companies which are heavily invested in South Africa and thus tend to pull down the overall performance of companies that do business in South Africa.

In summary, it is difficult to determine the financial consequences of a divestment law on Alaska's investment funds. Table 4 summarizes the possible effects of divestment assuming: (1) that all stocks and bonds to be divested would incur transaction costs; (2) the divestment of bonds would cost the State the difference between the cost of the bonds and the market value of the bonds (as of 12/30/83) and that no savings would occur through bond swapping; and (3) no portfolio loss would occur from divestment of commercial paper, repurchase agreements or corporate stocks. Based on these assumptions, ~~it would cost Alaska approximately \$4,830,000 to divest.~~

~~These assumptions present a worse case scenario,~~ as some transaction costs could be saved through natural turnover of securities, especially if divestment occurs over a period of years. Also, as we have reported, financial analysts claim that bond swapping can reduce or possibly eliminate any loss in the value of corporate bonds that are to be divested.

⁹Dr. Robert Schwartz, Testimony before the Committee of Fiscal Affairs and Health of the House District of Columbia Committee, January 31, 1984.

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The impact of divestment on the future financial performance of Alaska's investment funds is also difficult to determine. Evidence from empirical studies appears to indicate that it is possible to maintain similar portfolio performance after corporations and banks that do business in South Africa are excluded. If this is true, divestment would not infringe upon the fiduciary responsibility of investment managers or upon the prudent man investment rule that applies to some Alaska funds.

Other Issues

During the course of our research, several investment professionals that we talked with commented on the nonfinancial implications of a divestment law. The most common of these comments was that to legislate the divestment of funds that do business in South Africa would set a precedent of politicizing the funds. This was especially dangerous, it was felt, in the case of the Permanent Fund which is supposed to be established as an independent corporation within the State, free of outside influence. The fear expressed most often was that once this fund was used for special interests, it would be difficult to restrict other special uses in the future, thereby endangering its economic stability and integrity.

A second implication of divestment laws concerns situations in which corporations and banks, subject to divestment, are companies that the State is encouraging to invest in Alaska. This conflicting policy could send mixed signals to these corporations, possibly affecting their decision to invest in the state.

The third comment made by investment professionals involved the strategy of divestment as a means of influencing corporate policy. Some professionals felt that the State would have greater ability to influence corporate policy through ownership of stock rather than through divestment. However, this influence would depend upon the amount of stock of the particular company the State owned and the participation of the State in voting the stock.

I hope this information is useful to you. If you have any questions or would like additional research performed, please call.

JL

Attachments

APPENDIX 1

STOCKS AND BONDS OF COMPANIES THAT DO BUSINESS IN SOUTH AFRICA HELD
BY THE STATE OF ALASKA PUBLIC INVESTMENT FUNDS

Corporate Bonds (all Funds)

| <u>Company</u> | <u>Cost</u> | <u>Market price</u> | <u>Loss</u> |
|--------------------------|---------------------|---------------------|--------------------|
| American Express | \$2,000,015 | \$ 1,987,120 | \$ 12,895 |
| Pfizer | 2,429,000 | 1,952,670 | 476,330 |
| Gen. Motors Acc. Corp. | 3,187,500 | 2,220,000 | 967,500 |
| Exxon Corporation | 2,055,000 | 1,440,520 | 614,480 |
| Mobil Corporation | 2,525,000 | 1,818,750 | 706,250 |
| General Electric | 2,115,000 | 1,490,000 | 625,000 |
| Standard Oil, Indiana | 1,957,500 | 1,393,510 | 563,990 |
| American Hospital Supply | 1,495,500 | 1,055,520 | 439,980 |
| Exxon Pipeline Co. | 1,010,000 | 720,260 | 289,740 |
| | <u>\$18,774,515</u> | <u>\$14,078,350</u> | <u>\$4,696,165</u> |

Corporate Stocks (Permanent Fund)

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|---------------------------|---------------|----------------------|---------------------|
| Abbot Labs | 9,000 | 45.25 | \$ 362,000 |
| American Broadcasting | 2,000 | 55.625 | 111,520 |
| American Cyanimid Co. | 2,400 | 50.00 | 120,000 |
| American Express Co. | 16,450 | 32.265 | 536,681 |
| American Home Products | 12,800 | 49.625 | 635,200 |
| American Hospital Supply | 6,000 | 39.625 | 237,750 |
| Am. International Group | 6,000 | 64.25 | 385,500 |
| Armco Inc. | 10,400 | 20.875 | 217,100 |
| Baker International Corp. | 8,900 | 19.250 | 171,325 |
| Becton-Dickinson & Co. | 4,600 | 36.750 | 169,050 |
| Black & Decker | 6,500 | 26.375 | 171,438 |
| Blue Bell Inc. | 5,200 | 39.125 | 203,450 |
| Boeing Company | 6,300 | 43.750 | 275,625 |
| Borden Inc. | 3,000 | 56.50 | 169,500 |
| Borg-Warner Corp. | 6,400 | 24.750 | 158,400 |
| Bristol Myers Co. | 8,900 | 42.250 | 376,025 |
| Burroughs Corp. | 3,500 | 50.375 | 176,313 |
| Carnation Co. | 3,100 | 56.00 | 173,600 |

Corporate Stock (Permanent Fund) continued

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|--------------------------|---------------|----------------------|---------------------|
| Caterpillar Tractor | 6,200 | 47.250 | 292,950 |
| CBS Inc. | 2,400 | 66.250 | 159,000 |
| Celanese Corp. | 2,100 | 69.00 | 144,900 |
| Champion Int. Corp. | 5,900 | 28.875 | 170,363 |
| Chase Manhattan Corp. | 3,400 | 45.50 | 154,700 |
| Cheeseborough Ponds Inc. | 4,200 | 37.125 | 155,925 |
| Citi-Corp. | 10,200 | 37.125 | 378,675 |
| Coca-Cola Co. | 11,200 | 53.500 | 599,200 |
| Colgate-Palmolive Co. | 6,900 | 21.500 | 148,350 |
| Control Data Corp. | 3,600 | 45.250 | 162,900 |
| CPC International Inc. | 5,000 | 38.500 | 192,500 |
| Cummins Engine Inc. | 2,000 | 38.50 | 192,500 |
| Dart & Kraft Inc. | 3,600 | 66.625 | 239,850 |
| Deere & Co. | 3,200 | 38.50 | 123,200 |
| Dow Chemical Co. | 16,900 | 33.375 | 564,038 |
| dresser Industries Inc. | 8,400 | 20.750 | 174,300 |
| E.I. DuPont | 19,600 | 52.00 | 1,019,200 |
| Dun & Bradstreet | 3,700 | 62.00 | 229,400 |
| Eastman Kodak | 13,600 | 76.125 | 1,035,300 |
| Eaton Corp. | 4,600 | 55.25 | 254,150 |
| Englehard Corp. | 7,100 | 38.50 | 273,350 |
| Exxon Corporation | 72,000 | 37.375 | 2,691,000 |
| Firestone Tire | 9,100 | 22.250 | 202,475 |
| Fluor Corp. | 17,000 | 17.250 | 293,250 |
| FMC Corp. | 4,300 | 46.125 | 198,338 |
| Ford Motor Co. | 14,950 | 42.375 | 633,506 |
| Foster Wheeler Corp. | 12,800 | 15.50 | 198,400 |
| Fruehauf Corp. | 4,600 | 46.50 | 213,900 |
| Gen. Electric Corp. | 37,300 | 58.625 | 2,186,713 |
| Gen. Motors Corp. | 25,900 | 74.375 | 1,926,313 |
| Gillette Co. | 3,400 | 48.625 | 165,325 |
| Goodyear Tire | 8,200 | 30.375 | 249,075 |
| W.R. Grace & Co. | 2,600 | 45.25 | 117,650 |
| Hewlett-Packard Co | 20,600 | 42.375 | 872,925 |
| Honeywell Inc. | 2,400 | 130.00 | 312,000 |
| Hughes Tool Co. | 7,900 | 20.875 | 164,913 |
| Ingersoll Rand Co. | 2,300 | 52.375 | 120,463 |
| Int. Business Machines | 50,100 | 122.00 | 6,122,200 |
| Int. Tel. & Teleg. | 11,200 | 44.750 | 501,200 |
| Int. Flavors and Frag. | 5,200 | 27.25 | 141,700 |
| Johnson and Johnson | 15,700 | 40.875 | 641,738 |
| Joy Mfg. Co. | 6,600 | 30.250 | 199,650 |
| Kellogg Co. | 5,000 | 32.375 | 161,875 |
| Kimberly-Clark Corp. | 1,700 | 92.00 | 156,400 |

Corporate Stocks (Permanent Fund) continued

| <u>Company</u> | <u>Shares</u> | <u>Current Price</u> | <u>Market Value</u> |
|-------------------------|----------------|----------------------|---------------------|
| Marriot Corp. | 2,100 | 71.25 | 149,625 |
| Martin-Marietta | 4,350 | 35.75 | 155,513 |
| McGraw Hill Inc. | 2,700 | 42.25 | 114,075 |
| Merck & Co. Inc. | 6,100 | 90.375 | 551,288 |
| Minnesota Mining & Mfg. | 9,700 | 82.50 | 800,250 |
| Mobil Corp. | 34,400 | 28.75 | 989,000 |
| Monsanto Co. | 2,700 | 105.25 | 284,175 |
| Motorola Inc. | 2,600 | 136.25 | 354,250 |
| Nabisco Brands | 3,200 | 41.00 | 131,200 |
| NCR Corp. | 1,900 | 128.00 | 243,200 |
| Newmont Mng. Corp. | 2,900 | 50.75 | 147,175 |
| Pepsico Inc. | 6,100 | 38.25 | 233,325 |
| Perkin-Elmer Corp. | 5,500 | 29.375 | 161,563 |
| Pfizer Corp. | 10,400 | 35.75 | 371,800 |
| Phibro-Soloman | 11,500 | 31.875 | 366,563 |
| Revlon Inc. | 3,500 | 33.00 | 115,500 |
| Rohm & Haas Co. | 1,700 | 60.75 | 103,275 |
| Schering Plough Corp. | 4,000 | 37.25 | 149,000 |
| G.D. Searle & Co. | 2,300 | 43.875 | 100,913 |
| Sedco Inc. | 7,700 | 37.50 | 288,750 |
| Smithkine-Beckman Co. | 6,900 | 56.50 | 389,850 |
| Sperry Corp. | 4,000 | 47.125 | 188,500 |
| Squibb Corp. | 2,600 | 45.625 | 118,625 |
| Standard Oil, Ohio | 20,900 | 44.75 | 935,275 |
| Stauffer Chemical | 6,400 | 25.00 | 160,000 |
| Sterling Drug Co. | 6,000 | 27.125 | 162,750 |
| Tenneco Inc. | 9,100 | 41.00 | 373,100 |
| Time Inc. | 9,100 | 62.875 | 239,925 |
| Timken Co. | 2,600 | 64.75 | 168,350 |
| Union Carbide | 1,600 | 82.50 | 132,200 |
| United Tech. Corp. | 3,600 | 72.50 | 261,000 |
| Upjohn Corp. | 2,100 | 59.25 | 124,425 |
| Warner Communications | 5,200 | 26.875 | 139,750 |
| Warner Lambert Co. | 5,500 | 29.625 | 162,938 |
| West Point Properties | 3,800 | 51.500 | 195,700 |
| Westinghouse Corp. | 5,700 | 54.75 | 312,075 |
| Xerox Corp. | 10,300 | 49.50 | 509,850 |
| Total | 830,550 | | \$40,138,020 |

Corporate Stocks (PERS)

| <u>Company</u> | <u>Market Value</u> |
|---------------------------------|---------------------|
| American Cyanamid | \$ 1,125,000 |
| Boeing Co. | 1,185,625 |
| Champion Int. Corp. | 698,775 |
| Colgate Polmolive Co. | 191,350 |
| Control Data Corp. | 588,250 |
| Dart & Kraft | 766,188 |
| Dresser Industries | 1,630,950 |
| Eastman Kodak | 738,415 |
| Exxon Corp. | 317,688 |
| FMC Corp. | 733,388 |
| General Electric Co. | 1,530,113 |
| General Motors | 4,246,113 |
| Goodyear Tire & Rubber | 753,300 |
| Honeywell | 1,209,000 |
| International Business Machines | 6,600,200 |
| Int. Mineral & Chemical | 563,875 |
| Martin Marietta Corp. | 321,750 |
| McDermott International | 174,125 |
| Motorola | 1,090,000 |
| NCR Corporation | 1,728,000 |
| Phillips Petroleum | 600,300 |
| Pfizer | 1,036,750 |
| Phibro-Soloman | 1,306,875 |
| Sperry | 570,213 |
| Sterling Drug | 235,988 |
| Westinghouse | 1,204,500 |
| Xerox | 683,100 |
| TOTAL | <u>\$30,453,427</u> |

Corporate Stock (TRS)

| <u>Company</u> | <u>Market Value</u> |
|--------------------------|---------------------|
| American Cyanamid | 1,125,000 |
| Boeing | 1,185,625 |
| Dresser Industries | 1,531,350 |
| General Electric | 1,500,800 |
| General Motors Corp. | 3,491,875 |
| Honeywell Inc. | 1,209,000 |
| Int. Business Machines | 5,904,800 |
| Intl. Mineral & Chemical | 563,875 |
| Motorola | 1,090,000 |

Corporate Stocks (TRS) continued

| <u>Company</u> | <u>Market Value</u> |
|----------------------------|---------------------|
| NCR Corp. | 1,792,000 |
| Pfizer | 1,100,725 |
| Phibro Soloman Inc. | 1,310,062 |
| Westinghouse | 1,204,500 |
| Colgate Polmolive | 167,700 |
| Control Data Corp. | 398,200 |
| Dart & Kraft | 646,263 |
| Eastman Kodak | 593,775 |
| Exxon Corporation | 265,363 |
| EMC Corporation | 608,850 |
| Goodyear Tire & Rubber Co. | 601,425 |
| Phillips Petroleum | 496,800 |
| Sperry Corp. | 471,250 |
| Sterling Drug Inc. | 206,150 |
| Xerox | 549,450 |
| TOTAL | <u>\$28,375,838</u> |



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

September 10, 1985

The Honorable Katie Hurley
Representative
Box 870157
Wasilla, AK 99687

Dear Representative Hurley:

I wanted to take this opportunity to express my appreciation to the House State Affairs Committee for providing this forum for Alaskans to express their views on the serious human rights problems unfolding so dramatically now in South Africa. As a freedom-loving people, Alaskans are acutely aware of injustice when it occurs, and we have never hesitated in speaking out against human rights violations, inside our borders or outside.

Inside Alaska, progress on human rights is an ongoing story. The struggle for social and economic justice in our state has a long history, from the territorial battle over opening the ballot booth to women to the successful drive for Statehood, to passage of the Alaska Native Claims Settlement Act.

From 1912 to 1959 to 1971, Alaskans joined in breaking through barriers to fair treatment, and in so doing, enriched with social progress a land already blessed with so many natural resources.

Outside our borders, the quest for basic human rights is being pursued in many countries, perhaps nowhere with so many compelling reasons as in South Africa. The system of apartheid imposed on an estimated 24 million residents of South Africa is an appalling example of injustice we abhor and condemn.

On behalf of all Alaskans, I have sent the enclosed letter to President Reagan urging him to support sanctions against the South African government. These economic sanctions, embodied in legislation pending in the Congress, would ban new U.S. bank

September 10, 1985

loans to the South African government, curb sales of U.S. computer goods and technology, and halt the export of U.S. nuclear technology. The House measure goes further in barring new investments by U.S. firms doing business in South Africa and prohibiting the importation of krugerrands, unless Pretoria makes progress toward ending apartheid.

As you may know, pending federal legislation and the administrative sanctions announced by President Reagan on September 9 do not contain any provisions on divestiture. This omission is perhaps recognition of the fact that divestiture may be the ultimate economic sanction that can be used to attempt to influence government policies in South Africa. As such, divestiture should be implemented carefully, so as not to penalize the very people we are attempting to help -- the 24 million victims of apartheid.

Each time we buy a certain kind of film, drink a certain brand of soda pop, watch a particular television network--indeed each time we use the brand of typewriter this letter was written on -- Alaskans are investing in companies doing business in South Africa. These are individual decisions that consumers must make on a regular basis.

For the State of Alaska, however, investment decisions are guided by law. In general, the law requires the best return possible on the public's investment, but that principle -- the so-called "prudent man rule" -- should not blind us to what is right.

For that reason, I would encourage your committee to explore fully the ramifications of House Concurrent Resolution 17. I wholeheartedly support the intent of this resolution and look forward to hearing the viewpoints of Alaskans on this important issue.

Sincerely,


Bill Sheffield
Governor

Enclosure



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

September 9, 1985

The President
The White House
Washington, DC 20500

Dear Mr. President:

The passing of each day brings new evidence of the evil of the apartheid system imposed upon 24 million citizens of South Africa. Nowhere in the world is there a government supported by the United States that systematically violates basic human rights more than the regime in Pretoria.

On behalf of all Alaskans, I urge you to support the proposed economic sanctions against the South African government which are contained in the bill now being readied for passage by the Congress. Those sanctions include a prohibition against new U.S. bank loans to the South African government, a curb on sales of U.S. computer goods and technology, and a halt to the export of nuclear technology. Further sanctions also would bar new investment by U.S. firms doing business in South Africa and prohibit the importation of kruggerands, unless you and the Congress agree that progress is being made in bringing an end to apartheid. Some of those sanctions were included in your executive order of today, and I congratulate you on your announcement.

I wish to inform you, Mr. President, that the State of Alaska is now considering a proposal directing the divestiture of state funds in businesses with ties to the South African government. Many Alaskans believe this step would be the most direct statement they could make to protest a policy of social and economic injustice that is abhorrent.

Mr. President

-2-

September 9, 1985

This statement by Alaska, however, should be no substitute for a national policy aimed at ending the unconscionable violation of basic human rights now being perpetrated with such daily brutality by the government of South Africa.

Sincerely,

A handwritten signature in cursive script that reads "Bill Sheffield". The signature is written in dark ink and is positioned above the typed name and title.

Bill Sheffield
Governor

STATE RESTRICTIONS ON PUBLIC INVESTMENTS
IN COMPANIES DOING BUSINESS IN SOUTH AFRICA

CONNECTICUT (Connecticut General Statutes, Chapter 32, Section 3-13f)

Public Act 82-324 requires the State Treasurer to divest, within a reasonable period of time, all state funds currently invested in any corporation doing business in the Republic of South Africa. The law further provides that no new state funds can be invested in any corporation after the effective date of the law unless the company meets the following conditions:

- a) adoption of the Sullivan principles (a code of business practices relating to equal opportunities for black workers in South Africa promulgated by Reverend Leon H. Sullivan);
- b) attainment of a performance rating for compliance with the Sullivan principles in the top two categories as measured by Arthur D. Little, Inc. (the official compliance monitor);
- c) refusal to supply strategic products or services to the government of South Africa for its use or use by the military or police in that country; and
- d) recognition of the right of all South African employees to organize and to strike in support of economic or social objectives, free from the fear of dismissal or blacklisting.

For the purposes of this law, the term "doing business in South Africa" includes not only those companies "conducting or performing manufacturing, assembly, or warehousing operations," but also "lending money to the Republic of South Africa or any agency or instrumentality thereof" in the case of a bank or other financial institution.

MICHIGAN (Michigan Compiled Laws, Section 37.2402)

Effective April 1, 1984, the State of Michigan prohibited public institutions of higher education from "knowingly making or maintaining" an investment in any United States' firms or any subsidiary or affiliate of a United States' firm operating in South Africa.

As defined in this section, "investment" means only "money placed in shares of stocks and other equity interests," not bank deposits made in the ordinary course of business.

MASSACHUSETTS (Massachusetts General Laws Annotated, Chapter 32, Section 23(1)(d)(vi))

State law prohibits the State Treasurer from maintaining public employee pension funds in any bank or financial institution which directly, or through its subsidiaries, has outstanding loans to the Republic of South Africa or its instrumentalities (effective January 1, 1983). This statute, which affects funds of the State Employees', Teachers', and Massachusetts Turnpike Authority Employees' Retirement Systems, also barred as of the same date continued investment in the "stocks, securities or other obligations of any company doing business in or with the Republic of South Africa."

MARYLAND (Maryland Annotated Code, Article 95, Section 21)

Since the beginning of this year, a statutory prohibition has been in force which bans the deposit of state funds in any financial institution unless that institution certifies in writing to the Treasurer "that it has no direct loans or foreknowledge of any indirect loans" outstanding to any unit of government or any national corporation of the Republic of South Africa. Direct or indirect loans outstanding prior to January 1, 1985, are not covered by this statute.

NEBRASKA (Nebraska Revised Statutes, Section 72-1270 et seq.)

Acting on a broader scale, Nebraska lawmakers banned several types of state investment activity. Legislation enacted in that state prohibited continued public investment in the stocks of any financial institution which, directly or through its subsidiaries, had outstanding loans to the South African government or its instrumentalities as of January 1 of this year. Divestment could have been avoided if, by July 1, 1984, the financial institution adopted a formal South African investment policy which included:

- a) a complete listing of any outstanding South African public sector loans and the purposes for which such loans were made;
- b) the amortization schedule for such loans; and
- c) a public commitment not to renew any existing loans or make any new loans to the South African public sector.

If at any time in the future the institution adopts such a policy, reinvestment of public funds could occur.

In addition to these restrictions, the 1984 law halts investment of state funds in the bonds of any financial institution which, directly or through its subsidiaries, has outstanding loans to the South African government or in the bonds of any corporation doing business in or with the Republic of South Africa, effective January 1, 1985. New state investments in the bonds of any financial institution would be allowed when an institution met the three criteria described in paragraph one.

New investments in corporation bonds would be authorized, however, if the company "has agreed to abide by, is implementing, and demonstrates that it is making good progress in implementing:

- a) nonsegregation of the races in all eating, comfort, and work facilities;
- b) equal and fair employment practices for all employees;
- c) equal pay for all employees doing equal or comparable work for the same period of time;
- d) initiation and development of training programs that will prepare substantial numbers of black and other nonwhite persons for supervisory, administrative, clerical, and technical jobs;
- e) representation of black and other nonwhite persons in management and supervisory positions in a proportion equal to their percentage of the total population; and
- f) improvement in the quality of employees' lives outside the work environment including, but not limited to, the areas of housing, transportation, education, recreation and health care."

As of January 1, 1987, financial institutions or corporations doing business in South Africa must meet the criteria just discussed or also face divestment of state funds invested in their stocks.

IOWA (Iowa Code, Section 12A.1 et seq.)

Funds under the control of the State Treasurer and the State Board of Regents, as well as monies in the Iowa public employee retirement fund, cannot be invested or deposited after June 30, 1985, in any financial institution which has a loan outstanding to the Republic of South Africa. Moreover, investments in the stocks, securities, or other obligations of such financial institutions or any company doing business in or with the Republic are also prohibited. These restrictions do not apply, however, to any company which has adopted the Sullivan principles and has been ranked in categories one, two, four or five; or to any company which has been a Sullivan signatory for at least five years and has obtained a performance rating in the top two categories during four of the past five years.

Not only are new investments forbidden, the state must also divest itself of securities and other investments in such institutions and corporations by July 1, 1990. At least one fourth of the value of the investments held on July 1, 1985, must be sold beginning on July 1, 1988, unless the general assembly determines that "substantial and fundamental progress" has occurred in establishing human rights policies in:

RHODE ISLAND (Rhode Island General Laws, Chapter 35-10)

Over the four year period beginning July 1, 1985, Public Law 85-336 requires the divestment of state monies and pension funds which, as of that date, are invested in any financial institution lending money to or any corporation doing business in the Republic of South Africa. In addition, no new investments will be allowed after July 1, 1985, in the financial institutions loaning money or the companies doing business in, or with, the Republic. A nine-member commission, composed of legislators and public citizens, will oversee the divestment program.

Notwithstanding this directive, divestment is not required if sales "would not be in accordance with such action as prudent individuals of discretion and intelligence in such matters, who are seeking a reasonable income and the preservation of their capital, would take, or when the market value of the investments... is lower than the purchase price...."

After July 1, 1985, no bank or trust company may serve as a depository of state funds if it provides to the Republic of South Africa, either directly or through a subsidiary or agent, the following services:

- a) the sale, advertising or promotion of the sale of krugerrands, or any other coins minted in South Africa;
- b) the underwriting of securities; or
- c) the making of new loans to the government or private sector, other than loans for certain educational, housing or health facilities.

Furthermore, no state department, agency, authority or instrumentality may purchase any good known to be wholly produced in South Africa.

NEW JERSEY

Awaiting the approval of the Governor, Assembly Bill #1309 halts the investment of pension or annuity funds in any financial institution which, directly or through its subsidiary, has outstanding loans to the Republic of South Africa or its instrumentalities, or in the stocks, securities, or other obligations of any company engaged in business in or with the Republic. Existing investments must be divested within three years of the enactment of the legislation.

July, 1985
The National Conference
of State Legislatures

Alaska Black Caucus

P.O. Box 3342
Anchorage, Alaska 99510
(907) 272-5951

September 11, 1985

Rep. Katie Hurley
Chairperson
House State Affairs Committee
1016 West 6th #201
Anchorage, Alaska 99501

Re: Hearing on
HCR No. 17

Dear Rep. Hurley,

As a followup to our verbal testimony before your committee, we are forwarding these comments for your further consideration.

Our observations are that those opposed to an administrative or legislative action that would result in the State of Alaska withdrawing its public capital investments from firms doing business in South Africa are basing their opposition on three questionable premises.

- 1) Possible loss of revenue.
- 2) Prudent-man rule governing the investment strategies for the Permanent Fund.
- 3) Financial decisions should be made independent of moral and social concerns.

We are of the opinion that premise one was totally rebuffed by the expert testimony of Mr. John Harrington, President of Working Assets Money Fund, as well as that of other presenters. Thus, we feel there is little to add other than to note one observation about the testimony given by the Commissioner of Revenue.

Ms. Nordale indicated that she has been informed that by Alaska divesting from firms doing business in South Africa, the state could stand the chance of losing one million dollars. This minuscule amount represents only one-fifth of the amount we spend each day to maintain a bloated state bureaucracy. It would represent only six-tenths of one percent of a bad gold investment our state made. So to suggest we should not consider divesting because we may lose one million dollars from a fund that is generating interest alone over twice this amount each day is not a valid basis for decision making that has such profound consequences.

On point number two, state law (Sec. 37.13.120) requires that "The prudent-man rule shall be applied by the board in the management and investment of Alaska Permanent Fund assets".

However it appears that the gentleman associated with administrating the Public Employees Retirement Fund testimony would seem to imply that the four public funds (General, Public Employees, Teachers' Retirement, and the Permanent) that are being administrated by trustees are receiving advise from investment consultants that is not very complete.

It appears that the "prudent-man rule" is suggested to mean defining it in terms of highest and best return on investment as interest received by buying IBM stock and clipping coupons.

It was very disturbing to learn that persons administrating public funds were being counseled in such a narrow and shallow vein.

Addressing this point and premise number three, that public financial decisions should be made without consideration for moral and social considerations dovetails nice fashion.

we reject the simplistic assertion that highest and best return means solely interest yield. We are of the opinion that highest and best return as it relates to investing public monies should mean the maximum integration of the economic, moral, and ethical factors in doing business.

An economic consideration of doing business would mean determining the propable rate of interest to be expected on capital investment. A moral consideration would mean assessing the type of activity a company is engaged in, or the type of product it produces. Finally, an ethical consideration of doing business would be to ascertain the reputation of the chief executives of the company. Do they engage in unfair labor practices? Do they deny promotion solely on the basis of race. Do they stand accused of personal improprieties?

We feel this needed expansion of the "prudent-man rule/highest and best return" definition and its future application as an investment strategy will have positive consequences for our state. Further, these assertions are supported by a whole body of law and regulations promulgated thereto. These laws and regulations were or are designed to support, restrict, subsidize, promote, and/or to control commerce, and labor practices.

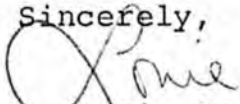
We would suggest that you as representatives of the people, and we as citizens, do no less than that which the Governor of our state and the Mayor of our largest city have publicly advocated-- that is divest.

Additionally, we support the following action:

-Passage of House concurrent Resolution No. 17

- The establishment of a file of corporate statements reflecting board action taken by those companies in which our state has or will be investing money subscribe to the meaning that highest and best return is the maximum integration of economic, moral and ethical factors in the conducting of their business affairs. If after a periodic review of corporate practices reveals that a company has substantially violated this code of conduct, such violations will serve as the basis for the state divesting its funds from the offending company.
- Where, and when possible our state investment practices should reflect and appreciation for the rich ethnic diversity of its population.
- Regular legislative, administrative, and public oversight intervals be established to assess whether the directors of the Permanent Fund are complying with the forgoing.

Sincerely,



E. Louis Overstreet, P.E.
President

cc: House State
Affairs Committee
Members
Rep. Don Clocksin
Rep. Jim Duncan
Sen. Vic Fischer
Sen. Joe Josephson
Office of the Governor

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

September 10, 1985

The Honorable Katie Hurley
Representative
Box 870157
Wasilla, AK 99687

Dear Representative Hurley:

I wanted to take this opportunity to express my appreciation to the House State Affairs Committee for providing this forum for Alaskans to express their views on the serious human rights problems unfolding so dramatically now in South Africa. As a freedom-loving people, Alaskans are acutely aware of injustice when it occurs, and we have never hesitated in speaking out against human rights violations, inside our borders or outside.

Inside Alaska, progress on human rights is an ongoing story. The struggle for social and economic justice in our state has a long history, from the territorial battle over opening the ballot booth to women to the successful drive for Statehood, to passage of the Alaska Native Claims Settlement Act.

From 1912 to 1959 to 1971, Alaskans joined in breaking through barriers to fair treatment, and in so doing, enriched with social progress a land already blessed with so many natural resources.

Outside our borders, the quest for basic human rights is being pursued in many countries, perhaps nowhere with so many compelling reasons as in South Africa. The system of apartheid imposed on an estimated 24 million residents of South Africa is an appalling example of injustice we abhor and condemn.

On behalf of all Alaskans, I have sent the enclosed letter to President Reagan urging him to support sanctions against the South African government. These economic sanctions, embodied in legislation pending in the Congress, would ban new U.S. bank

September 10, 1985

loans to the South African government, curb sales of U.S. computer goods and technology, and halt the export of U.S. nuclear technology. The House measure goes further in barring new investments by U.S. firms doing business in South Africa and prohibiting the importation of krugerrands, unless Pretoria makes progress toward ending apartheid.


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For the State of Alaska, however, investment decisions are guided by law. In general, the law requires the best return possible on the public's investment, but that principle -- the so-called "prudent man rule" -- should not blind us to what is right.

For that reason, I would encourage your committee to explore fully the ramifications of House Concurrent Resolution 17. I wholeheartedly support the intent of this resolution and look forward to hearing the viewpoints of Alaskans on this important issue.

Sincerely,


Bill Sheffield
Governor

Enclosure

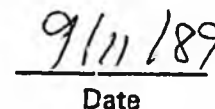


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Signature of Camera Operator


Date

HCR

17

(FILE 2)



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

September 5, 1985

MEMORANDUM

TO: Representative Katie Hurley

ATTN: Patti Macklin

FROM: Jay Livey *JL*
Legislative Analyst

RE: Financial Implications of Divestment in South Africa Related
Investments
Research Request 86-025

You asked that we research the financial impact on investment funds of laws that restrict investments in corporations that do business in South Africa. We have contacted the following states that have enacted divestment laws: Connecticut, Iowa, Maryland, Massachusetts, Nebraska and Wisconsin. In addition, we contacted the city of Philadelphia, which has enacted a divestment ordinance. Also, we have included the conclusions from a report prepared by the Investor Responsibility Research Center concerning the financial impact on equity funds of divestment. Because several state divestment laws are based on Sullivan Principles, we will also provide a brief explanation of the them.

SUMMARY

We contacted six states and one city that have adopted divestment laws. Four of the six states that we contacted--Iowa, Connecticut, Maryland and Nebraska based their investment restrictions on the corporation's compliance to the Sullivan Principles while two states--Wisconsin and Massachusetts--require divestment in all corporations that do business in South Africa regardless of their Sullivan Principles status. The city of Philadelphia requires divestment of all South Africa related corporations.

Although four of the governments that we contacted--Massachusetts, Wisconsin and Connecticut and the city of Philadelphia have completely divested, investment officials from these states noted that it is very difficult to accurately determine the financial impact of that activity. Several reasons were given for this. First, it is difficult to accurately compare the performance of a restructured portfolio with the

Representative Hurley
September 5, 1985
Page Two

results that would have been attained had the portfolio not been divested. This is simply because it is impossible to speculate on investment decisions regarding the original portfolio.

Secondly, there are several reasonable methods that can be used to calculate loss or gain on the liquidation of assets. For example, bond losses or gains can be calculated based on the difference between market price and original purchase price or between the bond's market value and maturity value. However, both of these methodologies ignore the difference that may occur in the revenue stream of the new bond (purchased with the proceeds from the sale of old bonds) and the original bond.

Third, it is difficult to accurately determine transaction costs that are due to the divestment. Again, this is because the transactions costs related to normal portfolio activity must be separated from the costs directly related to divestment. This requires accurate knowledge of portfolio activity had the changes not occurred. It is impossible to know "what would have happened."

Given these limitations, the governments that have divested reported mixed results. The Connecticut treasurer's office reported a \$6.4 million dollar gain as a result of divestment. The Massachusetts treasurer's office reported an \$11.7 million dollar loss, while the city of Philadelphia reported a \$12.5 million dollar loss. Officials at the University of Wisconsin endowment fund could not attribute any substantial change in the funds performance to divestment.

However, several state investment managers, in discussing the future impact of divestment on their funds, cautioned that large funds could be adversely impacted by comprehensive divestment laws. This is because many large U.S. corporations would be excluded from the universe of stocks available to the portfolios. Funds would have to be invested in smaller corporations, thereby increasing portfolio risk and transactions cost. These impacts would be detrimental to overall fund performance. The Investor Responsibility Research Report on the financial impact of divestment echoed these warnings.

However, other analysts, of which the most prominent is Robert Schwartz, claim that the universe of non-South Africa related stocks is sufficiently large to allow portfolios to be adequately diversified (and thereby lessen risk) and perform equally as well or better than portfolios comprised of South Africa related companies.

The Sullivan Principles

In 1977, Reverend Leon Sullivan, a member of the Board of Directors of General Motors Corporation suggested six principles to guide the activities of United States corporations in South Africa. These include:

- nonsegregation of races in all facilities;
- equal and fair employment practices for all employees;
- equal pay for equal work;
- training programs for blacks for skilled positions;
- increases in the number of blacks in supervisory positions; and
- improvements outside the work environment in housing, transportation, schooling and other aspects of living conditions.

Currently, of the approximately 315 companies engaged in business activities in South Africa, 172 have signed the principles. Although compliance with the principles is strictly voluntary, Reverend Sullivan and others have attempted to monitor the activities of U. S. corporations in South Africa.

During the past few years, Arthur D. Little and Associates has been retained to analyze the activities of Sullivan signatory corporations to help determine the level of compliance to the Sullivan Principles. As a result of this analysis, companies are assigned a ranking in one of five categories, depending upon their level of compliance. These categories are based on the following guidelines:

1. These corporations have displayed the best performance in terms of the intent of the principles. The most recent compliance report, published in 1984, included 32 companies in this category.
2. These corporations are working toward the intent of the Sullivan Principles but have not displayed an outstanding compliance record. Fifty-one companies were included in this category in 1984.
3. These corporations are not displaying sufficient efforts concerning the implementation of the Sullivan Principles. In the 1984 report, 32 companies were assigned this status.

4. Category four is comprised of companies with only a minor economic presence in South Africa (less than 25 employees) and therefore are recognized as having limited potential impact. This category contained 24 companies in 1984.
5. These corporations are recent signatories of the Sullivan Principles and therefore have not been evaluated. In 1984, 11 companies were included in this group.

Several states have based the restrictions in their divestment laws on the Sullivan Principles. Maryland restricts only future investments in nonsignatory corporations while Connecticut does not prohibit investments in corporations rated in one of the top two categories. Massachusetts prohibits investments in any corporation doing business in South Africa regardless of their Sullivan Principle rating.

One important aspect of using the Sullivan Principle rating system to define prohibited investments is the number of stocks that are potentially excluded from the portfolio. Using the states mentioned above as examples, the Maryland law allows investment in 172 South Africa related companies, the Iowa law allows investments in 83 South Africa related companies while Massachusetts prohibits all investments. Because many of the Sullivan signatories are also large corporations, the financial impact of divestment is likely to be affected if divestment is linked to the Sullivan Principles. This issue is discussed later in the memorandum.

Connecticut

Connecticut law does not require the complete divestment of all state investments in corporations that do business in South Africa. The law only requires divestment in corporations that: 1) have not signed the Sullivan Principles and obtained a rating in the top two categories of the Sullivan Principles rating system prepared by Arthur D. Little, Inc.; 2) do not supply strategic products or services used by the military or police; and 3) do not recognize the right of all South African employees to form unions and strike. The required divestment was to be carried out in a "reasonable period of time."

Barbara Reed, of the State Treasurer's Office, noted that the divestment is now almost complete although the state's portfolio is monitored every year to determine if additional divestment is required. Ms. Reed reports that a total of \$80 million has been divested to date, resulting in a net gain of \$6.4 million dollars. Although the divestment law includes both bonds and stocks, only a few corporate bonds were divested while the stock of 27 corporations was divested. Most of these assets were divested over a period of 2 - 3 years, a period of time that Ms. Reed thought was adequate given the amount of investments to be sold.

Representative Hurley
September 5, 1985
Page Five

However, she cautioned that a larger divestment could require a longer sale period to minimize the financial impact. Ms. Reed also noted that the exclusion of divested corporations from potential investment is not expected to have a detrimental effect on future fund performance.

Iowa

Iowa's divestment law, like Connecticut's, prohibits investments in corporations doing business in South Africa that have not adopted the Sullivan Principles or have not obtained a rating in categories one, two, four or five of the rating system as determined by Arthur D. Little, Inc. The law gives the state treasurer until 1988 to begin divesting; all required divestment must be accomplished by 1990.

According to Larry Thompson of the Iowa Public Employees Retirement System, the portfolio currently contains investments in about twelve companies that are effected by the law. However, because of the limited number of holdings and the 1990 divestment target, Mr. Thompson notes that the divestment will occur when the market is favorable and he foresees no adverse financial impact as a result of the divestment. Additionally, he anticipates no problems in replacing the divested holdings with assets of equal value. However, he cautioned that this may not be the case if the law prohibited investments in all corporations that do business in South Africa.

Maryland

The state of Maryland's divestment law has two major aspects: a prohibition against depositing state funds in banks that have business relations with South Africa and a ban on future investments by the State pension fund in corporations that are not rated in the top two categories of the Sullivan Principles. In addition, the pension fund administration is required to keep separate records on the performance of the new investments so comparisons can be made with the performance of the portion of the fund not restricted by the law.

William James, Deputy Secretary of the Maryland Bond and Investment Department, commented that he does not foresee any adverse effects on the pension fund as a result of the law. He attributes this partly to the application of investment restrictions on new funds only and partly to the small number of corporations that are actually excluded from the portfolio.

Wisconsin

In 1977, Wisconsin passed a law that made it a violation of the state Civil Rights Act to invest education funds in corporations doing business in South Africa. As a result of subsequent lawsuits, the courts ruled that State University endowment funds invested in corporations doing business in South Africa were violations of the Civil Rights Act and would have to be divested. Dave Konchak, of the University of Wisconsin, reports that \$10 million was divested from the \$30 million university fund.

Mr. Konchak notes that although the university has not formally studied the consequences of divestment, his opinion is that it has neither helped nor hurt the performance of the fund. However, he did mention that the experience of his fund should not necessarily be generalized to all investment funds. He feels that one reason that divestment has not been harmful to the university fund is that it is fairly small compared to state pension funds. Because it is relatively small, the university fund has been able to find sufficiently sound investments in smaller corporations to replace those in large corporations that are banned. In addition, Mr. Konchak has not been concerned about purchasing too much stock in any one corporation or purchasing enough different stock to diversify the fund.

The Wisconsin legislature recently considered a bill that would prohibit the investment of state pension funds in corporations or banks doing business in South Africa. In response to this proposed legislation, the Wisconsin Investment Board prepared a report concerning the potential impact of a divestment law on the state's pension fund. (This report is attached.)

According to Kenneth Codlin, Director of the Wisconsin Investment Board, the report concluded that divestment could cost the pension fund approximately \$24 million. This cost can be attributed equally to transaction costs and the impact of going to the market with large blocks of securities to sell in a short period of time. Mr. Codlin notes that the proposed legislation allows only three years in which to divest the South Africa holdings. Because more sales would have to be made than would be made normally, transactions costs would increase. (It should be noted that the portion of the divestment costs attributable to transaction costs excludes transaction costs that would have occurred as a result of normal portfolio activity.)

The second aspect of the divestment cost is the prices that the fund would be forced to accept during the divestment period. Mr. Codlin notes that because of the large number of holdings to be divested within the three-year period, the pension fund would be forced to sell some holdings at unfavorable prices, resulting in fund losses.

Representative Hurley
September 5, 1985
Page Seven

The Wisconsin Investment Board also examined the future effect of divestment on the pension fund and concluded that the fund could potentially lose \$50 million annually. Mr. Codlin attributes this to the number of large, blue chip corporations that are excluded from potential investment. The Investment Board has concluded that this reduction of available stocks would force the fund to invest in smaller corporations whose stocks may be riskier. In addition, the absence of many large corporations makes it more difficult to diversify the portfolio, causing additional risk.

As a result, to achieve a degree of fund security equal to the pre-divestment portfolio, the fund must invest in a larger proportion of government risk-free holdings. But this increased investment in less risky assets would lower the return that the fund enjoys. It is this reduced return that accounts for the potential \$50 million annual loss.

It should be noted that there is a difference of opinion among investors concerning the impact that exclusion of all corporations doing business in South Africa has on the diversification of the portfolio and therefore its risk and return. In addressing the House of Representatives District of Columbia Committee, Robert Schwartz made the following comments concerning post-divestment alternatives for investment managers:

However, the remaining universe of investment opportunities available to us is sufficiently broad to permit the latitude to be in or out of the stock market, or in long or short term bonds as we see fit. If we, or selected other money managers, were given the task of managing funds within the framework under discussion today we would not have problems in finding suitable alternatives to those that would be prohibited. There is no industry, automobile, computer or pharmaceutical included which would be completely barred because of South Africa.

Performance in the management of assets is a function of the accuracy of judgments about the overall market, the future course of interest rates, and the ability to select investments that appreciate over time. In this fundamental approach and with the availability of some companies in every industry, I believe performance would not be hindered, limited or adversely affected by the restrictions of avoiding investments in companies that do business in South Africa.¹

¹Remarks by Robert Shwartz to the Subcommittee of Fiscal Affairs and Health of the House District Columbia Committee, January 31, 1984. Mr. Shwartz, a corporate vice president of Sherson/American Express, is an investment manager with particular expertise in the area of socially responsible investments.

Representative Hurley
September 5, 1985
Page Eight

A report concerning the financial impact of divestment prepared by the Investor Responsibility Research Center disagrees with this conclusion. That report is summarized later in this memorandum.

City of Philadelphia

The city of Philadelphia passed a divestment law in 1982 that required the complete divestment within two years of City funds invested in any corporation or bank doing business in South Africa. However, the ordinance also stipulated that if unfavorable market conditions prohibited the divestment in a timely matter, the City Treasurer's Office could request an extension on the divestment deadline. Curtis Townsend of the Philadelphia Treasurer's Office reported that within two years approximately \$75 million had been divested. This amount accounts for all of the required divestment except for one holding for which an extension was requested and granted. However, Mr. Townsend noted that this holding has recently been sold, completing the divestment.

The holdings that Philadelphia divested were corporate bonds of thirty-three companies. (Because of the timing of the enactment of the divestment ordinance, the portfolio contained no stocks to be divested.) Mr. Townsend reports that the fund suffered estimated losses of \$12.5 million as a result of the divestment. These losses were calculated as the difference between the proceeds of the bond sale and the face value of the bond (the value of the bond at maturity.) However, Mr. Townsend cautions that this calculation overstates the loss because it does not include revenue from the new purchases made with the proceeds of the bond sales. Because of uncertainty concerning future interest rates and bond prices, he was unwilling to speculate on what the actual net effect of the divestment would be if future returns from new investments are considered.

Mr. Townsend did stress the importance of requesting divestment extensions if the market conditions were not favorable. He noted that delaying the sale of one large holding probably saved the city several million dollars.

Massachusetts

Massachusetts' divestment law required the state treasurer to divest within three years all holdings of corporations or banks that have financial relationships to South Africa. According to Allen West of the Massachusetts State Treasury, approximately \$90 million in corporate bonds and \$50 million in bank stocks were divested within nine months of the passage of the law. The rapid divestment was due to

market conditions that were perceived to be favorable by the state investment officials. At the time of the divestment, the funds from which the divestment was to occur totaled \$2.25 billion.

Mr. West reported that the State of Massachusetts lost about \$11.7 million dollars as a result of the divestment. Although part of this loss is attributable to transactions costs incurred in the sale of the stock, the larger share of the loss was due to the divestment of the bonds. However, Mr. West cautions that this loss is based on the difference between the bond's market value at the time of sale and the bond's original purchase price. It does not include future revenues from the assets purchased from the bond sale proceeds.

Some analysts have argued that excluding future revenue from the new investments overstates the loss attributable to divestment. They claim that if future revenues are excluded, the loss on the sale results exclusively from realizing the decline in the value of the bonds that had already occurred, and is not directly related to divestment.

Mr. West commented that so far the fund has not had difficulty in finding investments to replace those that were divested. However, he was reluctant to predict the financial impact of divestment on the performance of the fund because of the many uncertainties present in the investment markets.

Nebraska

Nebraska's divestment law prohibits the holding or acquisition of stocks in companies that do business in South Africa and are not in the highest ratings category of the Sullivan Principles as determined by Arthur D. Little, Inc. The law, which was passed in April of 1984, required that divestment be completed by January 1, 1987. As mentioned previously, about thirty of the 300 American corporations found in South Africa are classified in the top category of Sullivan Principles compliance. However, the Nebraska law does not apply to corporate bonds, regardless of the nature of the corporations' business interests of South Africa.

Don Mathis, of the Nebraska Treasurer's Office, reports that at the time of the passage of the law, the funds subject to divestment totaled \$400 million, of which \$100 million was invested in common stock. Approximately one-fourth (\$25 million) of the stock portfolio was invested in securities to be divested. To date, approximately \$15 million has been divested. Mr. Mathis did note that one consequence of the divestment law was that the fund was forced to invest in smaller companies. He feels that in some cases, this increases portfolio risk because not as much good investor information is readily available concerning these companies as is available on larger corporations.

However, Mr. Mathis was unwilling to speculate on the eventual impact of divestment on portfolio performance. He commented that it would be impossible to compare the performance of the pre-divestment portfolio with that of the post-divestment portfolio because it is impossible to know what investment decisions would have been made had the portfolio not been restructured. Also, he noted that there are many methods that can be used to judge portfolio performance and that it is very difficult to agree on common judgment criteria.

Investor Responsibility Research Center Report

The Investor Responsibility Research Center (IRRC) has recently completed a report concerning the financial impact South Africa related divestment has on equity portfolio performance.² This report analyzes and summarizes the findings of previous reports that have been done on the financial impact of divestment. The Executive Summary of the IRRC report contains the following conclusions. (A copy of this summary is attached.)

First, the United States companies that are affected by South Africa related divestment laws are generally large and successful corporations. Complete divestment eliminates more than one-third of the market value of all equity securities in the United States, and would exclude almost all of the Standard and Poor's 500 companies in several industries.

Second, nearly all of the studies reviewed indicated that portfolios without investments in South Africa related companies exhibited higher rates of return but also greater variability of return (risk) than did portfolios allowing investment in South Africa related companies. However, few conclusions have been drawn by previous reports concerning an acceptable tradeoff between higher return and greater risk.

Third, initial portfolio divestment and ongoing portfolio transactions will likely result in both one-time and ongoing transactions costs. Estimates of one-time transactions costs associated with divestment range from 1.5 percent to 6 percent of the value of the stocks sold. Estimates of additional ongoing transactions costs range from 1 percent to 3 percent of the value of the stock traded. This cost is due to the nature of the stocks that comprise the South Africa free investments; because they are generally smaller firms, less well known and less actively traded, costs related to their sale and purchase are higher.

²The Impact of South Africa Related Divestment on Equity Portfolio Performance, Investor Responsibility Research Center, Inc., Suite 900, 1319 F Street N.W., Washington D.C., 20004, (202) 833-3727.

Representative Hurley
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Page Eleven

Fourth, the investment approach used by portfolio managers has a significant effect on the impact of divestment. The IRRRC found evidence to suggest that passively managed South Africa free portfolios can match the Standard and Poor's index reasonably well. But these portfolios may also contain 3 to 5 times more risk than found in available funds that are not constrained by divestment guidelines. Actively managed portfolios that depend on company-specific research and on frequent trades that must be executed rapidly may incur the greatest cost under divestment. Research costs will increase because analysts will have to follow a larger number of smaller corporations and rapid trades of securities of smaller companies will likely result in costs associated with the ability to buy and sell securities without affecting the market price.

The IRRRC's fifth conclusion relates the financial impact of divestment to the size of the fund. Liquidity costs may arise for large funds because they will be forced to trade securities of South Africa free companies that have one-half of the market capitalization and one-half the daily transaction volume of the South Africa related corporations. These trades will likely be of such magnitude in relation to the companies normal trading volume that pressure will be put on the stock price, particularly in cases in which rapid trades are desirable. Liquidity costs can be reduced by less frequent trades and trades in smaller blocks, but some active portfolio managers feel that this would hurt portfolio performance. The IRRRC report was reluctant to distinguish a small from a large fund, but did conclude that the "large fund" costs can begin to appear if the fund has between \$50 million and \$200 million in investments.

The last IRRRC conclusion relates to alternate investment methods that would reduce the cost of divestment. The report noted that the use of stock options and futures issued by stock exchanges would allow the portfolio to base returns on South Africa related corporations without actually investing in the corporations themselves. However, the report acknowledges that investments of this type may violate the intent of divestment policy.

* * * * *

If you have any further questions or need additional information, please contact our agency.

JL

Attachments

Wisconsin Investment Board Report

1985 Session

FISCAL ESTIMATE
AD-MBA-23 (Rev. 11/82)

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No./Adm. Rule No.
AB 54
Amendment No. if Applicable

Subject Prohibits investments of public retirement trust funds in certain investments relating to the Republic of South Africa.

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

- Increase Costs - May Be Possible to Absorb Within Agency's Budget Yes No
 Decrease Costs

Local: No local government costs

1. Increase Costs
 Permissive Mandatory
2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others _____

Fund Sources Affected

GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate

This bill will result in a one time cost of over \$24 million due to additional brokerage fees and price discounts associated with divestiture. The recurring annual cost is over \$50 million, due primarily to reduced opportunities for investment selection, and will grow at a rate of approximately 10% per annum.

The impact of this reduction in investment earnings will be a \$40 million increase in state and local contributions to the retirement fund each year hereafter. In addition, benefits to retirees will be reduced by about \$10 million each year or approximately \$165 per person per year.

A further effect of this bill will be to prohibit investments in at least the following Wisconsin firms.

Allis-Chalmers (Milwaukee)
Applied Power Inc. (Milwaukee)
Bucyrus-Erie Co. (So. Milwaukee)
General Telephone Co. of Wisconsin (GTE Subsidiary, Sun Prairie)
Harnischfeger Corp. (Milwaukee)
Johnson Controls, Inc. (Milwaukee)
S.C. Johnson & Son Inc. (Racine)
Kimberly-Clark Corp. (Neenah)
The Parker Pen Co. (Janesville)
Rexnord Inc. (Milwaukee)
The Sentry Corp. (Stevens Point)
Trane Co. (La Crosse)
Twin Disk Inc. (Racine)

(Continued)

Long-Range Fiscal Implications

There are two sources of increased fiscal impact of this bill overtime:

- Contributions to the fund are growing at a rate of 10% per annum.
- As companies doing business with the government of Republic of South Africa become known, the eligible universe of companies will shrink and result in further loss of return.

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Date

02/14/85

Also prohibited will be:

Allen Bradley (Subsidiary of Rockwell International Corp., Milwaukee)
J.I. Case (Subsidiary of Tenneco, Racine)
Deere & Co. (Horicon)
General Electric (Milwaukee & Waukesha)
General Motors (Janesville)
IRM (Multiple)

Instead of encouraging investment in Wisconsin, something the Board is already doing, this bill will reduce investments in Wisconsin firms by prohibiting investment in those listed above.

This fiscal estimate is based on the Investment Board's holdings as of June 30, 1984 which are issued by corporations, financial institutions and their subsidiaries, etc. doing business in South Africa.

A. Brokerage fees associated with selling the obligations and with buying a replacement portfolio.

Assumptions:

1. Divested bonds have maturities of 20 years on average.
2. Brokerage fees average:

| | |
|-------------|--------------------|
| \$ 5,000/mi | Bonds |
| \$ 3,750/mi | Stocks |
| \$15,000/mi | Real Estate |
| \$ 5,000/mi | Private Placements |

3. Brokerage fees are incurred in both selling the instruments affected by the terms of this bill and in buying replacements.
4. Normal turnover in equities is 20% per annum. Fifty percent of the sales necessitated by the terms of this bill are forced sales. Bonds and private placements are generally held to term and are therefore all forced sales.

B. Price pressure effect or liquidity costs.

On average, the assets sold will obtain a price somewhat below market. The deviation from market price will not hold for all assets sold. Furthermore, in the event that some deviation is experienced, the magnitude will vary depending upon the size of the holding for any one asset that is subject to the provisions of this bill and upon the market for those assets. The average reduction is estimated to be 1% for all assets divested.

Assets Held on June 30, 1984
Affected by the Provisions of Bill

| | (1) Number of Issues | (2) Market Value | (3) Market Value of Divested Assets As % All Affected Holdings | (4) Brokerage Fees | One-Time (5) Price Pressure Effect | (6) Total |
|---------------------------|-------------------------------|------------------------|---|--------------------------|--|---------------------|
| Common Stocks | 65 | \$1,561,082,000 | 42.8 | \$ 5,854,058 | \$ 7,805,410 | \$13,659,468 |
| Public Bonds | 33 | 273,762,813 | 12.9 | 2,737,628 | 2,737,628 | 5,475,256 |
| Private Debt | 82 | 252,276,461 | 16.8 | 2,522,765 | 2,522,765 | 5,045,530 |
| Mortgage & Real Estate | 5 | 1,821,880 | 1.0 | 54,656 | 18,219 | 72,875 |
| TOTAL | 185 | \$2,088,943,154 | 28.0 | \$11,169,107 | \$13,084,022 | \$24,253,129 |

C. Loss associated with reinvesting proceeds of divestiture in instruments permitted by the terms of this bill.

Assumptions:

1. The amount of risk accepted in the funds managed by the Investment Board will be unchanged.
2. The universe of stocks in which the Board can invest will be narrowed. To ensure that no additional risk is accepted in the portfolios will necessitate that a higher percentage of the portfolio is held in cash equivalents (i.e. U.S. government bills/bonds). The portion of the divested funds reinvested in stocks will be invested in other qualifying large companies or in smaller company stocks which typically have a higher return and higher risk than was true prior to this bill going into effect.
3. The universe of industrial bonds in which the Board can invest will be narrowed. (The bonds divested constitute about two-thirds of the current industrial bond portfolio.) To ensure that no loss of quality occurs, the divested funds will be invested in other qualifying companies, or will be invested in long U.S. Government bonds.
4. The universe of private placements will be narrowed. Maintaining the same level of risk and quality in the portfolio will necessitate allocating the funds resulting from divestiture between other quality companies and medium term U.S. Government bonds.

5. For each asset class, the following reduction in expected rate of return will result. (The reduction uses SWIB's expected annual rate of return as the reference point.)

| <u>Asset Class</u> | <u>Reduction in Expected Annual Rate of Return</u> |
|-------------------------|--|
| Common Stocks | 2.8% |
| Public Bonds | 1.1 |
| Private Debt | 0.2 |
| Mortgages & Real Estate | --- |

The expected on-going loss associated with reinvesting in a restricted universe of assets is therefore:

| | <u>\$ Assets Divested</u> | <u>% Reduction in Returns</u> | <u>Reduction in Annual Earnings</u> |
|---|---------------------------|-------------------------------|-------------------------------------|
| Common Stocks | \$1,561,082,000 | 2.8% | \$43,710,000 |
| Public Bonds | 273,762,813 | 1.1 | 3,011,000 |
| Private Debt | 252,276,461 | 0.2 | 505,000 |
| Mortgage & Real Estate | 1,821,880 | --- | --- |
| Ongoing Increased Transaction Costs for Stocks: | | | 3,840,000 |
| | | | \$51,066,000* |

*As the fund increases in size, it is likely that the \$ value of assets diverted from the current investment program to the alternative outlined in this fiscal note will increase. This means that the reduction in annual earnings will also increase each year. The rate of increase is estimated to be about 10% per annum.

D. Cost associated with additional personnel:

The provisions of this bill will affect 3 main areas of the Board's activities:

1. Investment Division for Common Stocks

This division currently has holdings in 100 large cap corporations which are regularly monitored. The average holding is about \$30 million per corporation. As a result of this bill, 65 companies will be eliminated from the portfolio and the replacement investments will, of necessity, be spread among more companies than before. This is based on the assumption that the available pool of potential investments will be smaller companies and that the practice of limiting investments to 5% of the stock of any one company will continue. This will result in the need for three additional stock analysts. (\$104,201)

The increased volume of transactions will necessitate the hiring of one additional trader. (\$37,488)

2. Fixed Income Assets

One additional analyst will be required to analyze the additional companies that will be monitored, analyzed, etc., as a result of this bill. Only one-half position each is allocated to the Public Bond and Private Placement divisions since it is assumed that some of the funds resulting from divestiture will be reinvested in U.S. Government securities. (\$37,488)

In summary:

One-Time Costs

Transaction Costs \$24,253,129

| <u>Segregated Revenue</u> | <u>Other</u> | <u>Fixed</u> | <u>Variable</u> | <u>Total</u> |
|----------------------------|--------------|--------------|-----------------|---------------------|
| Stocks | | \$ 9,151,844 | \$4,507,624 | \$13,659,468 |
| Public Bonds | | 5,475,256 | | 5,475,256 |
| Private Debt | | 5,045,530 | | 5,045,530 |
| Mortgage & R.E. | | 72,875 | | 72,875 |
| Subtotal | | \$19,745,505 | \$4,507,624 | \$24,253,129 |
| Segregated Revenue - Local | | | | -0- |
| GRP - Earned | | | | -0- |
| Subtotal | | | | \$24,253,129 |
| PRO - Service | | | | -0- |
| TOTAL | | | | <u>\$24,253,129</u> |

On-Going Costs

| | |
|---|--|
| Earnings Loss Associated With Restricted Universe Personnel | \$51,066,000 <u>179,177</u> \$51,245,177 |
|---|--|

| <u>Segregated Revenue - State</u> | <u>Fixed</u> | <u>Variable</u> | <u>Other</u> | <u>Total</u> |
|-----------------------------------|--------------|-----------------|--------------|---------------------|
| Stocks | \$30,947,000 | \$15,243,000 | | \$47,550,000 |
| Public Bonds | 3,011,000 | | | 3,011,000 |
| Private Debt | 505,000 | | | 505,000 |
| Real Estate | <u>—</u> | <u>—</u> | | <u>—</u> |
| Subtotal | \$34,463,000 | \$15,243,000 | | \$51,066,000 |
| Segregated Revenue - Local | | | | -0- |
| GRP - Earned | | | | -0- |
| PRO - Service | | | | <u>179,177</u> |
| TOTAL | | | | <u>\$51,245,177</u> |

Technical Note

The fiscal impact of AB 54 assumes that the cash equivalent balances are managed in a fund other than the State Investment Fund. To accommodate this, it is necessary to direct the Investment Board to establish this fund. It would be required to receive funds and to meet the other cash needs of the retirement funds.

Assuming that the cash equivalent balances remained in the State Investment Fund would require divestiture of that Fund and an additional fiscal impact.

FISCAL ESTIMATE WORKSHEET

1985 Session

Detailed Estimate of Annual Fiscal Effect
AD MBA 22 (Rev. 11/82)

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No. / Actm. Rule No.
AB 54

Amendment No.

Subject Prohibits investments of public retirement trust funds in certain investments relating to the Republic of South Africa.

I. One-time Costs or Revenue Fluctuations for State and/or Local Government (do not include in annualized fiscal effect):

\$24,253,129 (segregated Revenue)

II. Annualized Costs: Note: Treat fiscal costs like a "checkbook"; increased costs reduce available funds (-); decreased costs increase available funds (+).

| Annualized fiscal impact on State funds from: | Increased Costs | Decreased Costs |
|--|-----------------|-----------------|
| | | |
| A. State Costs by Category | | |
| Salaries and Fringes | \$ - 152,777 | \$ + |
| Staff Support Costs | - 26,400 | + |
| Other State Costs | - | + |
| Local Assistance | - | + |
| Aids to Individuals or Organizations | - | + |
| TOTAL State Costs by Category | \$ - 179,177 | \$ + |
| B. State Costs by Source of Funds | | |
| GPR | \$ - | \$ + |
| FED | - | + |
| PRO/PRS | - 179,177 | + |
| SEG/SEGS | - 51,066,000 | + |
| C. FTE Position Changes | | |
| | + 5 | - |
| III. State Revenues--Complete this only when proposal will increase or decrease state revenues, such as taxes, license fees, etc. | | |
| GPR Taxes | \$ - | \$ + |
| GPR Earned | - | + |
| FED | - | + |
| PRO/PRS | - | + |
| SEG/SEGS | - | + |
| TOTAL State Revenues | \$ - | \$ + |

Net Annualized Fiscal Impact on State & Local Funds

| State | Annual Increases | Annual Decreases | Local | Annual Increases | Annual Decreases |
|----------------------------------|------------------|------------------|----------------------------------|------------------|------------------|
| Total Costs | \$ - 51,245,177 | | Total Costs | \$ - | \$ + |
| Total Revenues | + | | Total Revenues | + | |
| NET Impact on State Funds | \$ 00 | 51,245,177 | NET Impact on Local Funds | \$ (+) | (-) |

Agency Prepared by (Name & Phone No.)

Investment Board 266-2381

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2/18/85

IRRC

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South Africa Review Service

THE IMPACT OF SOUTH AFRICA-RELATED DIVESTMENT
ON EQUITY PORTFOLIO PERFORMANCE

January 1985

THE IMPACT OF SOUTH AFRICA-RELATED DIVESTMENT
ON EQUITY PORTFOLIO PERFORMANCE

January 1985

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II. EXECUTIVE SUMMARY

This report discusses the effect on investment performance of divesting the securities of companies engaged in business in South Africa. The discussion is based on an analysis of nine studies completed between 1978 and 1984 by a variety of organizations and individuals.

The most important conclusion is that divestment will have a detrimental effect over the long term on portfolio performance. Although that effect is difficult to quantify with any degree of accuracy, its severity will vary principally with the investment style of the portfolio manager and with the value of the equity portion of the portfolio.

While we looked for quantitative estimates of divestment costs whenever possible, we found few in which we had complete confidence. What is clear is that, in general, the large portfolio that divests from all South Africa-related companies and is actively managed will feel the effects most severely and will have to bear potentially substantial costs.

The costs of divestment can be reduced, perhaps to a significant extent, by employing different management techniques. Some of the discussion that follows suggests ways of reducing the deleterious effects of divestment. Nevertheless, it should be clearly understood that the elimination of South Africa-related securities from investment funds will require substantial changes for most portfolio management styles to reduce these costs, changes that many fund managers may be unable or unwilling to implement. Many of the more sanguine conclusions listed below pertain to investment styles that are not now employed by many professional portfolio managers.

The most important conclusions arising from these nine studies are as follows:

1. Companies affected by a South Africa divestment policy

The U.S. companies engaged in business in South Africa are for the most part large and successful; they represent relatively safe investments. Stocks of these companies tend to have below-market levels of risk, with correspondingly lower rates of return. Complete divestment eliminates more than one-third of the market value of all equity securities in the United States, and it would exclude virtually all of the Standard & Poor's 500 companies in several important industries.

2. Risk and return characteristics for constrained and unconstrained portfolios

Nearly all of the studies that measured risk and return found that the South Africa-free portfolio exhibited both higher rates of return and greater variability of returns (which is the definition of risk in financial theory) than did unconstrained portfolios. This comparison, however, tells us little about the risk/return tradeoff in the two universes of stocks, and it fails to answer the question of whether the additional return was sufficient to compensate investors for the additional risk. Valid comparisons are made most easily if portfolios of equal risk are selected from the constrained and unconstrained universes of companies, which then are compared in terms of rates of return. Although this is feasible, none of the nine studies attempted to do it.

3. Costs of divestment

The sale of stocks of companies doing business in South Africa and their replacement with stocks of companies from the South Africa-free universe results in both one-time and ongoing transaction costs. These transaction costs consist of (1) commissions paid to brokers and dealers, (2) a price pressure effect or liquidity cost, and (3) fees and transfer taxes. Estimates of one-time transaction costs associated with a divestment policy range from 1.5 percent to 6 percent of the value of stocks sold to comply with a divestment policy. Estimates of ongoing, additional transaction costs associated with a divestment policy range from 1 to 3 percent of the value of stock traded. This is because the smaller market capitalization firms that characterize the South Africa-free universe are typically less actively traded and, as a consequence, have higher transaction costs than those in the unconstrained universe.

4. Portfolio management style

The investment approach that a fund selects has a significant bearing on the potential impact of divestment.

Divestment may generate the fewest costs for passively managed portfolios that try to match the risk and return characteristics of the S&P 500 or other broadly based indices. The evidence suggests that it is possible to construct passive portfolios that exclude South Africa-related securities and that track the S&P 500 reasonably well. Nevertheless, nonmarket risk in a South Africa-free index may be from three to five times greater than in commercially available index funds that are not constrained by a South Africa divestment guideline (approximately 2 percentage points instead of 0.5 percent or less). Because of the smaller number of companies in the constrained universe, money managers would have to rely more heavily than they have traditionally on mathematical models that aid in the construction of South Africa-free index funds. And a South Africa-free fund may require more frequent trades than a conventional unrestricted index fund and thus may bear higher transaction costs.

Portfolios that make active stock selections on the basis of mechanized decision-making rules--using formulas for selecting undervalued stocks, for example, or stocks with low price/earnings ratios--also should be able to keep the costs arising from divestment to a relatively low level.

Actively managed portfolios that depend on company-specific research and on frequent trades that must be executed within a short period of time will incur the greatest costs under divestment. Fund managers that rely on security analysts to investigate the return prospects of stocks probably will incur higher research costs under divestment because they will have to follow a larger number of smaller companies, which may require more intensive analysis. Also, rapid trades in the smaller capitalization world of South Africa-free companies would expose a fund to increased liquidity costs.

5. Size of equity portfolio

For large funds, a major cost associated with divestment will be the pressure on stock prices as they attempt to buy or sell the stock of South Africa-free companies--companies that on average have one-half the market capitalization and one-half the daily trading activity of companies in the unconstrained universe. Some estimates of these liquidity costs for large funds are sobering, particularly for managers who require quick execution of their transactions. These costs may be reduced by less frequent trades and by trading in smaller blocks--solutions that active managers may argue would negatively affect the portfolio's expected return.

The one study that attempted to set a point where a "small" fund becomes "large" estimated the threshold as \$50 million in equities. Our own conclusion is that there is a continuum, rather than a threshold, where these added, "large fund," costs first come into play. That continuum ranges from \$50 million to approximately \$150 to \$200 million. Where along that range a fund will incur these added costs will depend largely on its investment style and the frequency and speed of trading that style requires.

6. Ways of bringing increased diversification into a South Africa-free portfolio

In setting divestment guidelines, fund policy makers may be able to consider the role of alternative securities such as options and futures whose returns depend on the returns of securities of South Africa-related companies. These securities are issued by securities exchanges, and funds holding options and futures whose returns depend, either in whole or in part, on the returns of South Africa-related securities need never hold the restricted securities themselves. If these options and futures could be held in South Africa-free portfolios, the costs of divestment in the form of nonmarket risk and increased liquidity costs would decrease. However, using this investment strategy might violate the intent of a divestment policy, and several institutional investors have told IRRC that these investment options definitely would be counter to a policy that prohibits investing in companies with operations in South Africa.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

~~Andrews~~
testimony

September 10, 1985

The Honorable Katie Hurley
Representative
Box 870157
Wasilla, AK 99687

Dear Representative Hurley:

I wanted to take this opportunity to express my appreciation to the House State Affairs Committee for providing this forum for Alaskans to express their views on the serious human rights problems unfolding so dramatically now in South Africa. As a freedom-loving people, Alaskans are acutely aware of injustice when it occurs, and we have never hesitated in speaking out against human rights violations, inside our borders or outside.

Inside Alaska, progress on human rights is an ongoing story. The struggle for social and economic justice in our state has a long history, from the territorial battle over opening the ballot booth to women to the successful drive for Statehood, to passage of the Alaska Native Claims Settlement Act.

From 1912 to 1959 to 1971, Alaskans joined in breaking through barriers to fair treatment, and in so doing, enriched with social progress a land already blessed with so many natural resources.

Outside our borders, the quest for basic human rights is being pursued in many countries, perhaps nowhere with so many compelling reasons as in South Africa. The system of apartheid imposed on an estimated 24 million residents of South Africa is an appalling example of injustice we abhor and condemn.

On behalf of all Alaskans, I have sent the enclosed letter to President Reagan urging him to support sanctions against the South African government. These economic sanctions, embodied in legislation pending in the Congress, would ban new U.S. bank

September 10, 1985

loans to the South African government, curb sales of U.S. computer goods and technology, and halt the export of U.S. nuclear technology. The House measure goes further in barring new investments by U.S. firms doing business in South Africa and prohibiting the importation of krugerrands, unless Pretoria makes progress toward ending apartheid.

As you may know, pending federal legislation and the administrative sanctions announced by President Reagan on September 9 do not contain any provisions on divestiture. This omission is perhaps recognition of the fact that divestiture may be the ultimate economic sanction that can be used to attempt to influence government policies in South Africa. As such, divestiture should be implemented carefully, so as not to penalize the very people we are attempting to help -- the 24 million victims of apartheid.

Each time we buy a certain kind of film, drink a certain brand of soda pop, watch a particular television network--indeed each time we use the brand of typewriter this letter was written on -- Alaskans are investing in companies doing business in South Africa. These are individual decisions that consumers must make on a regular basis.

For the State of Alaska, however, investment decisions are guided by law. In general, the law requires the best return possible on the public's investment, but that principle -- the so-called "prudent man rule" -- should not blind us to what is right.

For that reason, I would encourage your committee to explore fully the ramifications of House Concurrent Resolution 17. I wholeheartedly support the intent of this resolution and look forward to hearing the viewpoints of Alaskans on this important issue.

Sincerely,


Bill Sheffield
Governor

Enclosure

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

September 9, 1985

The President
The White House
Washington, DC 20500

Dear Mr. President:

The passing of each day brings new evidence of the evil of the apartheid system imposed upon 24 million citizens of South Africa. Nowhere in the world is there a government supported by the United States that systematically violates basic human rights more than the regime in Pretoria.

On behalf of all Alaskans, I urge you to support the proposed economic sanctions against the South African government which are contained in the bill now being readied for passage by the Congress. Those sanctions include a prohibition against new U.S. bank loans to the South African government, a curb on sales of U.S. computer goods and technology, and a halt to the export of nuclear technology. Further sanctions also would bar new investment by U.S. firms doing business in South Africa and prohibit the importation of kruggerands, unless you and the Congress agree that progress is being made in bringing an end to apartheid. Some of those sanctions were included in your executive order of today, and I congratulate you on your announcement.

I wish to inform you, Mr. President, that the State of Alaska is now considering a proposal directing the divestiture of state funds in businesses with ties to the South African government. Many Alaskans believe this step would be the most direct statement they could make to protest a policy of social and economic injustice that is abhorrent.

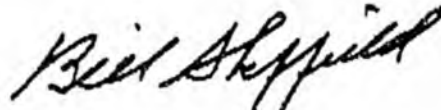
Mr. President

-2-

September 9, 1985

This statement by Alaska, however, should be no substitute for a national policy aimed at ending the unconscionable violation of basic human rights now being perpetrated with such daily brutality by the government of South Africa.

Sincerely,

A handwritten signature in cursive script that reads "Bill Sheffield". The signature is written in dark ink and is positioned above the printed name and title.

Bill Sheffield
Governor

From: Michael D. Haidt
9101 Brayton Drive
Anchorage, Alaska, 99507
907/344-0528

Date: 9/10/85

To: Legislative Teleconference on the subject of
proposed disinvestiture of Alaska State funds
from economic interests in the country of
South Africa.

Dear Sirs,

Thank you for the opportunity to address you on this pertinent subject. I think it would be most unfortunate and ill-advised for the State of Alaska to disinvest any funds it has involved in South Africa at this time, especially for the purported reason of furthering the human rights of the black citizens of that country. South Africa is, economically speaking, a proven wise choice for investment purposes. That issue is, however, not uppermost. The issue is whether or not this proposed disinvestiture would place increased pressure on the South African white government to better the conditions for the black majority populace. The answer to that question should be an obvious NO. Economic sanctions by the State of Alaska or the United States federal government would only hurt the common people we are claiming to help. The South African government is one of the most stable in the African continent, and certainly one of the friendliest to the United States and our national security interests in that hemisphere. Not only would this proposed disinvestiture be counter-productive for its intended purpose, but it could tend to further alienate an important U.S. ally in an area of the world where such friends are very few and far between. Please leave Alaskan funds invested in South Africa. This has been one of the wiser choices of our State in recent years - let's not negate it.

Respectfully,

Michael D. ~~Haidt~~

~~Rev. Dick Madden~~

HADAM CHAIR & MEMS OF THE COMMITTEE

TESTIMONY 9-10-85

Ladies and gentlemen of the Committee. My name is Dick Madden, and I am pastor of Immanuel Presbyterian Church here in Anchorage. Having said that, I must admit that I can readily understand if any of you should greet my testimony with a certain degree of suspicion: After all, what's a clergy-type like myself doing offering an opinion on an issue with such obvious political and economic overtones as the divestment of Alaskan dollars in South African Business?

Well, let me also make it clear that I have a vested interest in doing so. Other voices from the world of religion have made their presence felt in recent weeks, and it needs to be said that they most certainly do not speak for all of Christendom. The case for other perspectives must be made particularly when their opinions hold strong influence at the very highest levels of our country's government.

Let's see if we can't clarify some of the issues which separate the likes of Jerry Falwell, Jerry Prevo and other spokesmen for that amorphous group who bear the dubious name of the Moral Majority. They have claimed that the American people have been misled and misinformed about the true picture in South Africa. They have come to this astounding conclusion after a whirlwind tour of that beleaguered nation and have embarked on a program to set the record straight.

The circumstances of their "fact finding" tour and the speed with which it was concluded should give any Alaskan pause to consider our own experience with such "instant expertise." Alaska has been the focus of a good many "fact finding" tours which resulted in horrendous recommendations based on the most superficial level of knowledge and understanding.

They begin by stating their opposition to that White Minority rule called apartheid, then they challenge us to believe that the real issue over there is Communist encroachment, and finally that the only way to end apartheid and to thwart the communist threat is to step up our investment in South Africa and to go out and buy more Krugerrands.

I take issue with them on all counts:

First, I have to admit at least some suspicion when it comes to Falwell's opposition to apartheid to begin with. It wasn't all that long ago that he characterized the desegregation of American schools as a satanic plot. It wasn't that long ago that he told his congregation that the facilities for the races should be separate...that when God has drawn a line, we should not attempt to cross it. Somehow, that doesn't sound a whole lot like opposition to apartheid to me.

The real issue is not communism. The real issue is the dehumanizing oppression of 75 per cent of the people in South Africa through the outright heresy of apartheid. Minor cosmetic changes in policy have done little to release the taut sinews of raw, white power, and our nation's limping response called "constructive engagement" hasn't changed things a bit.

Falwell's Moral Majority has prepared and disseminated a very slick television presentation incorporating a series of interviews with South African Blacks whom they characterize as "elected officials." They make a big thing of that...underline "elected." All those other Black and

colored leaders who have been granted coverage through what they consider a conspiracy of the American News Media weren't elected by anyone and obviously shouldn't be listened to.

None of these selected officials and no black they could find was willing to speak in favor of economic sanctions on the part of the US.

What they don't tell us is that these so called "elected officials" are little more than puppets for the Botha government, What they don't tell us is that out of more than a million potential voters in Soweto, less than 600 votes were cast, and that the Mayor of that city was elected with a total of 67 votes...He didn't win by 67 (we've seen elections like that)...The man only got 67 votes. What they don't tell us is the fact that its a crime to speak out in favor of economic sanctions...The crime is treason, punishable by immediate imprisonment, even death.

Add to that the fact that the EBC conducted a poll promising anonymity for those who answered, which reveals that 73% of the blacks who testified were strongly in favor of sanctions. They knew what it would cost....They were aware of the hardships involved...but any hardship would be as nothing when compared to the continued vicious and morally bankrupt policy of apartheid. *So, Now you know the*

rest of the story —
Even at that, a few interviews with a handful of selected South Africans cannot dampen the testimony of other responsible African leadership who remain convinced that America's corporate investments and loans of nearly 7 billions dollars serve only to strengthen the power base of Apartheid....And the fact that Alaskan dollars are stirred into that ugly cauldron is an outrage to a good many citizens of this state.

The real name of the game is "power". The Botha government has pitted non-whites against each other in a transparent attempt to weaken the opposition through division. They have callously proffered futile hopes for future reforms which they have no intention of instituting. How can they? Apartheid is the foundation of their power...and that power base is firmly connected to economic interests.

The Botha government has proven itself unwilling to change even in the face of the world's moral outrage, but recent events have clearly demonstrated their vulnerability to economic pressure.

Many people in and out of Africa are convinced that until US interests are divested either wholly or selectively, apartheid simply will not be abolished. Among them are Nobel Laureate Desmond Tutu, who is certainly not the phoney Falwell called him...Dr. C. F. Beyers Naude of the World Alliance of Reformed Churches, Sheena Duncan of the Black Sash (an organization of White South African women devoted to the abolition of apartheid, and Dr. Allen Boesak, recently imprisoned for his outspoken opposition to the Botha government. ~~* Jerry Ferris made a point of~~ saying that he has a photograph of Dr. Boesak speaking in front of what he calls a communist flag. President Regan spoke in front of a German flag, but that didn't make him a German, but Jerry says its not the same thing. Nonetheless, applying his own reasoning, if I ever see Jerry holding an egg, I guess I'll have to assume he laid it....

To underscore the fact that this Moral Majority does not speak for anything like a Christian majority, let it be said that joining in the call for economic sanctions are Roman Catholics, Presbyterians, Methodists, Disciples of Christ, the Reformed Church in America, and the Quakers. Certainly the leadership of these many millions of

* In a recent quasi-debate w/ MA PIVRO he made a point of saying

Christians are not totally misinformed and misled, nor are they the dupes of some vague and unidentified communist conspiracy.

✓ Can we afford to forget that the United States stands as a symbol for the world in both human rights and economic justice? It seems to me we're missing both boats in South Africa. It's time we got on board and showed the world where we stand.

Alaska has money. It belongs to the people, and you legislators are the stewards of that money. You want to make sure you invest it wisely and ethically. To continue investment in South Africa knowing that investment prolongs the power base of apartheid is neither wise, nor is it ethical.

If this were 1939 and the question before you was divestment in firms doing business with Nazi Germany or Fascist Italy, there would be no question at all as to what your response would be. Clearly, the ideology of apartheid is the nearest thing to those horrors of the past extant in our world today.

If you, as good stewards of Alaskan money must think in terms of profit and loss, let me suggest you recall a metaphore presented almost 2000 years ago by an itinerant preacher named Jesus. He asked his listeners to picture a scale. On one side was balanced all the worldly goods a man could amass in a lifetime, and on the other a single human soul, and the scale tipped slowly, but inexorably on the side of the soul. Then he asked, "What does it profit a man if he gain the whole world and lose his immortal soul?"

You, my freinds, are faced with the task of determining how you shall define profit and loss, and you must do so on behalf of the people of this state. This citizen asks you to divest our interests in South Africa with the firm belief that to do so will actually be an investment in a more just and humane future for the people of that shamefully battered nation.

↗ It is a tragedy of life that violence so often begets counterviolence. The persistence of the Botha government in using violence has inevitably triggered intentional acts of selective violence and spontaneous explosions by the majority population. Increasingly, Black Africans are accepting violence as the only rout to their liberation, and they didn't require communist agitation to teach them that.

When has the US ever backed a repressive minority government which stood against a rebellious majority when the arms and impetus for revolution have not come from other quarters? Have we learned nothing from Nicaragua and El Salvador...from Angola or Iran...Cambodia, Thailand, Laos? The continued support of the economic base of the Botha government can only open the door for greater communist influence among ~~among~~ the non-whites of South Africa, who have had just about all they are willing to take.

~~James Anquark~~

Testimony 9-10-85

* INJUSTICES IN SOUTH AFRICA ARE REPORTED IN THE NEWS DAILY

* JUST IN THE PAST WEEK LEADERS ON THE FEDERAL STATE AND LOCAL LEVEL HAVE JOINED THE MOVE TO SEND A MESSAGE TO THE SOUTH AFRICAN GOVERNMENT THAT SUPPORTS SUPPRESSION OF THE MAJORITY OF ITS PEOPLE AND REFUSES TO ACKNOWLEDGE THE BORN RIGHT TO DEMOCRATIC FREEDOMS WE TAKE FOR GRANTED IN THE U.S.

institutional racism

PRESIDENT REGAN: MONDAY ANNOUNCED MOST OF THE TRADE AND FINANCIAL SANCTIONS WHICH CONGRESS HAD BEEN CONSIDERING

STATE OF NEW JERSEY: AUGUST 27 GOVERNOR CAIN SIGNED A LAW DIVESTING NEW JERSEY'S EMPLOYEE PENSION AND ANNUITY FUNDS FROM ANY BANK OR INSTITUTION WHICH DIRECTLY OR THROUGH A SUBSIDIARY HAS OUTSTANDING LOANS TO SOUTH AFRICA.

ANCHORAGE: LAST WEEK MAYOR KNOWLES REQUESTED THAT THE ANCHORAGE ASSEMBLY JOIN HIM IN OPPOSING THE APARTHEID POLICIES OF SOUTH AFRICA AND CONSIDER PASSING A RESOLUTION WHICH CALLS FOR A POLICY OF NON-INVESTMENT IN SOUTH AFRICA.

and as testimony by Mr. Harrington illustrates, ~~it is not just for Alaska to~~ ^{invest}

* AS I AM SURE YOU ARE AWARE, ~~WITH~~ THE DECLINE IN THE VALUE OF THE KRUGERRAND AND THE PULL OUT OF A NUMBER OF MAJOR CORPORATIONS THE ECONOMIC SITUATION IN SOUTH AFRICA IS WORSENING AND IT IS INCREASINGLY A LIABILITY TO INVEST IN COMPANIES OPERATING IN THE COUNTRY.

IN JUST THE PAST FEW MONTHS THE ECONOMIC AND POLITICAL SITUATION HAS CHANGED AND ALASKA NEEDS TO CONSIDER IF IT IS WISE TO HAVE OUR DOLLARS INVESTED IN A COUNTRY THAT IS AS UNSTABLE AS SOUTH AFRICA IS REPORTED TO BE.

* I URGE YOU TO JOIN THE OTHER 8 STATE'S IN THE COUNTRY AND DIVEST ALASKA'S PUBLIC FUNDS

September 10, 1985

Dear Committee Members:

My name is Dennis B. Holway and I am a United Methodist pastor and have served in Alaska since 1977. I am part of a denomination that has expressed deep concern over the system of apartheid in South Africa. Both our General Conference in 1984 and our Alaska Missionary Conference annual session in 1985 (these conferences speak to us) have taken stands in support of divestment. Although within our ranks there is a diversity of thought as to the effectiveness of a divestment policy.

As a human being who resides in Alaska I believe we have an opportunity to take a moral stand on this issue and back it with a monetary policy of divestment. I realize it seems to be uncertain as to the short or long range effect of such an action on South Africa and its black as well as white citizens. However, I believe we must stand on the side of moral justice. One of the ways of accomplishing this objective will hopefully be fulfilled by a global community committed to the elimination of apartheid in South Africa.

Sincerely,

Rev. Dennis B. Holway

The Reverend ~~Dennis B. Holway~~
The United Methodist Church
Alaska Missionary Conference



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| Hugh Malone / Alaska Per... Pat BERKLEY | BOX 9 Foul / KENAI 99611 1861 E. Tudor, Rd. # D201 Anch. AK. 99507 | 283 7733 563- 5897 | X | X |
| John Hampton | 230 California St. Ste. 200 SAN FRANCISCO, CA 94111 | 415- 989-3200 | X | |
| Rep. Don Clochrin | | | X | |
| Pat Wellington | 6115 Staden Dr. 3382653 | | X | |
| Henry M Lancaster ID | P.O. Box 10-3461 | 277-8541 | | X |
| Rev Richard J Madden | 8420 Little Dipper Ave | 333-8375 | ✓ | |
| STEVE HEIMEL | APRN | 563-7753 | | X |
| Matt Lucey | Drift News | 786-4-3088 | | X |
| Merritt E. Olson | Anchorage | 272-9156 | X | X |
| PAULA DAVIS - 2:30? | 1422 TWINING DR. ANCHORAGE AK | 333-2334 | X | X |
| Denise Woods | 2101 Albatross Anch. AK 99507 | 345 7755 | X | X |
| Louie Overstreet | 836 E 15th | | X | |



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| Catherine J. Larson TRS Board | 11300 Snowline | 346-2244 | | ✓ |
| David Rossow | 4268KA Street Kensington To Lannenburg Subd Anch. | | ✓ | ✓ |
| Mark Anderson | 2861 Birch Ct. Camino, CA 95709 | 916 644-4471 | | ✓ |
| Phoebe Jennell | 1326 1/2 Medfra | 279-5371 | | ✓ |
| Jackie Purcell | MENI | 278-8035 | | ✓ |
| Britt Johnson | 7927 Cranberry St. Anchorage 99502 | 243-7920 | | ✓ |
| Charles Robinson | 3133 Doil Dr Anchorage 99507 | 362-3915 | | ✓ |
| Suzanne Baulware | 750 Fairbanks | 272-1804 | | ✓ |
| JOHN ADU | 4101 UNIV. DR. 685 ANCHORAGE 99508 | 561-9099 | ✓ | |
| Curtis A. Neitgaard | 2000 Tasha Dr. Anch. 99502 | 349-4737 | ✓ | |
| MARY RATCLIFF | 811 MELCHINA 99501 | 277-3733 | ✓ | |
| WILLIE KATCLIFF | 811 MELCHINA 99501 | 276-3733 | ✓ | |
| KIM DRAYDEN | 4519 E. 5TH 99508 | 272-2229 | | ✓ |
| Peggy Williams | 4319 SAN ROBERTO #1, Anch 99508 | 338-4150 | | ✓ |
| Rep. C. Butte | 1016 West 6th Ave #440 | 272-1491 | | ✓ |



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| RON ZOBEL ^{Bank of} ^{material} | 921 W. 6 TH AVE. Suite 100 3316 KATHIK 99501 | 272-1181 | X | X |
| Karen Carlisle | 2728 McKenzie 501 | 248-9763 | ✓ | |
| Maria Butcher ^{-TARE} / ^{ACORN} ^{ASIA} | 276 1991 1414 LaTOUCHE 501 | AFTERNOON → 276 6450 | ✓ | |
| Terrell Martin | 3960 Reka Dr - B6 | 333-6990 | | X |
| Jim Elliott | 1107 W. 7th | 277-8561 | ✓ | |
| Bob Hammond | 3350 Wilshire. | 213 739-7420 | | X |
| Frank Petroch | 423 E 13th | | X | |
| Stanley Arnold | 3000 AUSA CIRCLE | ↑ | | X |
| Kathryn Arnold | | 274-6727 | | X |
| Marcia Berentes | 1303 H Street | 279-3310 | | X |
| Barbara Bennett | 2464 Farmer Pl. #4 | 333-0541 | | X |
| Jim Howard | 118 W 12th | 274-2786 | | ✓ |
| Geoff Kennedy | 7800 DE BARR, SPACE 2 1589 PARK | 337-3006 | ✓ | |
| John Keenan | 7800 DEBARR RD. SA # 2 | 337-1306 | | X |
| Paul Angulo | 6070 BARROW ST | 277-4903 | | |

