

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6608 SENATE STATE AFFAIRS

1012

1. Asset allocation
2. Currency selection
3. Country weighting
4. Stock selection

Of the foregoing, country weighting is the most important. Referring to a chart setting forth performance figures for major markets of the world (1977 through 1986), Mr. McNamara explained that within any given year, returns in each of the sixteen markets were dramatically different. In 1977, the EAFE index was up 19%. The best performing market was up 58% while the worst market was down 34%. In that same period, four markets (Italy, Spain, Sweden, and Hong Kong) were all down at a time when the EAFE index returned 19%. In 1983 the EAFE index was up 25%. Only two markets were down. The U.S. market was up 22%. In 1985 foreign markets were up 57%, and U.S. markets were only up 32%. There is thus tremendous differential in what markets do in a given year. There is also a tremendous array. No one market dominates. In the period 1977 through 1986, the U.S. market was never the best performing, and twice it was the worst.

Mr. McNamara cautioned that the fact that investments do well in a single year does not necessarily mean that the investments will do well over a long period of time. The key variable in management of a foreign equity portfolio is differentiation in market movement. If a manager can successfully overweight markets which are doing well and avoid or underweight poor markets, the manager can add tremendous value to the return on the investment.

In his closing remarks, Mr. McNamara stressed that international investment is complicated. If the state is not prepared to devote a great deal of time to it, Alaska should "get outside help." The decision to invest overseas, however, should not be looked upon as "risky" or something which will negatively impact the future of the fund. It should be viewed as an investment which will provide a greater level of return to the portfolio while reducing the level of risk.

In response to a question from Senator Uehling concerning regional management, Mr. McNamara explained that the state could "still index within that region." The choices are separate. Should the state decide upon regional investment, it could select either active or passive management. The state could direct its manager to "make up an index of only the following countries." Mr. Palone added that selection depends upon what is most important to the state. Does it seek diversification and risk reduction or enhanced returns? If the state seeks diversification, it would be better off setting up an index fund. If it seeks both diversification and enhanced return, the state should probably hire an active manager. The state must first decide what it intends to achieve.

Co-chairman Halford noted that SB 218 allows for the holding of currency and asked that that provision be addressed. Mr. McNamara explained that should the state decide upon a fixed income component for its international investment, it would have to hold currency. Further, should a manager decide to hold a percentage of the portfolio in cash, that cash might be in currency other than the U.S. dollar. Provisions for holding currency would allow managers to incorporate the full range of management for all four market variables.

Co-chairman Halford noted that an investment provides capital and indicates support for an enterprise. He then asked how this could be reconciled with the fact that foreign investments provide capital and support to companies which compete with companies in the United States. Mr. McNamara answered that the United States is no longer an "island." It is involved in a global economy. Investment in foreign securities does not detract from domestic growth. Foreign companies build plants and provide jobs in the United States, and U.S. companies build plants abroad. Mr. McNamara questioned whether supporting Toyota through purchase of company stock was necessarily anti-General Motors, and advised that he was not advocating that the state take all of its investments out of the domestic market. By not investing outside the United States, however, Alaska is ignoring 60% of the world's investment opportunities.

Co-chairman Halford inquired concerning the impact of foreign investment of domestic pension funds upon the GNP. Mr. McNamara explained that there was no impact, since pension fund investments are not counted when compiling the GNP. Co-chairman Halford noted that domestic investments stipulate economic activity and suggested that lack of this activity would be felt when foreign investments are made. Mr. McNamara argued that investment in company stock does not ultimately increase the capital base of the company (unless there is a new issue). He further added that foreign investments by General Motors and Caterpillar do not indicate support so much as recognition of the fact that foreign competitors exist and are going to continue to be there. Making foreign investments is not "anti-American." It simply reflects the reality that the world has changed. Mr. Palone added that as fiduciaries, the job of the trustees is to provide the best level of return at the lowest level of risk.

At this point in the meeting, Mr. McNamara concluded his presentation, and Mr. Mallott again came before committee, voicing support for diversification opportunities available through foreign investment. In terms of public policy, limitations contained within SB 218 are appropriate.

Co-chairman Binkley noted past unanimous support by the board for SB 218 and asked which trustees were now opposed to the bill. Mr. Mallott answered that former Representative Oral Freeman was appointed to the board after the bill was introduced. He has informed the trustees that he does not support the legislation.

Referring to language on page 2 of the bill, Senator Uehling asked if provisions would allow only a 20% investment in foreign assets. WILLIAM MEANS, Chief Investment Officer, Alaska Permanent Fund Corporation, explained that the bill was written so that the maximum that could ever be held in foreign stocks and bonds would be 20%. He added, however, that an additional 20% could be held in short-term bank deposits and certificates of deposit. A total of 40% could thus be held internationally. Mr. Means further explained that the concept was never to hold 40%. There may be situations, however, when the state would want to liquidate stocks and bonds and hold a large amount in short-term investments. The cash allowance was intended only to provide flexibility when shifting from longer term to shorter term investments which, in the past, have been "entirely profitable with little risk."

Senator Uehling noted the current dynamics of world currency, and asked if there was any intent by the corporation or board of trustees to invest in currencies on a day-by-day basis. Is that part of the overall investment strategy? Mr. Means answered that while he had not discussed the issue with the trustees, it was not his intention to so invest.

Referring to Page 1, Line 21, of the bill, Senator Duncan noted reduction of bank or trust company capital and surplus requirements from \$500,000,000 to \$100,000,000 and inquired concerning the reason for the reduction. Mr. Means explained that much of the reserve held by foreign banks is not revealed as are reserves held in American banks. In many instances, foreign banks (German and Swiss) have largely written off all of their foreign, third-world debt. This puts them in a much stronger economic position than many American banks. The reduction recognizes the difference in accounting conventions utilized by strong foreign banks. The showing of lower capitalization by Swiss, German, and Japanese banks is not indicative of a weaker or smaller bank. The corporation did not feel it should be restricted from investing in these banks simply because of the difference in accounting. The reduction is not intended to indicate that the corporation would invest in smaller, riskier banks. Senator Duncan advised of his understanding that the reduction would not place the state at greater risk either internationally or domestically. Alluding to possible problems from a policy point of view, Mr. Means suggested that the level (\$500,000,000) not be changed for domestic banks.

At this time in the meeting, Co-chairman Halford suggested that members of the permanent fund board of directors who had traveled to the capital from out of town come forward to testify.

JOHN KELSEY, member, board of trustees, came before committee advising that he was in full accord with provisions contained within SB 218. He stated that, should the legislation be approved, he would be very conservative in exercising his fiduciary responsibility when making foreign investments. Board

members would be guided by "the best experts we could obtain in this particular area."

Senator Fischer expressed concern regarding the security of investments. He explained that the permanent fund corporation is different from a for-profit corporation where stockholders elect board members. The people of Alaska do not have a direct say in operation of the corporation. He suggested that in terms of the purchase of bonds, perhaps the corporation had an obligation to invest within the state. Purchase of the \$1 billion in outstanding school debt was suggested as an example. Such an investment would provide a good fiduciary return as well as an extra dividend for stockholders because taxes would be reduced. Senator Fischer voiced concern regarding dedication of 40% of the assets of the fund to foreign investments in light of in-state needs.

Mr. Mallott advised that the board of directors currently has greater and more broad authority to invest in the stock market than has ever been exercised. Over time the trustees have followed a very conservative investment policy which was often contrary to the advice of staff or hired consultants. This flows from the desire of the trustees to be responsive to citizen shareholders. Mr. Mallott added that he supports the proposed bill because a broadly diversified portfolio ultimately provides greater flexibility for local investment.

Mr. Mallott further stressed the conservative investment approach taken by the trustees, advising that unless there is drastic change within the management of the fund, he foresaw "nobody going crazy with the international authorization" He concluded his remarks saying that it would probably be many years before foreign investments would be a significant element of the overall portfolio.

FORMER REPRESENTATIVE ORAL FREEMAN next came before committee. He advised that diversification (and the benefits to be derived therefrom) appears to be the key issue raised in discussions relating to foreign investments. He then expressed his belief that fund investments are currently well diversified.

Mr. Freeman noted earlier statements from representatives of Baring International to the effect that the fund could undertake foreign investments without increasing risk, and advised that that information is contrary to "everything that our financial advisors have told us" Charts indicate that risk always increases with the rate of return.

Speaking to earlier comments relating to performance of the Japanese market, Mr. Freeman expressed concern regarding the value of Japanese stock. He explained that the value of a stock is customarily judged by its price-earnings ratio. A good stock has a 12 to 1 ratio. By October 19, 1987, that ratio in the U.S. stock market had increased to 20 to 1, and experts warned that it

was dangerously high. The market then fell. At the same time that the ratio in the U.S. stock market was 20 to 1, it was 70 to 1 in Japan. Mr. Freeman noted the financial truism that when one starts shooting for higher returns, one also incurs higher risks.

Mr. Freeman advised that he had no quarrel with diversification. He questioned, however, a perceived urge by managers of the fund to "keep upping that level of earnings every year." Common sense indicates that there will be times when the economy will not support greater earnings.

(End SFC-88, #10, Side 1)
(Begin SFC-88, #10, Side 2)

Mr. Freeman stressed that the urge to diversify into the foreign market and undertake higher risk in anticipation of higher earnings is not the most important function of the fund. The Alaska permanent fund is not like other investment funds in that it does not have an established level of earnings that it is required to produce on an annual basis. A \$20 to \$30 difference in the dividend would probably not be of concern to stockholders in light of having to take risks to increase the dividend. The law governing the investment policy of the fund stresses protection of principal as the primary concern. The level of earnings is secondary.

Mr. Freeman next spoke to political outcry from factions that want the fund brought home and invested in Alaska. He advised that while he did not agree that everything should be invested in state, the sentiment continues to exist. Mr. Freeman expressed his view that investment outside of Alaska does not reflect export of capital but import of earnings. He added, however, that foreign investment in the face of local needs does not reflect good policy or politics. The additional risk could be detrimental. A slight gain in earnings would not likely have great impact, but a "fiasco" in a foreign stock market would be politically devastating. Gains achieved by the fund might be small compared to the catastrophe that could befall, both politically and financially.

Senator Duncan voiced his understanding that the earlier presentation indicated that the fund could go international with a certain weighting and increase return and lower risk prior to entering that portion of the curve where greater returns also carry greater risk. Mr. Freeman spoke to past activity by the trustees trying to "comply with the mandate of the legislature . . . to get as much as we can but still be real safe." Senator Duncan advised that the legislature would have to rely on the board of trustees to ensure that foreign investments are conservatively made. The bill would allow managers to make decisions which politicians are not necessarily qualified to make. The Senator noted that current authorization allows investment in Alaskan real estate mortgages, etc.

Byron Mallott added that the 20% authorization embodied within SB 218 would fall within the safety band. He explained that he had just returned from a ten-day trip looking into international investment issues with a group of other pension fund trustees. Indications are that, over time, one can diversify and reduce risk. That is the intent of SB 218. Mr. Mallott explained that as a trustee of the permanent fund he was not seeking incremental return so much as diversification of the portfolio to provide maximum flexibility. He concluded by stating that the emotional and political issues raised by Mr. Freeman are real and must be weighed in the balance.

Senator Uehling noted past testimony from trustees to the effect that the corporation would be very conservative in its approach to foreign investments. He then noted caution by the legislature in terms of what the public will think, and advised that there would probably be criticism in any event.

Discussion followed regarding current investment (12%) in the stock market. Oral Freeman urged that committee members weigh possible benefits from foreign investments against possible detriments, noting that in his view they do not balance out. A significant amount of return will not be gained by foreign investment, and the law of averages in terms of something going wrong is greater.

Mr. Freeman acknowledged that his views on the permanent fund and its purpose were not necessarily the same as those of a professional money manager. Protection of the principal is the most important issue. If the benefit to be derived is not great, why endanger the fund? Mr. Freeman noted inherent danger in constitutional language which states that the permanent fund shall be invested in "income-earning investments" within parameters established by the legislature. Bad investment policies could harm the principal.

Co-chairman Halford noted that if the trustees had invested the fund in a diversified portfolio within Alaska, the state would have invested in the oil industry, mineral industry, residential and commercial properties, and the fund would not be worth what it is today.

Byron Mallott spoke to the uniqueness of the fund and its ability to sustain the state economy. He added that he shares the emotional concern expressed by former Representative Freeman, but noted that the fund has been responsibly and conservatively managed over the years. The best way to continue responsible management is with the most diversified portfolio possible. At the current level of investment, there is a 99% chance of preserving principal. Should investments go to 30 or 40% stocks, statistics show a 98% chance of preserving principal. The trustees are conscious of these factors and are "incredibly sensitive" to need to preserve principal and develop an investment portfolio which will create earnings that can be

utilized by the people of Alaska. The trustees intend to accomplish the foregoing in a manner which allows the permanent fund to continue to grow.

Co-chairman Halford expressed agreement with board action in bringing the current proposal forward for debate. He further noted legitimate role differences between money managers who manage for maximum benefit and diversity and those who set guidelines relating to public opinion. Mr. Mallott noted the importance of public realization that while the permanent fund was established through constitutional mandate, a substantial portion of its assets came as a result of direct appropriation by the legislature. This reflects public policy recognition by elected representatives that the corpus of the institution needed to be much larger "than even the flow of funds from all royalties would have allowed."

Co-chairman Halford advised that work on SB 218 would be ongoing and that further hearings would be scheduled.

ADJOURNMENT

The meeting was adjourned at approximately 10:50 a.m.

HOUSE FINANCE COMMITTEE
February 16, 1988
1:30 p.m.

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(Tape HFC 88-18, Side 2, #100-end)

ALASKA
PERMANENT FUND CORPORATION

CALL TO ORDER

Chairman Adams called the House Finance Committee to order at 1:30 p.m.

PRESENT

All members of the Committee were present except Representative Wallis. ALSO PRESENT: Representative Donley; Representative Ellis; Hugh Malone, Commissioner Department of Revenue; Steve Hole, Deputy Commissioner, Department of Education; William Means, Chief Investment Officer, Alaska Permanent Fund Corporation; Jay Hogan, Director, Budget Review, Office of Management and Budget, Office of the Governor; Nancy Bennett, Division of Medical Assistance, Department of Health and Social Services; Elizabeth Ward, Division of Public Health, Department of Health and Social Services. Assistance; Elizabeth Ward, Division of Public Health.

SUMMARY OF INFORMATION

HB 217 "An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

HB 217 was assigned to subcommittee consisting of Representative Larson, Chair; Representative Brown and Representative Rieger.

HB 297 "An Act relating to the notification to community councils and postmasters of certain state actions."

CS HB 297 (Finance) was reported out of Committee with a "do pass" recommendation and a zero fiscal note dated 2/10/88 by the Department of Revenue, a fiscal note dated 2/11/88 by the Department of Natural Resources, a zero fiscal note dated 1/26/88 by the Department of Corrections and a zero fiscal note dated 1/29/88 by Department of Transportation.

SB 330 "An Act making appropriations to the Department of Education for K - 12 support and the school construction account; and providing for an effective date."

02/16/88

budget goes towards education. Of this portion a large portion goes towards school debt retirement.

Representative Goll reiterated his support for the Senate Finance version of the bill, saying that it is necessary to keep spending within a range that the state can afford.

A roll call vote was taken on the MOTION to adopt the Senate Finance Committee Substitute.

OPPOSED: Adams, Boyer, Davis, Frank, Larson, Pourchot, Rieger, Swackhammer

IN FAVOR: Brown, Goll

Representative Wallis was not present for the vote.

The MOTION failed.

Representative Larson MOVED to adopt the HCS SB 330 (HESS) and the House Finance Letter of Intent.

Representative Pourchot OBJECTED for the purpose of noting a technical change to the Letter of Intent.

There being NO FURTHER OBJECTION it was so ordered. HCS SB 330 (HESS) was reported out of Committee with a "do pass" recommendation and House Finance Letter of Intent.

HB 217

"An Act relating to purchase of foreign investments by the board of trustees of the Alaska permanent fund."

Chairman Adams announced that this bill will be assigned to a subcommittee consisting of Representative Larson, Chair; Representative Brown and Representative Rieger, following the slide presentation by the Permanent Fund Corporation.

HUGH MALONE, COMMISSIONER, DEPARTMENT OF REVENUE, said that the Board of Trustees has been urging the consideration of this legislation for several years, so that the permanent fund has the opportunity to be invested globally. He said that the state pension funds are currently being invested in international equities, and are doing well. The yields are better historically than the U.S. domestic market, he said. Commissioner Malone said that currently the \$9 billion market value of the Alaska permanent fund is concentrated in under half of the markets that are available worldwide. He said they will have to diversify if the fund is to be safe and continue to produce income in the future.

BILL MEANS, CHIEF INVESTMENT OFFICER, PERMANENT FUND CORPORATION, gave an oral presentation entitled The Importance

02/16/88

of Investing Globally in a Shrinking World (Attachment 2). In this presentation Mr. Means discussed the world's investment markets saying that the total world investable capital is approximately \$13 trillion dollars. He concluded by remarking that it is unknown how the U.S. market will compare to foreign markets over the next twenty year, but the analysis of international markets should be undertaken.

Mr. Means then conducted a slide presentation graphically portraying the performance of world market indicators (Attachment 3). Included in this presentation were data and figures pertaining to:

1. 1986 World Capital Markets
2. Total Annual Return (by Germany, Switzerland, U.K., Australia, Hong Kong, Japan, Singapore, Canada, and the Standard & Poor Index) in U.S. Dollars
3. U.S. International Equity Market Performance Comparison MSCI (Morgan Stanley Capital International) EAFE Index vs. Standard & Poor's 500.
4. Components of the MSCI Europe, Australia, Far East (EAFE) Index as of December 31, 1986.
5. International Equity Markets Annualized Returns in U.S. Dollars from 1970 - 1986.
6. International Equity Markets Annualized Local and Currency Returns 1970 - 1986.
7. International Equity Markets Standard Deviation of Returns in U.S. Dollars 1970 - 1986.
8. Correlation of Returns Between U.S. and Major Foreign Markets.
9. International Fixed Income Markets Annualized Returns in U.S. Dollars 1970 - 1986.
10. International Fixed Income Markets Annualized Local and Currency Returns 1970 - 1986.
11. International Fixed Income Markets Standard Deviation of Returns in U.S. Dollars 1970 - 1986.
12. EAFE Versus the Standard & Poor 500 Risk-Return Analysis.

(Tape change HFC 88-19, Side 2)

02/16/88

Mr. Means described the major leaders in world business markets and said that many number-one ranked companies are not U.S. based. For instance, some of the most significant research in modern medicine is being undertaken by Swiss and British pharmaceutical companies. He noted that there is severe competition to determine which companies will be the winners in the fields of capital goods, consumer electronics and telecommunications.

Representative Pourchot asked if Mr. Means could make assumptions on 20 - 40% further investment in foreign funds based on increased returns, what would it mean in terms of value to the fund. Mr. Means said that possible increases are outlined in Slide No. 12. He indicated that he would run some figures for Representative Pourchot. Mr. Means said that the return would be very significant with the compounding.

Representative Pourchot asked why investments in foreign markets would cost more for management fees. Mr. Means said that the clearing operations are much more expensive because of international banks. The management fees are greater because of the larger specialized expertise involved.

Representative Rieger commented that he doesn't feel foreign investments will mean a dramatic increase on the return, but that there is the certainty that earnings will remain constant. He said that the matter of reduced volatility is important.

Mr. Means cited some statistics from the Public Employees and Teachers Retirement System which has been investing internationally for several years. In fiscal year 1986 their investments provided a 91.42% rate of return on its international component. In the same fiscal year the Standard & Poor 500 returned a 35.9% rate of return. For fiscal year 1987 the Retirement System's international component averaged a 38.8% rate of return and the S&P was 25.2%. From the date of inception of the international component the funds have averaged an annual compounded rate of return of 44.45%.

Representative Larson asked about the percentage for foreign certificates of deposit and securities of foreign governments or foreign corporations. Mr. Means said that the suggested 40% for foreign investments should be flexible. If the U.S. market does not look attractive, the funds could be shifted into short-term foreign instruments.

Following further comments on the investment market, Chairman Adams assigned HB 217 to a subcommittee consisting of Representative Larson, Chair; Representative Brown and Representative Rieger.

HB 342

02/16/88

The Permanent Fund. Readers of the Journal have followed the well-thought-out reasoning behind the Permanent Fund Corporation seeking authority to diversify the state's \$9 billion portfolio with foreign investments. This is the only piece of legislation the board has requested in many a year. The corporation's prudent and conservative investment performance is exemplary. The window of foreign investment opportunity is wide open now. It may be too late in 1989. Bottling up this bill for two years is unconscionable.

Fund earnings could take jump

By IMRE NEMETH

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path were open.

Last year, the Permanent Fund earned a 36 percent return on its stock portfolio and 21 percent on its bond portfolio. All stock and bond purchases were made in the national arena.

Earnings could expand significantly if legislation were passed allowing purchase of international securities, said William Means, the Permanent Fund's chief investment officer.

Illustrating the situation, Means gave the example of Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS) which got the go ahead to invest internationally at the same time the Permanent Fund was denied. Both, which are managed by the state Treasury Department, realized a substantially higher rate of return than if they had been limited to a national investment spectrum, Means said.

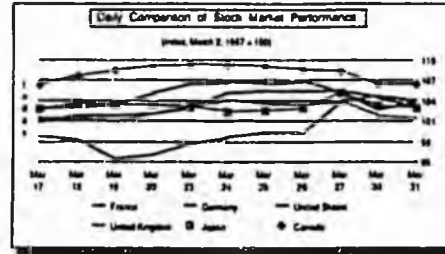
Currently, two bills (HB 217 and SB 218), allowing Permanent Fund officials to approach the international securities market, are pending in the legislature. Fund research and liaison officer Jim Kelly said movement may occur this week if efforts to schedule each for hearings become successful.

With each passing year, risk decreases and rates of return grow in the international securities markets, Means said at a recent meeting of the World Affairs Council in Anchorage.

"Within 20 years the world may be one global stock market," he said. "Banks are already building to meet this need."

Kelly says that for the past 10 years, international securities have given high rates of return. He also predicts a reduction in risk if the

Means warns however, that while the chance of return is good, some international markets fluctuate drastically from year to year. What this year is the best investment, could be the worst the next.



Such was the case of Hong Kong which (in the mid-seventies) showed the best rate of return in 1976, and the worst in 1977. To avoid such pitfalls, Means offered a solution not foreign to those involved in the Alaska economy.

"Uncertainty about the future should cause investors to diversify," he says. Currently, the best bet is in the Europe Australian Far East Index (EAFE over Standard and Poor's) but that could change and "the next decade (average) could be the complete opposite."

EFA's annual rate of return for the last five years stands at 21 percent, while Standard and Poor's is 13 percent for the same period.

If the Permanent Fund were to get the nod from the legislature this year, increases in investment return would be very small. Kelly said only 5 percent of the Fund would be initially used to test the markets.

"Even if we got fantastic returns (resultant yields would be comparatively minimal)," he said.

"We're going to take our time before

getting into international investments (if the legislation passes). We'll probably map out for the next 12 months what strategies to take and what countries to invest in. We figure we're going to be around a long time, there's no hurry."

Means' topic centered on reaping the benefits of a shrinking global market. It used to be, he said, that people of Alaska and more specifically Juneau (where he lived and now lives) had access to the latest information only by telephone, as everything else was either delayed or late. Now, working with the Permanent Fund, Means has the best statisticians and world market analysts keeping his department informed of the latest trends. Each investment officer has two monitors tuned to the latest on the U.S. Stock Exchange, London exchange, Tokyo exchange, government bonds and other worldwide financial activity.

The current turmoil in currency levels, especially in the U.S. dollar, may be a good reason to protect

investment capital in many markets. Means says that while the United States remains as the financial leader worldwide, its market share is being eaten away by Europe and Japan.

"The Number one oil company is American — Exxon," he said. But No. 2 and No. 3 are foreign, he added. "The top four banks are Japanese."

In 1985, world capital and bond markets generated a sum total of \$10 trillion. Means said statisticians are predicting that number to rise to more than \$15 trillion in the next few years.

Of the world capital markets (totaling \$4 trillion), the United States' share comprised 48.6 percent, Japan and the Far East's 25.7 percent and Europe and the rest's 25.3 percent. The U.S. share of the \$6 trillion world bond market made up nearly 50 percent, with Europe and Japan splitting the remainder.

Means said in coming years, trends show the United States of the future

See FUND, Page 3

Fund
Continued from Page 2
comprising less than 25 percent of the overall market. He stressed the importance of investing with a world-wide mix, adding that the perfect mix is never known. "You only know in hindsight," he said. "Of the best investment..."

In 1986, Permanent Fund holdings were more than three-quarters in vest- ed in marketable debt securities with 95 percent invested in financial as- sets. Net income for 1986 for the first time exceeded \$1 billion. A gain of Nearly one-third of that income comes from unusually large realized gains produced by the sale of stocks and bonds during a record year which saw the equities market reach new all-time highs and the bond market experience its biggest rise of the cen- tury, according to the Permanent Fund's 1986 annual report. Most of last year's revenues (62 percent) came from interest.

As for Anchorage becoming a fi- nancial center of world trading, Means wasn't too optimistic of a quick reaction.

"One just doesn't opt to be a finan- cial center. One tends to go where the money is," he said, adding that it could be 10 years away from truly internationalizing.

Permanent fund investors eyeing foreign marketplace

By LARRY PERSILY
The Associated Press

JUNEAU — Permanent fund trustees are always looking for safe places to put money where it will earn a high return, and they are hoping the legislature this session will allow investments in foreign stocks and bonds.

Bills to allow foreign investments are left over from last year in the House and Senate finance committees. Permanent fund board Chairman Byron Mallott has asked the committee chairmen for early action on the bills this session.

"No individual country is consistently at the top of the heap," said Jim Kelly, permanent fund spokesman. The fund probably could increase its earnings and reduce its risks by investing in foreign stocks and bonds, he said, picking the countries with the highest rate of return at the time.

"There is always less risk when you have a globally diversified portfolio," he said.

State law prohibits permanent fund investments in foreign securities. The bills (HB217 and SB218) would allow the trustees to invest a small portion of the fund in stocks and bonds issued by foreign governments and companies.

Kelly said it would take as

Many dividend checks unclaimed

The Associated Press

JUNEAU — The Department of Revenue has almost \$1 million in Alaska permanent fund dividend checks in need of homes.

About 2,600 checks have been returned by the post office as undeliverable, revenue officials said Friday.

All the department can do is wait for the dividend applicants to send in current addresses, said Colleen Brown, department spokeswoman. A new check would be issued when the department receives written notice of an address change, she said.

Applicants who have not received their checks or notice that their cases are under review should contact the department's public service centers in Anchorage, Juneau or Fairbanks for information.

About 520,000 Alaskans have been paid the 1987 dividend of \$708, Brown said. As of Friday, 6,200 applications were under review.

See Page C-3 CHECKS

long as a year after the legislation passes before the fund makes its first foreign investments. He expects the trustees probably would invest no more than 5 percent of the fund in foreign stocks and bonds.

Alaska's oil-wealth savings account totaled about \$8.8 billion as of the end of November, including reserves for this year's inflation proofing and dividends and \$534 million in unencumbered earnings.

In a written report presented to the trustees this week, Kelly said it appears unlikely

legislators will act on bills to spend the \$534 million reserve fund, "provided lawmakers can accommodate their fiscal year 1989 spending plans with other available revenues."

"However, if the price of oil should decline below the forecasts, or if there should develop a widespread demand by Alaskans for increased current state spending," he said, "the struggle among the members of the House, the Senate and the administration to use the money in the fund's earnings reserve account may begin again where it left off last spring."

Finance professor opts for international investing

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By MIRA ESSAYAD

I am cognizant of the on going debate at the State Senate on the viability of international portfolio diversification by the Permanent Fund. I believe that I should write to you expressing my position on the topic. I spent many years of training on the subject. I wrote my Ph.D. dissertation and published articles on the issue. Currently I am the William H. Seward Professor of International Finance, an endowed chair at the School of Business of the University of Alaska in Anchorage. I taught and organized seminars on international financial issues including international portfolio diversification.

My position on the issue of international portfolio diversification does not lend itself to academic sophistry or abstract theories rather it is based on 15 years of pragmatic experience I was uniquely privileged to spend in international settings: in banking at the First National Bank of Chicago in London; in international finance and economics at the United Nations Conference on Trade and Development in Geneva, International Fund for Agricultural Development in Rome and the World Bank; in financial advising at the Office of the Minister of Finance and Petroleum of Qatar which is an OPEC member; in accounting at Getty-oil—Aminoil Joint Operations Accounting Department in Kuwait—Saudi Arabia Partitioned Zone; and in oil pricing as a member of the OPEC Economic Commission.

I believe that there are three major potential benefits that Alaskans, through the Permanent Fund, can generate from international portfolio diversification. The potential benefits are:

Substantial risk reduction

Risk reduction objective is consistent with the present prudent and conservative policy formulated by Alaskan lawmakers for the Permanent Fund. It is well established concept. Numerous studies by U.S. pension funds have attested to the merits of substantial risk reduction associated with international diversification.

To appreciate the value of risk reduction, it is important to know the statistical definition of the measure of risk, namely, variance or standard deviation of the portfolio returns. There is general agreement among investment managers that fluctuation, variability or risk of return of a portfolio of securities is statistically measured by the variance (or standard deviation) of return.

Centuries ago statisticians have pointed out that, mathematically, the variance (risk) of a portfolio of two stocks

different demand-pull and cost-push inflation rates. Monetary and fiscal policies that generate demand-pull inflation are different among different countries. Regarding cost-push inflation which depends on the state of the economy and the power of various economic units, e.g. unions, will differ between countries.

- Security markets, generally, are not highly integrated which render them independent.

- Business, financial, and liquidity risks that affect the prices of securities are different from one country to another. This is attributable to different volatility in sales, costs, banking and credit regulations, and governmental policies regarding taxes, development plans, and accounting procedures.

- Low, correlation among exchange rates of different countries currencies.

I would like to caution, however, that the correlation matrix among different security markets may not be stable through time. That is, a low correlation between stocks of two different countries during certain period of time might not persist in the future. This is due to changes in the underlying economic forces and the increased integration of the markets as a result of further automation and application of the 24-hour trading concept.

Therefore, portfolios should be re-constructed in a way that would take advantage of low correlations available in some other nations. The October 1987 market crash and its subsequent contagious effect on markets in Tokyo, London, Hong Kong, Singapore, Sydney, Melbourne, Frankfurt and Paris have made investors feel that international markets are now more integrated, thus dependent, than before.

Another caveat for the correlation concept. This concept should not apply to markets in unstable developing countries especially those whose regimes, such as Cuba and recently Panama, are hostile to United States, because the correlation would be almost zero and thus the variance (risk) would seem very low. The magnitude of political risk here is greater than we can capture in the variance measure.

Higher rate of return on investment.

Investing internationally can yield return that is higher than that generated in domestic investing. The reasons are:

- Some countries enjoy higher economic growth than the United States. This is the case of Japan, West Germany, Taiwan, etc.

- Some countries enjoy lower inflation rates and interest rates than the United States. This is the case of Japan,

and national mutual funds, closed funds, American Depository Receipts, etc.

reliable fundamental and technical analyses, and more segmented markets which perpetuate imperfections.

- Investors have broader selection of securities. Confining investment to U.S. markets would deprive U.S. investors of great opportunities of investing in other markets. Capitalization of U.S. market represents only 53 percent or so of the world markets. The remaining 47 percent therefore contains lot of discoverable delicacies in the international investing menu.

Due to the above reasons, and due to the dramatic decline in the value of the U.S. dollar vis-a-vis other currencies, we have witnessed during the last decade numerous U.S. pension funds investing larger portion of their holdings in international securities. Another development that took place in response to the benefits of international diversification is the mushrooming and flourishing of new international, regional,

Globalization of markets is fostered lately by the elimination of many restrictions in many international financial centers particularly in Tokyo and London, harmonization of the OECD policies in securities trading, and the increased automation and linkages among different exchanges worldwide. The ties between Singapore, Chicago, and London is an example. Another example is the emergence of Intercourse Data Information System in Europe.

Privatization of public firms and utilities that have swept Europe and Japan recently, may provide further profitable investment opportunities.

Long-term benefits to Alaska

The Permanent Fund's involvement in international investment would gen-

See INVESTING, Page 10

QUALITY SERVICES

Date APR 1988

Alaska Oil &
Industry News

Client No. 255

Permanent Fund internationally

ing its networks and lever-
Permanent Fund can draw
of many foreign invest-
desirous of investing for
preciation purposes, to two
considerations: first, there
is internationally under-
commercial properties in Alaska
investing in, and, second,
decline of the dollar by 50
ould provide unique oppor-
acquire these properties at
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g-term benefits are analo-
se that can be generated if
inter Olympic Games are
storage. There might be no
nstant cash inflows asso-
this event, but the future
h inflows would be tremen-

nanent Fund's involvement
onal investment would help
ly build up Alaska's finan-
capital. This would be ach-
ing the leverage of the Per-
nd to help the University of
usiness students get intern-
ernationally recognized bro-
ns. Internships would help
n students to get first-hand
in managing portfolios and
and thus would solve the

financial "brain drain" that local fi-
nancial institutions suffers from. In
the long-run, we even might have
enough financial cadre that is capable
of managing locally all the assets of
the Permanent Fund.

Summary of positions and sug- gestions

In the light of the above presenta-
tion, I am inclined to support the posi-
tion that would allow the Permanent
Fund to invest internationally. Other-
wise, the opportunity cost for Alaskans
would be tremendous.

In supporting international portfolio
diversification by the Permanent Fund,
I would like to suggest that this process

should be carried out in more prudent
manner. Within this context, the Fund
may be authorized to invest a maxi-
mum of 20 percent of its holdings in
international assets. A minimum of 60
percent of this 20 percent, i.e, 12 per-
cent, should be invested in guilt-edge
and other governmental fixed-income
securities and very high quality straight
and convertible bonds.

To avoid the unquantifiable and un-
predictable political risk of most of the
developing countries and some deve-
loped countries, investment should be
made in assets originated or traded in
primary and secondary markets of de-
veloped Western democracies.

QUALITY SERVICES

Date APR 29 1988

Fairbanks
Daily News Miner

Client No. 255

Events show wisdom of fore

State senators are finally stirring into action to redress a 1982 action they took which put Permanent Fund investments at needless risk and cost all of us many dollars from our own pockets.

That change would be made by HB217, which would allow the Permanent Fund managers to invest in foreign stocks and bonds. Similar bills have been offered to the Legislature for the past six years without much action, and until recently the current one had made only feeble progress since it was introduced by the governor 13 months ago.

The bill passed the State House March 21, but was sent to three Senate committees. It passed State Affairs April 14 and was before the Senate Judiciary Committee this week. Even if it continues, it will have to pass both the Finance committee and a full Senate vote before the session ends 11 days from today.

This tardy burst of action perhaps results from the Oct. 19 stock market crash. Events since have clearly shown why we need foreign investments.

On last Oct. 19, the Dow Jones Industrials index fell 508 points to



**Fred
Pratt**

Views expressed here do not necessarily represent those of the Daily News-Miner

1,738, a drop of 23.6 percent in one day. When the crisis hit the foreign stock exchanges the next day, the Nikkei-Dow stock on the Tokyo Stock Exchange dropped 14.9 percent, ending at 21,910.

The best the New York stocks have done since then is to barely top 2,100 about two weeks ago, still 100 points below the post-crash level. Lately it's been around 2,000 to 2,050. The Nikkei-Dow index of Tokyo stocks is now above 27,000, more than 1,300 points above the level it held before the Oct. 19 crash.

Thus the U.S. stock market has recovered only three-fifths of its Oct. 19 loss, while the Tokyo market dropped less and has recovered far more strongly.

Since the beginning of this year,

the U.S. stock market has been the worst performer in the world. It grew only 2.9 percent through April 21, compared to 24.5 percent for Japanese stocks, 11 percent for Hong Kong stocks and 4.5 percent for British stocks.

This is more than a case of provident neglect.

Politicians don't like the Permanent Fund, although most will not admit it on the record. They look on it as money that we took away from them, and that they will never be able to spend.

The major advances made in establishing and shaping the Permanent Fund came from the force of a few unusually perceptive political leaders and the weight of overwhelming public opinion. Some voted for the Permanent Fund out of vision, the rest out of fear.

Thus many politicians would be happy to see the fund fail. One way to make it fail would be to limit its activities to such an extent that it can't perform as well as we would expect. The resulting public discontent would make raids on the fund easier.

Luckily, the Permanent Fund managers have been exceeding

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INTERNATIONAL INVESTMENT

STATISTICAL INFORMATION

Prepared by

William L. Means

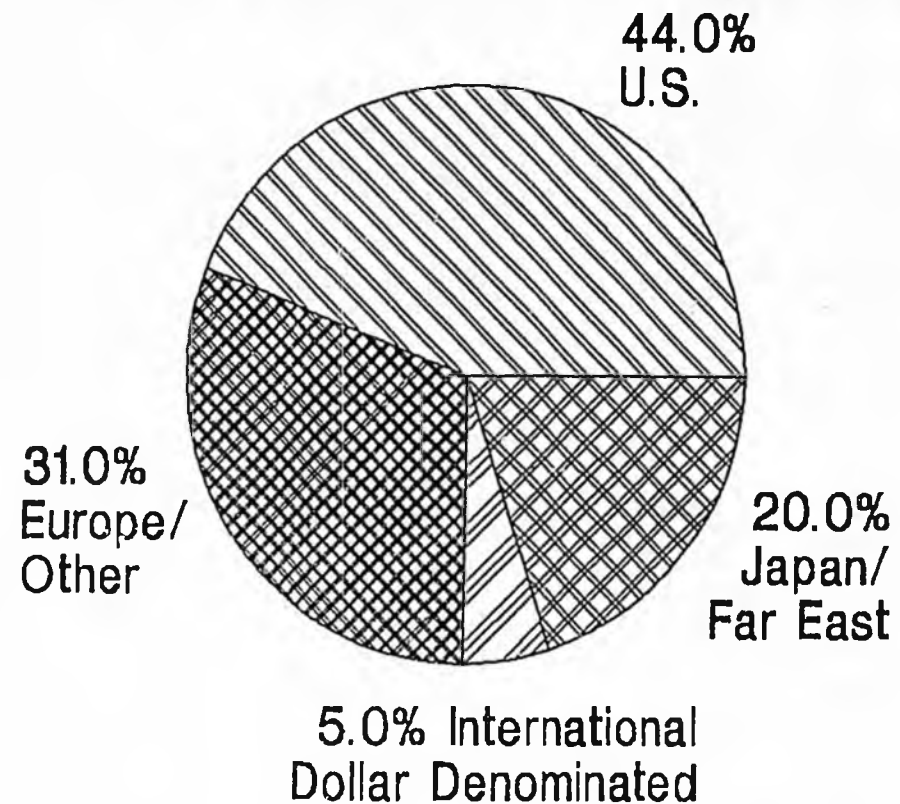
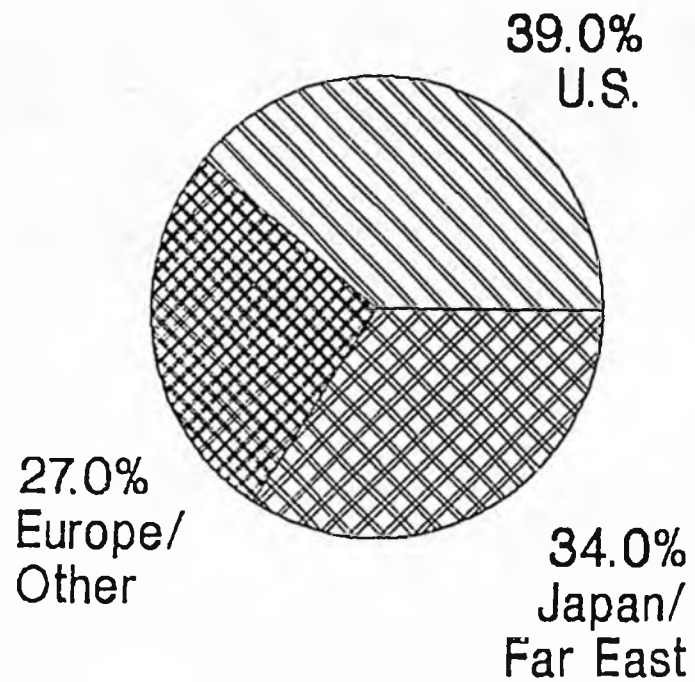
ALASKA PERMANENT FUND CORPORATION

February 8, 1988

1986 WORLD CAPITAL MARKETS

EQUITIES (\$5.6 Trillion)

BONDS (\$7.4 Trillion)



Source: J.P. Morgan Investment

TOTAL ANNUAL RETURN (U.S. DOLLARS)

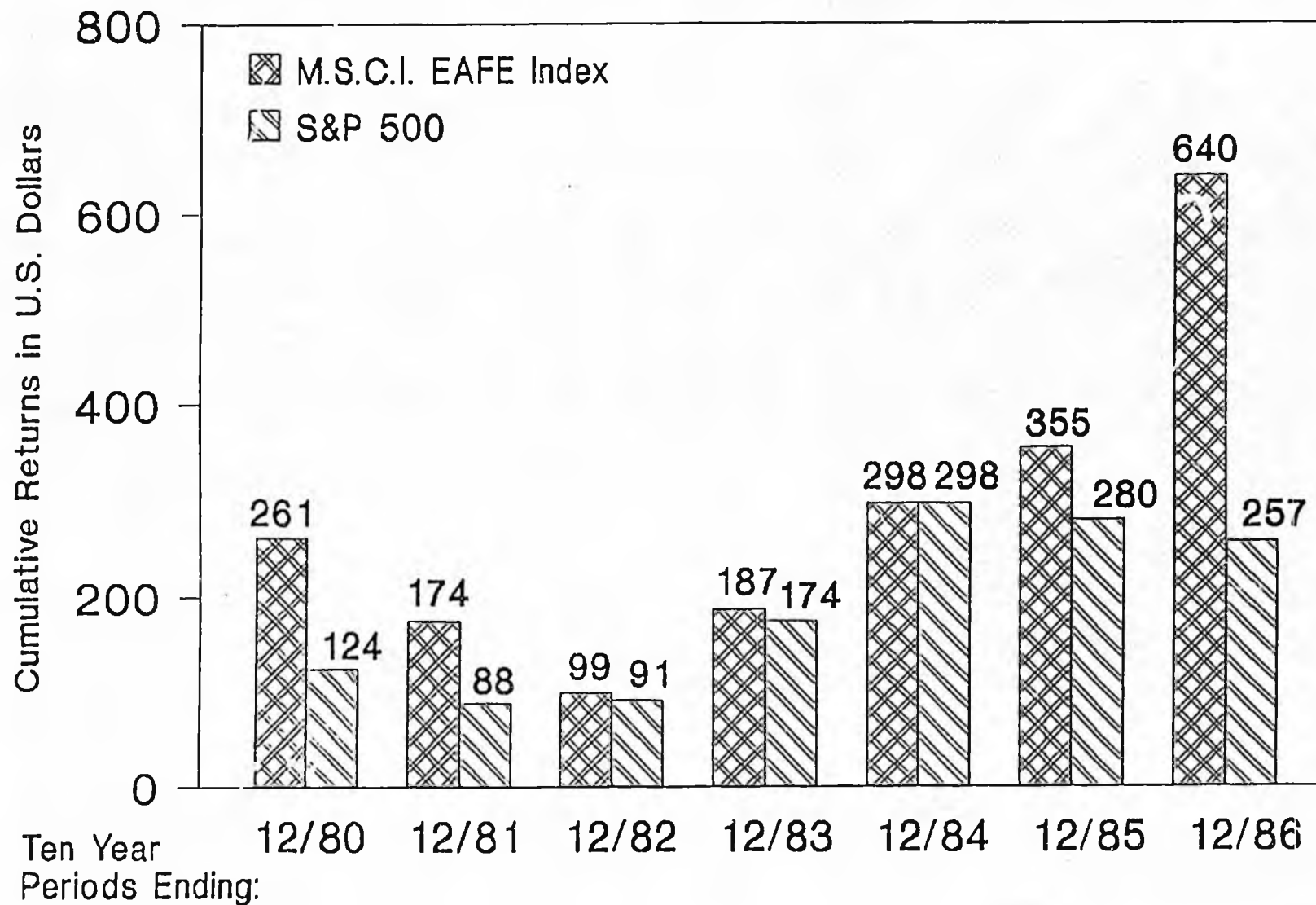
	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<u>S&P 500</u>
1977	25.8	28.7	58.0	11.9	(11.2)	15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.8	18.5	53.3	45.1	20.4	6.5
1979	(2.2)	12.1	22.1	43.6	83.5	(11.9)	28.5	51.8	18.5
1980	(9.1)	(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)	(23.9)	(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)	(44.5)	(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0	(3.0)	24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1	(26.9)	(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9	(22.0)	16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2	10.7	18.2

 BEST PERFORMER

 WORST PERFORMER

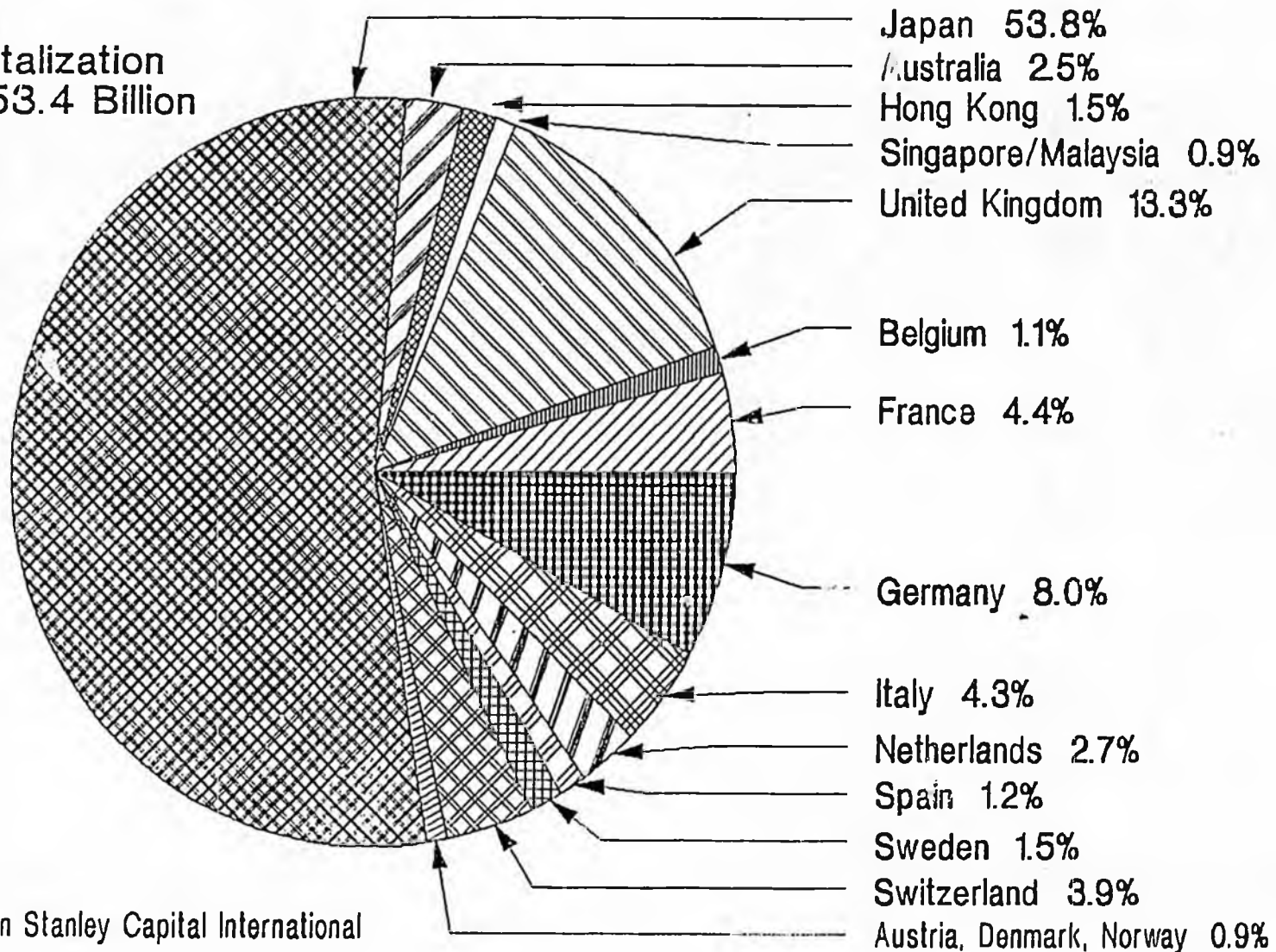
U.S. INTERNATIONAL EQUITY MARKET PERFORMANCE COMPARISON

M.S.C.I. EAFE INDEX vs. STANDARD & POOR'S 500



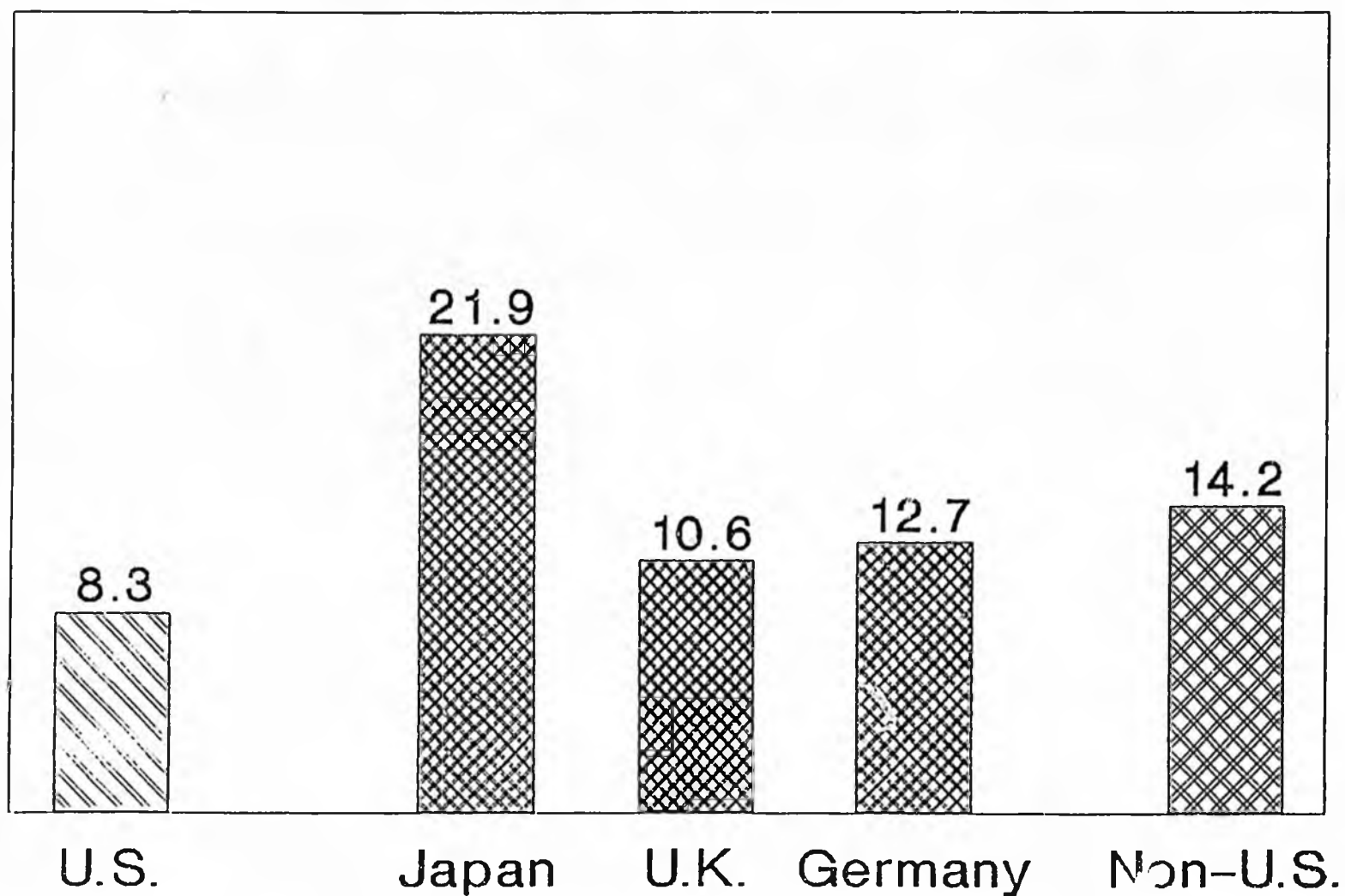
Components of The MSCI Europe, Australia, Far East (EAFE) Index December 31, 1986

Total Capitalization
U.S. \$2,053.4 Billion

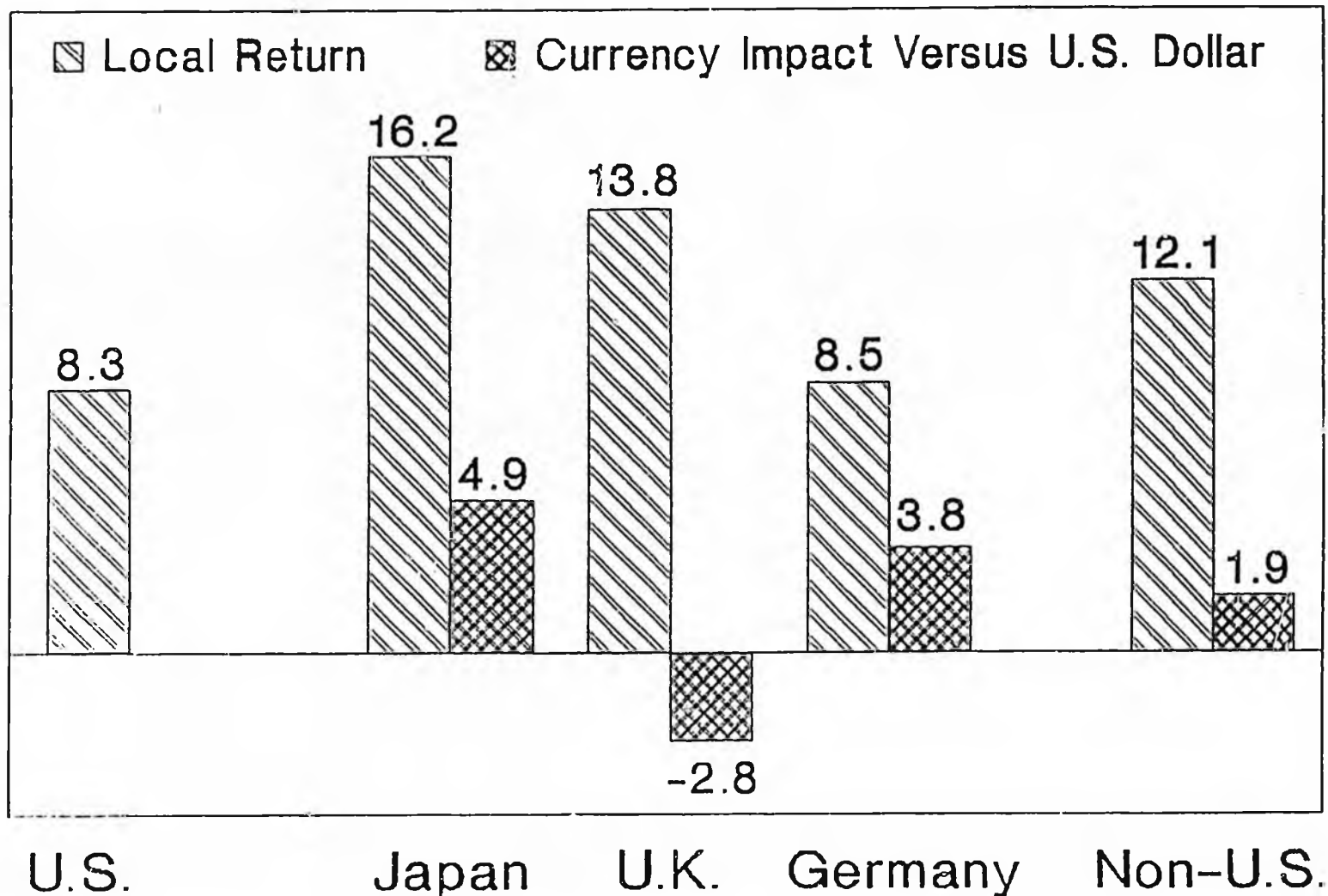


Source: Morgan Stanley Capital International

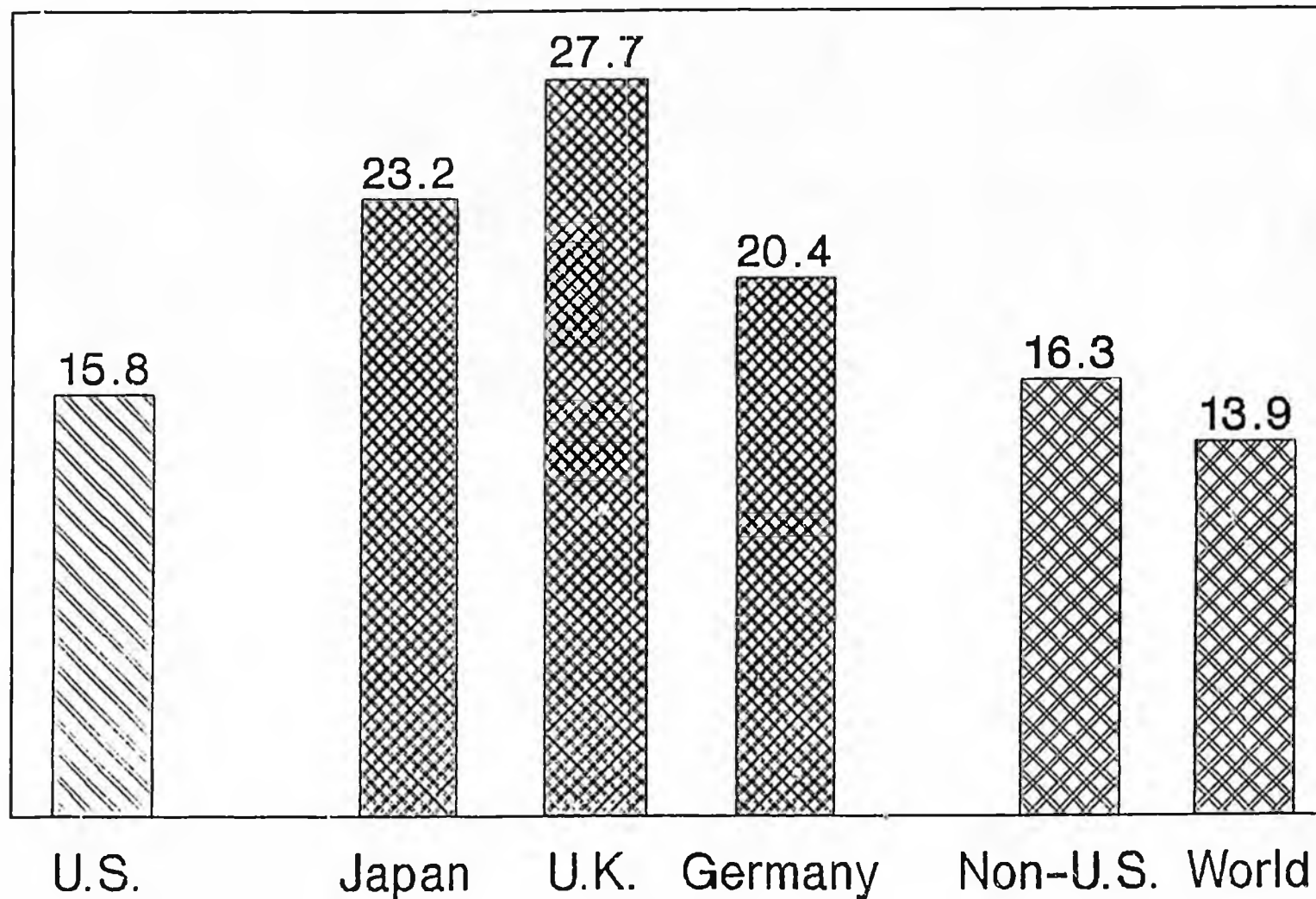
INTERNATIONAL EQUITY MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



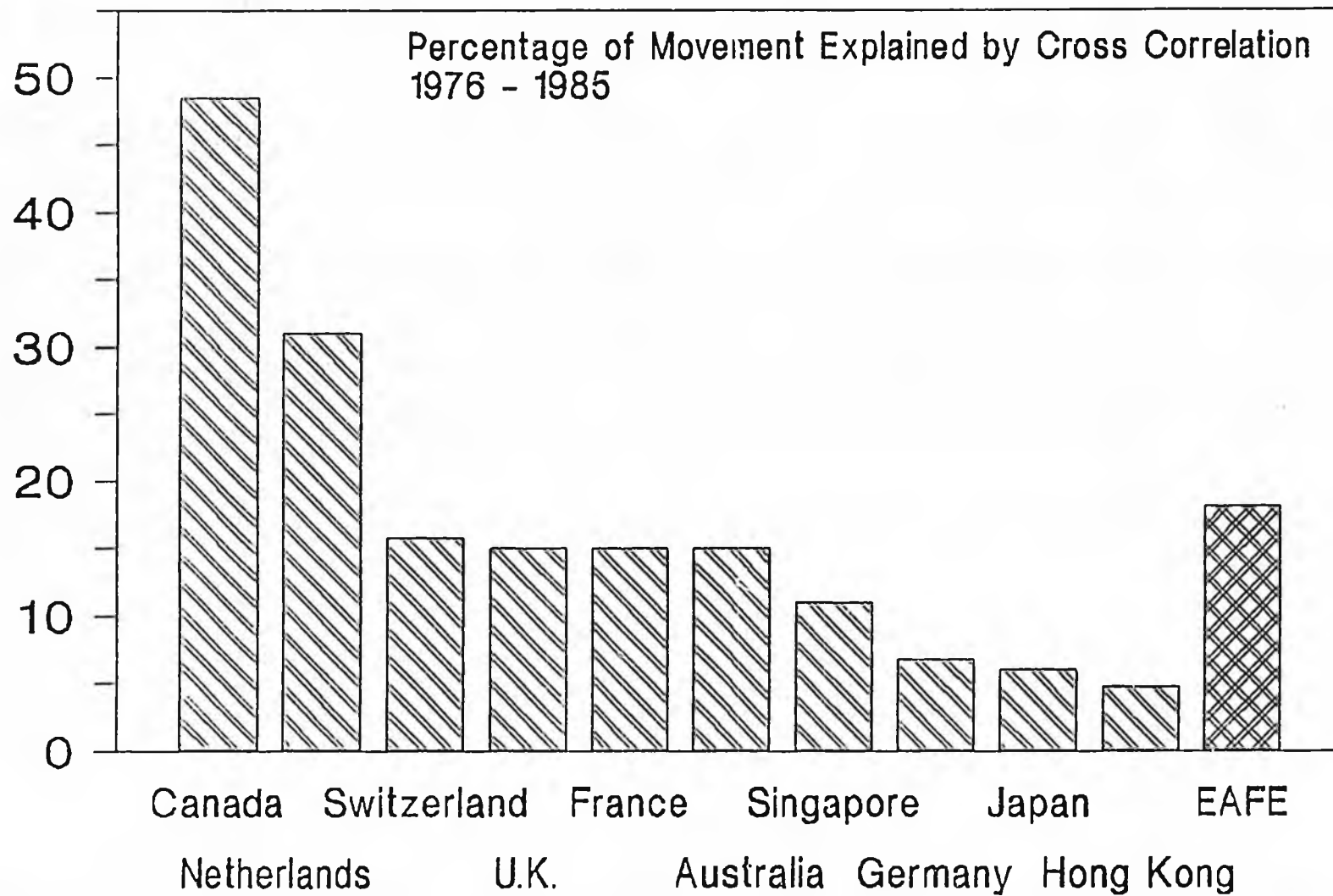
INTERNATIONAL EQUITY MARKETS ANNUALIZED LOCAL AND CURRENCY RETURNS 1970 - 1986



INTERNATIONAL EQUITY MARKETS STANDARD DEVIATION OF RETURNS IN U.S. DOLLARS 1970 - 1986

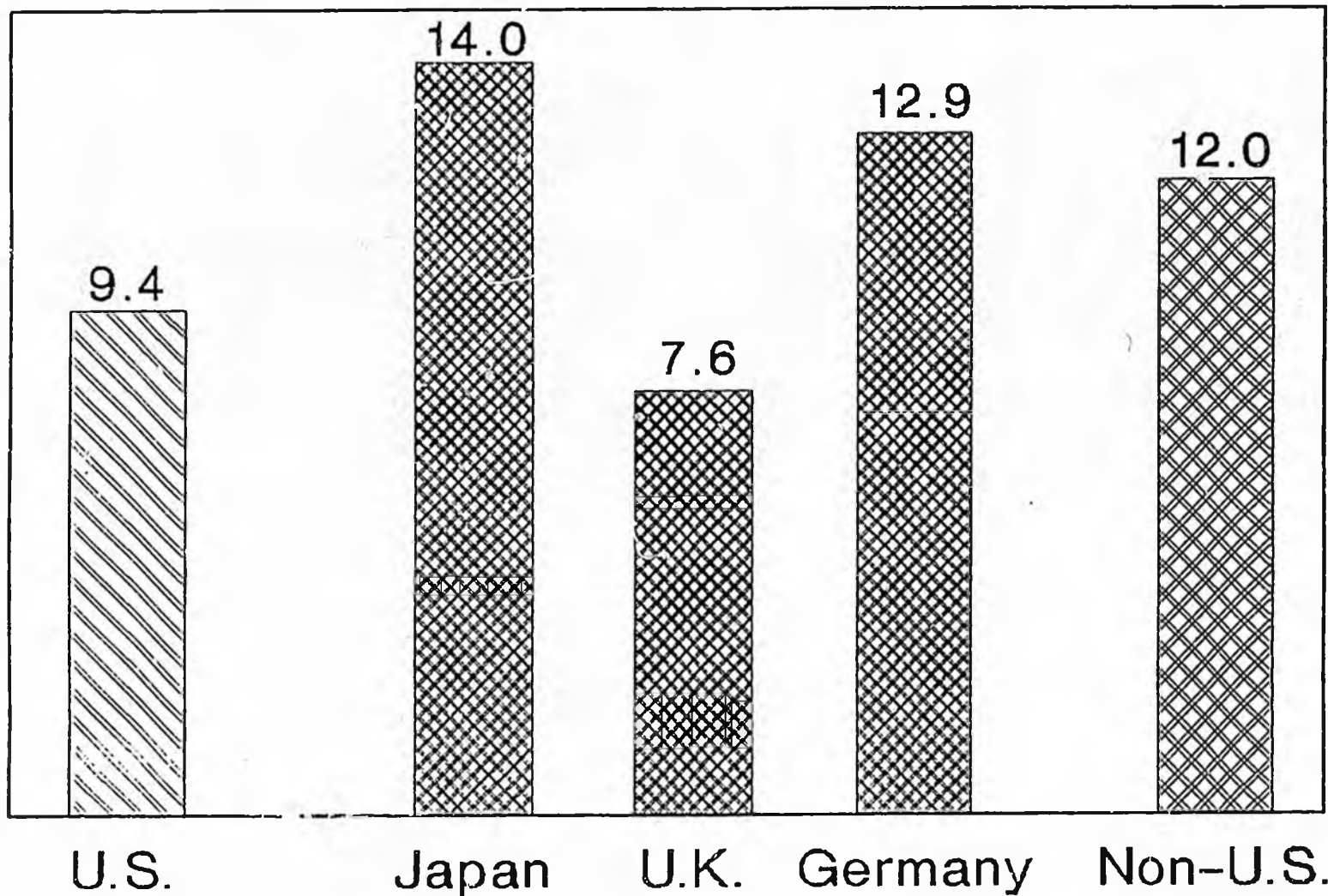


CORRELATION OF RETURNS BETWEEN U.S. AND MAJOR FOREIGN MARKETS

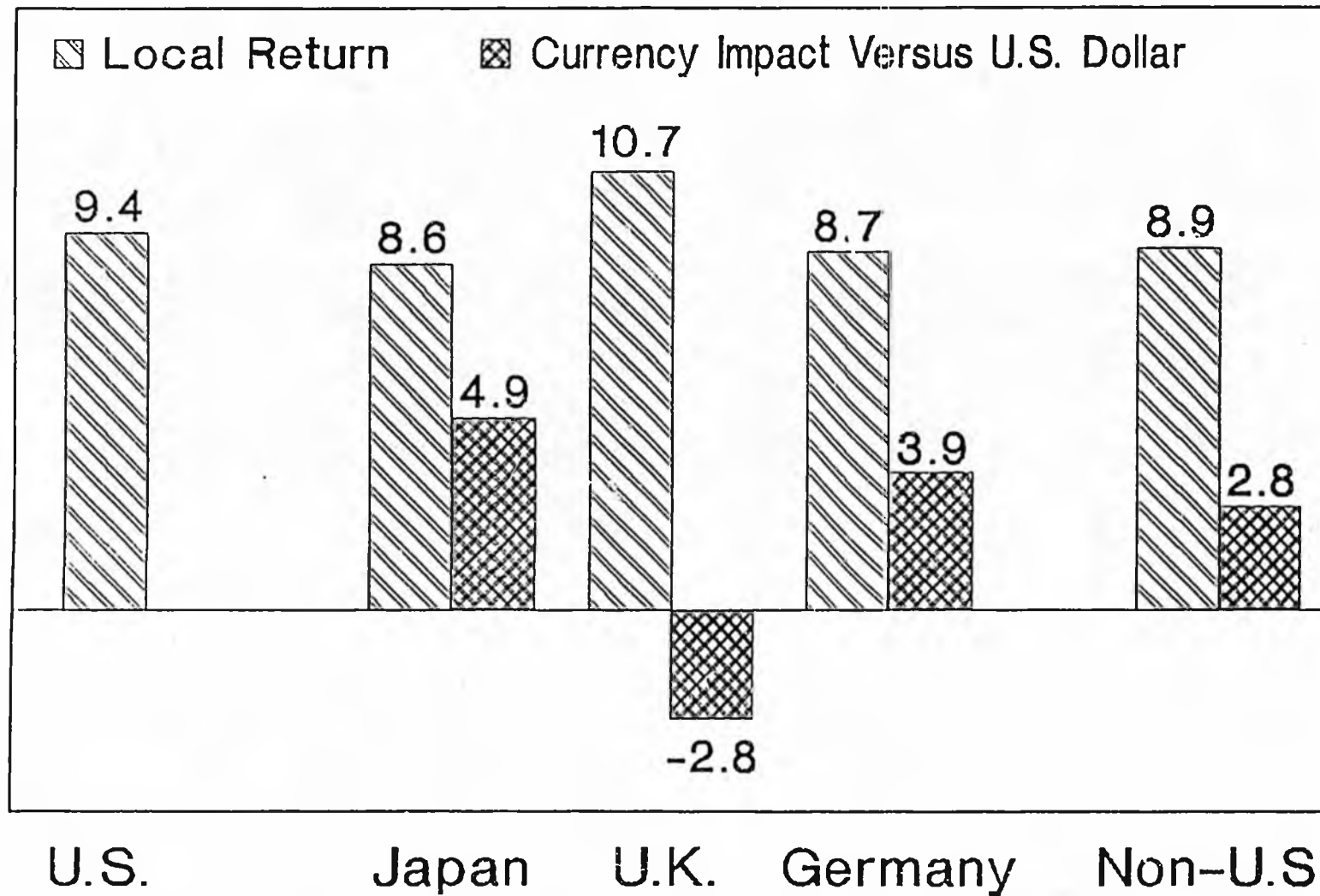


EAFE: Europe, Australia, and Far East Index

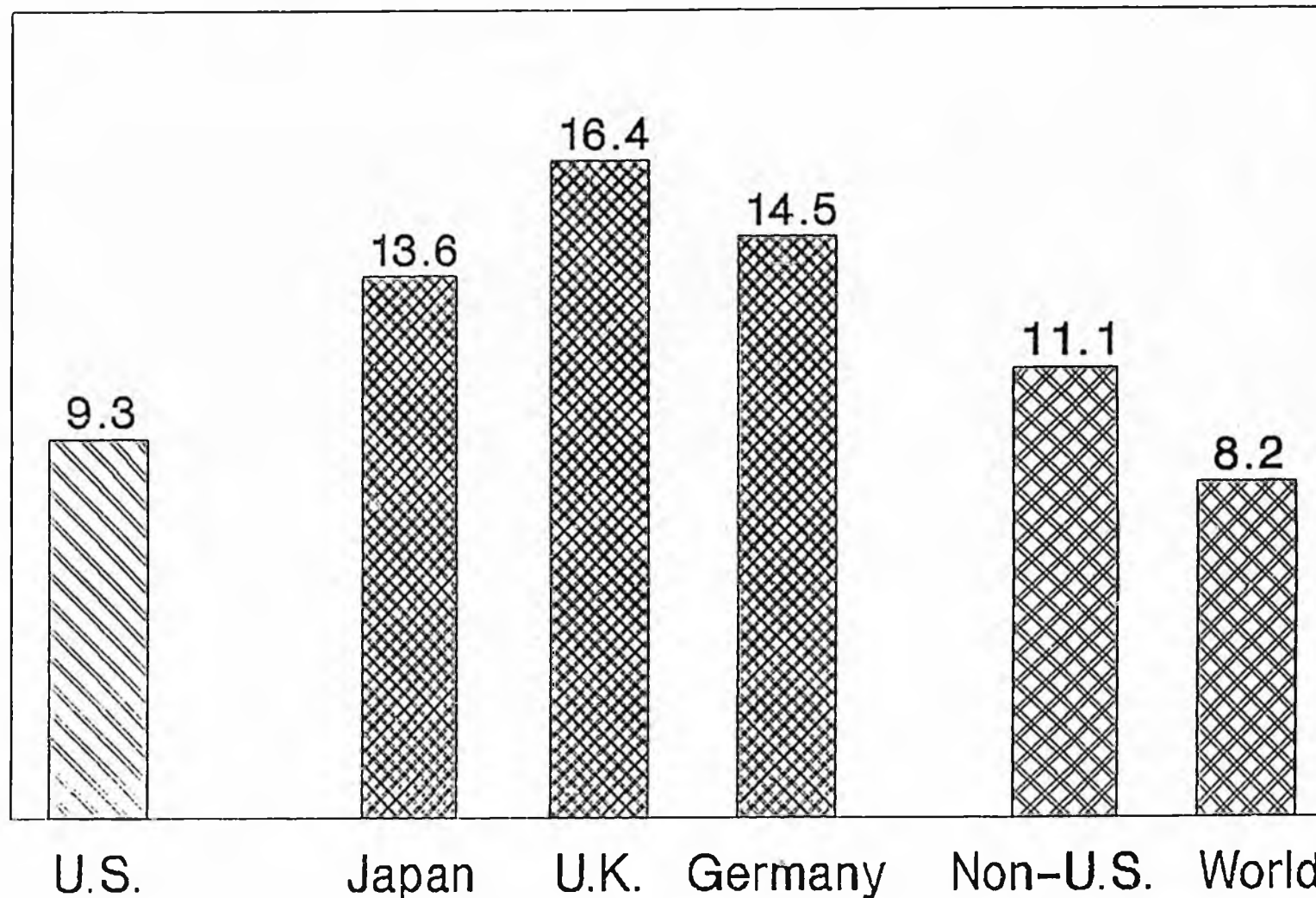
INTERNATIONAL FIXED INCOME MARKETS ANNUALIZED RETURNS IN U.S. DOLLARS 1970 - 1986



INTERNATIONAL FIXED INCOME MARKETS ANNUALIZED LOCAL AND CURRENCY RETURNS 1970 - 1986

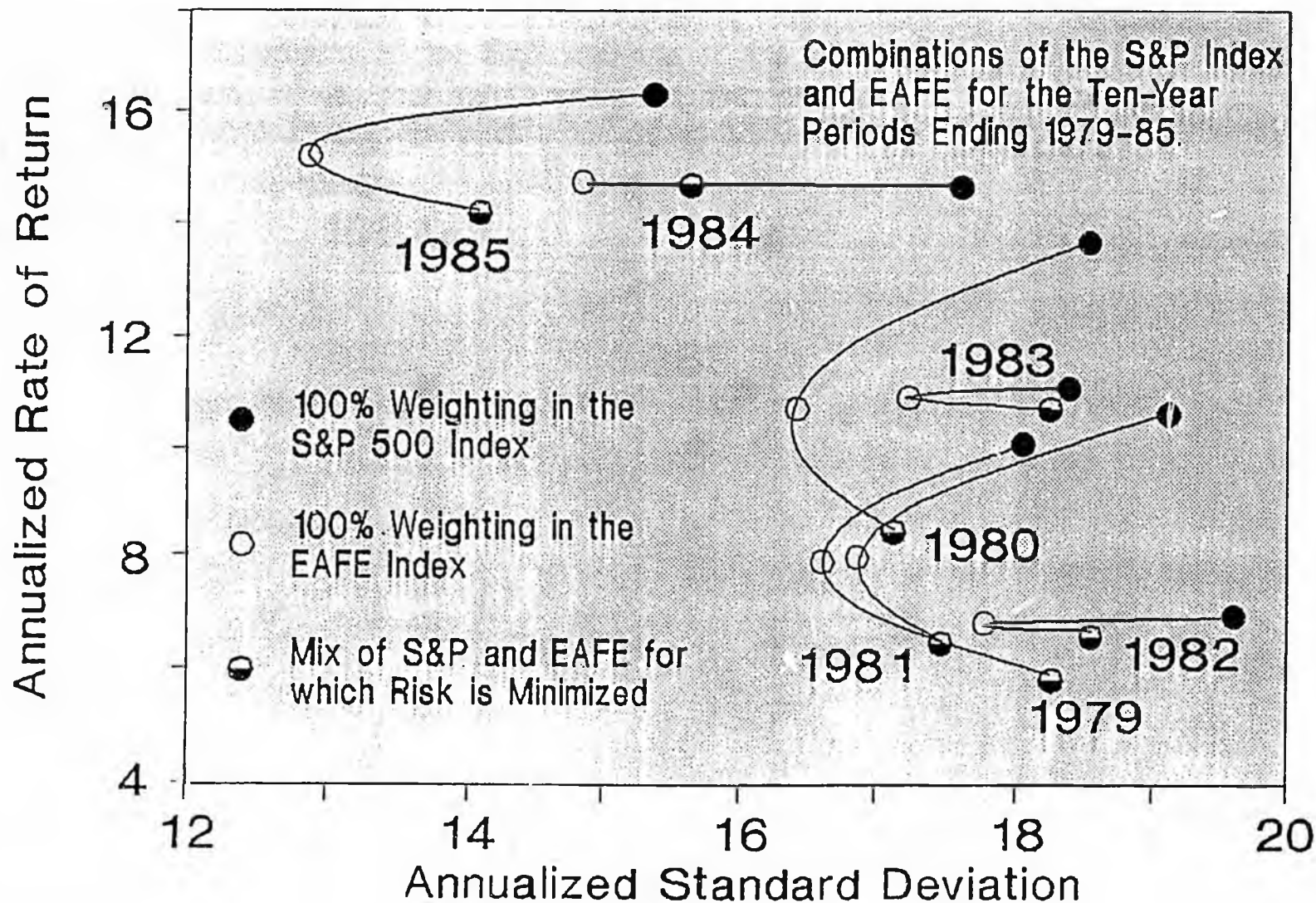


INTERNATIONAL FIXED INCOME MARKETS
STANDARD DEVIATION OF RETURNS IN U.S. DOLLARS
1970 - 1986



EAFE VERSUS THE S & P 500

RISK-RETURN ANALYSIS



THE IMPORTANCE OF INVESTING GLOBALLY IN A SHRINKING WORLD

Prepared By

William L. Means, Chief Investment Officer

Alaska Permanent Fund Corporation

February 8, 1988

THE IMPORTANCE OF INVESTING GLOBALLY IN A SHRINKING WORLD

Why foreign investments? This is a question which wouldn't even have arisen 20 years ago. In 1967, the United States' financial markets represented over two-thirds of the world's equity market capitalization, and the United States was the world's unquestioned financial and industrial leader. By the end of 1987, it represented only 33% of the world's equity market capitalization, and many economists predict that this percentage will continue to shrink.

The world's investable capital markets, excluding cash and real estate, totaled some \$13 trillion at the end of December 1986. The world fixed-income markets amounted to some \$7.4 trillion while the world equity markets totaled \$5.6 trillion. Some statisticians are projecting that by the year 2000, world GNP will be over \$15 trillion, with 75% outside the United States.

With the breakdown of exchange controls and rapid technological advances in communications, the internationalization of the world's financial markets has been proceeding at a rapid pace. To put into perspective the magnitude of these changes, one only has to consider that in 1973 television news in Juneau was delayed at least a day

and all scheduled programs were delayed a week. The tapes had to be flown to Juneau from Seattle, and not infrequently, bad weather delayed their arrival. The only access to current world news and the financial markets was the telephone.

Today, thanks to satellite telecommunications, the Alaska Permanent Fund Corporation has instant access not only to world news but also to the world's financial markets. In our office in Juneau, each of our investment officers has two television monitors on which we are able to obtain Reuters and Telerate financial services. We have instant access to the stock market, the U.S. Government bond market, foreign exchange quotations, commodities, financial futures, worldwide financial news, and trading in U.S. Government bonds in both London and Tokyo as well as New York.

The rapidity with which the world has been shrinking has been truly breathtaking. Worldwide global telecommunications and the integration of the world's financial markets is no longer a dream but well on the way to being an accomplished fact.

During the past 17 years, a period of explosive change, the non-U.S. markets have offered significant investment

opportunities for U.S. investors. Many of the world's fastest growing economies today are located in the Pacific Basin, and investments in this area offer some of the most attractive opportunities currently available.

Opportunities can be seen both in the form of return enhancement and risk reduction. A number of statistical studies have shown definite benefits from foreign investment, both in the level of return and the reduction of risk. It has been demonstrated that the inclusion of foreign investments in a domestic portfolio reduces the volatility (risk) of that portfolio since the world's financial markets do not all move in concert. The degree of benefit demonstrated varies from one study to another depending upon the particular time span used, the countries covered, and the types of investments, but the positive conclusions persist through all of them.

Global investing isn't restricted to only a few companies; it includes most of the world's major industries. The number one oil company in the world is Exxon. Numbers two and three are foreign companies - The Royal Dutch Shell Group and British Petroleum. The two largest food companies are European - Unilever of Dutch and British ownership; and Nestle, a Swiss concern. The number two and three chemical companies in the world behind Dupont are German - Bayer and

Hoechst. And the top four banks are Japanese - Daichi Kangyo, Fuji, Sumitomo, and Mitsubishi. Some of the most significant research for modern wonder drugs is being undertaken by a number of major Swiss and British pharmaceutical companies.

Currently the world is involved in fierce competition to determine which companies will be the winners in the fields of capital goods, consumer electronics, and telecommunications. A large number of the most rapidly growing firms are situated outside the United States, reflecting fast expanding overseas markets and abundant overseas supplies of industrial raw materials and of labor at various skill levels. In some instances, investors can only participate in certain areas of technology by investing in foreign firms.

Over the ten year period ending December 1986, the Standard & Poor's 500 Index managed a very healthy compounded return of 13.7% annually. The Capital International Europe, Australia, Far East Index returned an annual 22.3% for the same period. The next decade may be just the converse with the S&P at 22.3% and EAFE at 13.7%. Even if this is the case, one can be fairly certain that there will be countries, securities, and whole asset classes that will

outperform the U.S. for periods of time during the next decade.

The United States' inability to stand apart from the rest of the world as an independent entity is, above all, the reason to factor international investing into investment plans. In addition, a number of analysts suggest that the prudent man rule and the prudent expert rule require investors with fiduciary responsibilities to look carefully at developments worldwide and to put in place plans for an uncertain future - a future of unpredictable global influence on investments.

We don't know how the U.S. market will compare to foreign markets over the next twenty years. The analysis of international markets should be embraced because it can protect a securities portfolio against unforeseen dangers. Uncertainty about the future should be a compelling force leading investors to diversify as widely as possible.



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PRESS RELEASE

NOTE: Please run this as a
guest editorial or commentary
on your opinion page.

DATE: March 17, 1988

**PERMANENT FUND TRUSTEES SEEK SUPPORT
FOR GLOBAL INVESTING**

COMMENTARY

BY

BYRON I. MALLOTT

CHAIRMAN, BOARD OF TRUSTEES

ALASKA PERMANENT FUND CORPORATION

The Board of Trustees of the Alaska Permanent Fund Corporation is seeking passage this session of legislation which would allow us to invest a small portion of the Permanent Fund in international stocks and bonds. In this endeavor, we ask also for the support of the people of Alaska.

Global investing is not a recommendation we make lightly. As trustees, our primary responsibility has always been to invest your Permanent Fund conservatively in order to keep it safe for the long term. In today's extremely volatile financial markets, we believe the best way to protect the Fund is to diversify it as widely as possible. We also believe that international investments can help us in that effort, and can help us to keep your savings account safe - and growing.

The trustees are aware that a number of citizens may have concerns about investing the Permanent Fund in foreign securities. To those of you who have such concerns, we ask that you recall a similar proposal we made five years ago. At that time, the trustees sought and received legislative approval to begin investing a portion of the Permanent Fund in the U.S. stock market. Then, as now, there were those who opposed the new investment because they feared it would be too risky, or because they favored increased investments in Alaska. But, let's look at the record.

Investing in the stock market has proven to be a sound decision for the Permanent Fund:

- * Stocks have been, since 1982, the Fund's best performing type of investment.

- * Just last year, the capital gains realized by the Fund on the sale of common stock added over \$325 million to the Fund's net income (and \$50 to each Alaskan's 1987 dividend).

- * Notwithstanding the excellent long-term returns offered by stocks, and despite the fact that the law allows up to 50% of the Fund to be invested in stocks, the trustees have been very conservative, and have never allocated more than 25% of total Fund assets to this relatively risky investment class (we are presently at just under 12%).

* Even after the crash of last October, as of the end of February 1988, the Fund's stock portfolio was still worth \$184 million more than cost.

As for increasing investments in Alaska, it is clear that, over time, the amount of the Fund the trustees will be able to invest within Alaska will depend on the amount of diversification of the Fund elsewhere. In other words, the greater the diversification of the total portfolio, the less risk created by increasing investments in-state.

Today, there are two very good, fundamental reasons for supporting global investing for the Permanent Fund: (1) it will reduce the Fund's overall risk; and (2) it will increase the Fund's overall return.

These conclusions derive from our study of a number of statistical reports analyzing the performance of the world's financial markets since 1970. The studies are unanimous that inclusion of foreign investments in U.S.-only portfolios, for any significant period of time in the last 17 years, would have added return and reduced risk. The degree of these benefits varies from one study to another depending upon the particular time period used, the countries covered, and the types of investments, but the positive conclusions persist through all of them.

Let's look at the facts:

* In the last 20 years, the United States' share of the world's total stock market capitalization has shrunk from 67% to 33%, and many economists predict that this percentage will continue to shrink.

* Besides comprising only one-third of the world's total equity market capitalization, the U.S. now represents less than 45% of the world's total fixed-income (bond) market.

* In the last 10 years, the U.S. has had the best performing stock market only once. It has been outperformed nine times out of ten by the equity markets in countries such as Germany, Great Britain, Australia, Hong Kong, Japan and Singapore.

* For the 17-year period, 1970 - 1986, the U.S. stock market earned a compound rate of return of only 8.3% per year compared to 14.2% per year for the combined non-U.S. markets.

* For the same 17-year period, U.S. fixed-income investments earned only 9.4% compared to 12.0% for the combined non-U.S. markets.

* More important than the higher returns, at least from the perspective of the Board of Trustees, was the relatively lower volatility experienced by the global investor during this 17-year period. Of the three types of portfolios -- U.S.-only, non-U.S. only, and combined U.S. and non-U.S. -- the safest (least volatility, least risk) was the global portfolio. This reduction of total portfolio risk is achieved by increasing diversification, and it is the main reason the trustees support global investing.

We don't know how the U.S. financial markets will perform compared to international markets over the next 20 years. The past evidence would indicate that we can earn more income for the Fund if we invest a bit in foreign securities, but the past provides no guarantee for the future. Perhaps the returns will be better in the U.S. in the future. We just don't know.

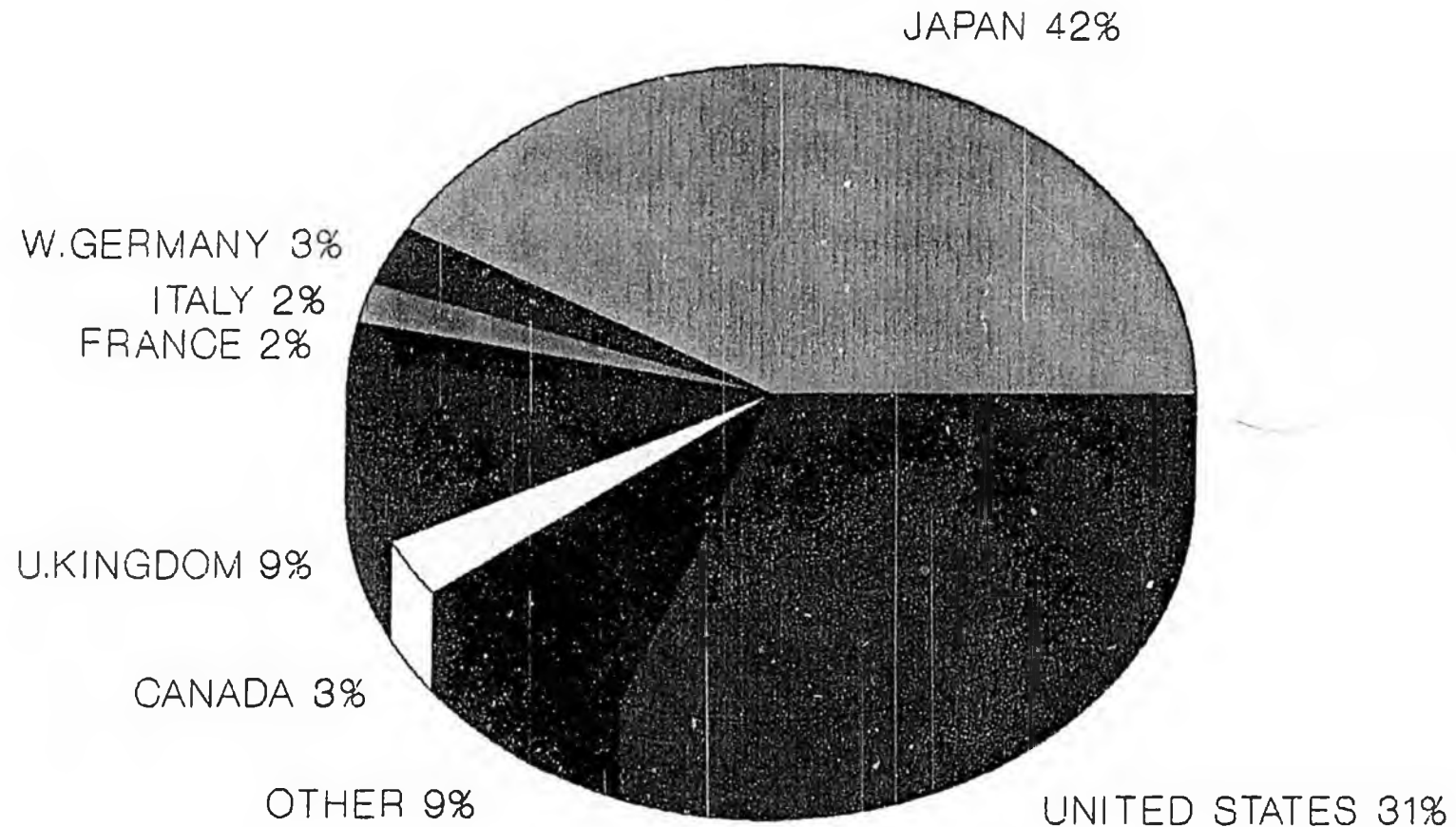
What we do know is that it is a big world out there, and that there are unforeseen dangers. We are all subject, more than ever, to unpredictable global influences on investments. The United States cannot stand apart from the rest of the world as an independent entity, the State of Alaska cannot, and neither can your \$9 billion Permanent Fund.

Prudence dictates that we put in place now well-constructed plans for an uncertain future. Providing for increased diversification through international investments is one sure way to protect the Permanent Fund's and Alaska's future.

Persons interested in receiving additional information on this subject are encouraged to contact our Juneau office. Please write to me or any of the trustees c/o the Alaska Permanent Fund Corporation, P.O. Box 4-1000, Juneau, Alaska 99802. Thank you for your support.

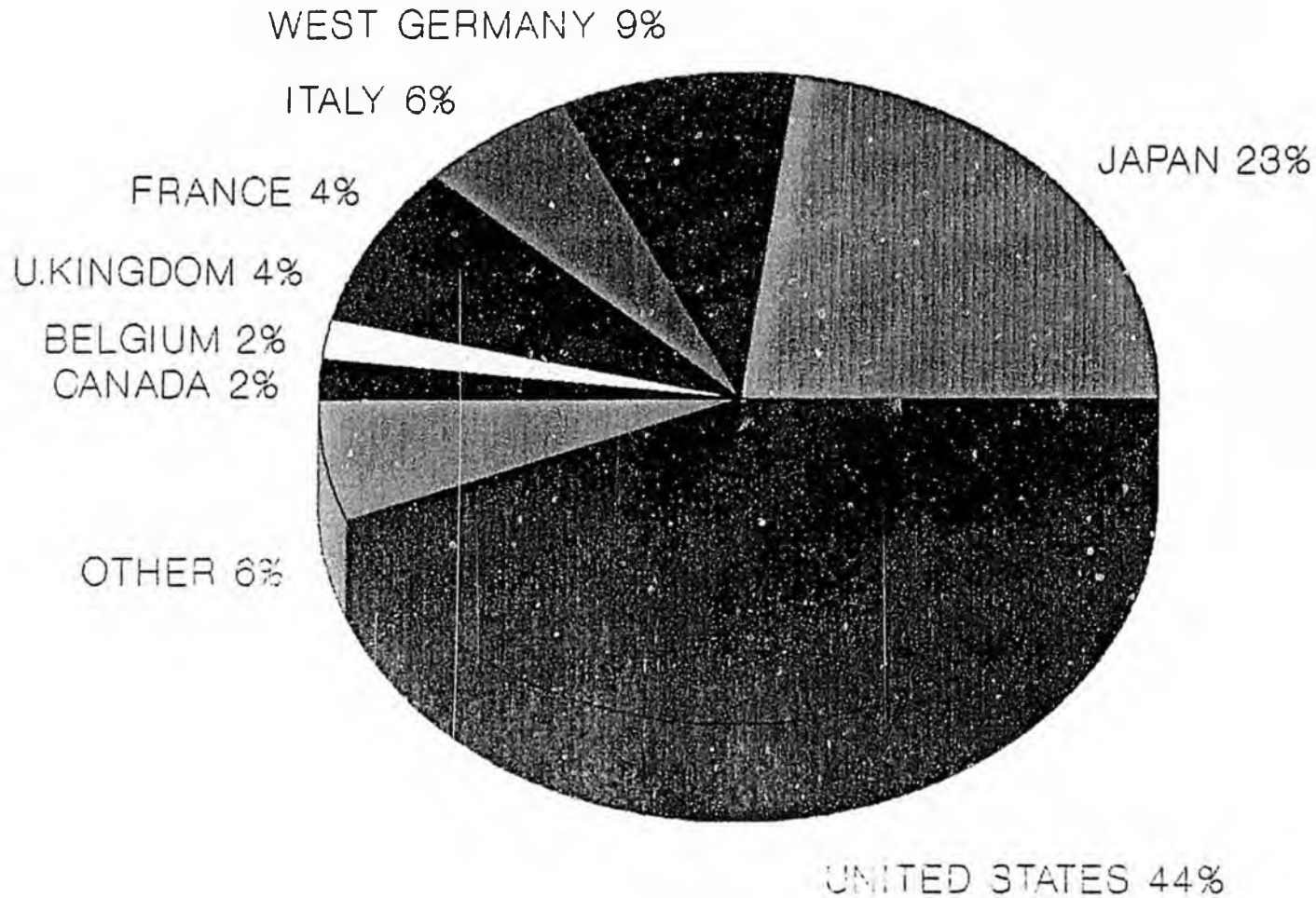
INVESTING IN INTERNATIONAL MARKETS EQUITIES - \$7.1 TRILLION 1987

stocks

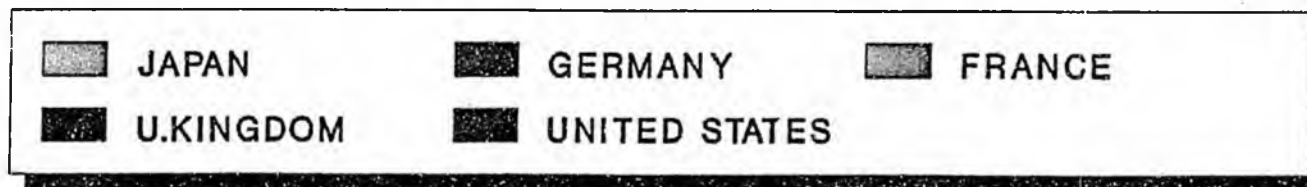
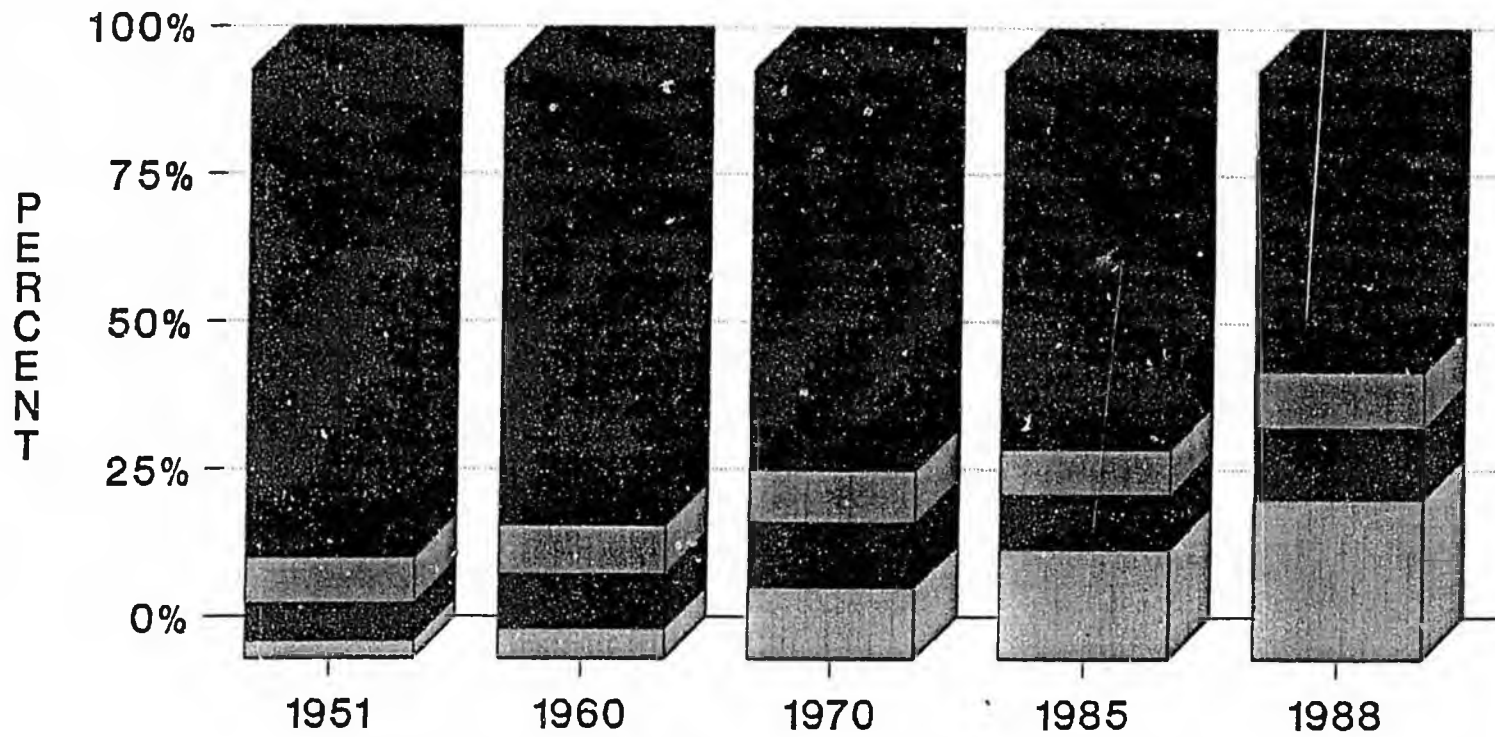


INVESTING IN INTERNATIONAL MARKETS

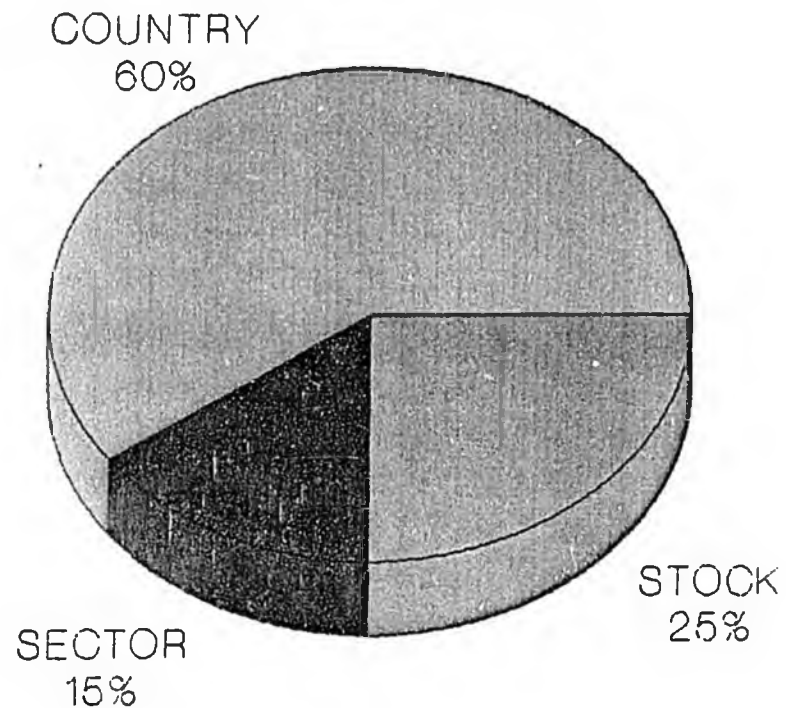
BONDS - \$9.4 TRILLION 1987



GLOBAL GNP



INTERNATIONAL INVESTING RETURN ATTRIBUTION *



* Results of a cross-sectional regression analysis study of 200 randomly created international equity portfolios of 50 stocks each.

TOTAL ANNUAL RETURN (U.S. DOLLARS)

	<u>Germany</u>	<u>Switzer- land</u>	<u>U.K.</u>	<u>Australia</u>	<u>Hong Kong</u>	<u>Japan</u>	<u>Singapore</u>	<u>Canada</u>	<i>USA</i> <u>S&P 500</u>
1977	25.8	28.7	58.0	11.9		15.9	5.9	(2.1)	(7.2)
1978	26.9	21.9	14.6	21.8	18.5	53.3	45.1	20.4	
1979		12.1	22.1	43.6	83.5	11.9	28.5	51.8	18.5
1980		(7.3)	41.1	55.3	72.7	30.3	62.8	22.6	32.4
1981	(8.2)	(9.5)	(10.6)		(15.8)	15.8	18.3	(10.7)	(4.9)
1982	12.3	3.4	9.2	(22.6)		(0.5)	(16.7)	2.4	21.5
1983	25.9	19.3	17.2	56.0		24.9	31.7	33.4	22.4
1984	(3.8)	(11.1)	5.4	(12.6)	46.8	17.1		(7.6)	6.2
1985	140.9	108.9	53.4	21.0	51.6	43.9		16.1	31.7
1986	37.2	34.3	27.1	43.8	56.0	99.7	45.2		18.2
1987		(10.7)	31.6	6.7	(7.2)	42.4	0.8	11.6	5.2
1988	20.6		6.0	36.4	28.1	35.4	33.3	17.1	14.6

BEST PERFORMER

WORST PERFORMER

underlined = foreign

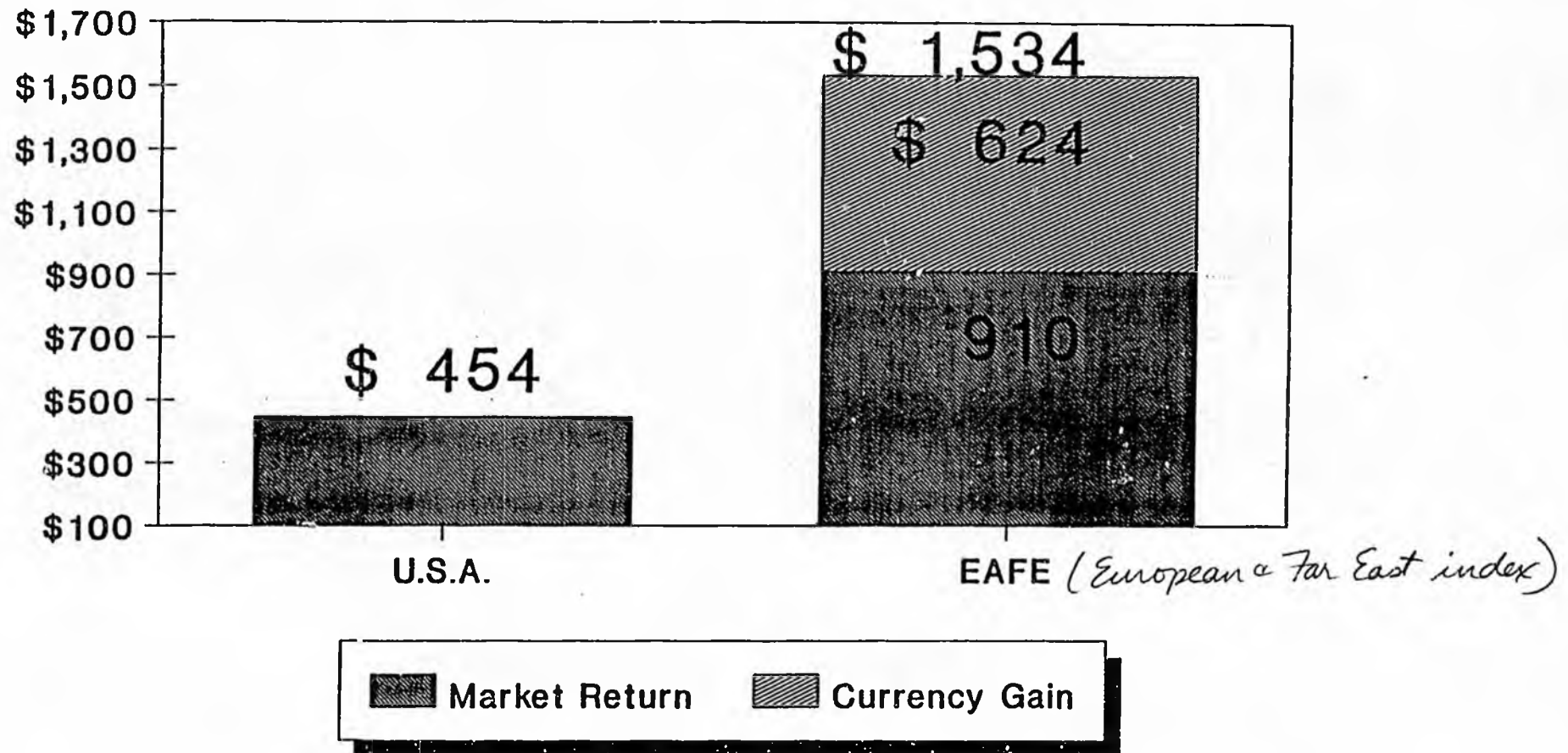
Largest Five Companies by Industry

	<u>Sales (\$MM)</u>		<u>Sales (\$MM)</u>
Automotive		Electrical Equipment	
General Motors	102	<u>Hitachi</u> <i>Japanese</i>	40
Ford	72	General Electric	39
<u>Toyota</u> <i>Japanese</i>	55	<u>Siemens</u> <i>German</i>	33
<u>Daimler-Benz</u> <i>German</i>	42	<u>Toshiba</u> <i>Japanese</i>	27
<u>Nissan</u> <i>Japanese</i>	35	<u>CGE</u> <i>French</i>	24
Banking (Based on Assets)		Food & Household	
<u>Dai-ichi</u>	298	<u>Unilever</u> <i>Swiss</i>	31
<u>Sumitomo</u>	276	<u>Nestle</u> <i>Swiss</i>	28
<u>Fuji</u> <i>all Japanese</i>	268	Procter & Gamble	17
<u>Mitsubishi</u>	242	Kraft	10
<u>Sanwa</u>	240	<u>Dalgerly</u> <i>French</i>	9
Chemicals		Steel	
El duPont	31	<u>Nippon</u> <i>Japanese</i>	19
<u>BASF Group</u> <i>German</i>	26	<u>Thyssen</u> <i>German</i>	17
<u>Bayer Group</u> <i>German</i>	24	USX	15
<u>Imperial Chemical</u> <i>British</i>	20	<u>Nippon Kokan</u> <i>Japanese</i>	10
Dow Chemical	13	<u>Kobe</u> <i>Japanese</i>	9

Source: MSCI

WORLD EQUITY RETURNS

\$100 invested from 1970 through 1988



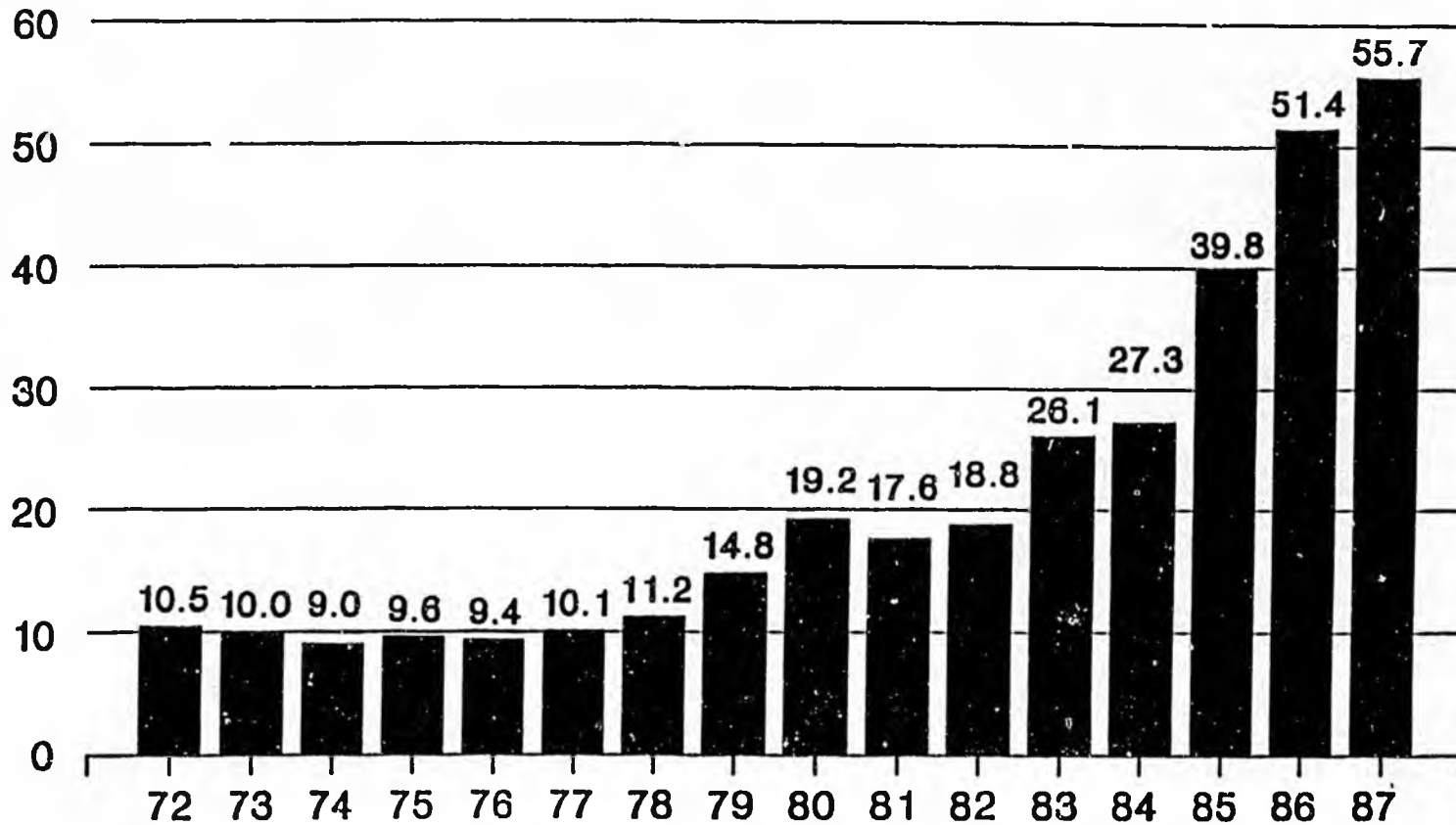
As of 1/1/89 with dividends reinvested

Source: MSCI

U.S. Holdings of Foreign Stock

1972 - 1987
(Year End Data)

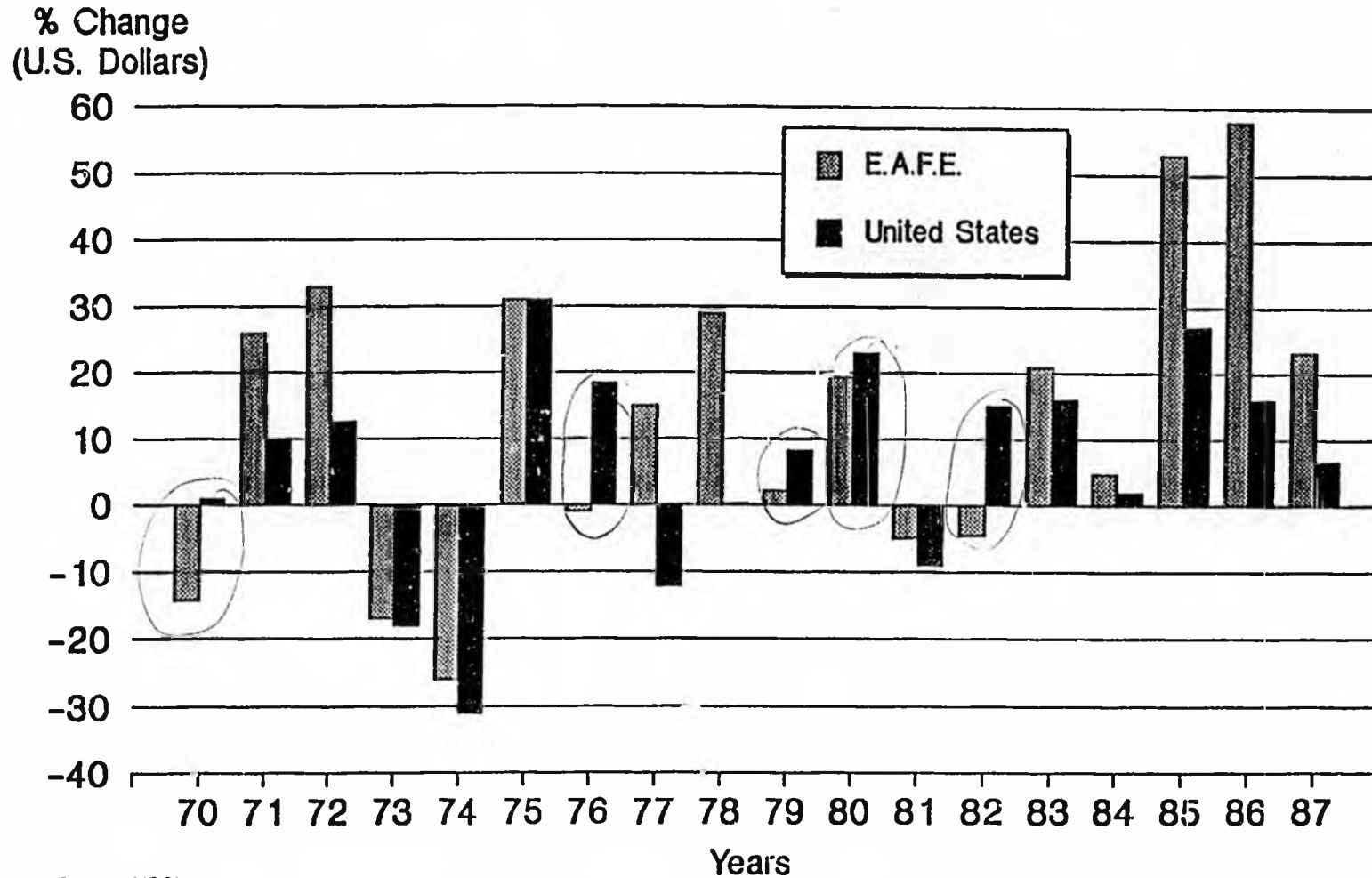
U.S. Holdings
(\$ Billions)



Source: Commerce Dept., Bureau of Economic Analysis

E.A.F.E. vs. United States

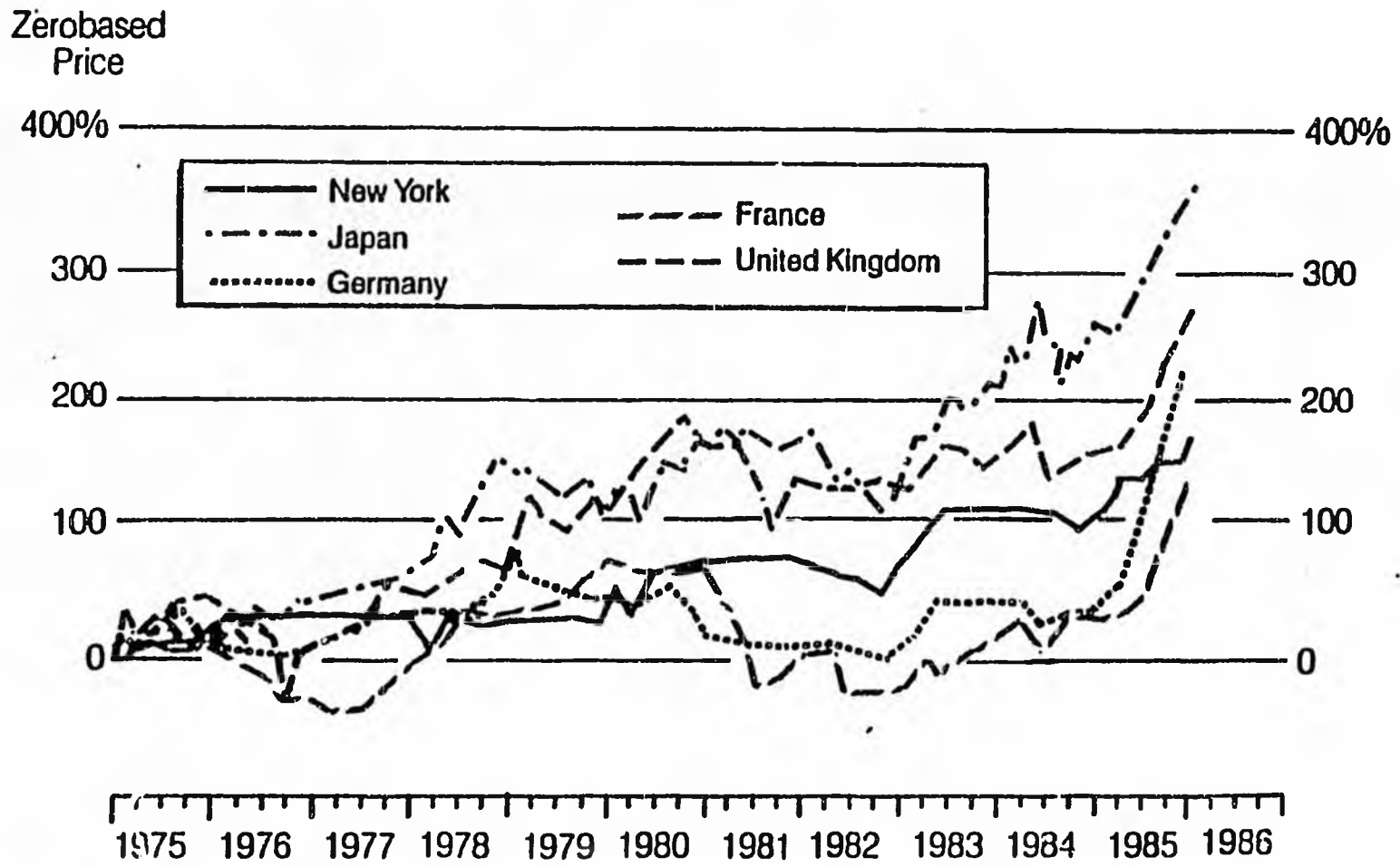
Yearly Percentage Change January 1, 1970 to December 31, 1987



Source: MSCI

World Stock Markets

January 1975–January 1986



Morgan Stanley Capital International Country Indices

**Historical Total Returns of Government Bonds in U.S. Dollars
(in percent)**

Country	1978***	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1978- 1988**	Annualized 1978- 1988**	Standard Deviation of Annual Returns
Australia*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-12.36	17.61	28.69	30.36	72.90	14.67	17.13
Canada	-2.38	-9.63	1.70	-2.41	35.73	9.57	8.80	17.51	17.16	8.57	20.01	179.45	10.92	11.13
France	31.90	0.15	-8.07	-16.07	1.88	-2.81	1.60	52.70	33.93	25.43	3.75	172.84	10.65	20.31
Germany	15.51	7.40	-10.58	-8.42	14.09	-8.06	-1.03	43.36	38.72	28.67	-6.30	152.89	9.81	18.62
Netherlands	7.69	16.24	-5.76	-8.55	15.85	-8.61	-2.61	42.66	36.14	32.01	-6.10	167.82	10.44	18.25
Switzerland	32.19	-0.59	-9.63	-1.65	1.18	-4.82	-14.66	34.36	35.16	32.60	-12.49	102.26	7.36	19.64
United Kingdom	3.83	12.40	28.88	-19.00	26.51	1.04	-13.11	40.59	15.28	47.52	2.96	233.10	12.90	20.06
United States	0.51	1.90	-0.79	3.86	31.33	4.06	14.29	28.48	21.03	-1.37	8.16	173.37	10.67	11.34
Japan	32.70	-21.44	22.88	5.50	3.20	12.55	2.69	37.31	43.57	39.87	4.24	363.49	16.72	19.33
Non-U.S.*	18.74	-4.90	13.68	-4.61	11.88	4.32	-1.96	37.15	33.92	36.17	2.95	260.43	13.80	15.45
World*	9.74	-1.74	7.82	-1.04	20.24	5.73	5.70	32.21	26.47	15.53	5.88	216.27	12.31	10.42

Source: Datastream

* Australian cumulative returns are for 1981 - 1988. World and Non-U.S. returns are weighted by market capitalizations.

** Numbers are calculated from January 1978 - December 1988.

*** 1978 total returns are calculated from January - December 1978, i.e., 11 months. The reported number is not annualized.

foreign
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riskier
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but when
blend
together, risk is
less than either U.S.
or non U.S. (because
of diversification)

//

BASICS OF GLOBAL INVESTING

A pioneer in finding worldwide bargains tells (1) how he reduces risk, (2) why he's a long-term optimist, and (3) what his eight investment principles are.

By John Templeton

PRUDENT INVESTORS HAVE NEVER PUT ALL their eggs in one basket. The difference now is that baskets are accessible all over the world, not only in an investor's own land. We can buy and sell stocks from various countries, traded on various stock exchanges.

Why is this important?

For one thing, it is only common sense that, if you search worldwide rather than in only one nation, you are likely to find more investment

bargains and possibly better bargains.

Even more important, investing worldwide reduces the risk of investing. During one day or one month most of the world's markets may seem to go in the same direction. But, over any period of three or five years, there is obviously a wide disparity in the direction of markets in different countries.

Just as it would not be wise to invest in only one stock or in one industry, so it is not wise to invest in only one nation.

We're back to putting our eggs in more than one basket—also known as diversification.

Diversification is a basic investment principle for reducing risk. This applies to diversification among different stocks, different types of assets, different industries—and also among different nations.

Global investing and asset allocation by an experienced investment counselor provides the ultimate in risk reduction by diversification.

You may suspect me of writing this way because I happen to be an investment counselor—and one who has been sold on global investing for more years than most. Still, when I became an invest-

ment counselor close to half a century ago, I did not foresee the extraordinary events that now give me profound reason to expect a bright long-term future for global investing.

Before noting some of these events, let me acknowledge that this bright future depends on the increasing prosperity of the world. And my firm's studies indicate that the next 30 years are likely to witness a rising rate of progress in almost all areas of life. This future progress may be even more rapid in developing nations than in those nations already prosperous. We expect the standard of living worldwide to quadruple in the next 40 years.

To be sure, there are problems. Every person has problems. Every family and nation has problems. There have always been problems. I have never known how or when or whether each problem would be solved, and some never have been solved.

But to concentrate on the problems could make investors blind to the big picture. On a worldwide basis, there are now *fewer* problems than there were in any one of those almost 50 years since I became an investment counselor. It is hardly an exaggeration to say that, for every problem, the world has had more than ten blessings. Here are a few of them.

When I was born in Tennessee in 1912 the uniform wage of an unskilled man was 10 cents an hour. Now the average North American factory worker earns a hundred times that. Even after adjustment for inflation the increase is more than tenfold.

In my lifetime real consumption per person worldwide—that is, the standard of living in real goods—has more than quadrupled. It's the first time in history that such quadrupling has occurred

Sir John Templeton writes from an experience of close to five decades as an investment counselor, a pioneer in roaming the world for investing opportunities. The dozen mutual funds that bear his name manage \$9 billion for 600,000 shareholders. He is the founder of a business management school, Council Templeton College, at Oxford University. His Templeton Foundation Prizes for Progress in Religion honor people who are doing new and original thinking in religion. Sir John has said, "I regard spiritual progress as more important than progress in all other areas combined."

in the span of a single person's life. Also in my lifetime, to choose but one significant detail, the number of miles of paved highway in North America has increased more than a hundredfold. So has the number of people who own automobiles.

In 1912 North America had no color film...no refrigerators...no radios...no transcontinental telephones...no fluorescent lighting...no traffic lights...no talking pictures...no plastics...no man-made fibers....

Even after the great boom in 1929 there were still no airlines...no Xeroxes...no telefax...no sports broadcasts...no antibiotics...no herbicides...no nylon...no frozen foods...no television...no transistors...no lasers...no genetic engineering...no nuclear energy...no man-made satellites in space....

The people of the world now benefit from using more than a hundred times as much electricity as they did a century ago. Through scientific development enormous improvements have been made in the quality of vegetables and crops and also in the quantity produced on each acre of farmland.

Indeed, 50% of all discoveries in natural science have been made in this century. In North America alone more than \$160 billion was dedicated to research and development last year. That is more in one year than the total expended on scientific research in all the world's history before my lifetime.

Another reason I am optimistic about the future is the steady development in management skills and tools. When I was born there were only two graduate schools of business. Now there are some 600 in the US and about 800 worldwide.

Life expectancy has doubled in the past two centuries in North America and possibly also

worldwide. No longer is humanity terrorized by leprosy, small pox, or a number of other diseases once fatalistically accepted.

The number of people in the world who will enjoy the benefits of pensions when they retire is more than a hundred times what it was a century ago. In the past 20 years a smaller fraction of the world's people have died from starvation than in any previous 20-year period. One person starving is too many. But for the first time in world history there are more people suffering from eating too much than from eating too little.

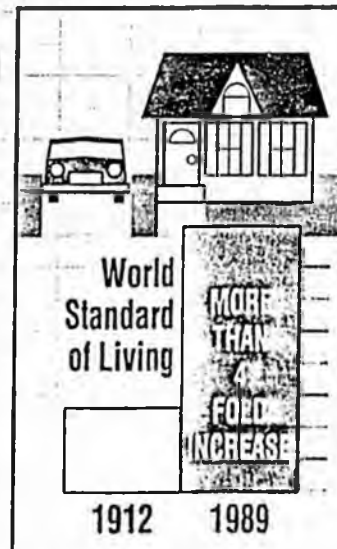
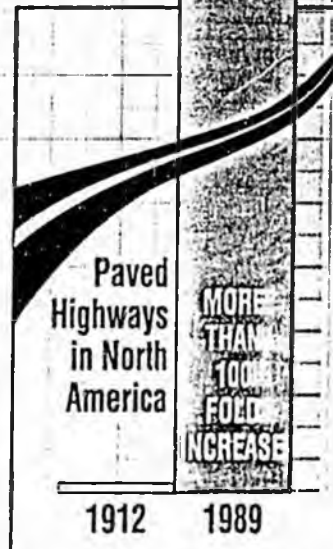
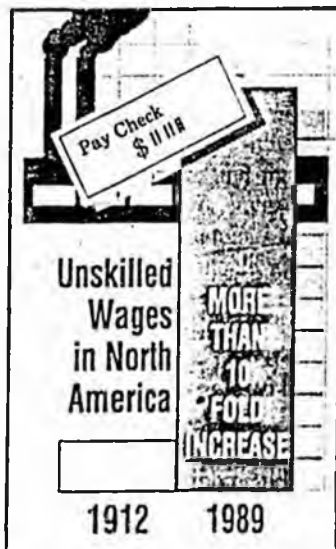
The list could go on. The point is that when I was born no one could imagine the variety of blessings that would come to the world in one lifetime. And now who can imagine the even greater new blessings that may be in store for our children and grandchildren?

It is in this context that I have high expectations for the future of investing in world markets.

Suppose that, as our studies tend to show, the standard of living in North America does quadruple again in 40 years. I hope nobody eats four times as much, but many will be having richness of life in travel, and luxury, and culture that they never dreamed of before—just as we now are enjoying things that our ancestors never dreamed of.

Also, we are likely to continue to have a bad thing: inflation. According to our studies, there probably is not going to be any year of deflation in the next decade. In North America there might be a year of 1% or 2% inflation, but there might also be some years when inflation gets temporarily

All in One Lifetime



For the first time in history the world standard of living has quadrupled in one person's lifetime—as the author notes, along with signs of progress in his own North America.

Graphic by Dave Herring

W

herever you look, an unusually large buying power is chasing a constantly shrinking supply of stocks. This may lead to higher prices in relation to earnings.

near 20%, as it did several years ago. If inflation goes up and down in cycles between 1% and 20%, it may average out to about 7% a year.

That's the same thing as saying that the cost of living will double every ten years—meaning that, in those 40 years while the *standard* of living is rising four times, the *cost* of living could be rising 16 times as high as now. So, in a country where this happens, the gross national product will have to be 64 times as high as it is now.

For the investor the meaning is this: If the gross national product goes up to 64 times where it is now, this rise will be reflected in higher sales volumes of corporations, higher profits, higher dividends—and quite possibly higher share prices.

It is not whistling in the dark to contemplate higher share prices while memories of the crash of October 1987 and the ensuing severe bear market are still fresh. For one of the few things I can assure is that every bear market is going to be followed by a bull market. In every bear market the wise thing for an investor to do is to get invested before the next great bull market gets going or gets very far up.

When will that be?

In my near half century of investment counsel-

ing I have never been able to predict when any bull market or bear market would start or stop. So I try to pursue a safer policy by buying in the latter half of a bear market, and that is what my company started doing on Oct. 20, 1987, after two months of a bear market so great that the amount of wealth that disappeared was 20 times as much as disappeared in the Crash of '29.

We were buying, because our studies indicated that the next bull market might be a big one. The previous bull market tripled the prices of stocks. Its successor might be bigger than that.

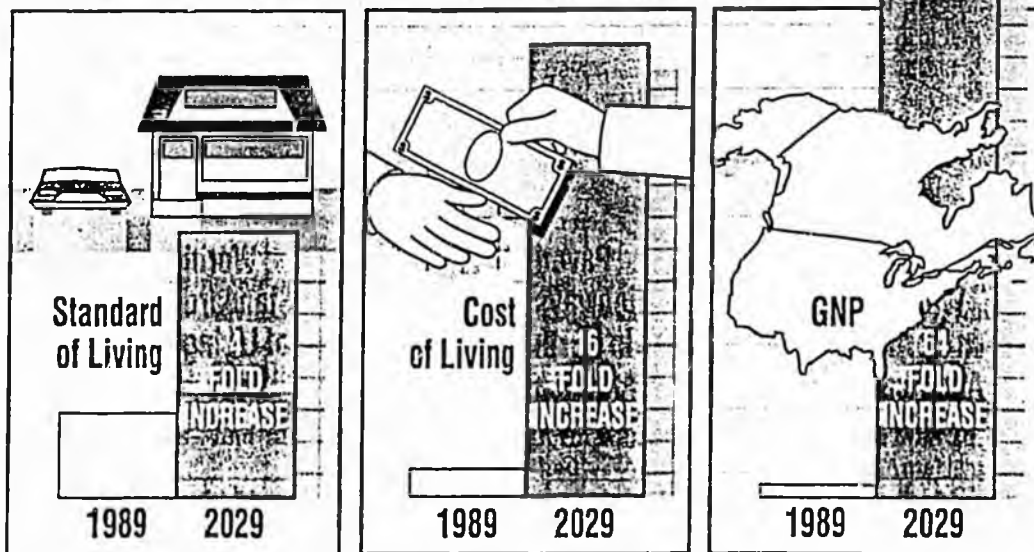
Why?

To speak only of the United States, our studies indicate that American earnings will rise by 40% in the next three years. Thus the new bull market could carry stock prices 40% higher than the last bull market did and still be no higher in relation to earnings.

There is another possible reason for shares to sell higher in relation to earnings: a shortage of shares to buy.

Throughout the history of major nations, every year has seen more shares outstanding than in earlier

If Present Trends Continue



Quadrupling North American standard of living and increasing cost of living by 16 times means GNP would be multiplied by 64. The result would be higher profits, higher dividends—and perhaps higher stock prices.

Graphic by Dave Herring

years, because underwriters kept issuing new shares. Until 1984. Then came the well-known rush of leveraged buyouts, company acquisitions, and the phenomenon of 700 major corporations buying in their own stock. Result: a shrinkage of \$80 billion worth of stocks. A similar shrinkage happened in each successive year. Before the end of last year no less than one-seventh of all the stocks in North America just weren't there anymore.

In a market of supply and demand, the supply of stocks was shrinking for the first time in the history of any major nation.

This circumstance alone wouldn't make share prices go surprisingly high—except for the other side of the equation: the amount of money available for investing.

More cash is available in North America than ever before in all history. The people of North America now have invested in common stocks a lower proportion of their savings than at almost any point in modern times. Only about 23% of the wealth of North America is in common stocks. Pension funds alone have grown to such a size that their total assets are bigger than all the common stocks existing in North America.

At the same time investors abroad are sending more and more money into the United States and Canada, especially from Europe and Japan. This influx is adding to the demand side of the equation, bidding up the prices of stocks in the long run.

Wherever you look, an unusually large buying power is chasing a constantly shrinking supply of stocks. This may lead to higher prices in relation to earnings and carry share prices higher than just the mere increase in earnings would carry them.

For such reasons the first bull market since the Crash of '87 is something not to miss. For long-term investors the outlook is truly amazing—not only because of supply and demand but because of the elements of general world progress mentioned earlier in the article.

To repeat, this progress is happening throughout the world. The headlines in countries such as Mexico, Brazil, and Argentina may still look dismal. But the fact is that in each of these countries the promise is there, and many of the companies there that are ripe for investment are succeeding by surmounting tremendous odds.

I think investors should always be cautious. No one knows when a bear market or a recession in business is going to occur.

But that doesn't keep me from buying common stocks. Suppose I do have to live through a decline of a third from where prices are now. I won't sell out at the bottom. I know that in the long run stocks will be worth more and maybe several times as much as they are now.

Are there secrets in this business of investing? I prefer to call them principles. Here are a few that have served me well:

1 To buy when others are despondently selling and to sell when others are greedily buying

requires the greatest fortitude but pays the greatest reward.

2 To avoid having all your eggs in the wrong basket at the wrong time, every investor should diversify.

3 If you search worldwide you will find more bargains and better bargains than by studying only one country—and also will gain the safety of diversification.



4 If you buy the same securities as other people you will have the same results as other people.

5 Too many investors focus on *outlook* and *trend*; therefore, profit is made by focusing on *value*.

6 The time to sell an asset is when you have found a much better bargain. In the stock market the only way to get a bargain is to buy what most investors are selling.

7 Share prices fluctuate more widely than share values.

8 Achieving a good investment record is a lot harder than most people think.

And one final thought:

We acknowledge corruption and greed, but this is minor if we also recognize the enormous generosity and benevolence that prevails today. As evidence of spiritual progress, Americans alone are giving over 80 billion dollars annually to churches and to charity. This is ten times as much as was given in the entire world in any year before this century.

The laws of love and charity differ from the laws of mathematics. The more we give away, the more we have left. Love hoarded dwindles, but love given grows. If we give all our love, we will have more left than he who saves some. Giving love, not receiving, is important; but when we give with no thought of receiving, we automatically and inescapably receive abundantly.

Allows PF to invest some of its money in foreign securities (not allowed now). Supported by PF Corp. & Administration. Currently, can invest 50% of fund in ^{domestic} stock market - last year proposed allowing addl. 20% to be invested in nondomestic stock market. This year's bill is more conservative - total of 50% in stocks, but either domestic or nondomestic

3818 (Frank)
BY STURGULEWSKI, KELLY, UEHLING, ZHAROFF, PEARCE, RODEY, FRANK, DUNCAN

1 IN THE SENATE
2
3
4

SENATE BILL NO. 27

IN THE LEGISLATURE OF THE STATE OF ALASKA
SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to purchase of international invest-

7 ments by the Alaska permanent fund; and changing

8 certain requirements related to the purchase of

9 domestic investments by the Alaska permanent fund."

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

11 * Section 1. AS 37.13.120(g)(8) is amended to read:

12 (8) domestic corporate debt securities that [WHICH] are

13 rated AA or better by a nationally recognized rating service, or

14 nondomestic corporate debt securities of comparable quality;

15 * Sec. 2. AS 37.13.120(g)(9) is amended to read:

16 (9) short-term

17 (A) domestic corporate promissory notes of the highest

18 ratings assigned by a nationally recognized rating service; or

19 (B) nondomestic corporate promissory notes of com-

20 parable quality, the interest on which may be payable in either

21 United States dollars or nondomestic currencies;

22 * Sec. 3. AS 37.13.120(g)(19) is amended to read:

23 (19) certificates of deposit, term deposits, or bankers'

24 acceptances that [, WHICH] are issued by a United States or nondomes-

25 tic bank or trust company located outside of the United States [IN A

26 FOREIGN COUNTRY] and are denominated in United States or nondomestic

27 currency, if either (A) they may be readily sold in a secondary market

28 at prices reflecting fair value, or (B) the issuing bank or trust

29 company has capital, [AND] surplus, and retained earnings at the date

1 of issue equaling at least \$500,000,000; investments made under this
2 paragraph are not subject to the collateral requirements for domestic
3 certificates under (m) of this section;

4 * Sec. 4. AS 37.13.120(g) is amended by adding new paragraphs to read:

5 (21) securities of nondomestic governments and nondomestic
6 government agencies, the principal of, or interest on, which is pay-
7 able in either United States dollars or nondomestic currencies;

8 (22) securities of nondomestic corporations, including
9 common and preferred stock, whose dividends, if any, may be payable in
10 either United States dollars or nondomestic currencies.

11 * Sec. 5. AS 37.13.120(h) is amended to read:

12 (h) The board may enter into future contracts for the sale of
13 investments purchased under (g) of this section, or for the sale of
14 nondomestic currencies, only for the purpose of hedging an existing
15 equivalent ownership position in these investments [SECURITIES].

16 * Sec. 6. AS 37.13.120(i) is amended to read:

17 (i) [AT THE TIME OF EACH INVESTMENT, THE AGGREGATE INVESTMENT OF
18 THE ALASKA PERMANENT FUND IN EACH STATED CATEGORY OF INVESTMENT MAY
19 NOT EXCEED THE FOLLOWING STATED PERCENTAGE OF THE TOTAL INVESTMENTS OF
20 THE FUND: MORTGAGES UNDER (g)(16) OF THIS SECTION, 15 PERCENT; REAL
21 ESTATE INVESTMENTS UNDER (g)(20) OF THIS SECTION, 15 PERCENT; FOREIGN
22 CERTIFICATES OF DEPOSIT OR THE EQUIVALENT UNDER (g)(19) OF THIS SEC-
23 TION, 20 PERCENT; CORPORATE STOCKS AND DEBT SECURITIES UNDER (g)(8),
24 (9), AND (18) OF THIS SECTION, 50 PERCENT.] The Alaska permanent fund
25 may at no time own more than five percent of the voting stock of a
26 corporation. Domestic stocks, except for bank and insurance company
27 stocks, must be listed at the date of purchase on an exchange regis-
28 tered with the Securities and Exchange Commission. At the time of
29 each investment the aggregate investment of the fund in each stated

1 category of investment may not exceed the following stated percentage
2 of the total investments of the fund:
3 *Same* (1) mortgages under (g)(16) of this section - 15 percent;
4 *Same* (2) real estate investments under (g)(20) of this section -
5 15 percent;
6 *we've added non domestic* (3) certificates of deposit, term deposits, or bankers'
7 acceptances under (g)(19) of this section - 20 percent;
8 (4) ^{stocks} securities of nondomestic governments, nondomestic
9 government agencies, and nondomestic corporations under (g)(8), (21),
10 and (22) of this section, domestic corporate stocks and debt securi-
11 ties under (g)(8) and (18) of this section, and short-term nondomestic
12 corporate promissory notes under (g)(9)(B) of this section - 50 per-
13 cent.

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 69 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to investments for the Alaska perma-
7 nent fund; and providing for an effective date."

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

9 * Section 1. AS 37.13.120(g)(8) is amended to read:

10 (8) domestic corporate debt securities that are rated AA or
11 better by a nationally recognized rating service, or nondomestic
12 corporate debt securities of comparable quality;

13 * Sec. 2. AS 37.13.120(g)(9) is amended to read:

14 (9) short-term

15 (A) domestic corporate promissory notes of the highest
16 ratings assigned by a nationally recognized rating service, or

17 (B) nondomestic corporate promissory notes of compara-
18 ble quality, the interest on which may be payable in either
19 United States dollars or nondomestic currencies;

20 * Sec. 3. AS 37.13.120(g)(19) is amended to read:

21 (19) certificates of deposit, term deposits, or bankers'
22 acceptances, that are issued by a United States or nondomestic bank or
23 trust company located outside of the United States [IN A FOREIGN
24 COUNTRY] and are denominated in United States or nondomestic currency,
25 if either (A) they may be readily sold in a secondary market at prices
26 reflecting fair value, or (B) the issuing bank or trust company has
27 capital, [AND] surplus, and retained earnings at the date of issue
28 equaling at least \$500,000,000; investments made under this paragraph
29 are not subject to the collateral requirements for domestic

1 certificates under (m) of this section;

2 * Sec. 4. AS 37.13.120(g) is amended by adding new paragraphs to read:

3 (21) securities of non-domestic governments and non-domestic
4 government agencies, the principal of, or interest on, which is pay-
5 able in either United States dollars or non-domestic currencies;

6 (22) securities of non-domestic corporations, including
7 common and preferred stock, whose dividends, if any, may be payable in
8 either United States dollars or non-domestic currencies.

9 * Sec. 5. AS 37.13.120(h) is amended to read:

10 (h) The board may enter into future contracts for the sale of
11 investments purchased under (g) of this section, or for the sale of
12 nondomestic currencies, only for the purpose of hedging an existing
13 equivalent ownership position in these investments [SECURITIES].

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18 THE FUND: MORTGAGES UNDER (g)(16) OF THIS SECTION, 15 PERCENT; REAL
19 ESTATE INVESTMENTS UNDER (g)(20) OF THIS SECTION, 15 PERCENT; FOREIGN
20 CERTIFICATES OF DEPOSIT OR THE EQUIVALENT UNDER (g)(19) OF THIS SEC-
21 TION, 20 PERCENT; CORPORATE STOCKS AND DEBT SECURITIES UNDER (g)(8),
22 (9), AND (18) OF THIS SECTION, 50 PERCENT.] The Alaska permanent fund
23 may at no time own more than five percent of the voting stock of a
24 corporation. Domestic stocks, except for bank and insurance company
25 stocks, must be listed at the date of purchase on an exchange regis-
26 tered with the Securities and Exchange Commission. At the time of
27 each investment, the aggregate investment of the fund in each stated
28 category of investment may not exceed the following stated percentage
29 of the total investments of the fund:

- 1 (1) mortgages under (g)(16) of this section - 15 percent;
2 (2) real estate investments under (g)(20) of this section ..
3 15 percent;
4 (3) certificates of deposit, term deposits, or bankers'
5 acceptances under (g)(19) of this section - 20 percent;
6 (4) securities of nondomestic governments, nondomestic
7 government agencies, and nondomestic corporations under (g)(8), (21),
8 and (22) of this section, domestic corporate stocks and debt securi-
9 ties under (g)(8) and (18) of this section, and short-term nondomestic
10 corporate promissory notes under (g)(9)(B) of this section - 50 per-
11 cent.

12 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: An Act relating to purchase of international investments by PFC.
 Sponsor: Senator Sturgulewski
 Requestor: Senator Sturgulewski

Agency Affected: Revenue
 BRU: Permanent Fund Corporation
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	35.0	500.0	500.0	500.0	500.0	500.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	35.0	500.0	500.0	500.0	500.0	500.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	35.0	500.0	500.0	500.0	500.0	500.0
TOTAL	35.0	500.0	500.0	500.0	500.0	500.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

FY 89: Contractual services for manager search and associated costs.
 FY 90 - FY 94: Management fees.

Prepared by: Alaska Permanent Fund Corporation Phone: 465-2047
 Division: _____ Date: February 13, 1989
 Approved by Commissioner: David A. Rose, Executive Director Date: February 13, 1989
 Agency: Alaska Permanent Fund Corporation

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

SB 27 PURCHASE OF INTERNATIONAL INVESTMENTS BY THE ALASKA
PERMANENT FUND

TO TESTIFY:

SENATOR STURGULEWSKI, SPONSOR (FRANK HOHMAN)

JOHN KELSEY, PERMANENT FUND TRUSTEE

DAVE ROSE, EXECUTIVE DIRECTOR, PERMANENT FUND CORP.

DR. GARY ANDERS, UNIVERSITY OF ALASKA SOUTHEAST

OTHERS (SEE WITNESS LIST)

F.Y.I.

// HOUSE VERSION OF BILL HAS IMMEDIATE EFFECTIVE DATE; OURS HAS
NONE. DOES IT MATTER?

SEN. FAIKS OPPOSED LAST YEAR; SHE IS ON THE RECORD IN SUPPORT
THIS YEAR. OTHER OPPOSITION CAME FROM THOSE WHO CONSIDERED THE
CONCEPT "ANTI-AMERICAN".

BILL PASSED HOUSE LAST YEAR 34-5 (3/21/88).

// FISCAL NOTE IS LARGE -- \$500,000 ANNUALLY ONCE THINGS GET GOING.
WHY SO MUCH?

P.E.R.S. AND T.R.S. BOTH CURRENTLY INVEST IN FOREIGN MARKETS.

ALTHOUGH CURRENT STATUTE ALLOWS INVESTMENT OF UP TO 50% OF THE
FUND PORTFOLIO IN STOCKS, AS OF 2/88 ONLY 12% WAS SO INVESTED.

LAST YEAR YOU ASKED WHAT EFFECT FOREIGN INVESTMENT WOULD HAVE ON
THE FUND. DAVE ROSE WILL BRING A CHART SHOWING THE GROWTH OF
\$100 FROM 1970-1988 UNDER CURRENT LAW AS OPPOSED TO UNDER SB 27.

JIM KELLY IS GONE UNTIL 2/21/89 -- ??

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 2-9-89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER FINANCE

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 2-13-89

1/9/89

Mr. President:

STATE AFFAIRS

Committee considered SB 27

purchase of international investments by the Alaska permanent fund;
and changing certain requirements related to the purchase of domestic
investments by the Alasak permanent fund

and recommended:

replace with CS SB 27 (ST AFF) same title
 new title

attached amendment(s) and

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero

appropriation no FN attached

fiscal impact

Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Jan Fuchs
Tom Kelly
Paul Kelly (DO PASS)

Al Adams - No Rec.

Chairman signature and recommendation

Committee backup attached

ALASKA STATE LEGISLATURE

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman

Sen. Al Adams

Sen. Tim Kelly

Sen. Rick Uehling



P.O. Box V
Juneau, AK 99811

907-465-3712

Senate State Affairs Committee

February 21, 1989

Jerry McCutcheon
121 West 11th
Anchorage, Alaska 99501

Dear Jerry:

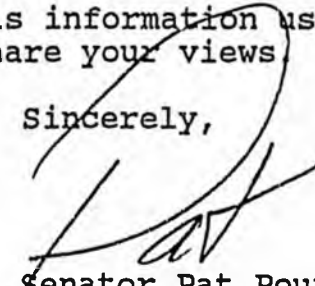
I have received your message regarding foreign investment of the Permanent Fund. As you may know, bills to allow a portion of the Fund to be invested in nondomestic stocks and bonds were introduced in both the House and the Senate this year. HB 69, sponsored by the Governor, passed the House yesterday and is currently under consideration by the Senate Finance Committee.

I think there were several of us whose initial response to foreign investment was one of concern. However, as the facts were presented it became clear that such investment would reduce the Fund's overall risk and enhance the Fund's overall performance, which of course have been the two guiding principles in management of the Fund since its inception.

I have enclosed for your information a series of charts prepared by the Permanent Fund Corporation which highlight the reasons for their support of HB 69. You'll note that in many years foreign investments have outperformed U.S. investments and that U.S. dominance in world financial markets has steadily decreased in recent years.

Jerry, I hope you find this information useful. Thanks again for taking the time to share your views.

Sincerely,


Senator Pat Pourchot
Chairman

PP/ss

PUBLIC OPINION MESSAGE

D-12
SA

RECEIVED FEB 15 1989

DEAR: SENATOR POURCHOT

NAME: JERRY MCCUTCHEON
TITLE:
ADDRESS: 121 W. 11TH
CITY: ANCHORAGE
PHONE: 277-3076

ZIP: 99501

BILL NO:
SUBJECT: PERMANENT FUND FOREIGN INVESTMENTS
MESSAGE: HOW IS THE PF GOING TO DO WELL IN FOREIGN MARKETS WHEN THE FUND HAS DONE POORLY IN U.S. INVESTMENTS IN ONE OF OUR BIGGEST AND LONGEST BULL MARKET? THE U.S. STOCK MARKET PRICE/EARNINGS RUN FROM 10 TO 40 WHILE THE FOREIGN MARKETS RUN FROM 50 TO 200. THERE IS NO EARNING CAPACITY BEHIND THE SECURITIES THEY OPERATE ON THE THEORY OF THE GREATER FOOL WHICH MEANS WE HOPE THERE IS SOME FOOL GREATER THAN US WHICH WILL BUY SECURITIES AT A GREATER PRICE.

POMID: 03112417
DATE: 02/15/89
TIME: 11:24:17
LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

- | | | |
|-------------|-------------|--------------|
| BARNES | BOUCHER | ADAMS |
| BOYER | BROWN | BINKLEY |
| CATO | COLLINS | COGHILL |
| COTTEN | DAVIDSON | DUNCAN |
| DAVIS, C. | DAVIS, M. | ELIASON |
| DONLEY | ELLIS | FAHRENKAMP |
| FOSTER | FURNACE | FAIKS |
| GOLL | GRUENBERG | FISCHER |
| GRUSSENDORF | HANLEY | FRANK |
| HOFFMAN | HUDSON | HALFORD |
| JACKO | KOPONEN | JONES |
| LARSON | LEMAN | KELLY |
| MACLEAN | MARTIN | KERTTULA |
| MENARD | MILLER | PEARCE |
| NAVARRÉ | PETTYJOHN | RODEY |
| PHILLIPS | RIEGER | STURGULEWSKI |
| SHARP | SHULTZ | SZYMANSKI |
| SPOHNHOLZ | SWACKHAMMER | UEHLING |
| TAYLOR | ULMER | ZHAROFF |
| WALLIS | ZAWACKI | |

House Bill 69 - identical to Gov's Finance

Fund managers seek worldly diversity

Options are plentiful as state looks to make money with global investments

By HAL BERNTON
Daily News reporter

7-11-89

The Spanish stock market is hot. France's bond market is booming. And in Japan, consumers — embarked on an unparalleled spending binge — have demonstrated a remarkable appetite for luxury toilets.

For the Alaska Permanent Fund, there are no lack of options as it ponders the brave new world of international investment. The legislature has approved the fund's

investing up to \$2 billion — 20 percent of its \$10 billion in assets — in international stocks and bonds. The new law is an effort to help the fund diversify and profit from high-yielding bonds and stocks in some foreign markets.

At a Monday session in Anchorage, fund board members listened to representatives of three international investment companies outline opportunities. The Swiss, British and Japanese money managers flew into town at their own ex-

pense, lured by the opportunity to make themselves known to a permanent fund soon to make major international investments.

The Europeans came armed with charts and graphs that plotted the course of their financial markets.

The Japanese brought statistics too, but also offered a taste of the Orient: a box of bean-paste pastries placed on the coffee table of the Sheraton Anchorage Hotel.

Voters created the permanent

fund in 1978 to save some of the state's oil bonanza. The fund is invested, and its investment profits are used in part to finance the state's annual permanent fund dividend payment to Alaskans.

The Monday "investment workshops" are part of a series that began last spring to help educate board members about international markets. By early next year, the fund plans to begin selecting mon-

Please see Back Page, FUND

FUND: Overseas investments offer new options to permanent fund managers

Continued from Page A-1

ey managers and investing its first dollars abroad.

At least for the short term, the fund expects to invest no more than 4 percent of its money — about \$400 million — in foreign markets, said Dave Rose, the permanent fund's executive director.

At the Monday meeting, the Europeans conceded their markets had not matched the spectacular booms of the Japanese markets. But they said their markets had still managed to consistently outperform U.S. markets.

During the last five years, U.S. stocks averaged a 15 percent annual rate of return, according to

Michael Bullock, an investment official with London-based Morgan Grenfell. European stocks averaged a 26.7 percent rate of return, he said.

In Europe, many of the hottest growth stocks can be found in Spain and Portugal, Bullock said, which may be a prime benefactor of the European Economic Community's push to remove many internal and trade barriers by 1992.

The two southern European nations have the common market's lowest-paid labor force, and that may prompt a wave of an investment by the industrial giants of northern Europe, he said.

"Spain and Portugal are like the U.S. Sunbelt, 10 years ago," Bullock said. "There will be a big shift

of industrial production from the northern heartland of industrial Europe to the south."

Bullock said Kuwait — an oil-rich Arab nation — is actively investing in Spain.

But after the presentation, Rose didn't sound like a man sold on Spain. He said Spanish financial markets weren't easy for foreign investors to penetrate, and it was difficult to buy and sell Spanish companies.

Grenfell's money managers were also bullish on European bond markets, which they said have consistently outperformed U.S. bond markets.

After adjusting for inflation, the U.S. bond market averaged a 2.8 percent rate of return during the

past 10 years, said Ian Kelson, another Morgan Grenfell official. Meanwhile, most bonds of Common Market nations yielded an inflation-adjusted return of at least 4 percent. The top performer was the Netherlands, Grenfell said, with a 6 percent after-inflation rate of return.

Most European bonds are issued by governments, and rated as AAA by an international bond rating association, Kelson said.

Despite the good returns, international investment in some European nations has been hampered by restrictions on the size of bond purchases and problems in the mechanics of buying and selling those bonds. But in France, a major hub of bond activity, a wave

of recent reforms has made bond trading much easier, Kelson said.

Four Japanese investment executives from Nikko International Capital Management Company Ltd. told the board the Japanese stock market has returned a spectacular 42.4 percent annual return on investment, according to Morgan Grenfell statistics.

And Nikko officials expected the Japanese markets to remain strong through the year 2000. They expect the boom will be sustained by a strong surge of consumer spending as Japanese seek to improve their standard of living.

Since 1985, for example, sales of luxury toilets have nearly doubled, according to one Nikko graph.

Expert touts overseas investment

Permanent fund would be safer, more profitable

By KIRK McALLISTER
THE JUNEAU EMPIRE

It's time for the Alaska Permanent Fund to go worldwide, according to an investment counselor, who has been advising fund managers since the state's oil wealth trust fund was created 12 years ago.

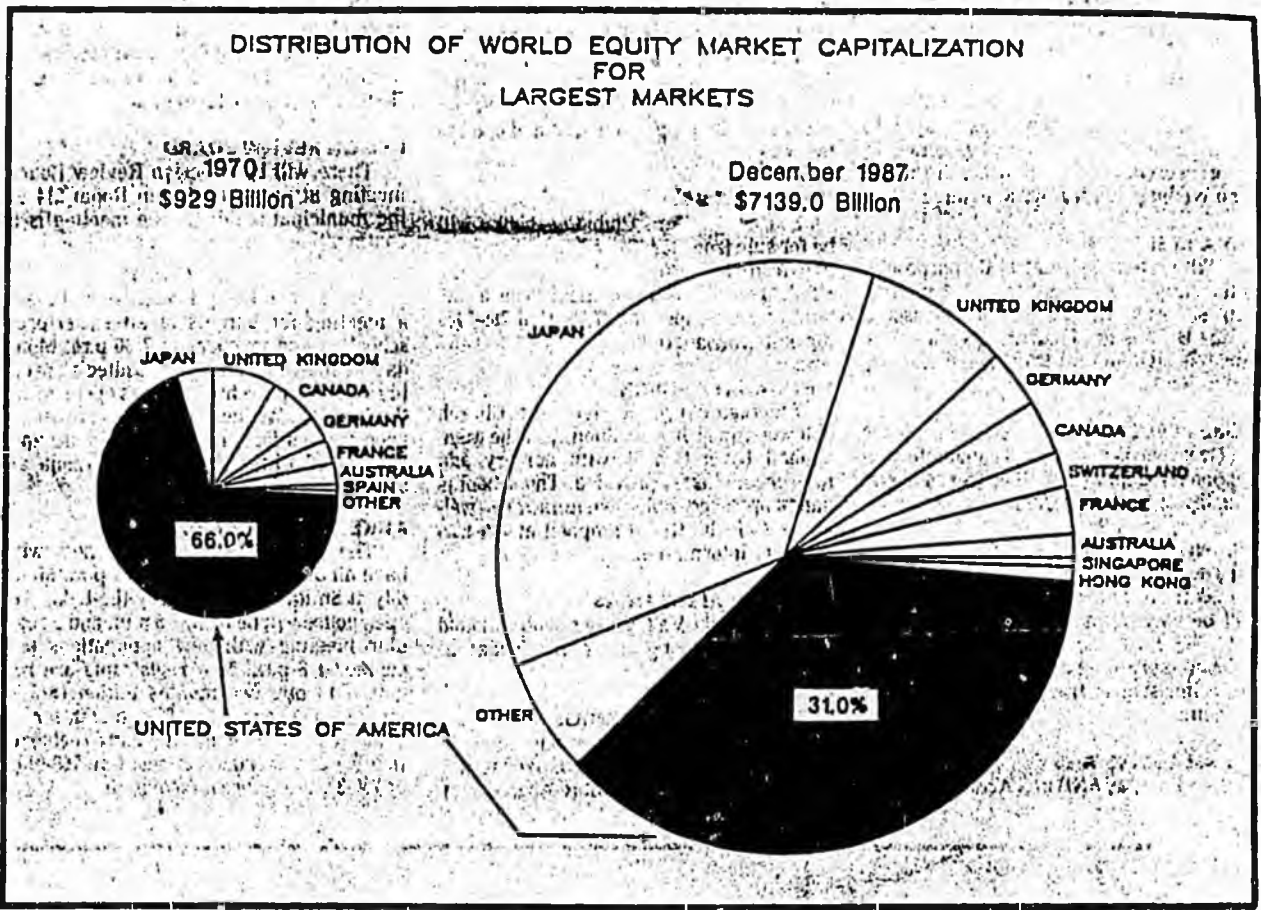
Bob Greeley, a California-based investment adviser, was in Juneau today to talk with Department of Revenue officials, Gov. Steve Cowper and some of the board of trustees of the permanent fund.

Greeley's recommendation is that it's time that up to 10 percent of the \$9.5 billion fund be invested in overseas stocks and bonds. The board of trustees sought that authority (up to 20 percent of the fund) from the legislature last session, but the attempt was killed in the Senate.

With the easing of trade barriers, emergence of worldwide markets and the declining dominance of the United States on the international financial scene, it only makes sense that a portion of the permanent fund be invested overseas, he said.

Greeley said if the permanent fund's investment objective remains getting the greatest amount of return for the least amount of risk, then overseas investing should be considered.

"I would recommend they start slowly (with international investing) make sure it works then proceed," Greeley said. "It's not automatic. Money must be worried about or it will end up with someone else."



Currently, the majority of the permanent fund is invested in U.S. government bonds, a safe but not highly profitable investment. Stocks or equities offer a higher rate of return, but are a bit riskier. Additionally, the United States has lost its dominance in the world's financial markets.

In 1970, the United States controlled two-thirds of the world equity market; now it is just one-third. Given that new reality, an investment

portfolio needs to have overseas investments if it is to be truly diversified, Greeley said.

"Adding international investing adds stability and gives a higher rate of return," Greeley said.

There are some in the state who say the permanent fund should all be invested in Alaska much less overseas so Greeley knows he has a hard sell convincing people it's a good idea to invest abroad.

Newly elected chairman of the

board of trustees, Oral Freeman is one of those who is unconvinced. But, Greeley said, the more he (Freeman) listens the more he is considering the idea.

Greeley has extensive experience in overseas investing and oil wealth. He did several assignments for the government of Saudi Arabia where nearly 80 percent of the money was invested outside the country. He is currently manager of corporate investments for Hewlett-Packard.

Business

Laffer likes foreign investment

By RAY TYSON
Times Business Editor

The state ought to invest some of the \$9.6 billion Alaska Permanent Fund in foreign stock markets because they've outperformed the U.S. market for most of the past 17 years, recommends an economic advisor to President Ronald Reagan.

In a study commissioned by Senate President Jan Faiks, R-Anchorage, economist Arthur Laffer also said the legislature should dedicate a portion of the earnings from foreign stocks to "public goods" in Alaska, such as roads, airports, docks and harbors.

Laffer examined stock markets in Aus-

tralia, Belgium, Canada, France, West Germany, Netherlands, Italy, Japan, Singapore, South Africa, Sweden, Switzerland, and the United Kingdom.

He found that many foreign stocks did better than U.S. stocks in all but three years between 1971 and November 1988.

If \$100 million had been invested in domestic stocks in 1971, Laffer calculated, it would have grown to \$221 million by 1988. But if the sum had been invested in foreign stocks, he said, it could have grown to \$520 million during the same period.

"The cumulative returns of the aggressive portfolio strategy are clearly superior to a fully invested strategy that

chooses only the domestic stock market," Laffer said.

A bill that would have allowed the Alaska Permanent Fund Corp. to invest in foreign stock markets passed the House last session, but died at the hands of Faiks and the Republican-controlled Senate.

Faiks said she changed her mind this week after reviewing a draft of Laffer's report, a study Faiks said she commissioned for \$2,500 to learn more about investing in foreign stock markets.

"I was pleasantly surprised that the commissioner of revenue was correct, and the type of financial gains that could be made over the long term," she said.

However, Faiks said she would like to see earnings from foreign stocks used to pay for "infrastructure" projects in Alaska.

"If foreign investments are good and generate income, I want some plan to give the people of Alaska to vote on, so that the revenues would go to some sort of investment fund," she said.

"I think they have made some good points, but I think we should start a discussion on the use of those earnings."

Faiks wants a constitutional amendment placed on the ballot spelling out how all earnings from the fund should be used.

See Economy, page D-7

Economy

Continued from page D-1

She favors the so-called 40-30-30 plan, which would put 40 percent of the fund's earnings into dividends, 30 percent into inflation proofing the fund, and 30 percent into a reserve account that could be tapped by the legislature.

The fund's entire stock portfolio, about 12 percent of the fund, is currently invested in the U.S. stock market.

Earlier this week, the managers of the fund decided not to re-enter the U.S. stock market because the market has not returned to levels prior to the market crash in October 1987.

Most of the fund's \$9.6 billion is invested in fixed-income securities. It is expected to hit the \$10 billion market by March.

The clinic also performs laser surgery, checks for cervical cancer, and does fertility work-ups. The work-ups are to find out why some women can't have babies, Hinton said. Anti-abortion leaders said, however, that the number of

abortions performed by the clinic is much higher. Throughout the chilly morning, protest leader Robert Bird, wearing an arm band with the initials for what the group called the Alaska Rescue Project, led the demonstrators in

steps of the bus. They were frisked before being told to take a seat. Two of the protesters were children and were put aboard the bus with the adults.

Please see E-3, ABORTION

Rick Nerland, AOC secretary general, said private funding would be the first avenue. "If it were impossible to do that, then we'd look at the alternatives."

But Nerland and Swalling said they can't predict funding until they know what they have to build.

Please see Page E-3, OLYMPICS

Daily News 2/14/89

House about ELF

The bill before the Resources Committee would raise taxes on the state's largest fields at Prudhoe Bay and Kuparuk, and would offer a larger tax break for smaller fields.

The result would be millions of dollars more each year for the state treasury.

ELF never was intended to provide such a huge tax savings for Prudhoe Bay during its profitable years, Cowper said. Oil companies deny that ELF gives them unfair tax savings at Prudhoe Bay.

The committee spent two days last week listening to Cowper administration officials testify in support of changing ELF, and then the oil industry had its turn at the table Saturday and spoke against the bill.

Monday's hearing was devoted to public testimony, and another public hearing is planned for Wednesday, said Rep. Cliff Davidson, D-Kodiak and co-chairman of the committee.

Juneau fisherman and teacher Alan Stein said the social ills caused by oil development are high, but taxes are too low.

"The oil industry should pay its fair share of those inflictions and wounds," he said in favor of changing ELF.

The problem is not oil taxes, but "the bloated level of government services and bureaucracy," said Ken Flynn, the owner of an Anchorage advertising agency.

Alaska needs a stable tax policy that does not change with political and fiscal tides, said Martin King of Fairbanks, who owns a trucking company that serves oil fields.

file SB 27

Invest fund overseas, witnesses say

By BRIAN S. AKRE
The Associated Press

JUNEAU — Legislation to permit part of the Alaska Permanent Fund to be invested overseas would improve the fund's earnings and decrease its overall investment risk, supporters testified Monday.

The legislature is considering identical bills that would allow the fund's board of trustees to invest in foreign stocks, bonds, certificates of deposit and short-term corporate and government notes.

The Senate State Affairs Committee approved Senate Bill 27 Monday and referred it to the Finance Committee after hearing about an hour of testimony. No one spoke against the bill.

The companion bill, House Bill 69, was submitted by Gov. Steve Cowper and is pending in the House Finance Committee. "By allowing this investment, the fund would be able to diversify and lower its



Sturgulewski



Rose

overall portfolio risk," said Sen. Arliss Sturgulewski, R-Anchorage, prime sponsor of the Senate bill.

Sturgulewski said the change would give the fund's managers more investment options and allow them to take advantage of strong growth in European and Pacific Rim markets.

Dave Rose, the fund's executive director, cited research showing that foreign investments outperformed U.S. investments in most of the past 17 years.

Rose provided statistics showing a steady decrease in the United States' dominance in world financial markets. He noted that the world's five largest banks are Japanese, and by state law the permanent fund cannot invest in them.

Rose said that if U.S. investments perform poorly one year that loss is likely to be offset by gains in foreign markets.

Similar bills have been introduced in the last three sessions but have not been passed by both chambers.

The permanent fund is a state trust created in 1976 to ensure the state's oil revenues would benefit Alaskans for generations. Dividends based on the fund's earnings are paid annually to the state's residents.

S B

28

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 28

SPONSOR Fischer

BILL TITLE Limit state employee salaries to
Governor's level

DATE REFERRED 1-9-89

HEARING SCHEDULED 3-22-89

FISCAL NOTE PREPARED requested

SPONSOR CONTACTED 3791 Sandy

INTERESTED PARTIES CONTACTED

YES Dave Otto 220 ✓ Dean Gottheimer, DOA

left message Jnu 586-2660, ext. 824
Anch 278-5433

Suzi Tryck, Univ ^{accident}

X Wendy Redman out of state
474-7582
X Brian Rogers
474-7448

NO 265-2461 ✓ Larry Wood, Railroad
Jim Blasingame 265-2414

✓ 264-8228 1:30-2:30 Jan Strandberg, Courts
Stephanie Cole or Art Snowden

264-8230

OTHER

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 3-16-89
IN ACCORDANCE WITH UNIFORM RULE 23

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

FURTHER FINANCE

DATE TURNED INTO OFFICE 3-22-89

1/9/89

Mr. President:

STATE AFFAIRS

Committee considered SB 28

prohibiting salaries for certain employees from exceeding the governor's salary;efd

and recommended:

replace with CS _____ same title

attached amendment(s) and new title

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero
 appropriation no FN attached

fiscal impact
 Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Al Adams
Tim Kelly

Janis needs to be
included in the
excludes that of Adams

[Signature]
Chairman signature and recommendation

Committee backup attached

POSITION PAPER

SB 28

SB 28 would limit basic salaries of all State officers and employees to not more than the basic salary of the Governor.

The bill defines basic salary to include base pay, cost-of-living adjustments, geographic differentials, length-of-service increases (longevity increments), and adjustments in the nature of incentive, performance, and year-end bonuses. Excluded from the definition of basic salary are overtime compensation, shift differentials, hazardous duty pay, travel per diem, or travel allowances.

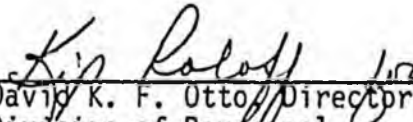
The salary limit proposed by SB 28 would apply to all political subdivisions, other instrumentalities, boards, commissions, and authorities that receive at least 50 percent of their annual budget from the State treasury; grant recipients that receive 50 percent of their annual budget from the State treasury; and the Alaska Railroad Corporation if it receives at least 50 percent of its budget by direct appropriation or grant from the State treasury. Sections 1 through 4 also apply the proposed salary limit to justices of the supreme court, judges of the appeals, superior and district courts.

This bill would have limited impact on the Executive Branch. There are currently 35 employees whose basic salary, as defined by SB 28, exceed the salary of the Governor.

SB 28 would reverse longstanding public policy in this state. Geographic differentials have been a matter of law since at least 1966. Longevity increments have been a matter of law since 1972. This bill would limit each of these when they operate to provide a salary greater than the Governor's salary.


In several specific cases this bill may make it difficult to attract or retain qualified candidates to positions that, in the private sector, receive greater compensation than that offered by the State of Alaska. Examples of these positions are Psychiatrists employed by the Department of Health and Social Services.

A final consideration that should be kept in mind is that the Governor's salary is set on a different basis than those subject to the State's classification and pay plans created under AS 39.250.150(a) and (b). Setting of the Governor's salary is essentially a political decision for a political office. In addition to the salary, the Governor receives housing through the budget for the Executive Mansion. The salary of jobs subject to the classification plan are based on a "fair and reasonable" compensation for services rendered and reflect the principle of like pay for like work expressed in AS 39.25.150(b).



David K. F. Otto, Director
Division of Personnel

03/21/89
Date



Commissioner John M. Andrews
Department of Administration

3/21/89
Date