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SPONSOR SUBSTITUTE FOR SENATE BILL NO. 10
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY SENATOR KERTTULA

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to management and investment of certain state funds; and
2 providing for an effective date."

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

4 * Section 1. AS 37.10 is amended by adding new sections to read:

5 ARTICLE 5. STATE INVESTMENT BOARD.

6 Sec. 37.10.210. STATE INVESTMENT BOARD. (a) There is established in the
7 Department of Revenue the State Investment Board. The purpose of the board is to manage and
8 invest, with the assistance of the Department of Revenue, state funds and revenue.

9 (b) The board consists of nine members. Two of the members shall be elected by the
10 members of the teachers' retirement system. One of the members elected must be an active
11 member of the system and one of the members elected must be receiving a benefit from the
12 system. Nominations may be made by the Teachers' Retirement Board or by petition signed by
13 at least 10 persons eligible to vote in the election. Two members shall be elected by the
14 members of the public employees' retirement system. One of the members elected must be an

1 active member of the system and one of the members elected must be receiving a benefit from
2 the system and a benefit based on contributions to the supplemental benefits system under
3 AS 39.30.150 - 39.30.180. Nominations may be made by the Public Employees' Retirement
4 Board or by petition signed by at least 10 persons eligible to vote in the election. The
5 commissioner of revenue and the commissioner of administration are members of the board. The
6 governor shall appoint three public members of the board. The Teachers' Retirement Board and
7 the Public Employees' Retirement Board shall adopt regulations governing the elections under
8 this subsection.

9 (c) The public members must have recognized competence and wide experience in
10 finance, investments, or other business management-related fields. A public member may not
11 hold another state or federal office, position, or employment, either elective or appointive, except
12 as a member of the armed forces of either the United States or of this state. The members of
13 retirement systems and public members of the investment board shall serve staggered terms of
14 six years and may be reappointed or reelected to the board.

15 (d) The governor may remove a public member of the board from office. A removal by
16 the governor must be in writing and must state the reason for the removal. After a member
17 receives written notice of removal from the governor, the member may not participate in board
18 business and may not be counted for purposes of establishing a quorum.

19 (e) A vacancy on the board shall be promptly filled in the same manner as the seat was
20 originally filled. A person elected or appointed to fill a vacancy holds office for the balance of
21 the unexpired term of the person's predecessor. A vacancy on the board does not impair the
22 authority of a quorum of the board to exercise all the powers and perform all the duties of the
23 board.

24 (f) The board shall annually elect a chair from among its members.

25 (g) Five members of the board constitute a quorum for the transaction of business and
26 the exercise of the powers and duties of the board.

27 (h) A member of the board may receive a per diem allowance and transportation
28 expenses in carrying out the duties set out in this chapter.

29 Sec. 37.10.220. POWERS AND DUTIES OF THE BOARD. (a) The board shall

30 (1) hold regular and special meetings at the call of the chair or of at least five of
31 the members;

1 (2) invest and manage all state funds whose investment and management is not
2 specifically provided for by another law;

3 (3) submit long-range and quarterly investment reports to the Legislative Budget
4 and Audit Committee;

5 (4) report to the governor and the legislature by September 30 of each year
6 concerning the investment of state funds.

7 (b) The board may

8 (1) employ outside investment advisors to review investment policies and make
9 recommendations to the board;

10 (2) establish investment policies for the funds;

11 (3) engage independent certified public accountants to audit the funds for which
12 the board is responsible and to report to the board with the results of the audit;

13 (4) contract with external performance evaluators to review the performance of
14 each fund managed or invested by the board and report to the board and to the other boards
15 directly responsible for the activities supported by the fund on the fund's condition;

16 (5) do all acts necessary, convenient, or desirable to carry out the powers
17 expressly granted or necessarily implied in this chapter.

18 Sec. 37.10.230. CONFLICTS OF INTEREST. (a) Members of the board are subject to
19 the provisions of AS 39.50.

20 (b) If a member of the board or an employee of the board acquires, owns, or controls an
21 interest, direct or indirect, in an entity or project in which assets under the control of the board
22 are invested, the member shall immediately disclose the interest to the board. The disclosure is
23 a matter of public record and shall be included in the minutes of the board meeting next
24 following the disclosure.

25 Sec. 37.10.240. REGULATIONS. The board may adopt regulations under the
26 Administrative Procedure Act (AS 44.62).

27 Sec. 37.10.290. DEFINITION. In AS 37.10.210 - 37.10.290, "board" means the State
28 Investment Board.

29 * Sec. 2. AS 14.25.035(d) is amended to read:

30 (d) The commissioner of administration shall report to the board concerning the condition
31 and administration of the system. The reports shall be distributed to the members of the system.

1 The State Investment Board [COMMISSIONER OF REVENUE] shall provide reports to the
2 board on the condition and investment performance of the teachers' retirement trust fund and an
3 annual external performance review. The review must be complete, understandable, and
4 presented in acceptable format according to industry patterns and customs.

5 * Sec. 3. AS 14.25.040 is amended by adding a new subsection to read:

6 (j) The board shall adopt regulations under AS 37.10.210(b) concerning elections for the
7 State Investment Board. The regulations relate to the internal management of a state agency and
8 their adoption is not subject to the Administrative Procedure Act (AS 44.62).

9 * Sec. 4. AS 14.25.180 is amended to read:

10 Sec. 14.25.180. MANAGEMENT AND INVESTMENT OF FUND. (a) The State
11 Investment Board [COMMISSIONER OF REVENUE] is the [TREASURER OF THE
12 SYSTEM AND THE] fiduciary of the fund. In managing the fund, the State Investment Board
13 [COMMISSIONER OF REVENUE] shall

14 (1) consider the status of the fund's investments and the system's liabilities on
15 both a current and a probable future basis;

16 (2) determine the appropriate investment objectives for the fund;

17 (3) establish investment policies aimed at achieving the objectives; and

18 (4) act only in regard to the best financial interests of the system's beneficiaries.

19 (b) The State Investment Board [COMMISSIONER OF REVENUE] may invest the
20 fund on the basis of probable total rate of return without regard to the distinction between
21 principal and income or to the generation of income.

22 (c) In carrying out investment duties under this chapter, the State Investment Board
23 [COMMISSIONER OF REVENUE] has the same powers and duties in regard to the teacher's
24 retirement trust fund as are provided in AS 37.10.071, except that the standard of prudence that
25 the board [COMMISSIONER] must obey under AS 37.10.071(c) shall be in regard to the
26 management of large trust investments rather than large investments.

27 * Sec. 5. AS 14.40.400(b) is amended to read:

28 (b) The State Investment Board [COMMISSIONER OF REVENUE] is the fiduciary
29 of the trust fund and shall account for and invest the fund as set out in AS 37.14.110(c),
30 37.14.160, and 37.14.170, except that the board [COMMISSIONER] shall report the condition
31 and investment performance of the fund to the Board of Regents.

1 * Sec. 6. AS 14.40.805 is amended to read:

2 Sec. 14.40.805. POWERS AND DUTIES OF THE STATE INVESTMENT BOARD

3 [COMMISSIONER OF REVENUE]. The State Investment Board [COMMISSIONER OF
4 REVENUE] is the trustee of the fund and has the powers and duties under this section to

5 (1) act as official trustee of the cash and investments belonging to the fund and
6 to secure adequate and safe custodial facilities;

7 (2) receive all items of cash and investments belonging to the fund;

8 (3) collect the principal and income from investments acquired by the trustee and
9 deposit the amounts in separate principal and income accounts for the fund;

10 (4) invest and reinvest the assets of the fund as provided in this section and as
11 provided for the investment of retirement funds under AS 14.25.180;

12 (5) exercise the powers of a trustee with respect to the assets of the fund;

13 (6) do all acts, whether or not expressly authorized, that the State Investment
14 Board [COMMISSIONER OF REVENUE] considers necessary or proper in administering, as
15 a trustee, the assets of the fund;

16 (7) maintain accounting records of the fund in accordance with investment
17 accounting principles and with distinction between the principal and income accounts of the fund;

18 (8) engage an independent firm of certified public accountants to annually audit
19 the financial condition of the fund's investments and investment transactions;

20 (9) enter into and enforce contracts or agreements considered necessary for the
21 investment purposes of the fund;

22 (10) report to the university the condition and investment performance of the
23 fund;

24 (11) make payments to the university on behalf of qualified beneficiaries;

25 (12) make refunds upon termination of an advance tuition payment contract; and

26 (13) pay the costs of administration of the fund.

27 * Sec. 7. AS 18.56.095(a) is amended to read:

28 (a) There is a special fund of the state to be known as the "state mortgage insurance
29 fund," referred to in this section as [(CALLED) the "mortgage insurance fund," ()] which shall
30 be completely segregated and set apart from all other funds of the state, and which is a trust fund
31 for the uses and purposes of this section and into and from which money shall be paid as

1 provided in this section. The mortgage insurance fund shall be held by the State Investment
2 Board [COMMISSIONER OF REVENUE], subject to the power of the commissioner of
3 commerce and economic development to enter into and perform agreements with respect to the
4 use of money in the mortgage insurance fund and to pledge, assign, or grant interests in the
5 mortgage insurance fund as provided in this section. The commissioner of commerce and
6 economic development may enter into agreements with the corporation with respect to the
7 exercise of any power or approval relating to the mortgage insurance fund under this section,
8 including, without limitation, agreements as to the use of money in the mortgage insurance fund,
9 agreements with respect to the terms and conditions upon which payments from the mortgage
10 insurance fund shall be made to the corporation with respect to mortgage loans insured under this
11 section, and agreements regarding the payment of and security for mortgage insurance bonds, and
12 in connection with these agreements the commissioner of commerce and economic development
13 may pledge, assign, or grant other interests in the mortgage insurance fund to the corporation as
14 may be necessary or appropriate in connection with the insurance of mortgage loans and to
15 provide for the payment of and security for mortgage insurance bonds. An [ANY SUCH]
16 agreement or [ANY CF] the rights of the corporation under the agreement and payments received
17 or to be received under the agreement may be pledged or assigned by the corporation for the
18 benefit of the holders of mortgage insurance bonds.

19 * Sec. 8. AS 18.56.095(b) is amended to read:

20 (b) In addition to any other fees and charges that the corporation may charge on
21 mortgage loans, it may collect or cause to be collected on all mortgage loans made or purchased
22 with the proceeds of the sale of mortgage insurance bonds, either or both a special mortgage loan
23 insurance commitment fee or a mortgage loan insurance premium. The special mortgage loan
24 insurance commitment fees and special mortgage loan insurance premiums when received shall
25 be deposited in the mortgage insurance fund by the corporation, or by any mortgage loan
26 servicer, trustee, or agent designated by the corporation to receive them, and shall be held,
27 invested and, together with all investment income derived from them, reinvested by the State
28 Investment Board [COMMISSIONER OF REVENUE] as set out in AS 37.10.071, subject to
29 any agreement with the corporation under (a) of this section.

30 * Sec. 9. AS 22.25.048(c) is amended to read:

31 (c) The State Investment Board [COMMISSIONER OF REVENUE] is the

1 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers
2 and duties under this section in regard to the judicial retirement trust fund as are provided in
3 AS 14.25.180.

4 * Sec. 10. AS 26.05.228(c) is amended to read:

5 (c) The State Investment Board [COMMISSIONER OF REVENUE] is the
6 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund and has the same powers
7 and duties under this section in regard to the fund as are provided under AS 14.25.180.

8 * Sec. 11. AS 36.30.850(b) is amended to read:

9 (b) This chapter applies to every expenditure of state money by the state, acting through
10 an agency, under a contract, except that this chapter does not apply to

11 (1) grants;

12 (2) contracts for professional witnesses to provide for professional services or
13 testimony relating to existing or probable lawsuits in which the state is or may become a party;

14 (3) contracts of the University of Alaska where the work is to be performed
15 substantially by students enrolled in the university;

16 (4) contracts for medical doctors and dentists;

17 (5) acquisitions or disposals of real property or interest in real property, except
18 as provided in AS 36.30.080;

19 (6) disposals under AS 38.05;

20 (7) contracts for the preparation of ballots under AS 15.15.030;

21 (8) acquisitions or disposals of property and other contracts relating to airports
22 under AS 02.15.070, 02.15.090, 02.15.091, and AS 44.88;

23 (9) disposals of obsolete property under AS 19.05.060;

24 (10) disposals of obsolete material or equipment under AS 35.20.060;

25 (11) agreements with providers of services under AS 44.47.250; AS 47.07;
26 AS 47.08; AS 47.10; AS 47.17; AS 47.24; AS 47.25.195, and 47.25.310;

27 (12) contracts of the Department of Fish and Game for flights that involve
28 specialized flying and piloting skills and are not point-to-point;

29 (13) purchases of income-producing assets for the state treasury or a public
30 corporation of the state;

31 (14) operation of the state boarding school established under AS 14.16, if the

1 State Board of Education or the commissioner of education adopts regulations for use by the state
2 boarding school in procurement and contracting;

3 (15) a contract that is a delegation, in whole or in part, of investment powers
4 held by the State Investment Board [COMMISSIONER OF REVENUE] under AS 14.25.180,
5 AS 14.40.400, AS 14.42.200, 14.42.210, AS 18.56.095, AS 22.25.048, AS 26.05.228,
6 AS 37.10.070, 37.10.071, AS 37.14, or AS 39.35.080;

7 (16) a contract that is a delegation, in whole or in part, of investment powers
8 of the Board of Trustees of the Alaska Permanent Fund Corporation under AS 37.13;

9 (17) the purchase of books, book binding services, newspapers, periodicals,
10 audio-visual materials, network information services access, approval plans, professional
11 memberships, archival materials, objects of art, and items for museum or archival acquisition
12 having cultural, historical, or archaeological significance; in this paragraph

13 (A) "approval plans" means book selection services in which current book
14 titles meeting an agency's customized specifications are provided to the agency subject
15 to the right of the agency to return those books that do not meet with the agency's
16 approval;

17 (B) "archival materials" means the noncurrent records of an agency that
18 are preserved after appraisal because of their value;

19 (C) "audio-visual materials" means nonbook prerecorded materials,
20 including records, tapes, slides, transparencies, films, filmstrips, cassettes, videos, compact
21 discs, laser discs, and items that require the use of equipment to render them usable;

22 (D) "network information services" means a group of resources from
23 which cataloging information, holdings records, inter-library loans, acquisitions
24 information, and other reference resources can be obtained;

25 (18) contracts for the purchase of standardized examinations for licensure under
26 AS 08;

27 (19) contracts for home health care and adult residential and foster care services
28 provided under regulations adopted by the Department of Health and Social Services;

29 (20) contracts for supplies or services for research projects funded by money
30 received from the federal government or private grants;

31 (21) guest speakers or performers for an educational or cultural activity; or

1 (22) contracts of the Alaska Industrial Development and Export Authority for
2 a clean coal technology demonstration project that

3 (A) is attempting to develop a coal-fired electric generation project;

4 (B) uses technology that is capable of commercialization during the
5 1990's; and

6 (C) qualifies for federal financial participation under P.L. 99-190 as
7 amended.

8 * Sec. 12. AS 37.05.540(d) is amended to read:

9 (d) The State Investment Board [DEPARTMENT OF REVENUE] shall manage and
10 invest assets of the budget reserve fund in the manner set out for the management and investment
11 of the assets of the general fund under AS 37.10.070. Income from investment of the budget
12 reserve fund may be appropriated to the fund each year by law.

13 * Sec. 13. AS 37.05.550(a) is amended to read:

14 (a) There is in the general fund the Alaska marine highway system vessel replacement
15 fund. The fund consists of money appropriated to it by the legislature. Money appropriated to
16 the fund does not lapse. The State Investment Board [DEPARTMENT OF REVENUE] shall
17 manage the fund. Interest received on money in the fund shall be accounted for separately and
18 may be appropriated into the fund annually. The legislature may appropriate money from the
19 fund for refurbishment of existing state ferry vessels, acquisition of additional state ferry vessels,
20 or replacement of retired or outmoded state ferry vessels.

21 * Sec. 14. AS 37.10.070 is amended to read:

22 Sec. 37.10.070. INVESTMENT OF RESIDUAL MONEY. (a) The board
23 [COMMISSIONER] shall invest, as set out in AS 37.10.071, the money in the state treasury
24 above an amount sufficient to meet immediate expenditure needs. In managing the invested
25 assets, the board [COMMISSIONER] shall -

26 (1) consider the status of the assets and liabilities on both a current and a probable
27 future basis;

28 (2) determine the appropriate investment objectives;

29 (3) establish investment policies to achieve the objectives; and

30 (4) act only in regard to the best financial interests of the state.

31 (b) The board [COMMISSIONER] may invest on the basis of probable total rate of

1 return without regard to the distinction between principal and income and without regard to the
2 generation of income.

3 (c) In this section, "board" means the State Investment Board ["COMMISSIONER"
4 MEANS THE COMMISSIONER OF REVENUE].

5 * Sec. 15. AS 37.10.071 is amended to read:

6 Sec. 37.10.071. INVESTMENT POWERS AND DUTIES. (a) In making investments
7 under this section, the board [COMMISSIONER OF REVENUE] shall

8 (1) act as official custodian of cash and investments by securing adequate and safe
9 custodial facilities for them;

10 (2) receive all items of cash and investments;

11 (3) collect and deposit the principal of and income from owned or acquired
12 investments;

13 (4) invest and reinvest the assets in accordance with this section;

14 (5) receive and spend appropriations to cover the cost of the exercise of duties
15 under this section;

16 (6) exercise the powers of an owner with respect to the assets;

17 (7) perform all acts, not prohibited by this section, whether or not expressly
18 authorized, that the board [COMMISSIONER] considers necessary or proper in administering
19 the assets;

20 (8) maintain accounting records in accordance with generally accepted
21 [INVESTMENT] accounting principles;

22 (9) engage an independent certified public accountant to conduct an annual audit
23 of the financial condition and investment transactions;

24 (10) enter into and enforce contracts or agreements considered necessary,
25 convenient, or desirable for the investment purposes of this section; and

26 (11) when choosing to acquire or dispose of investments, secure competitive
27 national or international market rates or prices, or the equivalence of those rates or prices in the
28 judgment of the board [COMMISSIONER].

29 (b) Under this section, the board or the board's [COMMISSIONER OR THE
30 COMMISSIONER'S] designee may

31 (1) delegate investment, custodial, or depository authority on a discretionary or

1 nondiscretionary basis to officers or employees of the state or to independent firms, banks, or
2 trust companies, by designation through appointments, contracts, or letters or authority;

3 (2) acquire or dispose of investments either directly, indirectly, or through
4 investment pools or trusts, by competitive or negotiated agreements, contracts, or auctions, in
5 public or private markets;

6 (3) concentrate or diversify investments as the board [COMMISSIONER]
7 considers appropriate to increase the probable total rate of return or to decrease the overall
8 exposure to potentially adverse market value risks;

9 (4) protect the market value or the rate of return of the investments by entering
10 into forward agreements to buy or sell assets at a future date as a hedge against existing held
11 assets or as a precommitment of future cash flows;

12 (5) lend assets, under an agreement and for a fee, against deposited collateral of
13 equivalent market value;

14 (6) borrow assets on a short-term basis, under an agreement and for a fee, against
15 the deposit of collateral consisting of other assets in order to accommodate temporary cash or
16 investment needs;

17 (7) hold investments in bearer or registered form in the name of the state, a fund,
18 or nominees authorized by the board [COMMISSIONER];

19 (8) utilize consultants, advisors, custodians, investment services, and legal counsel
20 for assistance in investment matters on either a continuing or a limited-term basis and with or
21 without compensation;

22 (9) declare records to be confidential and exempt from AS 09.25.110 and
23 09.25.120 if the records contain information that discloses the particulars of the business or the
24 affairs of a private enterprise, investor, borrower, advisor, consultant, counsel, or manager.

25 (c) In exercising investment, custodial, or depository powers or duties under this section,
26 the board [COMMISSIONER] shall exercise the judgment and care under the circumstances then
27 prevailing that an institutional investor of ordinary professional prudence, discretion, and
28 intelligence exercises in managing large investments with consideration for the purpose of the
29 fund, the investment objectives, the continuing disposition of the fund's investments, and the
30 probable safety of the capital as well as the probable investment returns.

31 (d) In exercising investment, custodial, or depository powers or duties under this section,

1 the board or the board's [COMMISSIONER OR A] designee [OF THE COMMISSIONER] is
2 liable for a breach of a duty that is assigned or delegated under this section, or under AS 14.25.-
3 180, AS 14.40.400(b), AS 37.10.070, AS 37.14.110(c), 37.14.160, 37.14.170, or AS 39.35.080.
4 However, the board or the board's [COMMISSIONER OR THE COMMISSIONER'S] designee
5 is not liable for a breach of a duty that has been delegated to another person if the delegation is
6 prudent under the applicable standard of prudence set out in statute or if the duty is assigned by
7 law to another person, except to the extent that the board [COMMISSIONER] or designee

8 (1) knowingly participates [PARTICIPATE] in, or knowingly undertakes to
9 conceal, an act or omission of another person, knowing that the act or omission is a breach of
10 that person's duties under this chapter;

11 (2) by failure to comply with this section in the administration of specific
12 responsibilities, enables another person to commit a breach of duty; or

13 (3) has knowledge of a breach of duty by another person, unless the board
14 [COMMISSIONER] or designee makes reasonable efforts under the circumstances to remedy the
15 breach.

16 (e) The state shall defend and indemnify the board [COMMISSIONER] or an officer or
17 employee of the state against liability under (d) of this section to the extent that the alleged act
18 or omission was performed in good faith and was prudent under the applicable standard of
19 prudence.

20 (f) In this section, "board" ["COMMISSIONER OF REVENUE" OR
21 "COMMISSIONER"] means

22 (1) the State Investment Board [COMMISSIONER OF REVENUE] for
23 investments under AS 14.25.180 or AS 37.10.070; or

24 (2) the person or body provided by law to manage the investments, for
25 investments not subject to AS 14.25.180 or AS 37.10.070.

26 * Sec. 16. AS 37.14.110(c) is amended to read:

27 (c) The State Investment Board [COMMISSIONER OF REVENUE] shall account for
28 the fund in accordance with generally accepted accounting principles and shall determine
29 the net income of the fund [IN ACCORDANCE WITH INVESTMENT ACCOUNTING
30 PRINCIPLES AND] in a manner that preserves the distinction between principal and income and
31 that excludes capital gains or losses realized on principal. The principal of the fund and the

1 capital gains or losses realized on principal shall be perpetually retained in the fund for
2 investment purposes.

3 * Sec. 17. AS 37.14.140 is amended to read:

4 Sec. 37.14.140. UTILIZATION OF INCOME. The net income of the fund may not be
5 appropriated for a purpose other than the support of the state public school program. The State
6 Investment Board [COMMISSIONER OF REVENUE] shall invest realized net income that has
7 not been appropriated or that has been appropriated but not expended until the income is
8 appropriated and expended.

9 * Sec. 18. AS 37.14.160 is amended to read:

10 Sec. 37.14.160. DUTIES OF THE STATE INVESTMENT BOARD [COMMIS-
11 SIONER OF REVENUE]. The State Investment Board [COMMISSIONER OF REVENUE]
12 is the treasurer of the trust fund created in AS 37.14.110 and shall

- 13 (1) exercise the powers and duties established in AS 14.25.180(c);
- 14 (2) deposit the principal and income from investments in separate principal and
15 income accounts for the fund;
- 16 (3) invest and maintain accounting records that distinguish between the principal
17 and income of the fund;
- 18 (4) provide reports to the board established under AS 37.14.120 on the condition
19 and investment performance of the fund.

20 * Sec. 19. AS 37.14.170 is amended to read:

21 Sec. 37.14.170. INVESTMENTS. The State Investment Board [COMMISSIONER OF
22 REVENUE] is the fiduciary of the trust fund and shall invest the fund to provide increasing net
23 income over long-term periods to the fund's income beneficiaries. The board
24 [COMMISSIONER] may invest the money in the fund on the basis of probable total rate of
25 return to promote the long-term generation of income. In managing the trust fund, the board
26 [COMMISSIONER] shall

- 27 (1) consider the status of the fund's capital and the income generated on both a
28 current and a probable future basis;
- 29 (2) determine the appropriate investment objectives;
- 30 (3) establish investment policies to achieve the objectives; and
- 31 (4) act only in regard to the financial interests of the fund's beneficiaries.

1 * Sec. 20. AS 37.14.200(c) is amended to read:

2 (c) The net income of the fund shall be determined by the State Investment Board
3 [COMMISSIONER OF REVENUE] in accordance with generally accepted [INVESTMENT]
4 accounting principles. However, the board shall preserve [AND IN A MANNER THAT
5 PRESERVES] the distinction between principal and income.

6 * Sec. 21. AS 37.14.210 is amended to read:

7 Sec. 37.14.210. POWERS AND DUTIES OF THE STATE INVESTMENT BOARD
8 [COMMISSIONER OF REVENUE]. The State Investment Board [COMMISSIONER OF
9 REVENUE] is the fiduciary [TREASURER] of the fund and has the power and duty to:

10 (1) act as official custodian of the cash and investments belonging to the fund by
11 securing adequate and safe custodial facilities;

12 (2) receive all items of cash and investments belonging to the fund;

13 (3) collect the principal and income from investments owned or acquired by the
14 fund and deposit the amounts in separate principal and income accounts for the fund;

15 (4) invest and reinvest the assets of the fund as provided in this section and as
16 provided for the investment of funds under AS 14.25.180(c) and AS 37.14.170;

17 (5) exercise the powers of an owner with respect to the assets of the fund;

18 (6) maintain accounting records of the fund in accordance with generally
19 accepted [INVESTMENT] accounting principles; however, the board shall preserve the [AND
20 WITH] distinction between the principal and income accounts of the fund;

21 (7) engage an independent firm of certified public accountants to annually audit
22 the financial condition of the fund's investments and investment transactions;

23 (8) enter into and enforce contracts or agreements considered necessary for the
24 investment purposes of the fund;

25 (9) report to the commission the condition and investment performance of the
26 fund;

27 (10) do all acts, whether or not expressly authorized, that the State Investment
28 Board [COMMISSIONER OF REVENUE] considers necessary or proper in administering the
29 assets of the fund.

30 * Sec. 22. AS 39.30.095(d) is amended to read:

31 (d) If the commissioner of administration determines that there is more money in the

1 fund than the amount needed to pay premiums or benefits for the current fiscal year, the surplus,
2 or so much of it as the commissioner of administration considers advisable, may be invested by
3 the State Investment Board [COMMISSIONER OF REVENUE] in the same manner as
4 retirement funds are invested under AS 14.25.180.

5 * Sec. 23. AS 39.30 is amended by adding a new section to read:

6 Sec. 39.30.175. INVESTMENT OF BENEFIT PROGRAM RECEIPTS. The State
7 Investment Board is the fiduciary of the receipts of the employee benefits program established
8 under AS 39.30.150 - 39.30.180 and has the same powers and duties concerning the management
9 and investment in regard to those receipts as are provided under AS 14.25.180.

10 * Sec. 24. AS 39.35.020 is amended to read:

11 Sec. 39.35.020. ADMINISTRATION. The commissioner of administration is responsible
12 for the administration of the system and for carrying out this chapter. In addition the
13 commissioner shall

14 (1) maintain the accounts of the system;

15 (2) make payments for the various purposes specified;

16 (3) submit periodic reports or statements of account that are needed;

17 (4) issue a statement of account to an employee requesting it showing the amount
18 of the employee's contributions to the system;

19 (5) as soon as possible after the close of each fiscal year, and not later than six
20 months after the close of each fiscal year, send to the governor, the legislature, and the board an
21 annual statement on the operations of the system containing

22 (A) a balance sheet;

23 (B) a statement of income and expenditures for the year;

24 (C) a report on an actuarial valuation of its assets and liabilities;

25 (D) a summary of assets held in the pension fund listed by the categories
26 of investment, as provided by the State Investment Board [COMMISSIONER OF
27 REVENUE];

28 (E) other statistical financial data that are necessary for a proper
29 understanding of the financial condition of the system and the result of its operations;

30 (6) establish a public employees retirement trust fund in which the assets of the
31 system shall be deposited and held;

1 (7) engage an independent certified public accountant to conduct an annual audit
2 of the system's accounts and the annual report of the system's financial condition and activity;

3 (8) report to the board concerning the condition and administration of the system
4 and distribute the report to the members of the system.

5 * Sec. 25. AS 39.35.040 is amended to read:

6 Sec. 39.35.040. POWERS AND DUTIES OF BOARD. The Public Employees
7 Retirement Board has the following powers and duties:

8 (1) to hold regular meetings and special meetings considered necessary; all
9 meetings are open to the public and the board keeps a full record of all its proceedings;

10 (2) to adopt, with modifications it considers proper, regulations recommended by
11 the administrator for carrying out this chapter;

12 (3) to consider and adopt resolutions on matters referred to it by the administrator
13 in connection with changes in policy and revisions of this chapter;

14 (4) to act as an appeals board, hold hearings at the request of an employer,
15 employee, surviving spouse or a beneficiary on decisions made by the administrator, and submit
16 its findings to the administrator;

17 (5) to have prepared, at least biennially, an actuarial valuation of the total
18 obligations under the system of each employer and, on the basis of the valuation and in time for
19 incorporation of the results in the state budget, to certify to the appropriate budgetary authorities
20 of each employer:

21 (A) an appropriate contribution rate for all employers; and

22 (B) an amount appropriate for each employer to liquidate the employee's
23 past service liability; the board shall have an actuarial and financial experience analysis
24 of the system conducted at appropriate intervals, but no less frequently than once every
25 six years; the actuarial valuations and the actuarial and financial experience analysis shall
26 be prepared and certified by a member of the American Academy of Actuaries;

27 (6) to prescribe the policies for the proper operation of the system and carry on
28 other activities that are considered necessary to carry out the intent and purpose of the system
29 in accordance with this chapter;

30 (7) to prescribe the rate of interest that shall be credited to the employee accounts
31 each year;

- 1 (8) to waive the requirements of AS 39.35.520 in accordance with AS 39.35.522;
2 (9) to exercise the duties set out in AS 39.30.155 with respect to the supplemental
3 employee benefit program (AS 39.30.150 - 39.30.180);
4 (10) to exercise the duties set out in AS 39.45.025 with respect to the deferred
5 compensation program for state employees;
6 (11) to adopt regulations under AS 37.10.210(b) concerning ons to the
7 State Investment Board; the regulations relate to the internal management of a state agency
8 and their adoption is not subject to the Administrative Procedure Act (AS 44.62).

9 * Sec. 26. AS 39.35.080 is amended to read:

10 Sec. 39.35.080. DUTIES OF THE STATE INVESTMENT BOARD [COMMISSIONER
11 OF REVENUE]. The State Investment Board [COMMISSIONER OF REVENUE] is the
12 [TREASURER OF THE SYSTEM AND THE] fiduciary of the fund. The board
13 [COMMISSIONER] has the same powers and duties established under this chapter in regard to
14 the fund as are provided in AS 14.25.035(d) and 14.25.180.

15 * Sec. 27. AS 39.45.030(a) is amended to read:

16 (a) The State Investment Board [ADMINISTRATOR OF THE STATE OR POLITICAL
17 SUBDIVISION DEFERRED COMPENSATION PROGRAM] is authorized, subject to contracts
18 with individual employees, to invest the funds held under a deferred compensation program in

19 (1) fixed and variable life insurance and annuity contracts or other contracts
20 issued by life insurance companies;

21 (2) shares of or deposits in insured state or federal chartered credit unions in the
22 state;

23 (3) shares of or deposits in insured state or federal chartered savings and loan
24 associations in the state;

25 (4) deposits in insured mutual savings banks in the state;

26 (5) deposits in insured state and national banks in the state; and

27 (6) multi-employer trusts established for investment of deferred compensation
28 assets of state and local governments.

29 * Sec. 28. AS 39.50.200(b) is amended by adding a new paragraph to read:

30 (52) State Investment Board (AS 37.10.210).

31 * Sec. 29. AS 43.23.015(e) is amended to read:

1 (e) If a public agency claims a permanent fund dividend on behalf of an individual, the
2 public agency shall hold the dividend in trust for the individual. Money held in trust under this
3 subsection shall be invested by the State Investment Board under [COMMISSIONER IN
4 ACCORDANCE WITH] AS 37.10.070.

5 * Sec. 30. AS 43.23.045(a) is amended to read:

6 (a) The dividend fund is established as a separate fund in the state treasury. The
7 dividend fund shall be administered by the commissioner and shall be invested by the State
8 Investment Board [COMMISSIONER] in the same manner as provided in AS 37.10.070.

9 * Sec. 31. AS 44.25.020 is amended to read:

10 Sec. 44.25.020. DUTIES OF DEPARTMENT. The Department of Revenue shall

11 (1) enforce the tax laws of the state;

12 (2) collect, account for, and have custody of [, INVEST, AND MANAGE] all
13 state funds and all revenues of the state except revenues incidental to a program of licensing and
14 regulation carried on by another state department;

15 (3) register cattle brands;

16 (4) supply necessary clerical and administrative services for the Alcoholic
17 Beverage Control Board and the State Investment Board; and

18 (5) ~~implement the investment and management policies and directives of the~~
19 State Investment Board [INVEST AND MANAGE THE BALANCE OF THE POWER
20 DEVELOPMENT FUND IN ACCORDANCE WITH AS 44.83.386].

21 * Sec. 32. AS 44.83.386 is amended to read:

22 Sec. 44.83.386. INVESTMENT OF FUND. The State Investment Board
23 [DEPARTMENT OF REVENUE] shall invest the money in the fund in accordance with
24 AS 37.10.070, 37.10.071, and 37.10.075. The board [DEPARTMENT OF REVENUE] shall
25 provide money in the fund to the authority only after costs have been incurred or amounts in the
26 fund have been otherwise obligated under contracts for the acquisition and construction of a
27 project. Amounts that have been obligated, but for which costs have not yet been incurred, may
28 be segregated by the Department of Revenue or transferred to the authority only with the prior
29 approval or agreement of the commissioner of revenue. Income received on money that is
30 segregated or transferred under this section must be deposited in the general fund.

31 * Sec. 33. AS 46.11.050(b) is amended to read:

1 (b) A [AFTER DECEMBER 31, 1980, A] financial institution that makes home mortgage
2 loans with money provided to it by the State Investment Board [COMMISSIONER OF
3 REVENUE] from surplus state general fund investments authorized by AS 37.10.070, or a state
4 agency that [WHICH] makes a direct home mortgage loan to an applicant, shall include
5 estimated heating and lighting costs as determined by an energy audit in standard principal,
6 interest, taxes and insurance calculation of the cost of buying a housing unit. An applicant for
7 a home mortgage loan shall provide the financial institution or the state agency with a copy of
8 an energy audit.

9 * Sec. 34. AS 47.80.200(b) is amended to read:

10 (b) The State Investment Board [COMMISSIONER OF REVENUE] is the custodian
11 of the trust fund in the same manner as provided for the public school trust fund in
12 AS 37.14.160 - 37.14.170, except where the provisions of AS 47.80.200 - 47.80.290 conflict.

13 * Sec. 35. TRANSITION. All litigation, hearings, investigations, and other proceedings pending
14 under a law amended or repealed by this Act, or in connection with functions transferred by this Act,
15 continue in effect and may be continued and completed notwithstanding a transfer, amendment, or repeal
16 provided for in this Act. Orders and regulations issued or adopted under authority of a law amended
17 or repealed by this Act remain in effect for the term issued, or until revoked, vacated, or otherwise mod-
18 ified under the provisions of this Act. All contracts, rights, liabilities, and obligations created by or
19 under a law amended or repealed by this Act, and in effect on the effective date of this Act, remain in
20 effect notwithstanding this Act's taking effect. Records, equipment, and other property of agencies of
21 the state whose functions are transferred under this Act shall be transferred commensurate with the
22 provisions of this Act.

23 * Sec. 36. (a) Notwithstanding AS 37.10.210(c), enacted by sec. 1 of this Act, the initial terms of
24 the appointed and elected members of the board of directors of the State Investment Board shall be as
25 follows:

26 (1) one member from each state retirement system and one public member shall serve
27 terms of six years;

28 (2) one member from a state retirement system and one public member shall serve terms
29 of four years;

30 (3) one member from a state retirement system and one public member shall serve terms
31 of two years.

1 (b) The State Investment Board may hold organizational meetings as soon as a quorum of the
2 board has been elected to or selected for the board.

3 * Sec. 37. AS 37.10.210, 37.10.230, 37.10.240, and 37.10.290, enacted by sec. 1 of this Act, and
4 sec. 30 of this Act take effect immediately under AS 01.10.070(c).

5 * Sec. 38. Except as provided in sec. 37 of this Act, this Act takes effect January 1, 1992.

SECTIONAL ANALYSIS OF SENATE BILL 10

Section 1.

Board: Creates the State Investment Board within the Department of Revenue to manage and invest state funds.

Membership: The board consists of two PERS members, two TRS members, the commissioners of revenue and administration, and three public members appointed by the governor.

Compensation: Members of the board may receive per diem and transportation expenses.

Powers/Duties: Provides the board with the basic authority to establish policy and set the management direction necessary to invest all state funds not otherwise receiving adequate oversight. The board may employ advisors and contract for auditors and performance evaluators.

Conflict of Interest: Members of the board are subject to AS 39.50, the conflict of interest statutes.

Section 2.

TRS: Requires the State Investment Board to report to the TRS Board on the condition and investment performance of the TRS fund.

Section 3.

TRS: Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the TRS fund.

Section 4.

University Lands Trust: Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the land endowment trust fund.

SECTIONAL ANALYSIS OF SENATE BILL 10

Section 5.

Alaska Education
Trust Fund:

Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the fund.

Sections 6&7.

State Mortgage

Insurance Fund: Replaces the commissioner of revenue with the State Investment Board as the custodian of the mortgage insurance fund.

Section 8.

Judicial

Retirement:

Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the Judicial Retirement Fund.

Section 9.

Military

Retirement:

Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the Military Retirement Fund.

Section 10.

Procurement
Code:

Provides an exemption from the procurement code only for a delegation of investment powers.

Section 11.

Budget Reserve
Fund:

Replaces the department of revenue with the State Investment Board as the required manager and investor of the Budget Reserve Fund.

Section 12.

Marine Highway
Vessel Replace-
ment Fund:

Replaces the department of revenue with the State Investment Board as the required manager and investor of the Marine Highway Vessel Replacement Fund.

SECTIONAL ANALYSIS OF SENATE BILL 10

Section 13.

Investment of
Residual Money: Replaces the commissioner of revenue with the State Investment Board as the required manager and investor of the money in the state treasury above that required to meet immediate expenditure needs.

Section 14.

Investment
Powers/Duties: Replaces the commissioner of revenue with the State Investment Board in the statutes which outline the basic investment powers of the State.

Section 15-18.

Public School
Trust Fund: Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the Public School Trust Fund.

Section 19&20.

Alaska Childrens'
Trust Fund: Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the Alaska Childrens' Trust Fund.

Section 21.

Group Health &
Life Benefits
Fund: Replaces the commissioner of revenue with the State Investment Board as the manager and investor of this account in the General Fund.

Section 22.

Supplemental
Benefits
System: Adds a new section to the SBS statutes designating the State Investment Board as the fiduciary of the SBS funds.

SECTIONAL ANALYSIS OF SENATE BILL 10

Section 23&24.

PERS: Replaces the commissioner of revenue with the State Investment Board as the fiduciary of the Public Employees' Retirement Fund.

Section 25.

Deferred Compensation: Replaces "Administrator" with the State Investment Board as the investor of the Deferred Compensation Program funds.

Section 26.

Conflict of Interest: Includes the State Investment Board in the definition of boards subject to the conflict of interest statutes.

Section 27.

Permanent Fund Dividend: Replaces the commissioner of revenue with the State Investment Board as the investor of funds held in trust generated by a public agency claiming a dividend on behalf of an individual.

Section 28.

Permanent Fund Dividend Fund: Replaces the commissioner of revenue with the State Investment Board as the investor of Permanent Fund Dividend Fund.

Section 29.

Duties of the Department: Specifies that the Department of Revenue will implement the investment and management policies of the State Investment Board.

SECTIONAL ANALYSIS OF SENATE BILL 10

Section 30.

Power Develop-
ment Fund:

Replaces the department of revenue with the State Investment Board as the investor of money in the Power Development Fund.

Section 31.

Energy Efficient
Home Financing:

Replaces the commissioner of revenue with the State Investment Board in language dealing with financing energy efficient homes from surplus state general fund investments.

Section 32.

Self Sufficiency
Trust Fund:

Replaces the commissioner of revenue with the State Investment Board as the custodian of Self Sufficiency Trust Fund.

Section 33.

Transition:

General transition language.

Section 34.

Initial Terms:

Provides the staggering of the initial terms of the new board.

Sections 35&36.

Effective Dates:

Provides immediate effective date on the creation of the board, conflict of interest coverage, authority to adopt regulations. The remainder of the Act becomes effective on January 1, 1992.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 10

Revision Date: _____ Department Affected: Revenue

Title: Management and Investment of BRU: Treasury
Certain State Funds

Sponsor: Kerttula Component: _____

Requestor: Senate State Affairs COMPONENT SERIAL NO.

1	2	1
---	---	---

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Milton B. Barker Phone: 465-2350

Division: Treasury Date: 1-25-91

Approved by Commissioner: Milton B. Barker

Agency: Revenue Date: 1-25-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 10

Revision Date: _____
 Title: An Act relating to management of
State funds.
 Sponsor: Kerttula
 Requester: _____

Department Affected: Administration
 BRAU: Retirement & Benefits
 Components: Retirement & Benefits
 COMPONENT SERIAL NO. 64

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

General Funds	0.0	0.0	0.0	0.0	0.0	0.0
Federal Funds	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

Estimate of current year impact: _____

ANALYSIS: (attach a separate page if necessary)
 We do not anticipate a fiscal impact on this Division.

Prepared By: Gary M. Bader, Director *Gary M. Bader* Phone: 465-4470
 Division: Retirement and Benefits Date: 1/25/91
 Approved By Commissioner: Milton Keller Date: 1/28/91
 Agency: Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, Impacted Agency(ies)



Official Business

COMMITTEE:
ST. AFFAIRS

DATE: **1-28**

SIGN-IN

Subject of meeting:

**SB 10 - Investment of
STATE FUNDS**

PLEASE PRINT!

NAME

ADDRESS

(MAILING) & (ZIP)

PHONE

REPRESENTING

DO YOU WANT
TO TESTIFY?

GARY BADIER

DEPT OF ADMINISTRATIONS

4460

DEPT OF ADMINISTRATIONS

YES

✓ KATHY HATHAWAY

Sen. Keittula

yes

Helen Laurent

Box 240130 Douglas AK.

364-2435

NEA - Retired

No.

✓ Terry Elder

8168 Erin St. JUNEAU AK 99801

465-4500

ASEA

Yes

Scott Burgess

6-1325

AML

Yes

A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

June 19, 1989

Audit Control Number

04-4345-89-S

Commissioner, Department of
Revenue

Hugh Malone

Deputy Commissioner, Department
of Revenue

Milton B. Barker

STATE OF ALASKA

AUDIT DIVISION
P.O. BOX W
JUNEAU, ALASKA 99811-3300

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

June 19, 1989

Members of the Legislative Budget
and Audit Committee:

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

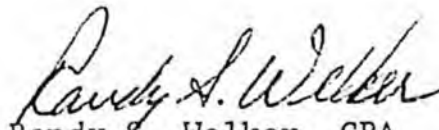
A SPECIAL REPORT ON THE
DEPARTMENT OF REVENUE
TREASURY DIVISION
PUBLIC EMPLOYEES' AND TEACHERS'
RETIREMENT FUNDS

Audit Control Number

04-4345-89-S

The purpose of this audit is to examine the accounting and oversight of the Public Employees' and Teachers' Retirement Funds administered by the Department of Revenue, Treasury Division.

The audit was conducted in accordance with generally accepted governmental performance auditing standards. The audit approach is discussed in the Report Objectives, Scope, and Methodology section of this report. The audit results may be found in the Findings and Recommendations section.



Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit

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Department of Revenue.	23

REPORT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we reviewed the Public Employees' and Teachers' Retirement Funds. The purpose was to review accounting procedures used for the retirement funds' foreign investment portfolio and to ascertain the extent of investment oversight the retirement funds are subject to.

The policy and audit approach utilized by the Division of Legislative Audit for special and performance reports can best be described as "audit by exception." This methodology focuses the audit effort on areas of an auditee's operation that have been identified by a preliminary survey as having a high degree of probability for needing improvements.

Therefore, by design, finite audit resources are used to identify where and how improvement can be made, and little time is devoted to reviewing well-run operations or programs. Consequently, this report highlights those areas needing improvement and does not emphasize those operations and programs that are properly functioning.

Discussion of the objectives, scope, and methodology of our review follows.

OBJECTIVES

In response to public allegations about mismanagement of the retirement funds and "deceptive accounting practices," the Legislative Budget and Audit Committee requested a review of certain management practices of the Public Employees' and Teachers' Retirement Funds.

The first objective of our review was to determine the type of management and investment oversight provided over the operations of the retirement funds.

The second objective was to ascertain the management and investment oversight styles applied to other similar funds.

Our third objective was to determine if proper accounting practices were applied to the funds' foreign investments.

Finally, we identified the various rates of returns earned by the retirement funds and the Permanent Fund, and we reviewed the cost of managing and investing those funds.

SCOPE AND METHODOLOGY

We met with officials of the Department of Revenue, Treasury Division, including the deputy commissioner, chief investment officer, other investment officers, and the state

ORGANIZATION AND FUNCTION

The Department of Revenue, Division of Treasury (Treasury) is responsible for, and has sole discretion over, the prudent investment and management of the Public Employees' Retirement Fund (PERS) and the Teachers' Retirement Fund (TRS).

Chapter 141, SLA 1988 amended PERS and TRS statutes by designating the funds as retirement trust funds and appointing the commissioner of Revenue as treasurer of the retirement systems and fiduciary of the funds. Under the amending legislation, the commissioner of Revenue shall:

1. Consider the status of the funds' investments and the system's liabilities on both a current and a probable future basis.
2. Determine the appropriate investment objectives for the funds.
3. Establish investment policies aimed at achieving the objectives.
4. Act only in regard to the best financial interests of the system's beneficiaries.

The amendments also repealed the "legal list" of investments the retirement funds were restricted to and placed upon the commissioner of Revenue, or his designee, the responsibility of fund fiduciary. Treasury also employs external investment managers who manage a substantial portion of the retirement funds.

Additionally, there are two boards which oversee the administrative aspects of the retirement systems. The Public Employees' Retirement Board is composed of five members, three of whom are members of the Department of Administration personnel board and two who are members of the system and elected by the membership of the system. The Teachers' Retirement Board consists of five members appointed by the governor. Both boards are mostly administrative in nature, being responsible for governing the regulatory aspects of the retirement systems.

The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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SCOPE AND METHODOLOGY

We met with officials of the Department of Revenue, Treasury Division, including the deputy commissioner, chief investment officer, other investment officers, and the state

comptroller; the director of the Division of Risk Management; officials of the Alaska Permanent Fund Corporation; certified public accountants under contract with the Treasury Division; and a member of the brokerage community.

We also reviewed various reference materials and publications; reports, and supporting documentation, prepared by the Senate Advisory Council; fund performance evaluation reports prepared for the retirement funds and the Alaska Permanent Fund; and, various literature provided by other states on their retirement funds.

Additionally, we prepared and distributed a questionnaire to all other states inquiring about certain aspects of their public employees retirement funds.

We also engaged a consultant, who as a former employee of Merrill Lynch had past experience in evaluating the performance of the Public Employees' and Teachers' Retirement systems, to assist us in interpreting the externally prepared performance reports on the retirement funds and the Permanent Fund.

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The Alaska Permanent Fund is managed by an executive director, who reports to a six-member board of trustees appointed by the governor.

FUND COMPARISONS AND DISCUSSION:
PUBLIC EMPLOYEES' RETIREMENT FUND, TEACHERS'
RETIREMENT FUND, and ALASKA PERMANENT FUND

BACKGROUND

There is no validity to the statement that "a fund is a fund" as each fund has its own unique characteristics. Although funds such as those set up as trusts and endowments may have few obvious differences, there are deeper, less clearly defined differences such as fund objectives, philosophy over fund management, and investment styles. A slight difference in fund objectives and philosophy may, and usually does, result in different investment styles and, therefore, differing returns on investment. The varied fund management styles and investment philosophies create a danger in across-the-board rate of return comparisons and forming conclusions drawn from those comparisons. There are several ways of assessing investment results. It is not, for example, appropriate to compare the results of funds with very different objectives or constraints. Funds with different types and mixes of investments are also difficult to compare directly. To properly assess investment results, comparisons must reflect similar objectives, constraints, opportunities, and all things that go into the investment process.

The Alaska Permanent Fund, while not legally defined as one, is in all probability a trust fund like the Public Employees' (PERS) and Teachers' (TRS) Retirement Funds. The Alaska Permanent Fund Corporation (PFC) holds the Permanent Fund out as a "Public Trust Investing for Alaska's Future," has a Board of Trustees, and is intent on earning revenue for beneficiaries while preserving principal. The obvious similarities between PERS/TRS and the Permanent Fund end here - at considering both funds as trusts.

PFC has chosen a more cautious, less risky approach towards its investments. In an informational pamphlet dated May 1989, PFC stated:

The Fund invests its assets to earn income. To minimize the risk that Fund assets could be destroyed by bad investment decisions, the Fund is invested very conservatively. Indeed, the primary emphasis in all Fund decision-making is maintaining the safety of principal. The maximizing return on investment is the secondary consideration.

This contrasts to the Department of Revenue, Division of Treasury (Treasury) investment philosophy of the PERS/TRS which has been stated as:

The most important characteristic of the funds for investment policy purposes is their perpetual nature and, in the case of the Public Employees' Retirement System, the long number of years before it will encounter any net outflows (probably 15 to 20 years). A long time span accommodates investments which should enjoy higher returns over the long-run, although they may be slow to materialize, or be erratic in the short-run, and it allows greater use of investments which may have substantial market valuation risks. This characteristic expands the universe of investment possibilities and increases the potential for achieving higher returns on the investments.

The PERS/TRS has opted for more growth through a higher asset allocation to equities. To achieve that end, PERS/TRS follows an investment technique known as active management versus a passive management investment style. Passive management is a term used to describe an investment strategy that attempts to follow a predefined market index, such as the Standard and Poor's (S&P) 500, and fashions the portfolio to mirror the results of that index. Passive management follows a process of rebalancing the portfolio to reflect the index, not necessarily to enhance or maximize a return. Active management, on the other hand, involves portfolio management that is involved in the active investment process of buying and selling in an attempt to enhance the portfolio's performance. The active management strategy can be characterized as continually monitoring the market to determine what is the best selection of investment to produce the best returns within a predetermined set of risk parameters.

PFC is legally limited in its investment diversification by statute which defines a specific "list" of permitted investments. The Treasury did have investment limitations, but the statutory restrictions were repealed by Chapter 41, SLA 1988. This allows Treasury more investment flexibility. With this flexibility, Treasury can assume additional risk, and theoretically achieve higher returns for the PERS/TRS Funds.

ASSET ALLOCATION

An informative way to examine the assumed risk is to analyze the asset allocations of the various funds. At March 31, 1989, the various funds' holdings were (stated in percentage of portfolio at market values):

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Equities (1)	32.8%	34.9%	12.9%
Fixed Income	54.7%	51.3%	77.6%
Real Estate	6.4%	6.0%	5.6%
Other (2)	6.1%	7.8%	3.9%

(1) includes domestic and foreign equity holdings of the PERS and TRS. PFC does not yet invest in foreign markets.

(2) includes mortgages, cash, and interest and dividends receivable.

As can be seen, the PERS/TRS Funds hold 2.5-to-3 times more equity than does PFC. Conversely, PFC holds 1.5 times more fixed income investments than does the PERS/TRS Funds.

By their nature, equities have more risk than fixed income (debt) investments. As mentioned earlier, theoretically the riskier the investment, the higher the potential rate of return.

FUND PERFORMANCE

This section and the following section ("Other Rate of Return Data") present statistical data which show various rates of return earned not only by the PERS/TRS and Permanent Fund but other interest-bearing investments. As noted above, and throughout the report, direct comparisons between these funds and other investments are not practical for assessing how one fund "performed or out performed" another fund. This is mainly due to the differences in purpose, goals, and philosophy of each particular fund. However, the presentations provided here are done so for the benefit of interested parties who can review the returns earned by the funds and relate those to other commonly known investments.

It has been alleged that Treasury managed PERS/TRS Funds are among the worst performers within the universe of funds used for performance measurement and comparison (see Recommendation No. 2). While the allegations themselves are substantially accurate in the context they were submitted, the facts must be kept in perspective in light of the long-term nature of the retirement funds. The allegations were made from looking at just one, short period of time that the PERS/TRS funds were evaluated. One must be careful about the period of time used for measurement as investment results measured over short periods of time are very misleading. The best results today may be the worst tomorrow. What matters is consistent, long-term results.

With the above thoughts in mind, the PERS, TRS, and PFC performance can be reviewed together with returns of other, although non-comparable, commonly known investments.

Total rate of return (time-weighted) is a useful technique that is widely accepted for comparing investment results. It combines current yield plus changes in current market values for determining a portfolio's investment rate of return.

Total rate of return (time-weighted) for PERS, TRS, and PFC is shown below:

TIME-WEIGHTED TOTAL RATES OF RETURN(%)
AS OF JUNE 30, 1988 and DECEMBER 31, 1988 (a)
(unaudited)

	<u>PERS</u>	<u>TRS</u>	<u>PFC</u>
Year ending 6/30/88	3.79	3.76	5.3
Two years	7.46	7.85	6.5
Three years	13.80	13.37	11.8
Four years	15.02	14.62	(1)
Five years	(2)	(2)	13.1
Year ending 12/31/88	11.65	11.93	8.5
Two years	6.48	6.44	5.9
Three years	10.72	10.20	9.3
Four years	13.72	13.31	(1)
Five years	(2)	(2)	12.9

(a) source: PERS/TRS information obtained from Department of Revenue, Treasury Division internally calculated time-weighted rates of return. PFC information obtained from externally evaluated SEI Large Plan Report. Percentages presented are annualized time-weighted rates of return.

(1) four-year data not available for PFC from SEI external reports.

(2) five-year data not available for PERS/TRS for years ending June 30 and December 31, 1988.

As can be seen, the PERS/TRS Funds time-weighted rate of return generally exceeds that of the PFC. This is probably a reflection of the additional risk the retirement funds assume versus the more conservative approach taken by the PFC in its investments and asset allocation.

Another performance measurement would be reviewing the return of segments of the PERS/TRS and PFC portfolios; for example, reviewing PERS/TRS and PFC domestic equity investments to the S&P 500 or the fixed income investments to the Shearson Lehman Bond Index (SL-BONDS). Such an analysis would show:

PERS/TRS/PFC EQUITY AND FIXED INCOME TIME-WEIGHTED RETURNS
COMPARED TO SPECIFIC MARKET INDICES
ANNUALLY-COMPOUNDED RATES OF RETURN
FOR YEARS ENDING DECEMBER 31, 1988 (a)
(unaudited)

DOMESTIC EQUITIES

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	18.21	9.75	12.98	17.38	(1)
TRS	18.21	10.04	12.95	17.27	(1)
PFC	15.50	11.10	13.50	(2)	15.00
S&P 500	16.80	10.90	13.40	17.80	15.30

FIXED INCOME

	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>
PERS	8.73	5.14	9.37	12.33	(1)
TRS	9.10	5.01	8.58	11.71	(1)
PFC	7.20	4.30	8.10	(2)	12.10
SL-BONDS	7.60	4.90	8.40	11.50	12.20

(a) source: Dept. of Revenue, Division of Treasury internally calculated time-weighted rates of return; PFC externally evaluated SEI Large Plan Report; and, independent sources of market indices.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The above analysis shows that for the most part PERS/TRS and PFC achieved a competitive return on its domestic equity investments compared to the S&P 500 index. PERS/TRS fixed income investments outperformed the Shearson Lehman Bond Index in each of the four years compared above. PFC also achieved a competitive return on its fixed income holdings when compared to the bond index.

Another informative comparison is reviewing the annual (each year standing on its own, unlike the cumulative returns used in the previous comparisons) rate of return and how that return fits into the universe of funds used for comparative purposes.

PERS/TRS/PFC
ANNUAL RATES OF RETURN AT MARKET VALUES
AND PERCENT RANKING IN COMPARATIVE UNIVERSE (a)

	<u>1984</u>		<u>1985</u>		<u>1986</u>		<u>1987</u>		<u>1988</u>	
	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>	<u>%</u>	<u>Rank</u>
<u>Equities</u>										
PERS	-15.1	100	28.8	63	37.5	38	17.7	96	-5.4	23
TRS	-15.1	100	28.8	63	37.5	38	18.5	90	-5.2	22
PFC	- 9.6	28	30.6	46	37.2	59	24.8	27	-6.4	55
<u>Fixed Income</u>										
PERS	1.1	55	27.9	65	22.9	3	5.0	59	7.6	51
TRS	0.8	57	28.2	61	23.4	1	4.3	79	8.8	3
PFC	4.4	56	27.2	12	20.5	25	4.3	91	7.0	71

(a) source: PERS/TRS data from SEI report for quarter ending 6/30/88. PFC data from SEI large plan report for period ending 6/30/88.

The rates of return above are based on the market value of the equity and fixed income portfolios and includes unrealized gains. PERS/TRS rankings are based on a comparison with a universe of approximately 30 large state retirement funds. PFC rankings are based on a universe comparison of 63 funds. The "rank" describes (using percentages) how the fund performed in relation to the other funds of the universe. For example, a rank of 100 indicates the fund had the lowest performance and 99% of the universe performed better. Conversely, a rank of 1 indicates the fund performed the best and 99% of the universe achieved lower returns. A rank of 55 indicates the fund performed near the median (50%), and that 45% of the universe performed worse while 54% achieved better returns.

OTHER RATE OF RETURN DATA

While not truly comparable, investment fund returns can be reviewed against other fixed income returns.

PERS/TRS/PFC ANNUAL REALIZED (NOMINAL) RATES OF RETURN
COMPARED TO OTHER FIXED RATE RETURNS (a)
(unaudited)

YEAR	Realized Rate of Return(%)			Fixed Rates of Return(%)		
	PERS	TRS	PFC	SBS(1)	DCP(1)	CD(1)
1980	9.54	10.41	11.29	10.40	n/a	12.91
1981	10.73	11.02	16.00	10.75	n/a	15.91
1982	8.52	6.98	15.10	12.35	n/a	12.04
1983	11.09	11.32	12.76	12.55	n/a	8.96
1984	10.66	9.47	10.39	12.00	n/a	10.17
1985	9.96	9.84	11.61	11.80	n/a	7.97
1986	13.16	13.12	14.36	11.87	9.30	6.62
1987	13.98	13.94	13.37	11.54	9.08	6.74
1988	8.20	8.20	9.01	11.00	9.93	7.58

(a) source: Division of Legislative Finance; Department of Administration, Division of Retirement and Benefits.

(1) SBS - State Supplemental Benefit System
DCP - State Deferred Compensation Plan
CD - Certificates of Deposit

n/a - not available

The comparisons above are not an accurate measurement of determining how PERS/TRS or PFC is performing in comparison to other funds or instruments. While it does demonstrate differing returns by different investing funds or instruments, it does not indicate nor provide a basis for comparing how similarly designed funds invested in similar securities are performing. Each of these funds or instruments, with the exception of PERS/TRS, have different objectives and goals and, therefore, have varying investment strategies and policies.

Also, the schedule above presents a different picture than the prior example. Here, annual realized (nominal) rates of return are presented. Realized rates of return do not include changes in market value and, therefore, are not usually used for comparing performance. In this schedule, PFC outperforms PERS/TRS in all but one annual period presented. This compares to the previous time weighted presentation that shows PERS/TRS outperforming PFC in all but one period presented. This exemplifies how, depending on a desired outcome, rate of returns can be used to make a point. Since PERS/TRS are pensions funds, their return

analyses should be based on a long-term view, not just how the funds performed in any one annual period.

Another review of returns can be made between the retirement funds and other market indices. Like the above, the returns are not truly comparable. These market indices reflect returns for certain investments, whereas the PERS/TRS and PFC Funds results reflect a total return on a balanced portfolio of many types of investments. For example, the Standard and Poor's 500 (S&P 500) index reflects returns on equities only; the 91 day Treasury Bill index (T-BILL) reflects short-term fixed income investments; and, the Shearson Lehman bond index (SL-BONDS) reflects returns on bond investments.

PERS/TRS/PFC TIME-WEIGHTED TOTAL RATES OF RETURN
COMPARED TO MARKET INDICES ANNUALLY-COMPOUNDED

RATES OF RETURN(%)
AS OF DECEMBER 31, 1988 (a)
(unaudited)

	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>5 Years</u>
PERS	11.6	6.5	10.7	13.7	(1)
TRS	11.9	6.4	10.2	13.3	(1)
PFC	8.5	5.9	9.3	(2)	12.9
S&P 500	16.8	10.9	13.4	17.8	15.3
T-BILL	6.7	6.0	6.0	6.5	7.1
SL-BONDS	7.6	4.9	8.4	11.5	12.2

(a) source: Department of Revenue, Division of Treasury, and independent sources of market indices. PFC data from 12/31/88 Large Plan Report.

(1) five-year data not available for PERS/TRS.

(2) four-year data not available for PFC on SEI external reports.

The misleading nature of drawing conclusions solely from this analysis must be emphasized. For example, for the three years ending December 31, 1988 the S&P 500 had achieved an annualized return of 13.4%; contrasted to PERS, TRS, and PFC returns of 10.7%, 10.2%, and 9.3% respectively. The S&P 500 is an index that measures only equities traded on the exchanges. The PERS/TRS and PFC portfolios not only contain stocks but also bonds, other fixed income securities, and real estate. Additionally, PERS/TRS holds investments in foreign equities, whereas the S&P 500 reflects only domestic equity.

PERS/TRS and PFC may have achieved a return on its equity portfolio competitive to that of the S&P 500. However, fluctuations in bond, other fixed income, and real estate

investments may have affected the overall total portfolio rate of return. Therein lies the danger of relying solely on a comparison of fund performance to any one market index.

COST OF MANAGING AND INVESTING PERS/TRS AND PFC FUNDS

It has been alleged that the cost of administering the PERS/TRS Funds are "out of control" compared to the PFC. In reviewing the cost of administering the retirement funds versus the Permanent Fund the facts must again be kept in perspective and require closer scrutiny before drawing conclusions, similar to the closer analysis needed when comparing PERS/TRS and PFC rates of return.

The Department of Revenue, Treasury Division is responsible for, among other functions, the investment and management of the State of Alaska general investment fund; AHFC pledged fund; international airports construction fund; international airports revenue fund; state mortgage insurance fund; public employees' retirement trust fund; teachers' retirement trust fund; judicial retirement trust fund; military retirement trust fund; public school trust fund; and the University of Alaska trust fund. Also, the division is responsible for state cash management, debt management, and investment accounting.

By far the largest cost centers in the management of the PERS/TRS Funds are personal services (salaries) and contractual fees.

It has been alleged that it takes between 25-to-27 positions to manage the PERS/TRS Funds as compared to the PFC requiring 16 positions to manage their portfolio.

The 25-to-27 positions referred to above represents the total staffing of the Treasury Division. These positions do many tasks, as discussed above. Not all of those positions have duties related to the PERS/TRS Funds. We examined the job descriptions of employees in the Treasury Division and verified those descriptions with some employees through personal interviews. We also identified salary and benefits costs for each of the Treasury Division employees and for the division in total.

We have calculated that Treasury utilizes a full-time equivalent (FTE) staffing of 11.3 positions to manage, invest, and account for the PERS/TRS Funds in fiscal year 1988 at a cost of \$655,273. These positions are responsible for executive management, asset accounting, portfolio management, real estate investments, and cash management as it relates to the PERS/TRS Funds. This compares to the fiscal year 1988 PFC staffing of 16 positions at a cost of \$863,000.

Contractual fees comprise the largest cost of managing the PERS/TRS and PFC Funds. These costs consist of payments made for the services of professional money managers, external performance analysis, external auditors, consultants, and custody and safekeeping fees.

PERS/TRS fiscal year 1988 contractual payments amounted to \$4,841,564 compared to PFC expenditures of \$3,428,000. PERS/TRS incurs expenses that the PFC does not. PERS/TRS, being two separate funds, has increased costs for services such as investment processing, external auditors, and the external performance analysis. The retirement funds also incur additional costs due to PERS/TRS higher asset allocation to equities which, under an active investment strategy, necessitates additional trade costs and because PERS/TRS invests in foreign equities which require higher fees than does a domestic equity. PFC does not invest in the foreign markets, has a smaller asset allocation to domestic equity, and utilizes an index equity portfolio resulting in reduced management fees. As the PFC moves into the foreign markets and reevaluates asset allocation, one would expect to see an increase in their management fees.

The industry evaluates management and funds costs on a "basis point" system. A "basis point" reflects the cost to manage \$1,000. We performed a "basis point" cost evaluation of the PERS/TRS and PFC Funds, as follows:

	<u>PERS/TRS</u>	<u>PFC</u>
Personal Services	1.90	.88
Travel	.05	.15
Contractual	14.02	3.48
Other (capital outlay, communications, rent, depreciation)	.08	.67
<u>Total "Basis Point"</u> <u>cost per \$1,000</u>	<u>16.05</u>	<u>5.18</u>

As can be seen, the cost of PERS/TRS contractual is approximately four times that of the PFC. This reflects the additional costs PERS/TRS incurs due to its higher allocation to domestic equities, investment in foreign equities, the increased costs for identical services since these are two separate funds, and the economies of scale inherent in a large fund such as the PFC.

We do not feel a simple analysis with an allegation that PERS/TRS costs three times more to manage than the PFC is justified. A closer review shows valid reasons why PERS/TRS Funds are more expensive to manage than the PFC fund.

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

A Board of Trustees concept or structure should be established that has broad powers and can exercise an active role in the management and investment oversight of the PERS and TRS Funds.

At present, the PERS and TRS boards (nor any other body) have minimal, if any, investment and management oversight responsibility over the nearly \$3.5 billion of retirement fund assets invested and managed by Treasury. What little investment oversight authority the boards may have had was eliminated by amending legislation in 1987/1988.

Currently the PERS and TRS boards are mostly administrative in nature, handling the administrative aspects of the retirement systems. The boards have no authority to direct or establish investment policy or guidance nor do they have the ability to effectively object to a direction the funds may be heading and enforce an alternative.

We believe the State and other governmental employers, fund beneficiaries, and active participants would be better served by a restructuring of the current PERS and TRS boards and the process of reporting to those boards.

We conducted a survey of all states' public employees' and teachers' retirement systems and discovered that Alaska PERS and TRS Funds investment management oversight is severely lacking when compared to other larger, older, more experienced funds.

An overwhelming number of respondents to our survey have an investment oversight function that rests with an independent body apart from the investment activity itself. This oversight authority is vested in authoritative retirement boards, boards of trustees (ranging from 3 to 4 and up to 16 members), investment committees and councils (usually a subcommittee of a board of trustees), or a statewide investment commission or board. We believe a similar structure is warranted for the PERS and TRS Funds.

The PERS and TRS statutes should be rewritten to allow, and the boards should be restructured to accept, a new, stronger investment management oversight responsibility. We recommend that:

1. The current PERS and TRS boards be consolidated into one overall board of trustees. The board of trustees should be structured so that individuals with the necessary and appropriate expertise are appointed, as well as PERS and TRS beneficiaries and active participants. Additionally, Treasury officials and, barring

constitutional prohibitions, members of the legislature should be active participants on the board.

2. Subcommittees of the board of trustees could be established to handle the respective administrative duties of the PERS and TRS Funds.
3. The board of trustees should be vested with the authority to employ outside investment advisors to review investment policies and make recommendations; to establish investment policies; to engage the independent certified public accountants for the funds' audits and have results reported directly to the board; to contract with external performance evaluators who would report directly to the board; and to review Treasury investment and asset allocation decisions.

A Board of Trustees with overlapping and staggering appointments will also provide continuity from one administration to another. Retirement funds such as the PERS and TRS are perpetual in nature. They are considered to exist forever. As such, a continuity in management is required, one that can provide the historical perspective of past actions and effects. The nature of the political environment is quite opposite. Administrations come and go, as do the political appointees that make the decisions that affect the retirement funds. Presently, the commissioner of Revenue, an appointed position, is the fiduciary of the retirement funds. A political appointment of two or four years pales in comparison to the longevity of the retirement funds. A "changing of the guard" every two-to-four years does not provide the needed continuity in fund administration. An independent board of trustees, with oversight authority, would provide the needed oversight and continuity over these funds.

It has been argued that since the PERS and TRS Funds are designated as trusts and the commissioner of Revenue is designated fiduciary of the funds, that the boards cannot and will not accept the fiduciary responsibility of managing the funds.

In our discussions with PERS and TRS board chairpersons we learned that the boards do want to assume more investment oversight responsibility over the funds but at present do not have the statutory ability to do so.

It has also been stated that the boards would not accept the liability associated with acting as a fund fiduciary. According to the Division of Risk Management of the Department of Administration, the PERS and TRS boards are currently covered by the Directors and Officials liability protection policy. This coverage, in the amount of \$100 million (with a \$5 million self-insured clause), covers any board or

commission that is created by law and that the policy coverage would extend to any actions taken by the boards or commissions that are within its official duties. At present, the commissioner of Revenue, as fiduciary, is similarly covered by this policy. Additionally, the director of Risk Management stated that if the funds incur a loss due to a breach of fiduciary duty, the Directors and Officers liability insurance policy may make funds whole, depending on the circumstances, if the payments are a legal liability. Based on the above, it is our opinion that the insurance coverage presently available to the commissioner of Revenue is likewise available to the current PERS and TRS boards and would be available to a duly created board of trustees acting in the capacity of fund fiduciary.

Therefore, we recommend that the administration and the legislature establish a board of trustees concept or structure to provide investment oversight on the Treasury investment operations, particularly the PERS and TRS Funds. Some members of the board of trustees should have the necessary professional skills. Other members should represent fund beneficiaries, active fund members, the Treasury, and, barring constitutional prohibitions, the legislature. The board of trustees should have the authority to contract for audits, external performance evaluations, and professional advice. Additionally, the board of trustees should review on an ongoing basis Treasury's implementation of investment policy and asset allocations.

Recommendation No. 2

The entire portfolio of the PERS and TRS Funds should be subjected to an external performance review. Also, the external performance reports should be presented directly to the boards and should be in a complete, understandable, and acceptable format according to industry patterns and customs.

Presently, the PERS and TRS performance evaluation analyses conducted by an independent evaluation service do not review the entire retirement funds portfolios; are not in the usual and customary format; do not contain the usual and customary presentations; and do not compare the PERS and TRS Funds with an acceptably large enough universe of other funds.

We found it difficult to glean information on the PERS and TRS Funds operating results from the performance evaluation reports prepared by the external fund performance contractors. To assist us in understanding those performance reports, we contracted with the individual who had analyzed PERS and TRS Fund performance in the past.

Our contractor had similar difficulty in understanding the performance reports as presented. We subsequently discovered that the difficulty in understanding the reports and

determining fund performance lied not with the reader, but with the unconventional format that the PERS and TRS Funds results were presented.

According to representatives of SEI (Treasury's performance reporting contractor) the State's chief investment officer had instructed SEI to prepare the performance reports according to his own design. This format per our contractor causes confusion and difficulty in analyzing fund results. It is interesting that even SEI, the firm who prepared the reports according to Treasury's custom design, finds them difficult to understand. If people knowledgeable in this area find the performance reports difficult to read and analyze, we wonder how members of the PERS and TRS boards and interested beneficiaries and active participants can determine how their funds are performing.

Another area that our contractor found unique was the abbreviated form of the performance reports. The reports do not include a number of standard comparisons, analyses, and graphic presentations. These presentations assist in understanding the fund performance and how they compare to other funds. For example, the performance reports have no presentations of asset growth summaries; total plan rates of return; cumulative rates of return for market cycles (falling markets and rising markets); reward versus risk analysis; equity and bond purchases and sales turnover analysis; equity portfolio profiles (showing capitalization of investees, dividend yields, price/earning ratios, return on net worth, earnings growth rates, market/book ratios); diversification and rate of return by industry sectors; and other graphic and numerical presentations. It is argued that this type of information is of little value in establishing investment policy and asset allocation. However, all these analyses combined assist in formulating an informed judgement as to how the retirement funds are performing by interested parties other than those responsible for investment policy and asset allocation. These analyses, and many others, are used by the Permanent Fund Corporation Board of Trustees to review the performance of the Permanent Fund. These types of analyses are not report cards on a fund, but rather a presentation of how one particular fund is performing compared to other funds competing for a return on investment.

Other areas of the PERS and TRS performance reports identified as lacking are that a total plan analysis is not performed on the entire portfolio and that the universe of funds used for performance comparison is too limited.

The major benefit of an external performance evaluation is the identification of how one particular fund is performing and how it compares to other funds (known as the "fund universe"). To have a thorough evaluation/comparison, the

entire portfolio must be externally evaluated. Presently, the PERS and TRS portfolio does not have an externally generated total plan rate of return analysis because the funds' real estate investments and foreign investments are not taken into consideration. Most respondents to our survey indicate their entire portfolios are externally evaluated. Most of those funds also have investments in equities, fixed income, some foreign investments, real estate, mortgages, leveraged buyouts, and venture capital.

The PERS and TRS Funds are compared to a fund universe consisting of only 28 other funds. This contrasts to the Permanent Fund's evaluation which compares itself to a balanced fund population (where the funds have at least 5% invested in equities and 5% in bonds) of 910 funds and a Large Plan Report of 63 funds. We believe the PERS and TRS Funds comparison is too restrictive and should be enlarged. Comparing fund performance to a larger fund universe would provide a better indication of how the PERS and TRS Retirement Funds are performing compared to other funds.

We recommend that the entire PERS and TRS Funds be externally evaluated thereby generating a total plan rate of return; that the evaluations be performed and reported in the standard informative formats with all appropriate graphic and numerical presentations; that these reports should be presented directly to the boards; and that the PERS and TRS Funds be compared against an acceptable fund universe.

The boards and/or Treasury should provide as much information as possible to the beneficiaries, active members, executive and Legislative branches, and the public that is clear and direct. By doing so, it would enhance public accountability.

Recommendation No. 3

The Department of Revenue, Treasury Division (Treasury) should follow generally accepted accounting principles in its accounting of investments for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Funds.

Treasury does not account for PERS and TRS foreign equity investments in accordance with industry generally accepted accounting principles.

The term "generally accepted accounting principles" (GAAP) as used in reporting results of operations on the financial statements refers to a body of theory and practice developed by the accounting profession in association with industry and other organizations that may be impacted by the adoption of standards which include not only accounting principles and practices but also the methods of applying them. GAAP

is a technical accounting term encompassing a common set of accounting concepts, standards, and procedures necessary in order to render financial statements comparable between enterprises and between accounting periods. Without adherence to GAAP, users of financial statements would have no uniform standard for judging the presentation of financial position, results of operations, and changes in financial position in those financial statements.

A user of financial statements expects those statements to present fairly, clearly, and completely the economic facts of the existence and operation of an enterprise on a consistent and comparable basis. A departure from GAAP results in financial statements that may not meet the user's criteria and will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements. Treasury realizes the importance of an unqualified audit opinion. Treasury, in Appendix J of its General Investment Policies, requires an applicant for commercial real estate loans to submit audited financial statements that contain unqualified audit opinions. The presentation of PERS and TRS financial statements by Treasury are departures from GAAP.

Treasury does not properly account for and report investment transactions occurring in the PERS and TRS foreign investment portfolio. Treasury did properly account for and report on its foreign portfolio activities through fiscal year 1987; however, in fiscal year 1988, a departure from GAAP was made, with which we do not agree is appropriate or justifiable.

An important element of a financial statement, and a framework of modern accounting, is the presentation of the historical cost of assets, including investments.

Treasury forwards funds to its London-based foreign managers. These managers then invest in foreign equities. The amount of the funds transferred to the foreign managers is recorded as the cost of the PERS and TRS investment in foreign equities. When the foreign equities are subsequently sold by the foreign managers, the amount received from the sale, which may include a gain on the sale, is usually reinvested in foreign equities. Contrary to GAAP, the reinvestment of proceeds from the sale of the equities are not recorded in the accounting records and the cost basis of the foreign portfolio is not adjusted to properly reflect the new cost basis of the retirement funds' investments. This accounting treatment was implemented over the initial written objections of the state comptroller. The sale, gain, and reinvestment of funds should be accrued and recorded in the accounting records at the date of the transaction in accordance with generally accepted accounting principles.

This irregular accounting treatment causes a material understatement of the cost basis that PERS and TRS has invested in foreign equity holdings. The understated cost as presented in the PERS and TRS financial statements is misleading to the average reader who is not aware of the non-GAAP accounting treatment accorded these transactions by Treasury.

In their June 30, 1988 balance sheet, Treasury shows the cost and market value of PERS and TRS foreign portfolio as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$77,847,000	\$138,421,000
TRS	51,756,000	91,246,000

At first glance, a reader of the financial statements would think that PERS and TRS had generated a \$60,574,000 and \$39,490,000 (respectively) market gain.

However, had GAAP been applied to the accounting of the foreign portfolio, cost and market value would have been presented as follows:

	<u>Cost</u>	<u>Market Value</u>
PERS	\$134,626,000	\$138,421,000
TRS	88,711,000	91,246,000

Under GAAP, foreign portfolio market gains for the PERS and TRS Funds would have been \$3,795,000 and \$2,535,000, respectively. As reflected in the financial statements, PERS and TRS market gains are overstated by approximately 1,500 percent.

The Treasury Division, chief investment officer has stated that this accounting treatment is necessary because of "investment accounting principles," "fiduciary law," and "the IRS code." None of those references, even if they do address this issue, override GAAP and Alaska state law in these circumstances.

Alaska Statute 37.05.150 states, in part, "The accounting system must be in accordance with accepted principles of governmental (fund) accounting" Generally accepted governmental accounting principles are embodied in the Governmental Accounting, Auditing, and Financial Reporting publication prepared by the Government Finance Officers Association. In this handbook of governmental accounting, the jurisdiction of the Governmental Accounting Standards Board (GASB) is defined as "The GASB will establish standards for activities and transactions of state and local governmental entities" The handbook further defines

the hierarchy of GAAP for financial statements issued by state and local governmental units. This hierarchy is:

1. Pronouncements of the GASB are to be followed for accounting and reporting by state and local governmental units.
2. In the absence of a GASB pronouncement regarding accounting treatment, pronouncements of the Financial Accounting Standards Board (FASB) are to be followed.
3. Pronouncements of bodies composed of expert accountants that follow a due process procedure. This category includes audit and accounting guides and statements of position issued by the American Institute of Certified Public Accountants.
4. Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application of pronouncements to specific circumstances.

Since GASB is silent regarding the treatment of foreign investments, pronouncements of the FASB must be followed. In this case, generally accepted accounting principles established by the FASB, and its predecessor the Accounting Principles Board, should be followed by the Treasury Division.

We recommend that Treasury account for and report on the PERS and TRS Funds, including its foreign portfolio activity, in accordance with generally accepted accounting principles.

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

TREASURY DIVISION

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August 22, 1989

Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit
P. O. Box W
Juneau, Alaska 99811-3300

RECEIVED
AUG 23 1989

LEGISLATIVE
AUDIT

Dear Mr. Welker:

I have reviewed the Division of Legislative Audit's preliminary report entitled "A Special Report on the Department of Revenue Treasury Division Public Employees' and Teachers' Retirement Funds".

At your request, I offer the following comments:

1. With regard to the discussion of realized returns on page eleven, I would like to point out:
 - a. The Financial Analysts Federation has endorsed the enclosed "Performance Presentation Standards". These standards are the first and only such standards in the industry for guidance on how to calculate and report investment performance. Section V.B. specifies that the use of total return, including income and capital appreciation, is mandatory in the presentation of investment performance data. Realized rates-of-return, as pointed out in your report, do not include unrealized capital appreciation.
 - b. Realized returns are relevant for a fund which has net cash flow requirements during the period being measured; in the case of retirement funds, a net cash flow from investments is not estimated by the funds' actuary to be required generally before FY 2005. See the enclosed "PERS and TRS Financial Projections", February 21, 1989, Mercer Meidinger Hansen. Sensitivity analyses in the projections indicate there may be some chance that a small portion of TRS investment earnings (no more than one-tenth) will be needed as cash to cover benefit payments after FY 1991;
 - c. The timing of actual realization of unrealized gains is at a fund manager's discretion and may be affected by a fund's cash flow requirements. Thus, realized returns may reflect not only investment policy, as shaped by cash flow requirements, and a portion of investment returns, but also asset liquidation decisions prompted by cash flow needs.

2. On page 12, as your report points out, there are difficulties in comparing total fund returns to market indices for individual classes of investments. The most appropriate comparison would be to an average of the relevant indices weighted by the asset allocations of a fund. This would be similar to the approach prescribed by the Financial Analysts Federation in section V.I.6.a. of their "Performance Presentation Standards" (enclosed) for comparing results of balanced accounts managed by investment advisors.
3. I am in basic agreement with Recommendation No. 1. There are obviously many issues to be considered in trying to develop the best possible structure for governance of PERS and TRS investment management. The Department of Revenue would be happy to work with Legislative members or bodies in developing legislation to reform the structure.

To address these same concerns, the Department has developed a proposal to create an independent trust company. The proposed structure would provide for the investment management of other State retirement and endowment trust funds, as well as PERS and TRS. It also would greatly improve State cash management procedures by allowing direct access to certain Federal Reserve System services, rather than through an intermediary custodian bank.

The Department's proposal has been endorsed by resolutions of the PERS and TRS boards and has been reviewed by the State's fiduciary counsel, Willkie, Farr & Gallagher.

There is one issue addressed in your report to which I should respond. The discussion of liability for fiduciary acts on page 17 does not take account of AS 37.10.071(d) and (e) which make fiduciaries personally liable and extends state indemnification of their liability only insofar as their actions are prudent, even though insurance would cover all fiduciary acts whether prudent or not. These statutory provisions were adopted to assure the most careful adherence by fiduciaries to the dictates of prudence. I do not concur with the suggestion that board members be allowed to avail themselves of the State's insurance coverage of liability for fiduciary acts when those acts fail to meet the statutory standard of professional prudence contained in AS 37.10.071(c).

4. I am in agreement with portions of Recommendation No. 2. My specific comments are:
 - a. I agree that performance reports should cover the total fund and include cumulative rates-of-return, a reward versus risk analysis, and relevant graphics. The Department has awarded a new contract for outside performance measurement services that includes such information. The first reports under the new contract will be available following the end of the first quarter of fiscal year 1990.

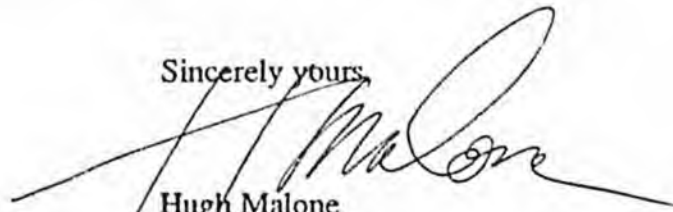
- b. I do not feel that other detailed analyses, mostly of individual manager portfolios, recommended in your report are useful either in establishing investment policy and asset allocations or evaluating manager or fund performance. Performance measurement data needs to be confined to comparative information that focuses on the bottom line -- rates-of-return -- and the critical policy variables -- asset allocation, bond maturity, and bond quality -- that contribute to it. The worst thing to do, if trying to ensure accountability, is to inundate fiduciaries with so much data that they can't see the forest for the trees or have time to adequately review the more critical information.
- c. If there are particular problems with the format of the report, the audit should identify them and I would be happy to consider changes. As part of the new performance measurement contract the Department will obtain any specific suggestions the contractor has for revising the format. However, the Department will not relieve the contractor of the obligation of supplying the reports in the format specified by the Department if revisions to the format decrease the report's intelligibility or appear to be for the convenience of the contractor. There is no industry standard for most of the presentations in these reports, the only possible exception being certain basic information set out in Tables I and II of the enclosed "Performance Presentation Standards" which no firm has yet adopted. Various performance measurement firms have various formats. Each has its own "standard" format and is reluctant to provide custom reports as required by the Department due to the extra time and expense involved.
- d. I agree that comparing performance to a larger universe is desirable, provided that, as your report stresses in several other places, the comparisons are meaningful. Under the circumstances it is not clear that the contractor can provide any larger universe that would be meaningful. The contractor, SEI Corporation, had the largest universes specified by the Department of the two firms responding to the RFP for these services. As part of the new contract, the Department will obtain the advice of the contractor on whether the universes can be meaningfully expanded.

The PERS and TRS funds are compared to two universes consisting of pension funds over \$500 million -- one State pension funds, the other corporate. These universes were established to provide more meaningful comparisons than a universe including many small pension plans. Small plans for the most part operate under more restrictive constraints, have less diversification into the various asset classes represented in PERS and TRS, and are less likely to have professional management. As pointed out on page 5 of your report, similarity in objectives, constraints, opportunities, and resources are critical to achieving valid comparisons.

Not unexpectedly, larger plans generally seem to have superior investment returns as indicated by the enclosed "EXHIBIT 7" prepared by SEI. The segregation of corporate and state plans is useful because their significant difference in asset allocations to equities, which results in significantly higher returns for corporate plans, focuses attention on this critical policy variable.

5. The Department will comply with Recommendation 3, beginning with its audited financial statements for fiscal year 1989. However, I would like to make three comments:
 - a. The statements on page 19 and 20 that Treasury does not account for foreign equity investments properly or in accordance with generally accepted accounting principles are overly broad. Treasury does account for foreign equity investments in accordance with generally accepted accounting principles, with the exception of its treatment of historical cost and the point of realization of foreign gains or losses. Treasury's statement of market value and total investment income for foreign equities is in accordance with generally accepted accounting principles. As stated by Ernst & Whinney in their annual audit of Treasury investments, the "differences would have no effect on total investment income".
 - b. The departure from GAAP and its effects are fully disclosed in Treasury's financial statements. Your report should acknowledge this. The statement on page 20 that "A departure from GAAP...will generally result in a qualified auditor's opinion disclosing the departure and what effect that departure has on the financial statements." may leave the reader with the impression that Treasury did not make this disclosure.
 - c. The departure from GAAP was based on consideration of a number of issues. These issues were fully discussed by Treasury staff and its independent auditors. The decision was personally reviewed by me. The issues are summarized in the enclosed memo of November 1, 1988. The report's failure to address the issues contained in the memo, which was provided to Legislative Audit, and its failure to acknowledge the Department's review of the issue may leave the reader with the impression that the departure was made arbitrarily or capriciously. In fact, the issues involved are very "close" as to what is the best accounting treatment. This is reflected in the fact that FASB-52, which is the accounting principle at issue here, was highly controversial and was adopted by the Financial Accounting Standards Board only by a 4-3 vote.

Sincerely yours,



Hugh Malone
Commissioner

HM/MBB/ph

encls.

PERFORMANCE PRESENTATION STANDARDS

Presented by the Committee for
Performance Presentation Standards

Claude Rosenberg, Jr., Chairman
R.H. Jeffrey
Robert Kirby
Dean LeBaron
John J.F. Sherrerd

Endorsed by the
Financial Analysts Federation

January 12, 1989

I. The FAF has endorsed the following standards for investment management performance presentation. Up to now, this all-important subject has been given insufficient attention; as a result, investment advisers (despite registration with the SEC) have been left to follow their own standards, which have been varied, uneven, and, in some instances, outright irresponsible and dishonest. If the investing public is to be treated fairly, and if the investment management industry is to represent the highest ethical and moral standards, a fair and understandable policy should be followed. The standards recommended earlier have been endorsed by the FAF Board of Directors after consideration of comments from its membership (which includes investment advisers, brokers, consultants, academicians and other interested parties).

II. The overall philosophy underlying these standards is the need for full disclosure of investment performance data to clients and client prospects. Certain statistics and presentation data have been delineated as requirements; but the main theme is that investment managers may present any reasonable statistics provided that their derivation, and particularly any exclusions therefrom, are highlighted and made abundantly clear.

III. Parties affected by these standards.

These standards are directed to "investment managers," which obviously includes all registered investment advisers, but the

standards also apply to other organizations and individuals, such as:

A. Stock brokers acting as "portfolio managers" for clients, particularly those who charge separate (from normal commissions) fees for their management services.

B. Mutual funds, where certain regulatory presentation practices can be deceptive (but which exist under different jurisdictions).

C. Consultants, where it is recommended that similar standards be set by a separate FAF Committee.

IV. While clients and client prospects are encouraged to make extensive qualitative judgments of investment managers, these FAF guidelines concentrate on the quantitative—on a complete, accurate and fair presentation of investment performance data.

V. Performance Calculation.

A. Time-weighted performance calculation is the mandatory methodology, since it represents the only practical method for comparing manager results over time.

B. Total return, including income and capital appreciation, is also mandatory.

V. Performance Calculation (Continued)

C. To allow for the most efficient judgment of manager efficiency and client investment returns, results should be presented before fees so long as the manager's fee schedule is included with performance presentation.

D. Managers and new clients should agree in advance on the starting date for performance calculation.

1. This starting date should be part of the Management Agreement and calculations should conform to such agreed-to date.

2. Since the precise starting date for managed funds is not always definite (due to legal problems, delay of receipt of funds, etc.), it is recommended that a specified period (i.e., 30 days after funds have become available for investment) be set as inception for performance calculation. Again, the time period will vary from manager to manager, dependent on manager style or client preference; but agreement in advance between manager and new client eliminates potential confusion and sets a consistent standard.

E. Computational Standards.

1. Portfolios should be valued at least quarterly. Monthly valuation (and linking) is the preferred frequency where practical.

2. A time-weighted return formula which minimizes the effect of contributions and withdrawals must be utilized. Daily accounting for contributions and withdrawals is the preferred method.

3. When a contribution (or withdrawal) is significant (e.g., over 10%) in relation to the latest calculation of market value, a portfolio is best revalued on the date of the contribution (or withdrawal) in order to reduce possible distortion.

4. Investment income should be included on a full accrual basis (as opposed to cash basis).

F. Performance results for any one asset class (such as equities) should include cash equivalents and any other securities (e.g., convertible securities in an equity portfolio) held by the manager in place of that asset.

V. Performance Calculation, Paragraph F.
(Continued)

1. If managers present performance results for any particular asset class excluding cash or other securities used by the manager in place of the asset class, performance with cash and the other securities should likewise be presented along with a statement that results so presented conform to FAF standards.

G. Compound annualized performance returns should be presented for all periods covered in presentation.

H. Exclusions from account performance calculations and presentation should be clearly stated.

1. Complete information on inclusions and exclusions of data should be presented, as per attached Tables I and II.

a. Managers should provide the percentages of their inclusions and exclusions to prospects. Thus, if the presented data constitutes 85% of the asset class (e.g., equities) managed, with 15% excluded, this should be so stated. If the presented data constitutes 50% of a particular type of in-

vesting within that asset class (e.g., small-to-medium capitalization equities), this should also be stated.

b. Examples of such exclusions might include:

Special category investments, such as assets not carrying full discretionary power within a manager's business in which other accounts are normally discretionary.

Client assets not being charged a fee, within a manager's business which is normally fee-based. As indicated throughout Section VIII., the performance of all fee-based accounts should be accounted for in manager measurement and presentation.

I. *Balanced accounts.*

1. *Balanced accounts, with both equity and fixed income assets, should be separated into two distinct equity and fixed income categories. Each such category should be assigned its own cash balances so that the performance of each*

V. Performance Calculation, Paragraph I.
Number 1. (Continued)

investment class will include returns specifically reflecting the use of cash equivalents and other substitutions. While managers may be able to supply sufficient risk and volatility information on each investment class to allow clients to make a reasonable judgment of results as if cash had been included, the information content from the separation of balanced portfolios into distinct asset "pots" (each with its own cash equivalent or substitute holdings) is too valuable to leave to manager choice.

2. *Assuming that the balanced account manager's assignment from the client is to periodically change the asset mix, managers altering the ratios between equities and fixed income should make bookkeeping transfers of cash from one category to the other. Accounting for such transfers should, of course, be based on the specific cash transfer dates.*

3. *Performance results from balanced accounts should, therefore, include the following:*

a. *Equities, including cash or substitute securities designated for potential investment in equities.*

b. *Fixed income, including cash or substitute securities designated for potential investment in fixed income.*

c. *Total account.*

4. *3.a. and 3.b. results should be compared against their respective, comparable indexes, as if they were separate equity and fixed income accounts.*

5. *While separating the parts of a balanced account as recommended provides valuable insights into the capabilities of managers in each distinct asset class, the most significant performance criterion is still the combined, total account results.*

6. *Results for the total account are best compared against equity and fixed income proportions that reflect client objectives/guidelines; these proportions should be agreed to in advance by client and manager.*

a. *Comparative performance should then be calculated by apportioning the returns from each of the indexes chosen to represent each asset class to the agreed-to*

V. Performance Calculation, Paragraph I. Number 6. (Continued)

percentage bogey for that asset class. Assume, therefore, that client and manager have agreed to a balanced account risk posture of 60% equities and 40% fixed income. The comparative indexes used for equities (assume the S&P 500) should be weighted at 60%, while the appropriate fixed-income indexes (assume the Shearson/Lehman Corporate/Govt. Index) should be weighted at 40%, producing a number against which the total account performance return should be compared.

J. *In addition to actual results, performance for accounts utilizing leverage should be calculated and presented as if they had been made for all-cash (no leverage).*

VI. *Indexes used for performance comparisons.*

A. *Managers should explain in advance any indexes used for performance comparisons to clients and prospects. These indexes should parallel the risk or investment styles the client account is expected to track.*

B. *Comparisons with specific measures (e.g., real returns adjusted for inflation, riskless returns from T-Bills, etc.) may be used so long as FAF standards on other factors, as presented herein, are followed.*

VII. *Treatment of convertible securities.*

A. *Convertible securities should normally be included in equity performance, unless manager and client agree in advance to their inclusion in fixed income. If convertibles are subsequently shifted from equity segments to fixed income, or vice versa, clients should be notified at the time of such shifting.*

VIII. *Formation and presentation of composite performance results by managers.*

A. *All managers should construct and present accurate composites of investment performance. Rules for such composites include:*

1. *Managers should compile and present such results for as long a period of time as accurate accounting can be accomplished, no less than 10 years if possible and up to 20 if practical.*

2. *Management organizations in business for less than 20 years should include results from the very first full calendar year since their inception.*

VIII. Formation and presentation of composite performance results by managers, Paragraph A.
(Continued)

3. *Each and every year of such results should be presented to prospective clients, unless specific requests are for different periods.*

4. *Results presented to client prospects should be shown both for individual years and cumulative periods, as indicated in attached Table I.*

5. *All client accounts should be included for whatever period such accounts were under management; portions of periods under management (i.e., managers choosing inclusion of portions) is prohibited.*

6. *Clients' accounts no longer under management should be included in composite(s). So-called "survivor" performance results are to be avoided.*

7. *Changes in a manager firm's organization should not lead to an altering of composite results. Results achieved by an organization are the organization's responsibility; changes in personnel do not constitute a justifiable reason to alter composite performance results.*

8. *Managers are encouraged to construct separate composites where valid reasons exist for doing so. A differentiation between taxable versus nontaxable accounts; fully discretionary versus not-fully-discretionary; and other categories which entail varied investment styles, controls, or risks constitute valid reasons for separate composites. As indicated in Paragraph 9.d. below, however, managers should list all of their composites, with performance figures and other pertinent information on each, whenever performance results are presented. Any and all exclusions from any presentation of performance results should be clearly stated.*

9. *Composite performance calculation and presentation should be weighted by account sizes. A median of unweighted results may also be presented, but this should be accompanied by results weighted by account size, along with the statement that the latter is the recommended procedure as set by the FAF.*

VIII. Formation and presentation of composite performance results by managers, Paragraph A, Number 9. (Continued)

Managers should also clearly delineate the following:

- a. The number of client relationships included in each (and all) composite(s);*
 - b. The total size of the composite for the beginning (January 1) and end of each year;*
 - c. The weighted average size of accounts constituting the composite.*
 - d. As indicated above, information on all excluded assets from any composite presentation should be presented.*
10. *Fixed income and equity portions of balanced accounts should be included in their respective equity and fixed income composites, provided they conform to Section V., Paragraph 1. above on balanced account calculations.*
11. *Balanced account composites should include only those accounts where the manager has*

discretion over changes from one asset to another. If the client has set balanced limits from which the manager should not deviate, the segregated assets (with their respective cash positions) should be included only with their like asset composite. (Example: Client gives Manager \$6 million for bond management and \$4 million for stock management, with no changes in mix to be made by Manager. The \$6 million should be added to the Manager's bond composite and \$4 million added to Manager's stock composite—nothing to be included in Manager's balanced account composite.)

12. *Since performance results will be reported to clients along with either actual or average fee information (See Section V., Paragraph C.), composite figures should likewise contain sufficient information to enable clients and prospects to compute performance on both a pre- and post-fee basis.*

13. *Managers should indicate typical indexes against which any and all composites are normally judged by respective clients. Thus, a manager's equity composite which includes accounts with both large and small capitalization equities of comparable weighted size*

VIII. Formation and presentation of composite performance results by managers, Paragraph A, Number 13. (Continued)

to the S&P 500 should be compared against the S&P 500, while a small-to-medium capitalization stock composite should be compared against NASDAQ, Russell 3000, etc. An account with, for example, 50% of its total in small-to-medium capitalization stocks and 50% in large capitalization stocks should be compared against similar-weighted separate indexes, rather than against either one of the two.

14. *Composites should follow the same treatment of returns with and without cash as indicated in Section V., Paragraph F.*

15. *Presentation of risk measurements such as Alpha, Beta and Standard deviation for individual account returns within any composite is encouraged.*

16. *Other pertinent information for use in performance analysis should be added to composite presentations. For example, managers are encouraged to include (for each period) average market capitalization of stocks held, average quality and duration of bond holdings, etc.*

B. *Table II provides a sample recommended format for composite performance presentation to client prospects and consultants. Table II should accompany the specific performance results as presented in Table I.*

IX. Verification of composites.

A. *Audited composite and other performance figures are encouraged. At the very least, managers presenting performance data should make a positive written statement that full disclosure of assets included and excluded has been made and that calculations conform to FAF standards. Any deviations from these FAF standards should be specifically stated.*

B. *The principles of these FAF performance presentation standards should apply to all individuals and organizations serving investment management functions. Consultants are likewise encouraged to adopt similar standards and principles in reporting performance data.*

X. *Table III is a checklist for managers and clients—to assure proper conformance to the standards presented above.*

TABLE I

XYZ Capital Management: Actual and Annualized Equity Performance Versus S&P 500
 Category of Accounts: Tax-Exempt Client Portfolios
 Annualized Percentage Returns for N Years Through Year X

Year	Standard Deviation ⁽⁹⁾	Actual Return (%)	2 Yrs.	3 Yrs.	4 Yrs.	5 Yrs.	6 Yrs.	7 Yrs.	8 Yrs.	9 Yrs.	10 Yrs.	11 Yrs.	12 Yrs.	13 Yrs.	14 Yrs.	15 Yrs.	16 Yrs.	17 Yrs.
'87	1.2%	10.72 5.24	14.30 11.75	19.80 18.05	15.51 15.00	16.07 16.47	17.47 17.30	14.28 13.82	17.58 16.00	18.19 16.29	17.39 15.28	15.06 13.03	15.08 13.90	15.44 15.55	12.75 11.88	10.78 9.88	13.25 10.42	12.25 10.65
'86	3.0%	17.99 18.67	24.62 25.04	17.15 18.45	17.44 19.46	18.87 19.87	14.89 15.33	18.59 17.62	19.16 17.75	18.15 16.45	15.51 13.84	15.48 14.73	15.84 16.45	12.91 12.41	10.79 10.21	11.84 10.78	12.35 11.00	
'85	1.9%	31.61 31.75	16.73 18.34	17.26 19.72	19.09 20.18	14.28 14.66	18.70 17.45	19.32 17.61	18.17 16.18	15.23 13.32	15.24 14.34	15.64 16.25	12.50 11.90	10.25 9.59	11.41 10.24	11.99 10.50		
'84	3.0%	3.54 6.29	10.68 14.13	15.18 16.55	10.31 10.75	16.27 14.78	17.40 15.42	16.36 14.11	13.34 11.21	13.55 12.55	14.17 14.31	10.91 10.25	8.64 7.92	9.99 8.73	10.70 9.12			
'83	2.8%	18.32 22.55	21.49 22.05	12.67 12.28	19.69 17.01	20.38 17.34	18.66 15.48	14.80 11.92	14.86 13.36	15.40 15.79	11.67 10.66	9.11 8.07	10.55 8.94	11.27 9.34				
'82	6.8%	24.75 21.54	9.94 7.47	20.15 15.21	20.90 16.07	18.72 14.11	14.24 10.25	14.27 12.10	15.04 14.98	10.95 9.41	8.23 6.72	9.87 7.78	10.70 8.31					
'81	3.5%	- 3.10 - 4.97	17.92 12.18	19.65 14.29	17.26 12.32	12.24 8.12	12.74 10.61	13.72 14.06	9.34 7.98	6.54 5.19	8.48 6.49	9.51 7.18						
'80	4.4%	43.50 32.42	32.96 25.35	24.95 18.75	16.44 11.66	16.20 14.02	16.80 17.60	11.24 9.96	7.81 6.53	9.85 7.85	10.86 8.48							
'79	3.1%	23.19 18.65	16.60 12.46	8.61 5.29	10.23 9.83	12.08 14.83	6.63 6.61	3.49 3.27	6.24 5.12	7.72 6.10								
'78	2.4%	10.37 6.59	1.98 - 0.53	6.22 7.04	9.47 13.90	3.59 4.36	0.53 0.91	4.02 3.31	5.93 4.63									
'77	2.4%	- 5.77 - 7.17	4.21 7.26	9.17 16.44	1.96 3.80	-1.33 -0.19	2.99 2.78	5.31 4.35										
'76	2.5%	15.24 23.94	17.51 30.42	4.67 7.74	- 0.19 1.64	4.84 4.89	7.29 6.40											
'75	2.9%	19.82 37.23	- 0.24 0.46	- 4.85 - 4.87	2.39 0.60	5.76 3.21												
'74	3.0%	-16.94 -26.46	-15.21 -20.80	-2.83 - 9.28	2.51 - 3.89													
'73	2.7%	-13.45 -14.69	5.10 0.75	9.96 5.08														
'72	3.2%	27.62 19.00	23.94 16.62															
'71	3.1%	20.37 14.30																

XYZ CAPITAL MANAGEMENT COMPOSITE
 OF ALL CLIENTS (BOLD)

S&P 500 INDEX

Characteristic Line⁽¹⁰⁾

Beta = .89

Annual Alpha = +2.6%

R² = 90.3%

This performance presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated 1/19/93).

In addition to the information presented herein, such standards include:

- 1) Returns from all cash reserves and equivalents and/or bonds used by the manager in place of equities are included in performance calculations.
- 2) Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- 3) No selective periods of performance have been utilized. Results from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- 4) The composite calculation has been appropriately weighted for the size of each account.
- 5) Results are presented before management and related custodial fees. XYZ Capital fee schedule is attached.
- 6) Convertible securities have been included in these equity results.
- 7) No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- 8) The composites have been audited as of 3/31/88 (statement attached).
- 9) Approximately two thirds of all portfolios had returns equal to the composite "actual return" +/- one standard deviation.
- 10) The characteristic line is a regression of manager composite performance versus S&P 500 over the full performance history (17 years).

TABLE II

XYZ Capital Management Equity Account Summary
Category: Tax-Exempt Client Portfolios

Year	Composite Assets (\$000)		% Equiv. Equity Assets ⁽⁹⁾	% XYZ's Total Equities Managed	# of Clients	Average Account Size (\$000)	Median Account Size (\$000)
	Reg. Yr.	Yr. End					
1987	5,506,550	5,881,173	100%	96%	65	80,580	40,813
1986	4,456,012	5,506,550	100	90	62	77,557	28,726
1985	3,463,639	4,464,521	100	92	57	65,655	38,975
1984	3,253,627	3,439,790	100	93	55	52,118	25,926
1983	2,486,902	3,253,627	100	91	56	48,562	20,608
1982	1,840,726	2,480,485	100	89	52	42,042	20,933
1981	1,749,541	1,840,726	100	90	51	31,737	19,262
1980	1,133,875	1,749,541	100	91	45	35,705	26,285
1979	850,993	1,133,875	100	92	42	22,622	12,882
1978	645,561	850,993	100	90	41	18,500	11,268
1977	677,257	645,561	100	85	42	14,345	7,510
1976	540,736	677,257	100	87	44	13,822	7,588
1975	343,959	540,736	100	88	43	11,265	6,058
1974	317,764	343,959	100	90	40	8,000	4,801
1973	179,007	317,764	100	98	33	8,362	6,795
1972	78,626	179,007	100	98	21	7,459	1,997
1971	28,205	78,626	100	98	14	4,914	927

This composite presentation of XYZ Capital Management conforms to the standards set by the Financial Analysts Federation (standards dated , 19).

In addition, to the information presented herein, such standards include:

- 1) All cash reserves and equivalents and/or bonds used by the manager in place of equities are included in composite presentations.
- 2) Figures include accounts under our management from their respective inception dates, including those clients no longer with the firm.
- 3) No selective periods for presentation have been utilized. Data from all accounts have been continuous from their inception to the present or to the cessation of the client relationship with the firm.
- 4) The composite calculation has been appropriately weighted for the size of each account.
- 5) Results are presented before management and related custodial fees. The average fee charged for each period appears in the presentation.
- 6) Convertible securities have been included in these equity composites.
- 7) No alterations of composites as presented here have occurred due to changes in personnel or other reasons at any time.
- 8) The data have been audited as of 3/3/88 (statement attached).
- 9) Percentage of "equivalent" equity assets means the amount (%) of accounts represented which share very comparable investment guidelines and risks.

Table III

*FAF Investment Manager Performance
Presentation Standards Checklist*

Following is a checklist for investment managers, their clients and prospects, and for consultants—to assure proper conformance to the Financial Analyst Federation "Performance Presentation Standards of January 12, 1989."

I. Performance calculations.

A. Performance results have been calculated on a time-weighted basis.

B. Returns combine income and current market valuations (thus, presenting so-called total returns).

C. Manager fee levels have been disclosed along with performance records so that after-fee results can be measured.

D. Performance results of broad security classes such as equities or fixed income have been calculated with cash or substitute securities included. If cash has been excluded in the calculations, returns with cash have also been presented, along with the statement that FAF standards consider performance with cash as most representative of managerial results and most representative for comparisons with other managers.

E. All exclusions from performance calculations and presentation by manager have been disclosed.

F. The method of linking interim performance results (daily, monthly, quarterly) has been explained. (FAF standard is for monthly linking.)

G. Biased account performance.

1. Manager has assigned cash and substitute securities to the specific asset category to which it belongs, thereby allowing a clear division of the performance record for each asset managed.

2. If cash and substitute securities are not assigned to a separate asset, comparisons should not be made against other managers' performance figures for assets where cash returns have been included.

3. Manager has supplied information on risk, volatility and/or other measures which allow for reasonable performance evaluation.

H. *Convertible securities have been consistently assigned to either equities or fixed income, and have not been shifted without notice being given to clients concurrent or prior to such shift.*

J. *Managers have provided the indexes against which their submitted performance records have normally been compared.*

K. *If managers' assets have been leveraged, and performance returns calculated on this basis, results on an all-cash (unleveraged) basis have been provided.*

II. *Investment manager composites of performance results.*

A. *Manager has submitted a composite of all accounts managed for each period submitted; the composite includes results from any and all accounts no longer clients of the firm.*

B. *If a manager has separate composites, all have been submitted. A prospect should be able to account for the performance of all of the manager's assets managed.*

C. *Composites are not "survivors only" compilations; they include results of all accounts ever managed, including those of clients no longer with the firm.*

D. *All performance results contained in the composite include cash and substitutable securities, as per I.D. above.*

E. *All individual years and cumulative performance results for all periods have been supplied. The composite covers every year of the past 10 years, along with longer term results if the manager has been in business this long.*

F. *Compound annualized returns have also been provided for all periods.*

G. *A clear statement from manager indicates that no selectivity of account results for partial periods exists.*

H. *Composite or other data have not been altered for reasons of personnel changes or any other reasons.*

I. *Composite results are:*

1. *Weighted for the dollars under management (the FAF standard).*

2. *Presented on a median (unweighted) basis (recommended only as additional information, not as the primary disclosure).*

- J. *Data includes:*
 - 1. *Number of client relationships in the composite.*
 - 2. *Assets under management for each period.*
 - 3. *Average and median size of accounts in the composite have been presented.*
 - 4. *Assets included in the composite presented are shown as a percentage of the manager's total accounts which share very comparable investment guidelines and risks; and as a percentage of the manager's total funds under management. All clients and related performance data for this asset type can be accounted for.*
- K. *Fee information is clear, so that pre- and post-fee results can be determined.*
- L. *Composites include typical indexes against which manager has been judged.*
- M. *Alpha, Beta, Standard Deviation of Returns and other measures of risk, quality, variability, etc. within the composite for each year have been indicated.*

- N. *Other information provided:*

III. *Verification of performance data.*

- A. *Results have been audited by reputable auditors.*
- B. *Results are not audited, but include statements that calculations and presentation of individual accounts and composites conform to FAF performance presentation standards.*
- C. *Neither of A. or B. above.*

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

PERS AND TRS FINANCIAL PROJECTIONS

FEBRUARY 21, 1989

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WILLIAM M.
MERCER MEIDINGER HANSEN
INCORPORATED

February 21, 1989

Mr. James R. Wilson
Statement Investment Officer
State of Alaska
Department of Revenue
Treasury Division
P.O. Box SB
Juneau, AK 99811

Re: PERS and TRS Financial Projections

Dear Jim:

Enclosed you will find our actuarial projections of financial results for both PERS and TRS for the next 15 years. As always, care should be exercised in using these long-term financial projections.

For both PERS and TRS, we provide projections based upon four different sets of actuarial assumptions. The first table for each retirement system is based upon the current actuarial assumption which assumes an investment return rate of 9% per year and salary increases of 6.5% for the first five years of employment and 5.5% for later years of employment. Then, for each retirement system, we provide three additional projections. The first one assumes a 1% higher investment return with no change in the salary increase assumption; the second one assumes no change in the investment assumption but a 1% lower rate of salary increase assumption; the last one, which provides the most optimistic scenario, bases its projections upon a 1% higher rate of investment return with the 1% lower salary increase assumption.

For both PERS and TRS, there were actuarial losses during FY88. These losses led to lower funding ratios and increases in employer contribution rates. There were three major deviations from actuarial assumptions during the year. Of greatest importance was the substantial increase in the monthly premiums for retiree medical insurance. The monthly rate is currently \$250 per month per benefit recipient. After a few years of declining retiree medical insurance premiums, the rates have once again shot skyward.

There were actuarial losses from less-than-anticipated investment return rates during the year. Even with the three-year smoothing approach used on valuation assets, the dramatic drop in equity values on October 19, 1987 still had an affect on the total investment performance for the year. Based upon valuation assets, both PERS and TRS had investment performance rates during the year which were about 3% less than our 9% interest assumption.

William M. Mercer Meidinger Hansen, Incorporated

Mr. James R. Wilson
February 21, 1989
Page Two


Partially dampening the affects of these two actuarial losses were the less-than-anticipated salary increases during the year. Both PERS and TRS experienced actuarial gains in this area.

The projections this year, when compared with last year's projections, all show slightly lower funding ratios and slightly higher employer contributions at all durations. More than anything else, this reflects the impact of the higher cost of post-retirement medical insurance. Also, this year's projections include additional employer contributions for the Retirement Incentive Program.

Summary

Despite actuarial gains from less-than-anticipated salary increases during FY88, actuarial losses from a dramatic rise in retiree medical insurance premiums, as well as less-than-anticipated investment performance, led to a decrease in funding ratios for both PERS and TRS. Nevertheless, both plans are still extremely well funded and are projected to remain so in the ensuring years.

Sincerely,



Robert F. Richardson, ASA, EA, MAAA
Principal

RFR:js

Table I
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)					Ending Asset Valuation		
	Total Assets	Accrued Liability	Surplus* (Deficit)	Flow Amounts During Following 12 Months							
				Total Salaries	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings	
1988	1,331,905	1,348,677	(16,772)	413,556	57,004	37,085	94,089	78,902	17,987	126,075	1,475,967
1989	1,475,967	1,482,362	(6,395)	438,535	59,519	39,723	99,242	83,548	15,694	139,521	1,631,182
1990	1,631,182	1,628,457	2,725	465,022	57,897	38,667	96,564	80,385	8,179	153,781	1,793,142
1991	1,793,142	1,784,918	8,224	493,110	57,715	37,723	95,438	93,429	2,009	168,735	1,963,887
1992	1,963,887	1,952,792	11,094	522,893	60,979	39,897	100,876	98,692	2,183	184,802	2,150,872
1993	2,150,872	2,136,494	14,378	554,476	64,418	41,196	106,614	104,192	2,421	202,398	2,355,692
1994	2,355,692	2,337,571	18,121	587,967	68,040	44,627	112,667	109,945	2,722	221,675	2,580,089
1995	2,580,089	2,557,711	22,378	623,480	71,855	47,197	119,052	114,912	4,240	242,848	2,827,177
1996	2,827,177	2,799,971	27,206	661,138	75,870	49,916	125,706	125,013	773	265,931	3,093,880
1997	3,093,880	3,061,206	32,675	701,071	80,095	52,791	132,886	129,756	3,130	291,120	3,388,130
1998	3,388,130	3,349,291	38,839	743,415	84,542	55,830	140,372	138,434	1,938	318,741	3,708,810
1999	3,708,810	3,663,024	45,786	788,318	89,218	59,124	148,342	146,321	2,021	348,904	4,059,735
2000	4,059,735	4,006,144	53,591	835,932	94,136	62,695	156,831	151,330	5,501	382,066	4,447,302
2001	4,447,302	4,384,959	62,343	886,422	99,307	66,482	165,789	155,844	9,944	418,716	4,875,967
2002	4,875,967	4,803,804	72,158	939,962	104,740	70,497	175,237	165,218	10,019	459,035	5,345,017
2003	5,345,017	5,261,848	83,169	996,736	110,445	74,755	185,200	172,835	12,366	503,255	5,860,638

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	9.00%
1989	99.6	13.57%	9.06%	22.63%	19.05%	1.01%	9.00%
1990	100.2	12.45%	8.32%	20.77%	19.01%	0.48%	9.00%
1991	100.5	11.70%	7.65%	19.35%	18.95%	0.11%	9.00%
1992	100.6	11.66%	7.63%	19.29%	18.87%	0.11%	9.00%
1993	100.7	11.62%	7.61%	19.23%	18.79%	0.11%	9.00%
1994	100.8	11.57%	7.59%	19.16%	18.70%	0.11%	9.00%
1995	100.9	11.52%	7.57%	19.09%	18.41%	0.16%	9.00%
1996	101.0	11.48%	7.55%	19.03%	18.91%	0.03%	9.00%
1997	101.1	11.42%	7.53%	18.95%	18.51%	0.10%	9.00%
1998	101.2	11.37%	7.51%	18.88%	18.62%	0.05%	9.00%
1999	101.2	11.32%	7.50%	18.82%	18.56%	0.05%	9.00%
2000	101.3	11.26%	7.50%	18.76%	18.10%	0.13%	9.00%
2001	101.4	11.20%	7.50%	18.70%	17.58%	0.21%	9.00%
2002	101.5	11.14%	7.50%	18.64%	17.58%	0.20%	9.00%
2003	101.6	11.08%	7.50%	18.58%	17.34%	0.22%	9.00%

Table 2
State of Alaska IRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases 6.04% (6.5/5.5 assumed)				Ending Asset Valuation			
	--Valuation Total Assets	Amounts on Accrued Liability	July 1-- Surplus* (Deficit)	-----Flow Amounts During Following 12 Months-----							
				Total Salaries	Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings	
1988	1,531,905	1,348,677	(16,772)	413,556	59,004	37,885	96,889	78,902	17,987	140,749	1,490,641
1989	1,490,641	1,482,362	8,279	438,535	57,237	39,723	96,960	83,548	13,413	157,188	1,661,242
1990	1,661,242	1,628,457	32,785	465,022	55,090	38,667	93,757	88,385	5,372	174,699	1,841,313
1991	1,841,313	1,704,918	56,394	493,110	53,216	37,723	90,939	93,429	(2,490)	193,213	2,032,036
1992	2,032,036	1,952,792	79,244	522,893	54,614	39,897	94,511	98,692	(4,181)	213,155	2,241,009
1993	2,241,009	2,136,494	104,515	554,476	56,000	42,196	98,195	104,192	(5,997)	235,006	2,470,018
1994	2,470,018	2,337,571	132,448	587,967	57,363	44,627	101,989	109,745	(7,956)	258,954	2,721,016
1995	2,721,016	2,557,711	163,306	623,480	58,692	47,197	105,890	114,812	(8,922)	285,261	2,997,355
1996	2,997,355	2,799,771	197,384	661,138	59,976	49,916	109,892	125,013	(15,122)	313,966	3,296,199
1997	3,296,199	3,061,206	234,994	701,071	61,199	52,791	113,990	129,756	(15,766)	345,313	3,625,746
1998	3,625,746	3,349,291	276,455	743,415	62,349	55,830	118,180	138,434	(20,254)	379,691	3,985,182
1999	3,985,182	3,663,024	322,159	788,318	63,406	59,124	122,530	146,321	(23,791)	417,255	4,378,646
2000	4,378,646	4,006,144	372,501	835,932	64,351	62,695	127,046	151,330	(24,284)	458,544	4,812,905
2001	4,812,905	4,384,759	427,946	886,422	65,161	66,482	131,643	155,844	(24,202)	504,145	5,292,848
2002	5,292,848	4,803,804	489,044	939,962	65,804	70,497	136,302	165,218	(28,917)	554,303	5,818,235
2003	5,818,235	5,261,848	556,386	996,736	66,248	74,755	141,003	172,835	(31,831)	609,323	6,395,726

- * Surpluses reduce employer contributions over 5 years
- * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.27%	9.16%	23.43%	19.08%	1.28%	10.00%
1989	100.6	13.05%	9.06%	22.11%	19.05%	0.85%	10.00%
1990	102.0	11.85%	8.32%	20.16%	19.01%	0.31%	10.00%
1991	103.2	10.79%	7.65%	18.44%	18.95%	-0.13%	10.00%
1992	104.1	10.44%	7.63%	18.07%	18.87%	-0.20%	10.00%
1993	104.9	10.10%	7.61%	17.71%	18.79%	-0.26%	10.00%
1994	105.7	9.76%	7.59%	17.35%	18.70%	-0.31%	10.00%
1995	106.4	9.41%	7.57%	16.98%	18.41%	-0.31%	10.00%
1996	107.0	9.07%	7.55%	16.62%	18.91%	-0.48%	10.00%
1997	107.7	8.73%	7.53%	16.26%	18.51%	-0.46%	10.00%
1998	108.3	8.35%	7.51%	15.90%	18.62%	-0.53%	10.00%
1999	108.8	8.04%	7.50%	15.54%	18.56%	-0.57%	10.00%
2000	109.3	7.70%	7.50%	15.20%	18.10%	-0.53%	10.00%
2001	109.8	7.35%	7.50%	14.85%	17.58%	-0.48%	10.00%
2002	110.2	7.00%	7.50%	14.50%	17.58%	-0.52%	10.00%
2003	110.6	6.65%	7.50%	14.15%	17.34%	-0.52%	10.00%

Table 3
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 9.00% (nominal)			Salary Increases 5.04% (5.5/4.5 assumed)				Ending Asset Valuation			
	---Valuation Total Assets	Amounts on July 1-- Accrued Liability	Surplus* (Deficit)	-----Flow Amounts During Following 12 Months----- Total Employer Employee Total Salaries Contribs Contribs Contribs							
				Benefit Payments	Net Contribs	Investment Earnings					
1988	1,331,905	1,348,677	(16,772)	409,656	58,541	37,584	96,116	78,590	17,536	126,055	1,475,495
1989	1,475,495	1,476,121	(626)	430,303	57,181	39,090	96,272	82,889	13,383	139,373	1,628,251
1990	1,628,251	1,614,564	13,687	451,990	55,328	37,668	92,995	87,343	5,653	153,391	1,787,295
1991	1,787,295	1,761,762	25,532	474,770	53,923	36,320	90,243	91,961	(1,718)	168,018	1,953,594
1992	1,953,594	1,918,539	35,056	499,699	55,872	38,051	93,922	96,757	(2,834)	183,608	2,134,368
1993	2,134,368	2,089,059	45,309	523,853	57,895	39,864	97,759	101,741	(3,982)	200,558	2,330,944
1994	2,330,944	2,274,591	56,353	550,234	59,995	41,763	101,757	106,927	(5,169)	218,993	2,544,767
1995	2,544,767	2,476,514	68,252	577,966	62,172	43,752	105,924	111,171	(5,247)	239,099	2,778,619
1996	2,778,619	2,697,541	81,078	607,096	64,429	45,836	110,265	120,690	(10,425)	260,860	3,029,054
1997	3,029,054	2,934,142	94,912	637,693	66,766	48,018	114,784	124,686	(9,901)	284,437	3,303,589
1998	3,303,589	3,193,767	109,822	669,833	69,185	50,304	119,490	132,547	(13,057)	310,115	3,600,647
1999	3,600,647	3,474,741	125,906	703,592	71,687	52,769	124,456	139,543	(15,087)	337,962	3,923,522
2000	3,923,522	3,780,270	143,252	739,053	74,272	55,429	129,701	143,580	(13,879)	368,383	4,278,026
2001	4,278,026	4,116,064	161,962	776,302	76,943	58,223	135,165	147,035	(11,869)	401,814	4,667,971
2002	4,667,971	4,485,809	182,162	815,427	79,696	61,157	140,853	155,255	(14,402)	438,375	5,091,944
2003	5,091,944	4,887,549	203,995	856,525	82,531	64,239	146,771	161,618	(14,847)	478,229	5,555,326

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	98.8	14.29%	9.17%	23.46%	19.18%	1.25%	9.00%
1989	100.0	13.29%	9.08%	22.37%	19.26%	0.86%	9.00%
1990	100.8	12.24%	8.33%	20.57%	19.32%	0.33%	9.00%
1991	101.4	11.36%	7.65%	19.01%	19.37%	-0.09%	9.00%
1992	101.8	11.20%	7.63%	18.83%	19.40%	-0.14%	9.00%
1993	102.2	11.05%	7.61%	18.66%	19.42%	-0.18%	9.00%
1994	102.5	10.90%	7.59%	18.49%	19.43%	-0.21%	9.00%
1995	102.8	10.76%	7.57%	18.33%	19.23%	-0.20%	9.00%
1996	103.0	10.61%	7.55%	18.16%	19.88%	-0.36%	9.00%
1997	103.2	10.47%	7.53%	18.00%	19.55%	-0.31%	9.00%
1998	103.4	10.33%	7.51%	17.84%	19.79%	-0.38%	9.00%
1999	103.6	10.19%	7.50%	17.69%	19.83%	-0.40%	9.00%
2000	103.8	10.05%	7.50%	17.55%	19.43%	-0.34%	9.00%
2001	103.9	9.91%	7.50%	17.41%	18.94%	-0.27%	9.00%
2002	104.1	9.77%	7.50%	17.27%	19.04%	-0.30%	9.00%
2003	104.2	9.64%	7.50%	17.14%	18.87%	-0.28%	9.00%

Table 4
State of Alaska TRS
Financial Projections ('000 omitted)

As of June 30	Investment Return 10.00% (nominal)			Salary Increases			5.04% (5.5/4.5 assumed)			Ending Asset Valuation	
	---Valuation Total Assets	Amounts on Accrued Liability	July 1--- Surplus* (Deficit)	-----Flow Total Salaries	Employer Contribs	Employee Contribs	Amounts During Total Contribs	Following Benefit Payments	12 Months--- Net Contribs		Investment Earnings
1988	1,331,905	1,340,577	(16,772)	409,656	58,541	37,584	96,126	78,590	17,536	140,727	1,490,167
1989	1,490,167	1,476,121	14,046	430,303	55,722	39,090	94,812	82,889	11,923	157,064	1,659,155
1990	1,659,155	1,614,564	44,590	451,590	52,441	37,668	90,109	87,343	2,766	174,350	1,836,270
1991	1,836,270	1,761,762	74,508	474,770	49,349	36,320	85,669	91,961	(6,293)	192,494	2,022,472
1992	2,022,472	1,918,539	103,933	498,699	49,439	38,051	87,489	96,757	(9,267)	211,896	2,225,101
1993	2,225,101	2,089,059	136,042	523,833	49,421	39,864	89,284	101,741	(12,456)	233,013	2,445,657
1994	2,445,657	2,274,591	171,066	550,234	49,281	41,763	91,044	106,927	(15,883)	256,000	2,685,773
1995	2,685,773	2,476,514	209,259	577,966	49,003	43,752	92,755	111,171	(18,417)	281,085	2,940,442
1996	2,948,442	2,697,541	250,901	607,096	48,568	45,836	94,404	120,690	(26,286)	308,272	3,230,428
1997	3,230,428	2,934,142	296,286	637,693	47,958	48,018	95,976	124,686	(28,709)	337,760	3,539,479
1998	3,539,479	3,193,767	345,711	669,833	47,154	50,304	97,458	132,547	(35,089)	369,891	3,874,281
1999	3,874,281	3,474,741	399,540	703,592	46,130	52,769	98,900	139,543	(40,643)	404,767	4,238,405
2000	4,238,405	3,780,270	458,135	739,053	44,863	55,429	100,292	143,580	(43,288)	442,868	4,637,985
2001	4,637,985	4,116,064	521,921	776,302	43,324	58,223	101,546	147,035	(45,488)	484,714	5,077,211
2002	5,077,211	4,485,809	591,402	815,427	41,475	61,157	102,632	155,255	(52,624)	530,476	5,555,063
2003	5,555,063	4,887,949	667,114	856,525	39,277	64,239	103,517	161,618	(58,101)	580,377	6,077,339

* Surpluses reduce employer contributions over 5 years
 * Deficits increase employer contributions over 25 years

PERCENTAGE RATIO RELATIONSHIPS OF ABOVE DATA

As of June 30	Funding Ratio	-----As % of Salaries-----				--As % of Assets--	
		Employer Contribs	Employee Contribs	Total Contribs	Benefit Payments	Net Contribs	Investment Earnings
1988	78.8	14.29%	9.17%	23.46%	19.18%	1.25%	10.00%
1989	101.0	12.95%	9.08%	22.03%	19.26%	0.76%	10.00%
1990	102.8	11.60%	8.33%	19.94%	19.32%	0.16%	10.00%
1991	104.2	10.39%	7.65%	18.04%	19.37%	-0.33%	10.00%
1992	105.4	9.91%	7.63%	17.54%	19.40%	-0.44%	10.00%
1993	106.5	9.43%	7.61%	17.04%	19.42%	-0.53%	10.00%
1994	107.5	8.96%	7.59%	16.55%	19.43%	-0.62%	10.00%
1995	108.4	8.48%	7.57%	16.05%	19.23%	-0.66%	10.00%
1996	109.3	8.00%	7.55%	15.55%	19.08%	-0.85%	10.00%
1997	110.1	7.52%	7.53%	15.05%	19.55%	-0.85%	10.00%
1998	110.8	7.04%	7.51%	14.55%	19.79%	-0.95%	10.00%
1999	111.5	6.56%	7.50%	14.06%	19.83%	-1.00%	10.00%
2000	112.1	6.07%	7.50%	13.57%	19.43%	-0.98%	10.00%
2001	112.7	5.58%	7.50%	13.08%	18.94%	-0.94%	10.00%
2002	113.2	5.09%	7.50%	12.59%	17.04%	-0.99%	10.00%
2003	113.6	4.59%	7.50%	12.09%	18.87%	-1.00%	10.00%