ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 8672

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Both the increased transaction costs and the increased frequency of transactions will affect that portion of the portfolio that would otherwise have been invested in South Africa related equities. On September 30, the stocks listed in Appendix A accounted for 57.9% of the value of all common stocks held by the portfolios. For various reasons, this weighting seems to have been higher than the average weighting in South Africa related stocks that has been produced over the past five years by Michigan's current investment style and higher than the market value weight of South Africa related stocks in Michigan's universe of choice. We assume the average proportion of the portfolio that would be invested in South Africa related stocks is 55%.

The ongoing transaction costs of divestment, expressed as a percentage of the value of the equity portfolio, are therefore as shown in Table E.2. Sales turnover times execution costs, both pre- and post divestment, have been multiplied by two to account for the cost of reinvestment after each sale.

TABLE E.2
CONTINUING TRANSACTION COSTS OF DIVESTMENT AS A
PERCENTAGE OF TOTAL COMMON STOCK PORTFOLIO VALUE

New ongoing transaction costs:	
.55 X .35 X .22% X 2 =	.085%
Less Previous ongoing transaction costs:	
- .55 X .25 X .12% x 2 =	- .031%
TOTAL CONTINUING INCREASE IN TRANSACTION COSTS:	.054%

Table 3.1 in the body of the text shows the combined effects of Tables E.1 and E.2 on a growing portfolio for the first ten years after divestment. The ongoing cost calculated in Table E.2, is assumed to increase by uniform sixths of .054% in the first six years of divestment (.009% in the first year, .018% in the second, up to .054% in the sixth). The equity portfolios are assumed to be a constant 46% of a total five-pension-fund value growing at approximately 13.5% a year (see Appendix F).

APPENDIX F
DETAILED OPPORTUNITY COST ESTIMATES

1. Measures of Opportunity Cost

By opportunity cost we mean investment returns that probably would be lost in the future as a consequence of divestiture. It is not obvious how to measure these potential losses. The universe of smaller capitalization stocks has generally outperformed the entire universe of U.S. common stocks over the last sixty years to an extent that cannot be explained by conventional measures of risk. The universe of South Africa free securities has also generally outperformed the entire universe of U.S. common stocks over long periods of time. Furthermore, a passive South Africa free index has outperformed a passive entire stock market index over most previous time periods of three years or longer.

This superior performance remains after standard capital asset pricing model adjustments for risk. That is, the "alpha" of the South Africa free passive portfolio is usually positive for intervals of three years or longer although this superior performance is not sufficiently persistent from quarter to quarter or year to year to be regarded as statistically significant.[10] This phenomenon is essentially a reflection of the superior performance of smaller capitalization stocks over the last sixty years, again to an extent that cannot be explained by conventional measures of risk.

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10. For references to much of this literature, and a contentious analysis of its findings, see Investor Responsibility Research Center, South Africa Review Service, The Impact of South Africa-Related Divestment on Equity Portfolio Performance (revised), (Washington: 1985).

For a passively managed portfolio, the evidence seems quite overwhelming that over longer time periods divestment will produce an increase in return that is disproportionately large compared to the available measures of the increase in risk.[11] However, our task is to consider the opportunity cost imposed on an actively managed portfolio such as Michigan's.

We note in Appendix C that the Treasurer's office has a stated policy that should be minimally affected by divestiture: top down decision making from macro-economics to broad sectors to individual stocks; and selection of stocks from a potentially wide universe, assisted by purchased value screens covering approximately 850 issues. The actual revealed style shows more concentration on large capitalization issues. We shall use SEI's objective measures of style for this analysis.

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11. This may suggest to some readers the desirability of adopting a passive portfolio approach as part of a coordinated response to divestment. For the three years ending June 30, 1985, the S&P 500 earned a total return of 26.3% per annum; SEI's index of common institutional holdings earned 25.3% with a beta of one and an alpha of -1%; the same index less South Africa related stocks earned 25.7% with a beta of .97 and alpha of -.5%.

At least in this particular period, <u>any</u> passive strategy would have improved results. If the systems' rapidly growing size precludes superior active management, there may be improved performance and reduced transaction costs to be had from a passive strategy. However, if such gains exist they are largely independent of divestment. The appropriate question would then be: given a passive strategy already in place, what would be the increases in transaction costs or decreases in returns resulting from divestment. The probable answer is that the increase in transaction costs, from one small number to another, would be less than under present policy; and the opportunity cost would be of similar magnitude to that calculated in this appendix.

Over the past five years that the present investment strategy and personnel have been in place, the evidence accumulated has been most consistent with the assumption that portfolio management produces an alpha of zero.[12] This does not mean that management has been poor. What has been achieved reflects a high level of professional investment management. Although another five years of data may change our conclusion, for now we are assuming that the Treasurer's office does not possess some exceptional ability to manage its huge portfolios in ways that consistently outperform the results achieved by most other intelligent, professional investors after adjusting for risk.

There remains only one viable approach to estimating the opportunity cost of divestment for Michigan. First measure the implied increase in portfolio variance that will be caused by divestment. Then, estimate the implicit trade-off between variance and return implied by the choices actually made in Michigan's portfolios. Finally, convert the implied increase in variance into the implicit equivalent loss of return.

12. SEI, Funds Evaluation Services, Balanced Fund Report, Public School Employees' Retirement System, September 30, 1985, Exhibit Y 100, shows an alpha for the preceding five years of -.77% with a standard deviation of + 2%.

2. <u>The Increase in Variance "Caused" by Divestment</u>

For divestment of market portfolios in the abstract Lawrence Litvak and Andrew Rudd report the results of optimally rebalancing the remaining South Africa free securities in order to match the S&P 500 as closely as possible. Rudd reports an optimized portfolio with an increased variance of 4.9%.[13] Litvak reports variance increasing by 3.6% as a result of a similar exercise.[14] In its market weighted index of institutional holdings, SEI reports that divestment causes an increase in variance of 4.65%. SEI has duplicated this calculation for that portion of its universe of institutional stocks that characterize Michigan's Expected Growth style. In this case, the increase in variance due to divestment is 3.8%.[15]

These estimates are remarkably close. The first two numbers are biased downard because they rely on an ex-post optimization. The second two numbers are biased upward because they do not permit any rebalancing of the post-divestment portfolio. Yet each pair of numbers covers essentially the same range. We can reasonably assume that the proper measure of increased risk due to divestment, in Michigan's case, is an increase of variance between 3.5% and 5%.

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13. Rudd, Andrew, "Divestment of South African equities: How risky?", The Journal of Portfolio Management, (Spring, 1979), p.8.
14. U.S. Congress (98th, second session), Committee on the District of Columbia, "Hearings on South Africa Divestment, January 31 and February 7, 1984", p. 193.
15. SEI Corp., "South African Investments: Methodology and Results".

3. Michigan's Risk-Return Trade-off

We can estimate how much return this increased volatility is "worth" to Michigan by examining the beta of the stock portfolios as an indicator of the amount of return Michigan is willing to "buy" with increased volatility within its portfolios. We can also compute the slope of the return-variance line at the point on an efficient frontier that is represented by Michigan's chosen mix of cash, bonds and stocks in the pension portfolios.

The average stock portfolio beta for the five years ending September 30, 1985, was .95.[15] Beta values have fluctuated considerably from time to time and often have been above 1.1 in the past year. However, the average value less than one is consistent with the conservative posture of the bond portfolio (90% U.S. governments and agencies; average duration of five years) and with the lower than average equity commitment for the SEI funds universe (63rd percentile) and with the asset-mix risk tolerance estimates that follow.[16]

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15. SEI, Funds Evaluation Services, Balanced Fund Report: Michigan Public School Employees' Retirement System, September 30, 1985 Exhibit Y 100.
16. Ibid., loc.cit., and Exhibits S 050, U 060.

To estimate the degree of risk aversion implicit in the pension funds' overall asset mix, we first had to estimate expected returns, variances and covariances for the relevant asset classes. Our time horizon was ten years, as in the divestment cost estimate itself. The analysis was conducted in terms of only three assets: cash, fixed income and stocks. Small values of real estate equity and convertible securities were combined with stocks while bonds and mortgages were also combined to yield the following chosen asset mix:

Cash, 4%; Fixed Income, 50%; Stocks, 46%.[17]

The following table displays the expected annual rates of return, standard deviations and cross correlations that were estimated for the three asset categories over a ten year horizon starting October 1, 1985.

TABLE F.1
STATISTICAL INPUTS FOR ASSET CLASSES

ASSET	EXPECTED RETURN	STANDARD DEVIATION	CORRELATIONS CASH	FIXED	STOCKS
CASH	8.3%	3.1%	1.0		
FIXED	11.1	5.45	-.16	1.0	
STOCKS	14.0	21.0	-.13	.08	1.0

Much of the data in Table F.1 was taken from Ibbotson and Sinquefield or calculated according to their methods.[18] We estimated the expected ten year average return on Cash (90 day T-bills) at a 2 percentage points less than the 10.3% prevailing yield on a ten year U.S. Government obligation.[19]

17. Ibid., Exhibit C 030.
18. Ibbotson, Roger G. and Tex A. Sinquefield, Stocks, Bonds, Bills and Inflation: The Past and the Future, (The Financial Analysts Research Foundation; Charlottsville: 1982).
19. The U.S. 10.5% of 8/95 were offered to yield 10.28% and the 11.5% of 11/95 to yield 10.36% on September 30, 1985.

Stocks were assumed to provide a six point premium return over cash. And Michigan's stocks were assumed to provide a premium equal to beta times the average premium or .95 X 6 = 5.7. Thus Michigan's stocks are assumed to provide a total return of 8.3 + 5.7 = 14% as year.

The Fixed Income portfolio was modeled as a 60-40 weighted average of marketable bonds and real estate mortgages, respectively. Yields on the former were taken at 10.7%, the average of a seven year FNMA, Federal Farm Credit and World Bank bond. Yields on the latter were taken at 11.7%, the average of yields on a 12% GNMA pass-through, and the conventional posted mortgage rates reported by FNMA and FHLMC. The entire Fixed Income portfolio is thus assumed to have an average yield of 11.1% and duration of 5.2 years. The expected return is assumed equal to the 11.1% yield to maturity.

These methods differ from Ibbotson and Sinquefield in that we have subtracted two percent from longer bond yields to estimate cash yields where they subtracted 1.3 percent and we added a six percent premium return for stocks where they added 8.3%.[20] The standard deviations and correlations of Stocks and Cash are taken directly from Ibbotson & Sinquefield, except that the standard deviation of stocks is adjusted downard by an assumed beta of .95. The correlation of Fixed Income with the other two assets is interpolated from Ibbotson & Sinquefield with long term corporates proxying for mortgages and long term governments for bonds.[21]

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20. Ibbotson and Sinquefield, op.cit., pp. 46-61. Our step from bond to expected cash yields reflects the persistently steeper yield curve of the past half-dozen years. Even so, it anticipates a higher average level of cash yields for the next decade than those actually prevailing in the fall of 1985. The 6% premium for equities over cash also weights recent experience more heavily. For the ten calendar years ending with 1984, the arithmetic average spread between S&P 500 total returns and 90 day T-bills was 6.6%; for the eleven years ending with 1984, 2.85%.

21. Ibbotson and Sinquefield, op.cit., pp. 15, 20.

The data in Table F.1 are the necessary inputs for calculating an efficient frontier of portfolios consisting of different combinations of the three assets. The graph on the following page pictures the frontier, in expected return-standard deviation space, and Michigan's location on it.[22] Table F.2 lists the portfolio composition and certain critical characteristics of the current portfolio and forty other points on the frontier.

The row labelled "risk tolernce" measures the increase in variance for a unit increase in expected return at each of the forty points on the expected frontier. Michigan's portfolio is 39% of the distance from efficient portfolio number 28 toward efficient portfolio number 29. Accordingly we have interpolated Michigan's "risk tolernce" at approximately 130. The inverse of this number, .0077, is the opportunity cost of each unit increase in portfolio variance.

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22. Michigan's portfolio was not on the efficient frontier calculated here until the Cash position was fixed at a minimum of 4%. This is because the asset characteristics listed in Table F.1 and employed in the calculation cannot fully express the liquidity advantages of Cash, except by specifying that a minimum amount is required to finance necessary transactions and to have the capacity to exploit unanticipated market opportunities. An identical problem with a similar explanation arose when we tried to model the mortgage and bond components of Fixed Income as separate assets.

In both of these calculations of an efficient frontier, the point most closely approximating Michigan's portfolio implied a more aggressive attitude toward risk. Beside being the more accurage and correct of these alternatives, out method yields the highest cost of risk and therefore the highest estimated opportunity cost of divestment.

INVESTMENT POLICY ANALYST

EFFICIENT FRONTIER -- RETURN VS RISK

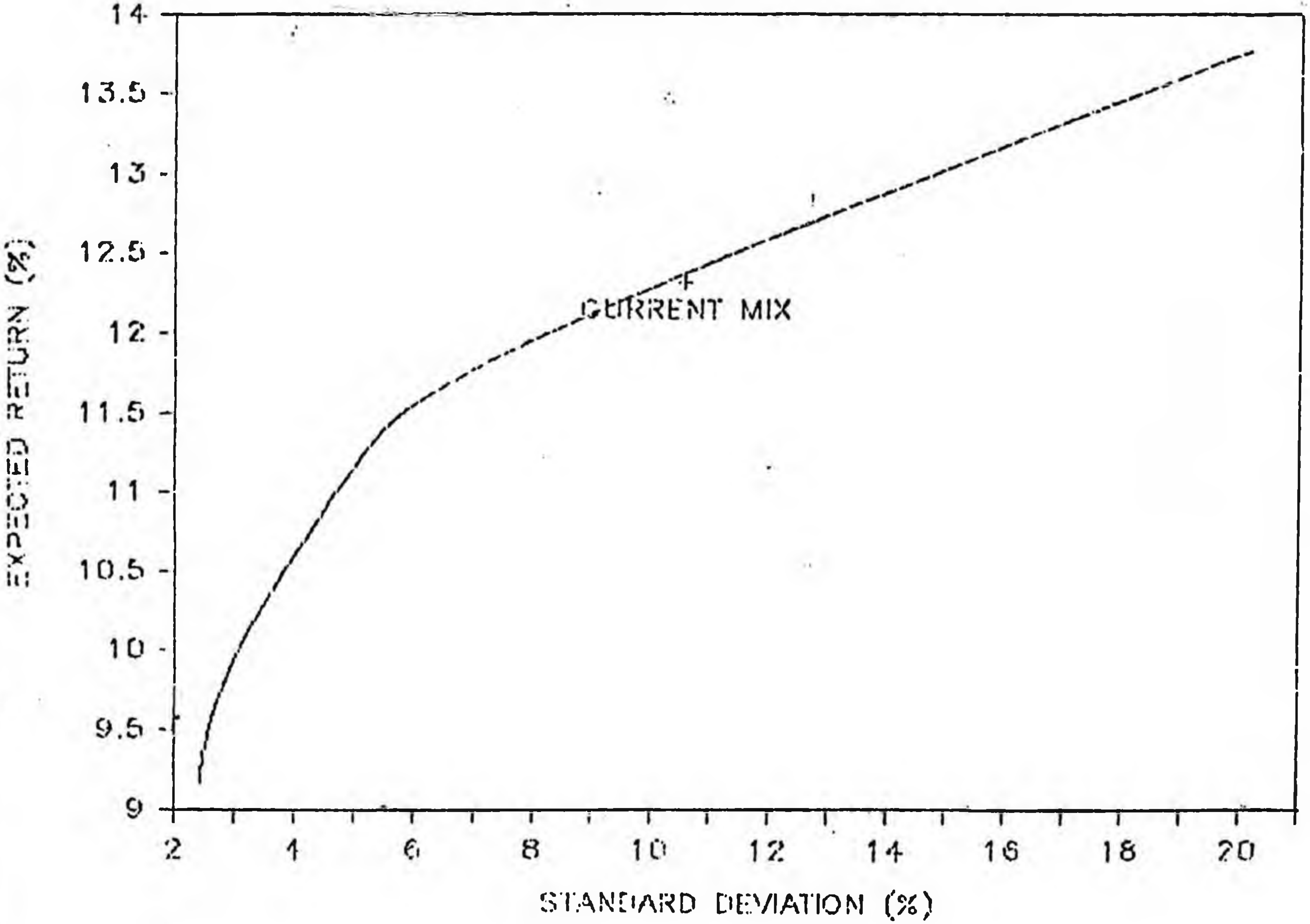

CHART F.1

CHART F.2

INVESTMENT POLICY ANALYSIS
EFFICIENT FRONTIER
ASSET ALLOCATIONS

DATE:86/01/06 MODEL:MICH NOMINAL ANALYSIS

	CURRENT	1	2	3	4	5	6	7	8	9	10	MIN	MAX
cash	4.0	71.6	70.0	66.3	61.9	56.5	54.0	51.3	48.0	44.3	40.0	4.0	100.0
fixed	50.0	26.2	27.5	30.8	34.6	37.5	41.4	43.9	46.7	49.5	53.7	0.0	100.0
stock	46.0	2.2	2.4	2.9	3.5	3.9	4.5	4.9	5.3	5.8	6.3	0.0	100.0
EXPECTED RETURN	12.32	9.16	9.21	9.33	9.47	9.57	9.72	9.81	9.91	10.03	10.17		
STANDARD DEVIATION	10.22	2.45	2.45	2.48	2.54	2.62	2.74	2.84	2.96	3.11	3.30		
RATIO RETURN/STDDEV	1.21	3.74	3.75	3.76	3.72	3.65	3.54	3.45	3.35	3.23	3.08		
RISK TOLERANCE		MIN	1	2	3	4	5	6	7	8	10		
YIELD	7.56	8.91	8.93	9.00	9.08	9.14	9.21	9.26	9.32	9.39	9.46		
TRANSACTIONS COSTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		

	CURRENT	11	12	13	14	15	16	17	18	19	20	MIN	MAX
cash	4.0	34.9	32.1	29.1	22.4	18.7	14.6	10.3	5.6	4.0	4.0	4.0	100.0
fixed	50.0	58.1	60.5	63.1	68.9	72.2	75.7	79.5	83.5	84.1	81.5	0.0	100.0
stock	46.0	7.0	7.4	7.8	8.6	9.1	9.7	10.2	10.8	11.9	14.5	0.0	100.0
EXPECTED RETURN	12.32	10.32	10.41	10.51	10.72	10.84	10.97	11.11	11.25	11.33	11.41		
STANDARD DEVIATION	10.22	3.55	3.69	3.85	4.22	4.44	4.67	4.93	5.22	5.37	5.56		
RATIO RETURN/STDDEV	1.21	2.91	2.82	2.73	2.54	2.44	2.35	2.25	2.16	2.11	2.05		
RISK TOLERANCE		11	12	13	15	16	17	19	20	23	31		
YIELD	7.56	9.55	9.60	9.65	9.77	9.83	9.90	9.95	10.05	10.03	9.64		
TRANSACTIONS COSTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		

	CURRENT	21	22	23	24	25	26	27	28	29	30	MIN	MAX
cash	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	100.0
fixed	50.0	78.1	73.5	70.7	67.4	63.6	59.1	54.0	51.2	48.1	41.2	0.0	100.0
stock	46.0	17.9	22.5	25.3	28.6	32.4	36.9	42.0	44.8	47.9	54.8	0.0	100.0
EXPECTED RETURN	12.32	11.51	11.64	11.72	11.82	11.93	12.05	12.21	12.29	12.38	12.58		
STANDARD DEVIATION	10.22	5.87	6.41	6.79	7.27	7.85	8.69	9.49	10.01	10.58	11.87		
RATIO RETURN/STDDEV	1.21	1.95	1.82	1.73	1.63	1.52	1.40	1.29	1.23	1.17	1.06		
RISK TOLERANCE		42	56	65	76	87	101	117	126	136	157		
YIELD	7.56	9.60	9.26	9.06	8.82	8.54	8.22	7.85	7.64	7.42	6.92		
TRANSACTIONS COSTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		

	CURRENT	31	32	33	34	35	36	37	38	39	40	MIN	MAX
cash	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	100.0
fixed	50.0	37.4	33.3	28.9	24.1	19.0	13.5	7.5	1.1	0.0	0.0	0.0	100.0
stock	46.0	58.6	62.7	67.1	71.9	77.0	82.5	88.5	94.5	96.0	96.0	0.0	100.0
EXPECTED RETURN	12.32	12.69	12.81	12.93	13.07	13.22	13.39	13.55	13.74	13.77	13.77		
STANDARD DEVIATION	10.22	12.61	13.42	14.23	15.24	16.27	17.39	18.60	19.91	20.14	20.14		
RATIO RETURN/STDDEV	1.21	1.01	0.95	0.91	0.86	0.81	0.77	0.73	0.69	0.68	0.68		
RISK TOLERANCE		169	182	196	211	227	244	262	282	327	MAX		
YIELD	7.55	6.65	6.35	6.03	5.69	5.31	4.91	4.49	4.01	3.93	3.93		
TRANSACTIONS COSTS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		

We can calculate an estimate of the same coefficient from the beta coefficient through a method used by Rudd,[23]

Risk Coefficient = E/ (2 X Beta X VE),

where E is the expected excess return of stocks over cash, and VE is the variance of that return. Taking E at 6%, VE at 22%, and Beta at .95, yields a coefficient of .0065.[24]

Table F.3 summarizes this discussion by presenting a range of opportunity cost estimates. In our calculations we have used the highest of these numbers, or .039% a year.

TABLE F.3
DIVESTMENT OPPORTUNITY COST RANGES

RISK COEFFICIENT:	.0065	.0077
INCREASE IN VARIANCE:		
3.5%	.023% per annum	.027%
5.0%	.033%	.039%

23. Rudd, Andrew, op.cit., pp. 9-10.
24. For E, supra., fn. 25; for VE, Ibbotson and Sinquefield, op.cit., p. 29

4. Future Returns and Values

The assumptions employed in the preceding section of this appendix imply a rate of return for the portfolios' investment holdings in the future. This section combines those assumptions with actuarial projections of net cash flow, to forecast the future values of the retirement systems' total holdings. The rate of return and total value estimates are used throughout this study in the calculation of the costs of divestment.

As indicated in Table F.2, the expected rate of investment return for the Michigan retirement systems over the next ten years is 12.32%. Using the assumptions in Table F.1, there is a 90% probability that the actual ten year return will be between 6.7% and 17.3%.

Based on the actuarial data supplied to us by the Treasurer, we estimate that the combined retirement systems will experience an excess of contributions over expense and benefit payments averaging $200 million a year for the next ten years. As a result of investment returns, this $2 billion will grow to $3.6 billion at the end of a decade. Adding the September 30, 1985, value of the portfolio compounded at 12.32% for ten years to $3.6 billion, gives an estimated value of the five retirement systems portfolios in 1995 at $37.2 billion. This represents a compound rate of growth of 13.48% from the end of September, 1985, portfolio value of $10.51 billion.

The following Table F.4 displays estimated total portfolio and equity portfolio values based on these assumptions and also assuming that equities will remain a constant 46% of the total. The values shows are annual averages estimated as the geometric average of year end values.

TABLE F.4
PROJECTED FUTURE MARKET VALUES

(in billions of dollars)

YEAR	RETIREMENT SYSTEM TOTAL	EQUITIES
1	10.9	5.0
2	12.4	5.7
3	14.1	6.5
4	15.9	7.3
5	18.0	8.3
6	20.7	9.5
7	23.3	10.7
8	26.5	12.2
9	30.0	13.8
10	34.1	15.7

APPENDIX G
COST ESTIMATES OF DIVESTMENT
BASED ON THE SULLIVAN PRINCIPLES

Appendix A identifies those firms operating in South Africa and Namibia rhat are signatories to the Sullivan Principles and have been rated in Category I or II for compliance with those principles by Arthur D. Little, Inc. in its 1985 report. Many of the largest and most profitable companies on the list are signatories and have received one of the two highest ratings.

Twenty-three of the 36 companies that are in the portfolios and in Southern Africa, qualify as high-ranking Sullivan signatories. They include IBM, General Motors, Dow Chemical and General Electric. High ranking Sullivan signatories defines a list that precisely captures the largest capitalization, institutional favorite stocks whose exclusion is the principal consequence of full divestment.

The remaining 13 companies in South Africa and Namibia accounted for 14.7% of the total equity portfolios, by value, at the end of September, 1985, compared with 57.9% for the entire list of 36 companies. Costs of initial divestment-related sales would be reduced in this proportion; but increased slightly as the stocks being sold are the most expensive to trade in the list of 36. Since the universe of large capitalization, easy trading stocks would be virtually unaffected, reinvestment transaction costs would not be changed. For exactly the same reasons post-divestment turnover would not increase. And, for the same reasons again our already small estimate of the opportunity cost of full divestment would become zero.

The average size of positions would not change. Therefore there would be no need to hire proportionately more investment analysts. The cost of subscribing to the IRRC South Africa Review Service, could be reduced by an annual purchase of the Arthur D. Little Annual Report on the Sullivan signatories.

In Summary:

Initial transaction costs = .147 X .15% X 2 = .044%. This number divided by 5 (for comparability with our earlier calculations; although the task could be accomplished easily in a much shorter period) equals .009% per annum for the first five years after divestment. Additional administrative costs would be only a few hundred dollars a year, so we shall ignore them. The following exhibit tabulates the only meaningful costs of a Sullivan only divestment policy.

TABLE G.1
TOTAL COSTS OF A SULLIVAN PRINCIPLES DIVESTMENT POLICY

(All from initial forced sales and repurchases.)

YEAR	COST (in millions of dollars)
1	.44
2	.49
3	.54
4	.59
5	.65

The present value of these expenses at a discount rate of 12.32% is $2,000,000.

APPENDIX H
FIXED INCOME INVESTMENTS

The impact of divestment on fixed income returns and transaction costs is smaller than it is on equity portfolios because South Africa related corporate bonds are a much smaller proportion of the total bond universe (including domestic and foreign government and government agency issues) than the corresponding stocks are of the entire equity universe. In addition, it is even more true of the bond market than the stock market that investment success depends on making correct decisions about a few dominating factors such as the average quality and average duration of the portfolio.

In Michigan's specific case, the impact of divestment on the fixed income portfolios is less again because they own so few South Africa related issues. South Africa related bonds at the end of August, 1985, had a value of $196 million, equal to 5.15% of the marketable bond portfolio and 3.8% of the fixed income portfolio as defined in Appendix F.

The Implementation Commission did not ask us to focus on fixed income consequences precisely because they were obviously small. However, for the sake of the completeness of this study, we estimate the opportunity cost of divestment on the fixed income portfolio at zero and the transaction cost of implementing divestment as

$196 million X 1.0% = $2.0 million.

We assume that the proceeds from the divestment sales could be reinvested in governments, agencies or corporate new issues at net prices.

Alaska State Legislature

House of Representatives

Committee on State Affairs

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

(907) 465-4963

February 3, 1986

Mr. David Rose
Executive Director
Alaska Permanent Fund Corporation
Pouch 4-1000
Juneau, AK 99802

Dear ~~Mr. Rose~~ Dave:

The House State Affairs Committee has scheduled a teleconferenced public hearing on HB 465 "An Act relating to fiscal matters involving the state and persons doing business in the Republic of South Africa" for Monday, February 10, 1986 from 3:00 to 4:30 p.m.

We invite your participation at this public hearing and will contact your office later this week to confirm your attendance. We understand that the Permanent Fund Board is also meeting on February 10th in Juneau and extend our invitation to testify or attend the hearing to all of the trustees.

Sincerely,

Katie

Rep. Katie Hurley
Chair

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH S
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

December 16, 1985

The Honorable Katherine T. Hurley
Chairman
House State Affairs Committee
1024 West Sixth, Suite 200-A
Anchorage, AK 99801

Dear Representative Hurley: Katie

I would like to respond to your letter of November 25 concerning the financial consequences of divestiture of State funds invested in U.S. corporations doing business in South Africa. I trust this response will suffice to answer the same questions you asked of Commissioner Eleanor Andrews in a letter which she has referred to me.

With respect to the Permanent Fund, I would like to refer your questions to the Permanent Fund Corporation so that they may respond to you directly. I shall answer your questions in the order presented with regard to all other funds.

1. What is the breakdown of Alaska investments and public funds invested in South Africa?

    Please see the enclosed table which provides amounts as of September 30, 1985 which were invested in banks or corporations with operations in South Africa. These banks and corporations were identified on the basis of a January 1985 list of 284 companies published by the Investor Responsibility Research Center (IRRC).

    I would like to stress that no funds are invested by the State in South Africa, either in the equity or debt securities of South African banks or corporations, the debt securities of the South African government, or directly in gold, property, or mortgage loans on property in South Africa. It is even arguable whether State funds are invested indirectly in South Africa since in purchasing securities of companies with operations in South Africa State funds go to the seller of the security, not the company that issued the security. (All State purchases of corporate securities are in the secondary market.)

    I would like to note that the IRRC list is not necessarily an adequate or fair measure of the significance of U.S. corporate activity in the South African economy. Many other corporations without employees in South Africa sell goods, either directly or through middlemen, or buy South African exports--particularly strategic metals such as platinum, manganese, chrome, etc.--in quantities which far outweigh in economic significance the activities of many companies on IRRC's list.

These questions about the scope of economic activity as well as very practical information-gathering problems lead to widely divergent rosters of corporations involved in South Africa. They vary in number of companies from 201 to 6,000. With all the merger, divestiture, buy-out, and raider activity going on in today's corporate world, monitoring of South African connections necessarily is quite imprecise.

That said, you will note that the enclosed table shows that 40 percent of domestic common stock investments, 82 percent of commercial paper, 24 percent of corporate bonds, and 100 percent of interest-bearing bank deposits were invested in firms with operations in South Africa on September 30, 1985. It is probable that the percentage for foreic common stock investments is higher than domestic, but we do not have any information to identify such companies at this time.

The domestic companies in which the State was invested on September 30, which were in South Africa, include General Motors, Ford, General Electric, Mobil, Xerox, IBM, Kodak, Westinghouse, Dow, DuPont, Gillette, Revlon, Johnson & Johnson, John Deere, NCR, Coca-Cola, Pepsico, Sohio, Good Year, Boeing, Lilly, Hewlett-Packard, 3M, Bristol-Meyer, Singer, and many other household names.

2. What is the risk of losing public funds invested in South Africa? What is the degree of non-market risk? What is the risk if we don't divest?

There is almost no risk of loss of public funds. Again, we do not invest funds in South Africa. We invest some funds in the stock of U.S. and foreign multinational corporations which may or may not do business in South Africa.

Those corporations which actually have physical assets in South Africa are heavily capitalized. The value of the South African assets is such a small portion of their total wealth that loss of the entire value of those assets would not have material long-term affect on the value of the shares of stock held by the retirement funds.

The following information from the "Statistics of Income Bulletin" published by the IRS and covering 1980, the most recent year available, illustrates how peripheral South African operations are to U.S. corporations. Assets of South African companies controlled by U.S. corporations were $5.1 billion, less than 1/2 percent of the $1,457.5 billion in total assets of the 1,474 controlling corporations. The $493 million in taxable income from South African operations was slightly more than 1/2 percent of the $77.7 billion in total taxable income for these corporations and only 1 percent of their total taxable income from foreign sources.

Individual corporations which are heavily invested in assets in South African would not be suitable as investment opportunities in any event. Given current conditions in South Africa, such stocks would not accord with the statutorily mandated "prudent investor rule."

A similar question is presented when discussing the stock of corporations which trade with South African corporations but have no physical assets located in South Africa. At that point one must examine the volume of sales or purchases from South Africa-based companies to determine the relationship to total sales or purchases. A significant percentage of sales or purchases to total volume would indicate a degree of risk to the corporation which should not taken by the retirement funds, again, in any event. Thus, a corporation dealing, for example, in South African metals deemed of industrial or strategic importance would be a high risk investment which would be inappropriate as an investment vehicle unless that trading was a minor part of the corporation's business.

As an illustration of these points, consider General Motors which has an assembly plant and distribution network in South Africa. The retirement funds' risk depends on the United States economy, GM's worldwide sales, and foreign competition, particularly from the Japanese. Loss of all GM's assets in South Africa would have negligible effect on share values or profits.

Non-market risks associated with divestment include the need to diversify investments and to assure liquidity. Some of the problems in doing so are addressed in articles enclosed with this letter.

3. How would limiting the portfolio to non-South Africa investments affect performance in the short and long term?

Enclosed is a calculation of the effect on the retirement funds' performance estimated over a five-year period. As you can see, the overall loss is estimated at approximately $178 million. This is not a dollar outflow but a loss of opportunity. The effect on the retirement funds would be to increase the required employer contributions.

The retirement fund employer contribution rates are set annually at a level to fund retirement benefits for current employees as well as to retire the accumulated unfunded liability over a 25-year period. Both funds are deemed on an actuarial basis to be funded in excess of 80 percent. We are gradually liquidating the balance to achieve 100 percent funding. The rate of liquidation of the unfunded liability has been accelerated because of the performance of the funds' portfolios. However, were the retirement funds constrained in the scope and quality of their investments, we might be unable to adhere to the liquidation schedule under the present contribution rates. If that were to occur, rate increases would be applied not only to the State but to all of the municipalities and school districts who are members of the funds. Enclosed are lists of these other employer members and their contribution rates.

Also enclosed are three documents that provide some background on the effect of South African divestiture on investment performance. One--"South African Divestment: The Investment Issues"--is a research piece that appeared in the Financial Analysts Journal. The other two are letters from Trinity Investment Management Corporation to the New Jersey Department of Treasury that point out some of the very practical problems that divestment poses for investment performance.

4. What would be the effect of divestment if it were conducted gradually over a two, six, twelve, or twenty-four month period?

The only prudent time frame for divestment would be five years unless extraordinary losses were acceptable. In order to adhere to any extent to the prudent investor rule, replacement investments must be sought which will minimize risk. Because the funds would be limited to corporations of lower capitalization, the amounts invested in any one firm would have to be scaled down. Thus, finding alternatives and achieving a balanced portfolio would take several years. It could not be accomplished in months if the prudent investor rule is retained.

5. If the State decided to divest, what would be the actual transaction costs?

The following estimate of trading costs is based on an analysis by Thomas Loeb as summarized in the "South African Divestment: The Investment Issues" article. The estimate includes direct broker commission costs, market-maker spreads, and the impact on price as a result of trading.

The one-time cost of selling South Africa-related stocks would be 1.5 percent, or $2,190,000, of the value of the stocks sold, $146, 100,000 as of September 30, 1985. If the State were to buy South Africa-free replacement stocks (which is not assumed in the enclosed estimate of portfolio performance, rather South Africa-related stocks are replaced with fixed income securities whose acquisition cost would be less than stocks), the acquisition cost would be $3,300,000 as of September 30, 1985. These costs would increase in the future as the State's stock portfolio grows and the average size of the State's position in any one stock increases.

The size of stock holdings in any one company is important because the greater the size of the holdings, relative to a company's total market capitalization, the greater the impact a trade of that holding has on market prices. The average position size of the State's holdings of any one company on September 30, 1985 was $1,078,000. Interpolation of the Loeb analysis for a position of this size means that the State would incur trading costs of 1.5 percent for South Africa-related companies (large blue chips) as opposed to 2.3 percent for replacement stocks (small capitalization stocks).

A second trading cost effect would be attributable to divestment because of the .8 percent higher cost of trading the replacement stocks on an on-going basis. For the first quarter of FY 86, total domestic common stock sales and purchases for the retirement systems were $131 million, or $524 million at an annual rate. Multiplying the September 30, 1985 ratio of South Africa-related stocks in the retirement system, 40 percent, by the .8 percent higher trading costs that would be incurred permanently on the turnover in this portion of the portfolio, and the projected $524 million turnover for FY 86, one gets an increase in FY 86 trading costs related to divestment of $1,677,195. Escalating this cost by the projected growth in the retirement funds stock portfolios (as contained in James Wilson's enclosed memo) one would get the following annual and total trading costs for divestment:

Divestment's Effect on Trading Costs

Annual Increased Turnover Costs	
FY 86	$ 1,677,195
FY 87	2,322,770
FY 88	2,961,855
FY 89	3,656,090
FY 90	4,386,010
Total Increased Turnover Costs	$15,003,920
One-Time Divestment Costs	
Sale	2,190,000
Purchase	3,300,000
Total Five-Year Trading Costs	$20,493,000

In conclusion, the Department of Revenue believes that there would be significant costs attached to a South African-related divestment program. In addition to the approximately $200 million in opportunity losses and transaction costs detailed in this letter, there would be real if non-quantifiable costs for additional administrative efforts to monitor and ensure compliance.

In the 1970s and early 1980s, corporations of lesser capitalization out-performed the blue chips which constitute the core of State investment portfolios. Because of this, there are those who will assert that divestment would not harm investment performance, even though the record for small capitalization stocks since 1981 has not been good.

Small capitalization stocks are more risky and the returns from them more volatile. It is widely recognized in the research literature on this issue that no study has addressed what the returns would be for a South Africa-free portfolio that is restructured so as to maintain the same level of risk. The returns might not necessarily be greater than portfolios with South Africa-related stocks.

The possibility of diminished returns would be compounded in Alaska's case because of statutory restrictions on investments that are designed precisely to avoid greater risk. Such statutory provisions as limiting common stock investments to companies that have paid dividends in each of the last three years would be a much more onerous restriction if the field were limited to small company stocks rather than blue chips.

Thus, divestment cannot be viewed in isolation but must be considered in light of the overall risk posture of State investments. Divestment would precipitate a major restructuring of State investment portfolios with results that would be less than certain.

If there is any additional information that the Department can provide or if you have additional questions, please let me know.

Sincerely,

Mary A. Nordale
Commissioner of Revenue

MAN/MB/gb
85-125

Enclosures

HOUSE STATE AFFAIRS COMMITTEE

SEPTEMBER 10, 1985

9:00 AM

CALENDAR: HCR 17 "Relating to Investment of State Assets in Companies doing business with the Republic of South Africa."

PRESENT: Representatives Katie Hurley, "Red" Boucher, Mike Navarre, Virginia Collins, Roger Jenkins, M. Mike Miller (in Juneau)

TAPE 11 SIDE A

Representative Katie Hurley:

We have before us House Concurrent Resolution 17 which was introduced by Representative Duncan and Clocksin relating to State Investments in Companies doing business with the Affairs Committee. We did schedule a hearing and at the request of the sponsors that hearing was cancelled. Actually it was the first meeting of the Committee on it and I believe Representative Clocksin will speak to this when he makes his comments. We have sent out considerable information and notices to people around the state that this hearing would be held. At the time that I scheduled this, I did not realize that it was going to be so timely as it is in the news these days. When I attended the National Conference of State Legislators in Seattle, the early part of the month, I listened in on a panel of 4 national people who were speaking on both sides of this issue and it was very enlightening for me and I requested the tapes of that hearing and so during the next winter I expect that those of us who want to be more informed will be able to listen to those and get more information. Two of the members of that panel will be communicating with us today. One from New York City Dumisami Kumalo who is from the Committee on South Africa. He is a citizen of South Africa who now lives in New York City and works and travels around the country speaking to the subject. And also with us is Mr. John Harrington who represents Working Assets. He unfortunately will not be able to stay all day but will be able to be with us this morning.

I also heard that the Consul of the South African Consulate General was going to be in Alaska this week and contacted her, Christine Joelson, and she indicated to me she would not be able to be in Anchorage but she would be in Juneau and was very pleased to know we have this wonderful hook-up in the state and we had set a time that she would be speaking to us at three o'clock this afternoon. However, on Friday my office received a phone call from her that her superior had told her she could not speak publicly on the subject but would be happy to meet privately with people. I've been trying to get in touch with her to tell her that it is not our policy in the state to discuss the state's business in private, that we have a public meeting law and I will be informing her of that. She does intend to be here at the end of the week so some of you may be getting calls to meet with her.

I do not wish to go into more of the details about the resolution but I would like at this time to have one of the co-sponsors, Rep. Clocksin, speak to us. Also, I want to take note of the fact that Senator Fischer who is the prime sponsor of the Resolution in the Senate is with us and will be giving us some opening remarks.

And to those of you around state, welcome and I hope that we will all learn more about this very important issue.

Rep. M. Mike Miller in Juneau asked if the plans f him to escort the consul were now obsolete.

I would assume that since she said she did not wish to attend that there is no obligation on your part Rep. Miller but if you wish to invite her to come I think it would be interesting for her. Maybe she might change her mind and give us a statement.

Representative Clocksin thanked Rep. Hurley.

Representative Clocksin:

For the record, my name is Rep. Don Clocksin. I am a sponsor of House Concurrent Resolution #17 relating to Investments of State Assets in Companies doing Business with the Republic of South Africa. It is my intent, Rep. Hurley, simply to state some of the background around this legislation, briefly state my position, and then defer to the other experts and other interested people who wish to testify on this. I can talk to you, Rep. Boucher and Rep. Miller at any time but some of these other people don't have that opportunity.

First, with regard to the background of this Resolution let me emphasize that the prime sponsor of the Resolution is Rep. Duncan who is the prime motivating force that caused the Resolution to be filed. I was working on legislation as well and when I discovered that Rep. Duncan was filing his, I co-sponsored it.

Let me also point out of course that there is a Senate Resolution also pending was sponsored by Senator Fischer and I should note that Senator Fischer is no newcomer to this issue. He also filed a Resolution last year in 1984, on the subject, so there is a continuing interest among a number of us as we took the lead of Senator Fischer.

The Resolution is a request to the Governor to divest state assets in companies that do business with South Africa. That Resolution was to be taken up for hearing by your committee at our request and with your cooperation. The Resolution that I emphasize was a request to the Governor. Shortly before the hearing we received a proposed fiscal impact analysis by the Administration that indicated for the first year of implementation of such divestment it would cost $21 million a year. That fiscal analysis met with some surprise by many of us because our research has indicated that divestment has not cost money in most of the areas where it has occurred and that the amount of revenue received from alternative investments equals or exceeds that amount of money received from investments in companies doing business in South Africa. So we are a bit nonplussed with such a high fiscal note of the Resolution.

In addition, in informal conversations with members of the Administration, we were informed that because it was a request, the Administration, if the resolution were passed would ignore it and would not comply with the request. In light of those two developments, Rep. Duncan and I requested you, Rep. Hurley, to hold the Resolution while we evaluated the fiscal information and while we evaluated the fact that they would not cooperate with the request. In response to that, we are now comfortable and you will hear others testify to this, we are now comfortable that the cost will not be anywhere near what the Administration originally indicated. Secondly, we have ordered up a request from the bill drafting folks in Juneau for legislation that will mandate disinvestment of state assets. You do not have that legislation before you but I hope at least the focus of my testimony is mandating disinvestment policy rather than a voluntary disinvestment policy since that policy apparently would not have been successful. So that gives us the background. While House Concurrent Resolution 17 is still viable and I still support it, there is a better solution and that solution will be refer red to your committee upon our beginning the session in January.

Disinvestment, as I perceive it, is a direction to all of state government, including the Permanent Fund, to withdraw state funds from any company that does business in South Africa. That means that our money, the people's money in Alaska would not be used to invest in the government of South Africa and I hasten to add that research indicates none of our money is presently invested in the government of South Africa, and secondly, that we not invest in any company that does business in South Africa. The issue gets more complicated when you start trying to trace funding sources and prohibit indirect investment. For example, the circumstances where the State of Alaska invests in a bank which then turns around and invests in a company which invests in South Africa. I defer to the wisdom of this committee and any future committee that may consider this legislation as to the technical feasability of implementing divestment to that degree. The primary goal is to not spend our money in South Africa and whatever technical changes are necessary to implement that goal are the ones that I support. Another point I think to be made with regard to what I would like to see is in the Resolution. If you will note on the bottom of the first page of the Resolution it has "in prudent manner without unnecessary loss of earnings", its a "with all deliberate speed provision" that is designed to allow, to assure we do not suffer losses based on distress sales if you can use that term. We do not want a premature hasty withdrawal that would cost the state a great deal of money when divestment occurs. The experience in Massachussetts I think is an indication that a time period is necessary to conduct an orderly withdrawal of funds from South Africa. The Massachussetts legislation originally did not provide for that orderly withdrawal and there was some loss of funds. The legislation was since changed and allowed for that orderly withdrawal and the legislation we have order that will be before your committee in January. We will have some provisions to allow an orderly withdrawal of the funds.

Let's see the amount of money we are talking about? The figures vary daily. I think the most recent figures indicate that there are approximately $800 million in state funds that are invested in companies that do business in South Africa. Those funds are scattered among seven different investment funds the state has. I think this is a very important point to understand. Much of the focus of attention on this issue of attention on this issue has been focused on the Permanent Fund with its $6.5 billion in assets and its obligation to invest under the prudent investor rule. In fact there are six other funds in the State of Alaska that have substantial amounts of money that are invested and many of them are invested in companies that are involved in South Africa. I have a chart that was prepared actually at the request of Senator Fischer that I made available to the committee and members and audience here which breaks down estimates of the amount of money in each of those funds, types of investments those funds have and an estimate of the amount of each fund that is invested in South African companies. The total South

African amount runs, according to this figure, this document, $882.9 million-approaching $1 billion in state funds are invested in companies in South Africa. That is approximately 8% of all the invested funds in the state of Alaska - a substantial amount of money. The other funds by the way just to get some picture obviously the general fund. As the general funds sits there before we expend it towards the end of the year is invested. The Public Employees Retirement funds, the Teachers Retirement funds, International Airport fund, other funds such as this and this chart is available.

I think rather than getting into the details of disinvestment, I want to hear the other witnesses so I am going to cut this short in order to do that. I think one point needs to be made with regard to this issue. There has been some substantial debate about whether disinvestment is a good idea, whether it is a good policy, whether it is a good thing for international relations. I think there are three responses to the question whether disinvestment is effective. First of all, this is a situation where Alaska has an opportunity to have a substantial impact. If you are talking about the number of dollars involved, and again this changes practically every day but the latest figure I saw said that states, municipalities, universities etc., in the United States have disinvested to the total of about $2 billion. Very rough figures. But, if you assume that there would be disinvestment of about $800 million in Alaskan funds, you will see the impact of a decision in Alaska. It is a major impact. Alaska in not a minor partner in the question before us, they will have a major impact on policy. That is point number one. The direct impact of disinvestment on South Africa is a complicated question. I am a Johnny-come-lately on that question. I would be delighted to discuss it with you but there are people here who can discuss it in more detail and with more expertise, so I defer to them. I believe that disinvestment is the policy that is necessary to eliminate the systemic discrimination in South Africa. The most important point I think about the effect of disinvestment, is that if we implement disinvestment in Alaska, we the people of Alaska, will not be participating in apartheid. In a sense it will be a policy of neutrality. The question will not necessarily be whether Alaska is attempting to influence international policy or whether we were trying to shift the alignment of countries in the world, because that is not the role of a state. The question will be and should be 'Do we want our money, Alaskan money, invested in an economy that is supported by institutionalized racism?' It is therefore a moral question and not a political question, its whether our money should be involved in that system, not the best method to terminate the system but simply the moral question of whether I get up in the morning and feel real good about the fact that my money is being invested in South Africa. I think it is important to keep that perspective when you hear the debate about the effect of disinvestment. I have nothing further unless there are any questions I can answer or clarify. Again, I appreciate the effort of you Rep. Hurley to have this come before your committee and schedule this teleconference. I appreciate your presence and that of Rep. Boucher, Rep. Miller in Juneau and whatever other legislators have joined us around the State.

REP. KATIE HURLEY

I wanted to call attention to the fact that we do have Senator Josephson here. He would like to come up and sit at the table. Rep. Thompson listening in Kodiak. Those are the only other legislators I am aware of at this time that are here. If it is alright with you, Rep. Clocksin, since we can get at you any time to ask you questions, I would really like to move along at this time.

Rep. Clocksin had copies of the reports which he left for the audience and then to be circulated among the members of the committee.

Rep. Thompson interrupted by requesting some information be sent to him in Kodiak.

The Chair responded that she would be happy to send them.

Rep. Clocksin also responded that he sent some materials to Rep. Thompson late last week and he thinks that the chart is among it but if he has not received the materials as yet, he assures him that Rep. Hurley's staff will get it to him right away.

SENATOR FISCHER

I will be very brief, it's you I am interested in hearing from others. I did put my general thoughts in writing. Last week there was an article published in the Anchorage News, copies are available and I would like to introduce and provide the copies for the records so that I don't have to repeat myself. I think this hearing is extremely important and much more so than when the meeting was first scheduled. I think that in the last couple of weeks we have seen the true nature of the cruel and barbaric regime in South Africa. It is just unbelievable what is happening, the attacking, the whipping, the killing of children. To me it's just about the ultimate. It goes beyond racism and is just truly offensiv.. I was very interested to see that even the President of the United States, President Reagan made a statement yesterday that, I will quote from this morning's paper "America's view of apartheid is simple and straight forward. We believe it is wrong. We condemn it and we are united in hoping for the day the apartheid will be no more." As quite a few others, I don't think that the President's actions are living up to his words but I hope that at the national level we'll move in that direction. If I may quote from myself, the conclusion of my article states "It isn't often that we have an opportunity to do something affirmative about an international issue of overriding moral concern. In the case of state policy toward apartheid we have such an opportunity, so it is up to Alaskans to act." I trust we will and I thank you for moving ahead with this issue.

CHAIR

Thank you Senator Fischer. We did send copies of your statement to the members of the committee. I also want to add that during the National Conference on State Legislators, a much stronger resolution than this resolution that is before us was presented and representatives of thirty-five states supported it at that conference, but fifteen did not and according to the rules of the organization any resolution that does not get a "do pass" from the resolutions committee takes a three-fourths vote, so it lost by three votes. But I was very impressed with the fact that thirty-five states did support it and in any other case that would be considered a majority, really a strong support and I don't think that publicity really came out from that conference and I do have a copy of that resolution. It's in a draft form; its something that we can look at later.

SENATOR FISCHER

Madam Chair I just want to pick-up on your comment that the resolution that was introduced in the House and the Senate early this year obviously is not adequate enough, or strong enough. I join Rep. Clocksin in his proposal to submit legislation so that by law we can mandate the managers of various funds to move toward this divestment. I was shocked at the attitude of some of our administration people in Juneau who were just in a mealy mouth fashion saying 'we might lose a few bucks if we do what is right.' I think first of all that they were wrong. I do not think we will lose money and I am sure we will have testimony on that. But furthermore, I just think that moral values are a hell of alot more important than a few dollars. Thank you.

CHAIR

Do you have a comment Rep. Boucher?

REPRESENTATIVE BOUCHER

Yes, if I may. We are probably dealing today with one of the most emotionally charged issues. Obviously it occupies page one throughout the United States. The President has within the past seventy-two hours taken strong steps in this direction. I think it is two things. It is very easy to go with an emotional tie. Almost if you stand up and say now lets take a look at the big picture on it, but there are two things I would like to point out. We can disinvest which means we don't invest in companies that invest, but even more the President said we will sell no computers. Now, maybe the state of Alaska is going to take a look at. For example, we just appropriated money to Cominco,-a substantial committment. Now Cominco operates a diamond mine, if I understand it, in Cape Province South Africa. How do we look at that? Secondly, IBM I see is a major investor. The State of Alaska purchases more IBM Displaywriters per capita than any state in the union. Now if we are simply going to make a political statement by joining disinvestment, I think all of us and nationally abhor what is going on in South Africa, I think collective national opinion. I would like to see us make what we do just not tokenism but meaningful. So therefore, I wanted to, Madam Chair, beyond the word "disinvestment" there are major state dollars going directly to IBM. We are appropriating money in a joint effort. In fact, one of the reasons that Cominco was selected is because of its social concern. Now maybe we can certainly express strong feelings directly to Cominco and other people that are doing business within the state of Alaska. I would hope that we just don't narrow itself maybe I don't have proper understanding of the word disinvestment, I just look upon, we call our money managers and tell us to move our stocks and bonds in other directions and that's certainly may well have a role but I want what we do, to not just be tokenism, to be meaningful.

Chair

Thank you Rep. Boucher. I feel that's exactly what Rep. Clocksin is saying and Senator Fischer. We need to look at the whole picture of where our money goes and where we spend our money. I would like to take note of the fact that Rep. Martin, the minority leader is present. Welcome. It's terrible to be the Chair and have to watch the time and try to be sure that everybody gets heard.

JOHN HARRINGTON, PRESIDENT OF WORKING ASSETS MONEY FUND

Thank you very much Madam Chair and members of the Committee. As way of introduction again and sort of a background, my name is John Harrington. As Madam Chair said, I am President of Working Assets Money Fund in San Francisco which is now one of the largest socially responsible money market funds in the country. I am an investment advisor. I am a consultant with an investment advisory firm in Philadelphia. I was fortunate in 1980 and 1981 to chair the former Governor's publicinvestment task force in California which looked into a number of issues including the Republic of South Africa and investments in South Africa as well as the tremendous assets of our state in our state pension funds as well as the fiduciary requirements of trustees and fiduciaries in California. I was also a trustee in the Sacramento Retirement Investment Board having fiduciary responsibility there. I was a consultant to an investment committee to the State Senate and have worked since 1972 when I was an analyst in the Assembly Office Research in California on making recommendations and drafting proposals to move funds both public and public employee pension funds as well as private pension funds away from banks and financial institutions and corporations involved in South Africa.

I think that your work today is vital. I think as Fischer mentioned this is very timely and as Madam Chair mentioned what is going on in South Africa and the tremendous impact that pension funds and public funds have had across the country on the economy of South Africa and the political and economic system. As you well know, U.S. corporations, banks, financially, economically support probably the most barbaric racist and terrorist government in the history of modern human kind. The United States is the largest trading partner of South Africa and one of the largest investors in South Africa. Seventeen percent of investments in South Africa by foreign companies are made by U.S. firms but it is not the total investment that is important in South Africa. It is the strategic nature of investments in South Africa. A number of people have mentioned IBM and the computer industry, which is one of the most strategic in implementing apartheid in South Africa. For example, I am sure you are aware of the night raids in which South African police come into the townships, kick open the doors and make daily arrests & nightly arrests. All of that data is put together by ICL British computers. Some of this information is through data processing and IBM is responsible for through the Department of Interior.

You ask yourself how can 4 million people subjugate 28 million people and one of the answers is by computer technology and cutting one of the greatest bottlenecks in South African economy and that's the requirement of skilled white labor. But in South Africa, 75% of computers are provided by American companies - IBM, Borroughs, National Cash Register, Sperry, Univac, CDC, Hewlett Packard, 3M, Kodak, all are very strategic to almost every government agency in South Africa. In petroleum, Caltecs, Standard Oil of California and Texaco, refine two-thirds of South Africa's oil. That's the one resource South Africa does not have is petroleum. American companies are vital and strategic, to the economy and to the survival of the white government. Synthetic fuels, Sasol 2 and 3 were built by Becktal and Ford Corporation. Again vital resources to the South African Government, Allis-Chalmers and Westinghouse provided nuclear power and now of course they have a very primitive delivery system and a nuclear weapon. Bank loans which are strategic, and of course, which have been in the news recently total about $5 billion. The South

African economy now is in an uproar, and I'm going to mention that in a minute, but American banks have come to the aid historically of the South African economy both after the Sharp bill, the Sharp Bill massacre in 1960 and after Sewato in 1976. So bank loans are very, very valuable to the South African Government.

South Africa is a very bad investment now and I think that's one of the comments. I'll try to get through this as fast as I can, but I wanted to comment on Mr. Wellington's statement but I think there is certainly some evidence to the contrary, working specifically as a manager in a portfolio. Looking at risk, South Africa is an extremely high risk situation. As early as the 1980's, professional corporate risk analysts pointed out to major U.S. corporation operating in South Africa that they were under tremendous exposure and high risk in South Africa and they could lose their assets in South Africa. As I mentioned, the economy is on the verge of collapse. It's in a state of seige. It's in a state of war. Its in state of emergency.

Seventeen to twenty percent inflation rate is now in South Africa. You've got a 25% crime rate, you have the South African economy up to $22 billion in debt, almost half of this is due in the next 10-12 months, and of course the South African Government recently announced that they are placing what they call a moratorium on their principal debt payments for the next four months which Mr. Decocca has said is not a default. But when you don't pay your principal payments that's just about the nearest thing to a default you can get. The rand is at the lowest level its been in history of South African currency. There is a flight of international currency. Regardless of the new exchange controls imposed by the South African bank, Central Bank, more and more money is leaving the country daily and more and more white citizens are leaving the country. Speaking of the flight of currency and capital in the last five years, 35 American companies have pulled out of South Africa, 18 in the last six months. There is 50% unemployment rate among Africans in South Africa and there is more and more violence increasing daily and it will increase and continue to increase and there is no doubt about that. It is a violent society and it is a terrorist government that tries to impose its will on the majority of the people. The labor situation is extremely volatile. They almost had a major mine strike which would have closed down almost 60% of the economy and that is not yet completed. There are still negotiations going on. The company I am a consultant to is one of several companies that has suspended their recommendations on gold shares on companies involved in South Africa, they will not rate gold shares period. The African National Congress is increasingly targeting multinational companies. Several have been bombed over the last two or three years, several others will be targeted and have been targeted.

I wanted to mention several things and again, I am going to try to zip through this. The Sullivan Principles have been mentioned a number of times, I think you should know more about the Sullivan Principles which have been around for about nine years now which is basically a code of conduct. Reverend Leon Sullivan, a Baptist minister and also General Motors Director nine years ago got 18 companies to sign a code of conduct that they would pay equal pay for equal work in South Africa. About half of the American companies have now signed those principles that are very similar to the European Economic Code of Conduct and the Canadian Code of Conduct with corporations operating there. Basically American companies are paying Arthur B. Little and company to rate them, sort of like bond raters. You have in this case rating and performance on the Sullivan Code of Conduct. It essentially totals American companies employ 70 thousand employees in South Africa. If you look at the top two compliance records of American companies in South Africa you affect about 26 thousand African workers out of the total population. The Sullivan Principles are irreconcilably irrelevant. The South African society and to the fundamental structure of apartheid. And in fact the Sullivan Principles have been probably the largest single obstacle to major economic, social and political change in the country. The same companies which are the largest customers of the South African government, of course, are the signers of the Sullivan Principle. Primarily they have been a terrific public relations campaign to allow themselves to remain in South Africa and continue to provide revenue to the South African government.

The question of disengagement and divestment is very important and its intertwined in a very important way and I want to try to lay out just how important divestment and disengagement is. US corporate disengagement, which many people have recognized as having a very significant impact on the social and economic system in South Africa, is probably cited-the most recent example of this impact is the collapse of the lending function in the foreign currency of people in South Africa. I mean it is nice to be morally condemning South Africa and be outraged about apartheid but the bottom line is capital and technology and that's the reason South Africa is being forced now to make some concessions and will begin to make more and more concessions. This is the first time in history in South Africa that you actually had English and American corporate leaders going to the South of Zambia to meet with the African National Congress because they realize now that their economic life blood is being cut off and their economy is about to collapse, if some negotiations are not forth coming.

How do we get to disengagement? There are a number of reasons and a number of ways and methodology that have been used in the past. One is shareholder issues where public pension funds and private pension funds introduce shareholders resolutions and vote to try to get corporate management to change their policies. Well, those have been largely symbolic. They have had some impact and I think the Sullivan Principles came about largely because of large institutional investors having a concern over the important records of US and other foreign companies in South Africa. Correspondence with companies from large institutional investors I think is very important. Again, its mostly been symbolic and impact has been symbolic. The reason is the bottom line on our economy is capital, is money. When you begin to move money away from companies operating in South Africa they make what I call the bottom line morality decision and that is they decide that is it more important to be investing in South Africa to have a high risk situation where more and more Americans, more and more funds are moving away from investing in those companies, doing business in those companies, or are they going to stay in South Africa. I think the decision is that many American companies have made, is just simply the bottom line is they just can't make money in South Africa, it's just simply too costly.

Divestment over the last year totalled about $2 billion, $12 billion in funds now under professional management are restricted to no South African investments. That amount of money is increasing and you are probably aware the city and county of San Francisco recently went through about a $350 million divestment which is within a two year period, about half of that is already completed and the money managers in that system say that there would be no loss to the system if it is carried out over the next 12-18 months. The United Nations Joint Pension Staff Funds has recently completed a divestiture which started about nine years and which was about 20% done up until the issue in South Africa was raised again and then the majority of funds was divested the last 2 months. There is now growing evidence in the financial community, Working Assets is only one of a number of financial institutions utilizing social and economic criteria as well as the financial criteria, for portfolio selection. There is an increasing number of large main line New York firms, investment advisory firms, that are managing money using a social and economic criteria. Approximately $40 billion of assets are now managed by professional money managers using a social and economic criteria as well as a financial criteria.

Performance, as you would well gnize, is neither above or below the average money managers. You will get funds that out perform average no criteria money managers, and you will get ones that go the opposite direction.
It generally has had no impact. One of the questions I think that is really important when you consider divestiture or disenagement is exactly what you are talking about in the economy. You're talking about pension funds now that control about 28% of our gross national product, so you talking about impact on the financial marketplace, the capital markets. You're talking about $1.3 trillion in pension funds, 80-90% of all the stocks and bonds traded every day are traded by pension funds in this country. It is the single largest source of domestic capital. That, is why there has been some significant movement on behalf of financial institutions and corporations regarding South Africa. Its because major institutional investors have said we don't want to be in South Africa, we don't make money in South Africa. I think it is very, very significant. Again, its the largest single source of capital, that's why we had a tremendous impact on the capital markets.

When you look at divestment, I think, as the former witness pointed out, a very important question is the impact on portfolio, performance, diversification, risk and so on. I would like to make several comments about that. When you look at portfolio, large institutional investment portfolios, you look at basically three areas. You look at cash, or short term monies such as temporarily idle money of the state, or cities, or counties or local jurisdictions. You look at fixed income or bonds, long term intermediate term debt, then you look at stocks. All of the studies have been focused on stocks. If you look on the Permanent Fund, and I just glanced at it, it's my understanding that by 1986, I think, you are going to have up to 15% of the Permanent Fund in equity. That means the largest percentage of your portfolio is in fixed income of cash. That's not unusual. Most large retirement systems and other institutional investors are fixed income oriented. Let me mention a couple of things that I think divestiture, when you look at divestiture most of the comments have been towards equity, where most of the money is actually in fixed income. 85-89% of debt is fixed income long term bonds rated BAA or better-that is investment grade is South Africa free. That means the overwhelming majority of the long term debt is not even invested in South Africa.

Regarding cash, 80-90% of your cash equivalent securities are South Africa free. And when you look at short term portfolios, Working Assets is one, Calvert Group Money Market Funds, social fund is another. These are two money market funds that not only do not invest in companies in South Africa but have a considerable additional amount of social and economic criteria. In other words, we believe you can't separate the economic, the social, and the political impact of loan's investment. It is the problem money managers have had for all these years and unfortunately this blind spot is that people look at numbers and they don't go outside their office and they don't look at the real world and the economy in which you live. And the problem is they may be making investment decisions that have a tremendous impact on their own local economy. You may remember a book that was written in 1979 called (continued next page)

"The North Will Rise Again, The Power And Politics Of Pensions in 1980's ". It was a book by Jeremy Rivkin and Randy Barber. It basically said that the North East is investing its pension money and destroying its own economic base, that steel workers money is invested through Chase Manhattan Bank in the Japanese steel industry, that Chicago steel workers are putting money into Continental Ilinois Bank. Continental Ilinois Bank is making loans to ISCOR which is a South African Iron Steel Corporation which is in turn exporting steel to the United States and building buildings in Chicago. I mean, in other words, there was no understanding of the reality of the inter-relatedness of our economy and the way we invest literally hundreds of billions of dollars in our economy. I get so wind on this because I have been involved in it for so many years so I will try to back off and go through 2 or 3 other things, but I think it is important to understand that there is a direct inter-relatedness between investment decision making and your own economy and the viability of your own economy. You should never forget that.

Now, regarding performance, Working Assets and Calvert Social Funds which are two money market funds, cash funds. We have been in the top quartile, meaning the top 25% of money market funds in the country and forbid me to say this but our competitor Calvert Group in 1983 was the highest performing money market fund in the country according to Donahue Money Average. They were the highest performing money market fund in 1983, of all the money market funds, over 350 money market funds in the country. Calvert, not only excludes companies in South Africa but they have a wide degree of other criteria. So you can't always say if you exclude companies then you can't have good performance. Absolutely not true. Now the majority of discussion and study has been on the equity portion of the portfolio. Let me make a few comments because I think this is real important. Again, generally this is in the lowest portion of your asset base of your portfolio and in the more high risk category of your portfolio - equity, stocks.

There have been about a dozen studies to date and some of these studies I think have been before you and I'll mention a few and believe me the basic findings of all the studies are this that you look historically at risk and return. That if you compare South Africa-free portfolios and South Africa invested portfolios, you will have a slight increase in risk and a slight increase in volatility of South Africa-free portfolios, but there will be tremendous performance advantages. I will quantify some of those advantages. In other words, what I am saying is, with a very marginal high risk, and a marginal volatility you will have tremendous increased performance in your portfolio. For example, United States Trust Company Boston, which is one of the foremost leaders in socially screened money management, did a number of studies, one of which was done for the State of Connecticut, and they looked at a ten year period and found that in the South Africa free portfolio out performed the South Africa invested portfolio by an average of 1.6% a year during the ten year period. In 1983 the Boston Company conducted a ten year study comparing Standard and Poor 500 companies with South Africa invested in South Africa free portfolios. The South African companies were excluded because of their heavy exposure in South Africa and because of their poor employee relations. The South Africa free portfolio out perform annually South African investment portfolio by 17%.In a 5 year study by Ted Brown which was sponsored by the Africa Fund and the New World Foundation. (Mr. Brown is the former analyst with Merrill Lynch and Shearson, Lehman American Express) looked at, again Standard and Poor Companies rated A- or better comparing them over a 5 year period of time in 1983-84 and found that the South African free portfolios had an average annual return almost 30% higher than the South African invested companies. Now, its not necessarily because they are investing in South Africa. What they are looking at are largely South African based companies, you look at larger capitalized firms. What's happening is you are diversifying into smaller capitalized intermediate capitalized firms which are again a little bit riskier, a little more volatile but have a tremendous historical higher rate of return. I think that is really important to consider when you began and Mr. Wellington mentioned that if you take a restructuring which it might. Another question that comes up, and I am going to give a couple other major arguments against divestiture, and I will close, is the diversification. In other words, many investment analysts and many advisors have put out reams of paper saying that if you only invest in smaller capitalized firms, intermediate capitalized firms, and you elimate some of the larger capitalized firms you eliminate large portions of maybe 5 or 6 industries in the S and P 500. That is true. That is absolutely true. Maybe 5 or 6 industry sectors will have 80-90% of companies eliminated if you eliminate companies in South Africa. But so what, I mean you are talking about 89-91 industry sectors and then why what is sacrosanct about the S and P 500. Why don't you look at the Wilshire 5,000. In other words, what I am saying is, many managers now including Alliance Capital Management, Drexel, Vernum, Lambecs, Prominent Capital Management, Wilshire Associates now run index funds and now manage millions of dollars in South Africa free portfolios that basically mimic the S and P 500 only they are not companies invested in South Africa, companies not invested in South Africa. Money managers can set up a variety of portfolios using a variety of indexes but what I think is important is that diversification is of risk not of portfolios sector, in other words industry sector. There is no money manager in this country that invests in every industry sector in the S and P 500. Its just not realistic, its not reasonable. In fact certain industry sectors which would absolutely stay away from. Another argument is transaction cost. You will hear alot of people in fact, I have seen studies recently, by Wisconsin, of transaction costs. The problem is that the transaction costs are looked at as a cost and also not as what you benefit from for increased transaction cost. I have seen figures as high as 6%, 1-6% of divested securities, the asset value of divested securities will go under transaction cost. This is absolutely obscene that anybody would give you figures like that I mean they ignore block trades, ignore negotiated brokerage fees, they ignore normal portfolio turnover which by the way is anywhere from 60-70%. In fact the former Head of Department of Labor, Mr. Montz stated that his office had done a study of private pension funds and found 70% of their portfolios, the Taft Hartley jointly administered portfolios were turned over a year.Public pension funds turned over on the average of 55-60% a year. So again transaction costs by and of themselves are an insignificant part of divestment. So what I would like to do is conclude and make a couple of comments relating to some of the things I heard Mr. Wellington say.

Number one, U.S. corporations are strategic to the economy of South Africa. Number two, there is extremely high risk in South Africa now, in fact according to a panel of attorneys, I heard in New York through a New World Foundation sponsored symposium on divestiture felt that actually trustees now could be sued - sued by beneficiaries if there was a loss in the earnings of a company that resulted from a loss in South Africa. In other words trustees, feduciaries can now be sued by beneficiaries if the violence in South Africa causes the firm to lose money and they can quantify. That the Sullivan Code is irrelevant. It is irrelevant to South Africa and unfortunately its been irrelevant to the South African government for the last nine years. In fact the South African government actually supports the Sullivan Code and it's never cracked down on companies implementing the Sullivan Code. The reason of course is that it does not make one bit of a difference that divestiture would actually increase performance, it will actually increase diversification because you begin forcing money managers to do their job. You actually begin to require them to move into higher return investments that have reduced country risk that you finally begin to challenge money managers to become innovative to make money, to avoid companies in South Africa and to begin to reinvest their assets back into their own community. Again, it is not a closed system, it is a very open system and there's got to be an understanding of that local community and what you can begin to do. Its one of the things Working Assets does, it not only avoids certain investments but specifically try to ear mark our investments into financial institutions and companies that are directly benefiting a local community, whether it be small business finance or affordable housing. This is a definite way in which we can bring about majority rule and probably the last peaceful way that we know how, and that is to simply say no more money goes into the South African economy. That is what's making a difference in South Africa today not moral condemnations but the fact that they are not getting capital and technology. That is an industrialized society for whites controlled by whites. Without capital and technology you cannot sustain an industrial economy.

I think I will conclude there and there are a number of things I could say about Mr. Wellington's statement. Maybe I could put some of these in writing if the Committee is interested and I know I am running out of time and you are probably running out of patience. Thank you very much.

(Representative Navarre arrived prior to Mr. Harrington's testimony)

Rep. Clocksin: Two things, first of all, with the chair's permission, I'd be anxious to hear any other responses to Mr. Wellington's testimony. We are here and everybody's listening and it may be a little more difficult to read it in writing once you do it and with the chair's permission, maybe I could encourage you to do that.

Mr. Harrington: I tried to make notes as Mr. Wellington was talking and let me tell you where I think he was absolutely right. He talked about fiduciary duty and I agree wholeheartedly. I think my comments in the past have reflected that and that you can't separate the economic and the social with the financial duties of the trustee and a fiduciary. I've listened to equity managers and other money managers since 1972 on this question. I always have to chuckle to myself when I hear somebody saying "I oppose apartheid but..". It's sort of like saying, "I am not a crook and I'll tell you why", "I am not a racist and here's why." In other words its always sort of an apology that I agree with everything you said but we can't do it. Well, that's not true and its being done now by literally dozens of money managers across the country and its taken place over the last eight to ten years. My company is a reflection of that. Other main line money managers are a reflection of that. I also agree with Mr. Wellington that the best return is the most important. In other words, they've got to look at return and that's primarily - that's the responsibility of the trustee. Mr. Wellington mentioned employees should vote on the issue. Well, you know, Mr. Wellington is a fiduciary, he's a trustee and that obligation rests with him. How many other times has he gone, or does he want to go, to the beneficiary to poll them on an issue regarding the fund and the fund's safety. Does he poll the employees when they vote their common stock on literally hundreds of shareholder issues. Well, of course not. I would begin to look at how the funds have been voting their stock, as trustees, as fiduciaries because I think that's really important - that's an ownership responsibility. He mentioned a discussion with his money managers, three equity managers. I didn't get all the equity managers but mentioned the fact that they look at approximately forty stocks and about seventy percent could be affected. The only comment I can say is I would like to look at those stocks and those industry sectors and see exactly which stocks were affected. And he commented that "where do you go if you don't invest in IBM." Well, one of the problems with traditional money management, especially equity managers, and you're going to get a lot of my biases here, is that it's a zero sum game. All the same money managers listen to the same analysts across the country. They're all buying and selling IBM and Eastman Kodak and Xerox and Dupont and Dow and the problem is that when somebody looses in Wisconsin and somebody wins in Massachusetts and vice versa, in other words they're all trading the same stocks. They're all listening to the same analysts. Divesting and reinvesting and everything I've talked about is not easy. This is a tough job. You're talking about requiring money managers to be innovative and to think and begin to deal with the real world. And that's what's really tough because a lot of them are simply not trained to do that. They're trained to look at their screens and listen to their analyst and trade stocks. I know, I listen to the same analyst and trade the same stocks a lot of times. So I think it's real important that people begin to understand that there are a lot more companies out there. You've got 10,000 securities out there. Even though you are restricted in your dividend payments, and I've dealt with this in California, because we had a very restrictive Constitution, much more restrictive than Alaska's regarding dividend payments three years consecutively. There are still ample companies out there and there are money managers out there, believe me, money managers are paid very well. Mr. Wellington indicated that and he's absolutely right. You can find money managers to do a very good job for you. And I also agree with Mr. Wellington that money managers are like attorneys and you can get a lot of different answers to a question. And I think that's what you've got to do. You've got to begin asking a lot of these hard questions of money managers. One last comment and this is on the Sullivan Principles because Mr. Wellington suggested that that may be a compromise. Well, it's not a compromise. The reason that a lot of money managers and a lot of institutions have opted for the Sullivan Principles is because that has absolutely no effect on a portfolio. In other words, it doesn't change their way of doing anything at all. It may eliminate four or five companies. It's a very easy situation for a company to sign the Sullivan Principles and then be rated in the top three categories. But again you're talking about having an impact on 26,000 African employees out of the whole African population. So the impact, work place discrimination again doesn't deal with apartheid. It doesn't deal with the fundamental system and that's why the Reverend Sullivan has said "we've got another two years before I'm going to call for total divestment" and that was almost a year ago. So we've got about a year left and even he has said categorically I don't know if that's enough time. In other words, time is running out. That is such a volatile situation. Rev. Sullivan also does not support new investments. He's opposed to new investments in South Africa and he's opposed to any and all bank loans in South Africa. Again, to finalize that, to finalize the question of the Sullivan Principles, the Sullivan Principles were supported originally16

in concept by the South African government. I've seen reams of paper to legislatures - legislators and legislatures - supporting the concept of the Sullivan Principles with the South African government. They have never opposed implementation in South Africa of the Sullivan Principles. So, this does not fundamentally affect the apartheid system. So, if you opt for the Sullivan Principles I think you should really know this. I mean be real up front about it. And if you have to as a compromise, as a first step then I understand. But I mean you should go into it understanding that situation.

Rep. Clocksin: You spent a considerable amount of time in your testimony talking about the risk in South Africa. And if the risk is as high as you suggest why do we need to pass legislation? Under the prudent investor rule they'd have to pull out our money anyway.

Mr. Harrington: That's a very good question. I think what you're doing in divestiture is that you're speeding reality along. In other words, I think that a lot of companies have made that decision. But large companies are bureaucratic. I mean, I always chuckle again when people in business comment about the bureaucracy of government. Well, the bureaucracy of large corporations is tremendous. Decisions are not made very fast and a lot of times decisions are put off. Many companies operate in a very short run, high return atmosphere where performance is right at the top of the list and risk is at the lower list. As I mentioned, since 1981, '82, '83 risk analysts categorically were saying stay out of South Africa. Many companies ignored this but again many companies did pull out and they sold their subsidiaries to South African companies. So I think they recognized it, however I think they recognized it too late. I think as a fiduciary, as an elected official, I think it behooves you to implore, and if it's in legislation, fine, or whatever way the trustees seriously look at that risk. But I don't think they've really looked at it. Up until sanctions were discussed and the South African government defaulted on their short term debt and agreed to return to a two-tier exchange rate, I don't think many corporations really understood fundamentally what was going on in South Africa. Again, there are two laws in South Africa that prevent a lot of information even getting to corporate parents - the South African Officials Secrets Act and the South African Protection of Business Act. So there's a limited amount of information that even comes out of South Africa.

Rep. Clocksin: If I may follow up. The risk question is a crucial one because this may all happen without us having to pass any legislation. That's at least an implication I get from your testimony. The response I have heard to that is that the risk is it still extremely small because the companies are so big and the amount they have in South Africa is so small that there really isn't much risk at all of investing in IBM, for example, if they get expropriated in South Africa.

Harrington: Right. Yeah, I've heard that argument too and the argument is that, like you said, you've got IBM that maybe one percent of its revenue comes out of South Africa. However, you're not just looking at South Africa. You're looking at other countries too and you're also looking at, the representative earlier made a comment about looking at contracts and looking at public agencies that do business with some of these large companies in South Africa. So, what IBM has been looking at is not just the fact that a state retirement system won't buy their stock, won't buy their bonds, but they're also looking at the fact that they won't buy their products, their goods and services. There have been some losses there to the company. Let me make one comment before it leaves my mind. Divestiture, a lot of people have said well divestiture, if you're just selling a stock and someone else is buying it what impact are you having. The answer is that you're not having much impact, in reality. But, what you're doing with no new investments is you're closing off the debt market and the equity market from larger and larger players in our economy - pension funds and large institutional investors, such as Working Assets, Calvert and a number of other large investors. So, what a company does is they're not going to care if I sell my hundred shares of IBM and somebody else buys them. What they are concerned about is the fact that they don't have access to a larger and larger portion of the capital market. That has tremendous impact. Secondly, there are a number of companies that are not investing directly in South Africa but whose economic fortunes are tied to South Africa, who import vital resources that manufacture - manufacturers, retailers, wholesalers, distributors. So you're not just talking about the IBMs that have one percent of their business but you're talking about a lot of other companies in South Africa. And, again, if you can translate any of this, even if it's one percent. If one percent of IBM's earnings are affected because they've lost all their investment in South Africa then a trustee is subject to suit, even if it's one percent. Again, it's had an impact on the company's earnings and as a trustee you've got to be very aware of that.

Senator Fischer: Thank you madam chair. I would like to mention with regard to your comment earlier that the Sullivan code is irrelevant and Rev. Sullivan said a year ago that he's giving it two, three years. I heard just about a week or two ago that Rev. Sullivan has said that the time has already run out and that he no longer supports the so called Sullivan Principles and he believes that disinvestment should occur now. One of the things that concerns me is, how can we deal with the problem of what one might call self-fulfilling prophecy, self-fulfilling advice that one often gets with respect to selecting and getting the investment advisors who as you say will work, who will do the actual work. I have experienced in the past, many times where I managed an agency and I want certain legal advice and I'll get an attorney who will give me advice that I want and he tells me how I can best do what I want to do, rather than getting an opposing point of view from an attorney. How can we see to it, we as legislators and policy makers, how can we specify in law or policy that our fund managers get the right kind of advice rather than the conventional advisors who say AT&T, IBM and so on and so forth.

Harrington: You want me to answer that? That's a million dollar, billion dollar question. Well, I agree with you on the point about an attorney. You hire an attorney or you ask the right questions to get the right answers and you have an attorney tell you how to get there. I want to get here and you tell me how to get there most appropriately, legally and so on. The same is done in the investment community. When you hire a money manager obviously you're looking at performance. If you're only looking at performance in the traditional sense, then that's generally what you'll get. You will get 14, 20 or 50 firms that will overwhelm you with data and charts and graphs and gobbledegook and everything else and you may narrow them down to five and then down to two and so on. I think what you have to do is you have to very clearly, if you are a trustees or if you are a legislator directing a fiduciary or trustee is to say that certain kinds of things will be required when you evaluate or review the performance of a money manager. And that part of that review be a more thorough economic and financial evaluation regarding portfolio selection. Now, again, I need to think through a much more extensive answer and maybe put it on paper but I think that from an evolutionary standpoint I think that's going to happen. We finally understood, we're finally beginning to understand the dynamics of our economy and the way we invest money. It's like the chicken and egg situation, I can remember ten years ago when I kept going to money mangers as a consultant with some of the pension funds in California saying why don't you provide this service, why don't you do more, why don't you look in more directions. And they would come back to me and say "look, we make a good salary, we're paid a high fee, nobody demands it of us." In other words, "we're not required to do that." And money managers, basically are not going to do any more work than what you require them to do. I think part of that advisory fee has got to be based on the fact that a money manager will look at a lot of these dynamics in the economy and in our political system. Again, you just can't separate what's going on in the world from what a money manager does and the fact that if you look at over 50 legislatures in the country and you look at Congress and then you look at the power they have and then you look at the power that money managers have in this country you might decide not to run next term and become a money manager because you have a tremendous amount of impact on our society. Our society, both our social, economic and our political system largely is dictated to by the flow of capital and the availability of capital. If capital unfortunately, I hate to say this, money rules the day and we have to be aware of that. Long answer again, I'm sorry.

Fischer: Madam chair, I hope your committee will pursue this particular item and that Mr. Harrington will have an opportunity to provide some advice in writing.

Hurley: I hope to be able to keep in touch with him and I want people to know that he normally gets $500 a day and he's getting nothing. He's doing this because he believes and cares. I think we can use him as resource for some more of our work. Does anyone else have any more questions right now? Thank you and I hope you can stay until your plane leaves and pick up on anything else.

Harrington: Thank you. I will also send you a copy of a very excellent report or paper by one of our bond managers at Drexel Burnham in Philadelphia who specifically discusses fixed income and is very clear that you can divest and continue to manage a portfolio not invested in companies in South Africa. I have that paper here in fact and I will give it to your staff.

HURLEY: Thank you very much.

Testimony of Dumisami Kumalo, Project Director of the American Office on Africa.

Dumisami Kumalo: Well, my name is Dumisami Kumalo and I am a South African and I was born and brought up in South Africa. And I worked as a journalist in South Africa as a reporter for a newspaper for more than ten years. I was involved in the divestment movement inside South Africa. People may not be aware that up to 1969 there were black and white people in South Africa who were for divestment. (Unintelligible). The South African government realized that the movement was growing in the country they declared it illegal under the terms of apartheid and made it a crime punishable by a mandatory five days in jail or death by hanging for every South African black or white for supporting divestment. In 1977 I was forced to flee South Africa because the government at the time (unintelligible) black and white journalists because they didn't like what we were writing. Since coming to the United States in 1977 I have travelled in more than 40 states and I have been coordinating divestment in states and cities around the country. Just for the record, right now there's more than 50 cities that have already passed divestment and these cities include some of the larger cities in the United States such as Miami, Florida, Boston, Philadelphia, Washington, D.C. and others. And there are ten states that already have laws on their books for divestment. The total amount involved in all this is more than 6 billion dollars that has been withdrawn through divestment. My testimony before the committee today is to be very briefly heard from and say that there is no question about the fact that the American companies in South Africa are there to pump up apartheid, to support apartheid, economically and technologically. In fact they compliment themselves by signing things like the so-called Sullivan Principles. However, the main issue that comes up whenever we mean divestment is - is divestment good for people? Well, it is interesting to me that these companies are not in South Africa because they love the people. Otherwise they'd start loving those people in the United States. They're in South Africa because it's very good business to be there. Why is it good business? It's good business because of apartheid. The other fact is that there are more than 350 United States companies in South Africa. The total 350 companies employ a total of 50,000 black workers out of the population of 22 million. Most of these companies employ more white workers than black. Let me give you examples. IBM, for instance, IBM employs 1500 workers only 200 are nonwhite, 1300 IBM workers are white. Control Data employs 300 whites and 16 black workers. Even General Motors employs twice as many whites than blacks. So the whole notion that we're about to hurt those people is not true. Some companies have said that the way they can help in South Africa is to provide education and jobs. But I want to remind you that the people who are being shot by the Botha government in South Africa today are not shot down because they are not educated. They are shot down because they are black. Apartheid is a system that discriminates on race. It does not discriminate based on education. It does not discriminate based on what kind of job you are doing. It's based on race and this is why we are calling on President Reagan, the United States Senate, the United States Congress and people to cut off (unintelligible) and technology going to South Africa so that white South Africans can have an incentive to change. Otherwise, right now if I were a white person in South Africa I would be opposed to divestment. The most ironic statement is President Pieter Botha saying that divestment will hurt black people. This is the very same President Botha who is sending out his police and killed more than 600 black people. He ought to care for black people when he shoots them down. He cares for them when we talk about divestment (unintelligible) to head the government. I think maybe perhaps I could stop at this point and take some questions.

Hurley: Thank you very much for that statement. I do think that some of the people around the table, some of my co-representatives and Senator Fischer may have a question for you.

Fischer: Thank you for your statement. I have a couple of questions. Is there a law in South Africa that prohibits people from advocating disinvestment and if there is what kind of penalties go with the violation of that law?

Kumalo: Yes, the law started off by being called the Terrorism Act of 1969. Remember every law in South Africa is called an act. It was the Terrorism Act of 1969 and at that time the penalty was obligatory five years in prison with a maximum of death by hanging. In 1982 South Africa amended the law because South Africa is a land that's been changing. This time they made it a mandatory five years in prison or a maximum of twenty years in jail with hard labor. This is why it would be so stupid of us (unintelligible) to go and ask him "what is your opinion on divestment?" He would probably say, "If I answer your question I will go to jail." He meant that law which is called the Internal Security Act of 1982.

Fischer: Does this law apply to blacks only? Does it apply to colored, to Asians and whites?

Kumalo: It applies to all South Africans regardless whether they may be white, colored, African, Indian or Asian in their color.

Fischer: Mr. Kumalo, could you enlighten me on one point. I've heard of something called the Keyes Point Pact. What is that?

Kumalo: The Keyes Point Pact is a law whereby the South African government has declared the big companies - big companies like General Motors, Mobil Oil. By declaring the Keyes Point Pact it means that one, it ends uprising, though there is uprising going on in South Africa right now. All white employees of these companies must join the commando. In other words the commando would be like the reserves in the United States. In other words, white employees at Mobil and General Motors are paramilitary officers. In other words they are reserves over the weekend. And they are required to do that so whenever there's an uprising in the area the South African government will take over the company and use the white employees as part of the military force. I have personally spoken to Mr. Roger Smith who is chairman of General Motors. "Is there anyway you are part of this pact? Mr. Smith said "Yes, General Motors is a Keyes Point industry." However, he used the excuse that although the South African government regards GM as a Keyes Point industry the workers themselves pay no attention to that. However, the white employees at GM and at Mobil and other companies are members of the commando or the paramilitary.

Fischer: Two follow-up questions. Does that apply to white South Africans only or does it apply to non-South African such as Americans?

Kumalo: It applies to all whites. It is all whites who work there. In fact, there is a test case that will be coming up in California about (unintelligible) corporation, SLOUR, which is based in (unintelligible) but they have white American citizens working in South Africa. Now, but they are also required to be part of this commando. Now, the people want to clean up the test case so Americans cannot be free to be serving in an army of a foreign nation. So we'll know what will eventually happen to that.

Fischer: Well, I'm very interested. I never heard of this. Do you know of any cases where these commandos have been called out by the South African government?

Kumalo: Yes, there was - I don't have the details, they're at home but I can send your committee a (unintelligible). There was about a year ago there was an explosion at a Mobil plant in (unintelligible) this is a coastal city in South Africa. This is where Mobil Oil has a refinery. And at this (unintelligible) white collar and blue collar white workers at Mobil suddenly came into their battle fatigues. You know like the ones they wear when (unintelligible). They started getting out of their suits and into their fatigues. They're the ones that are commandos because there's a fear that the people who exploded this device may still be in the neighborhood. But that is the only case we know because it was reported in the New York Times.

Hurley: Mr. Kumalo, do the the American companies not have a choice? They have to sign this or they are mandated by the government if they do business there that they must do this?

They have no choice of whether they will go along with this or not?

Kumalo: No, no they have no choice because every company will say to you they are guests in South Africa. And the reason they go to South Africa to start with is because we are (unintelligible) the laws. Let me give you one example. There is no law in the South African (unintelligible) with the South African local law is second only to the Soviet Union in terms of how many laws. President Botha of South Africa has as many laws probably as the Soviet Union. There is not one law among those many laws that says a black and white employee cannot be paid the same wages. However, none of these companies pay the same wages. Why? Because it's good business. Why can they do that - because apartheid mandates it. It's a general agreement that if there's a job a white gets paid higher and the next in line is the colored, the next in line is the Indian and at the bottom of the heap is the black person. So, these laws are there to protect these companies. And these companies to show you that they agree with these laws, these companies pay taxes to the South African government. Taxes to uphold these very same laws. The very same taxes we still can deduct from their maximum tax that they pay the United States on April 15th.

Hurley: Thank you very much. Were there further questions, Senator Fischer?

Fischer: I would like to go back to the beginning of your testimony where you mentioned that there are quite a few municipalities and a number of states in the United States that have voted divestment. We had testimony this morning from a number of people who manage funds within the Alaska state government. In one case a pension fund and in another case an investment trust fund, I guess. In both cases, and we'll be hearing from our Commissioner of Revenue after you and I'm sure we'll hear the same. There was concern expressed, almost conviction expressed, that divestment would mean loss of revenue, loss of income, reduction of capital. Anyway, that divestment would cost money. Some people feel that, well, even if it does it's a moral issue and as someone earlier testified is that of "soul vs. profit" and soul is more important. But that is a matter of philosophy. But coming directly to the issue of cost, how have other jurisdictions, New York City and others, how have they divested themselves and what have their experiences been. Have they lost money? Are they loosing money now?

Kumalo: No. Nobody has lost money from divestment. Those arguments are not quite true. And, in fact those people who say you will lose so much money they have not been (unintelligible) by other investment people who testify otherwise - as they have testified around the country. Let me give you cases and let me explain the truth. The way we understand it, and I've heard a number of Wall Street types testify all over, is that if you are asking the State of Alaska to divest tomorrow morning, yes there will be a loss but, however, none of these states and cities are saying divestment should happen instantly. They are all saying that divestment should be done within a period of three to five years. If it is done in the period of three to five years then it can survive the loss. In fact, the unfortunate thing about the New Jersey story which you may have seen in the paper about New Jersey may loose one hundred million dollars. That was one part of the story reported. Because the people they quoted were the same people who came with (unintelligible) information who came and said we hear divestment will loose a hundred million dollars. There were other people who testified from Citizen American Express, for instance, and Smith Barney who said if you divest in three to five years you will be able to find other investments that are prudent and safe that have nothing to do with South Africa. The second point which I hope you ask your (unintelligible) now when they come in. The State of Alaska is a state like in all developed states. It's true they overturn a stock every three months or so depending upon what system they use. Each time the stock is overturned they add the regular foundation costs. So it's not like the state will stop paying from this until after divestment. You are already paying from this because every (unintelligible) overpay the stock annually. But I think the main thing, my experience in listening to all this is that the investment people from Alaska resent the fact that your committee's going to tell them to change doing business the way they've been doing for the last 26 years. They resent that. And they resent the fact that they have to rearrange their portfolio to the way you want it done. Because, you know, I don't think (unintelligible). The State of Alaska doesn't invest in every company that's available. For instance, the State of Alaska does not invest in pornography where you would make more money. You don't invest cocaine where you would make more money. The State of Minnesota, for instance, does not invest in tobacco companies, does not invest in liquor companies. It is not like they buy into every stock. They have what they call the universe. They have between five universal stocks that they are comfortable investing in. And what you are asking with your resolution, you are saying to them change your universe or expand it, the universe. to include other stocks. One, they do not like that. Two, they will advise you that this will bring on other costs. This is not true because in the House of Representatives in Congress a number of biracial companies were called in Washington, D.C. which because it was the District of Columbia they had to be called by Congress. They were called and they testified from both sides. And Congress voted in a bipartisan vote to allow D.C. to divest because arguments, of course, from other sides. By the way, Congress is very happy to see tne other investment people who believe otherwise come in. I would have been happy to see states like Connecticut, for instance. Connecticut has lost (unintelligible) million dollars divesting from South Africa. It has been said one of the opposed to divestment is going around the country urging other states to do it because there's money in this. (Unintelligible) so that the committee can best make its decision and base its decision on a wider presentation of information.

REVEREND DICK MADDEN'S TESTIMONY

Madam Chair and Members of the Committee.

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 Christiandom. 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 conclused 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 73% 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 nations 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 elected officials and no Black they could find was willing to speak in favor of economic sanctions on the part of the U.S.

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 have seen elections like that)..the man only got 67 votes. That they don't tells 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 BBC 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 viscious 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 billion 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 U.S. 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. Byers 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 opposition to the Botha Government.) In a recent quasi-debate with Mr. Prevo, he made a point of saying that he has a photograph of Dr. Boesak speaking in front of what he calls a communist flag. President Reagan 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 Christians are not totally misinformed and misled, nor are they the dupes of some vague and unidentified communist conspiracy.

It is a tragedy of life that violence so often begets counter violence. 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 route to their liberation, and they didn't require communist agitation to teach them that.

When has the US ever backed a represive 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 the non-whites of South Africa who have had just about all they are willing to take.

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 are 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 investments prolongs the power base of apartheid is neither wise, nor is it ethical.

If this was 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, ideology of apartheid is the nearest thing to those horrors of the past extent 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 metaphor 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 friends, 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.

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 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

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.

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,

Bill Sheffield

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

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 monitary 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 commited 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