

ALASKA LEGISLATURE COMMITTEE FILES

1993-1994

8672

427

8162

HOUSE STATE AFFAIRS

Why didn't we just quit? My wife and I are in our fifties and we were in the middle of a depressed economy. It takes some doing to support a family on \$1500 per month - try doing it on nothing. We didn't dare quit until we already had other job offers. It took two years of slaving under Bobich and his partners before that would happen.

We initially had no intention of suing anyone. People like us just don't win lawsuits against people like Bobich. But our son insisted that we could sue him and win back at least a part of what he had promised us. It took a lot of talking before he convinced us to find an attorney, Ken Legacki, who was willing to help us. Two years and a lot of heartache later, we won. If these two bills had been law at the time, we not only wouldn't have won, we wouldn't have tried.

HB 459 would require losing employees to pay for their employer's lawyers. If we knew that we would have to pay Bobich's high-powered gang of lawyers if we lost, we would never have considered filing suit. I don't think that is how the system is supposed to work. It's there to protect people like us from people like Bobich. The Act as it stands now eases exploited employees' fears and offers them a chance at equal justice, something they wouldn't have otherwise. If those exploited employees faced bankruptcy if they lost, there would be no more wage and hour suits in Alaska.

HB 459 would also preclude a lawsuit if a "private settlement" is reached with the employer. In the early stages of our lawsuit, Bobich offered to settle for \$5000, a fraction of what he owed us. We almost accepted it, because we didn't think we would win anyway. If HB 459 becomes law, that "settlement" would have been legal and enforceable.

Exploiting labor is criminal, isn't it? If someone burglarizes your home, and they pay you back at ten cents on the dollar, wasn't a crime still committed? As far as we are concerned, settlement offers like Bobich's \$5000 amount to hush money, and that shouldn't be legal. Under the Act as it stands now, it isn't. The employer can try to buy you off with peanuts, but you still aren't waiving your ability to seek justice. HB 459 would allow unscrupulous employers to threaten their way into minuscule settlements without fear of retribution. The right to sue for redress is a basic right - you shouldn't be able to waive it under intimidation.

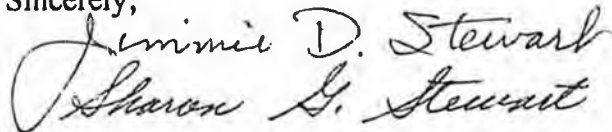
Finally, HB 459 would exempt employers from paying liquidated damages if the Court finds that they "acted in good faith" - that is, they didn't know they were breaking the law. So the question of whether the employee gets his due or not depends on how good an actor the employer is. As an employer, shouldn't you have to know the laws governing your employees, what their rights are, and how you can work and pay them? We always thought that, generally, ignorance is no excuse where the law is concerned. Employers, of all people, should not be excused from knowing the labor laws.

House State Affairs Committee
Alaska House of Representatives

March 28, 1994
Page 3

In conclusion, we believe the Bobich's of this state are why the Alaska Wage and Hour Act exists. It's there for average working people who have no union or other protection from unscrupulous, slave-driving, scofflaw employers. For the reasons stated above, we strongly urge this committee to kill HB 459 and HB 489. Thank you for your time.

Sincerely,



Jim D. Stewart
Sharon G. Stewart
P.O. Box 210050
Anchorage, Alaska 99521-0050

/js

cc: Kenneth W. Legacki, Esq.
425 "G" Street, Suite 760
Anchorage, Alaska 99501

HB

491

HOUSE COMMITTEE REPORT

(7)

Date Referred: February 14, 1994

FURTHER REFERRALS:

Date of Committee Action: 3-17-94

The STATE AFFAIRS Committee considered:

HB 491

HOUSE BILL NO. 491

REPORTS BY SCIENCE & TECH FOUNDATION

"An Act relating to reports by the Alaska Science and Technology Foundation."

RECOMMENDATIONS: the same title
 be replaced with _____ a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal impact _____

fiscal note(s) _____

zero fiscal notes Revenue, Commerce

zero fiscal note(s) _____

SIGNING <u>DO</u> PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>	X	<i>[Signature]</i>		X	
<i>[Signature]</i>	X				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				

[Signature]
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB491

Revision Date: _____
 Title: "An Act Relating to Reports by The
Alaska Science & Technology Foundation
 Sponsor: Vezey
 Requirer: Vezey

Dapt. Affected: Revenue
 BRU: Science & Technology Foundation
 Component: Operations
 COMPONENT SERIAL NO. 1025

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE FUND SOURCE: Endow Inc.	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other Endow Inc.	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY94) impact: \$ -0-

ANALYSIS: (Attach a separate page if necessary.)

Changing the ASTF Annual Report from the Calendar Year to the State of Alaska Fiscal Year.

Prepared by: John W. Sibert *JWS* Phone: 272-4333
 Division: Alaska Science & Technology Foundation Date: 3-15-94
 Approved by Commissioner: Darrel J. Rexwinkel *[Signature]* Date: _____
 Agency: Department of Revenue *[Signature]*

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MAR 15 1994

FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 491

Revision Date: 3/15/94
Title: Reports by Alaska Science and
Technology Foundation
Sponsor: Representative Vezey
Requestor: Representative Vezey

Department Affected: Commerce and Economic Development
BRU: ASTF
Component: _____
COMPONENT SERIAL NO. _____

Expenditures/Revenues:

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL EXPENDITURES	0	0	0	0	0	0
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CHANGE IN REVENUES ()	0	0	0	0	0	0
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FUND SOURCE

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MHTIA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

Estimate of current year (FY 94) cost: \$ 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

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Wendy Mulder, DCED
Division: Commissioner office

Phone: 465-2504
Date: 3-15-94

Approved by Commissioner: Paul Fuhs
Agency: Commerce and Economic Development

Date: 3-15-94

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Suite 211
Fairbanks, Alaska 99701
907-456-5081

Representative Al Vezey

March 7, 1994

SPONSOR STATEMENT HB 491

"An Act relating to reports by the Alaska Science and Technology Foundation."

This bill would establish the reporting period of the Alaska Science and Technology Foundation to coincide with the state's fiscal year. This will facilitate timely reporting and will make it easier for the legislature to compare the annual report with the fiscal reports.

HB

494

HOUSE COMMITTEE REPORT

(7)

Date Referred: February 14, 1994

FURTHER REFERRALS:

Finance

Date of Committee Action: 3-12-94

The STATE AFFAIRS Committee considered:

HB 494

HOUSE BILL NO. 494

ALASKA PENSION INVESTMENT AUTHORITY

"An Act changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority and relating to the authority; and providing for an effective date."

RECOMMENDATIONS: [] the same title
 be replaced with _____ [] a new title

[] have attached amendments(s)

[] do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

[] fiscal impact Revenue

[] fiscal note(s) _____

[] zero fiscal note Adm

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>	X	<i>[Signature]</i>		X	
<i>[Signature]</i>	X	<i>[Signature]</i>		✓	
<i>[Signature]</i>	X				
<i>[Signature]</i>	X				

[Signature]
 CHAIRMAN'S SIGNATURE

FISCAL NOTE

MAR 22 1994

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. CS HB 494(STA)

Revision Date: <u>March 21, 1994</u>	Dept. Affected: <u>Revenue</u>
Title: <u>An Act Relating to the Establishment of the Alaska Pension Investment Authority (APIA)</u>	BRU: <u>Revenue Operations</u>
Sponsor: <u>Representative MacLean</u>	Component: <u>Alaska State Pension Investment Board (See Note (2))</u>
Requestor: <u>House State Affairs Committee</u>	COMPONENT SERIAL NO. #1961

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	159.6	159.6	159.6	159.6	159.6	159.6
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	325.6	325.6	325.6	325.6	325.6	325.6
SUPPLIES	11.8	11.8	11.8	11.8	11.8	11.8
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	497.0	497.0	497.0	497.0	497.0	497.0

CAPITAL EXPENDITURES	200.0					
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Pension Systems	697.0	497.0	497.0	497.0	497.0	497.0
TOTAL	697.0	497.0	497.0	497.0	497.0	497.0

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

FULL-TIME	Note (1)	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
		1.0	1.0	1.0	1.0	1.0	1.0
PART-TIME							
TEMPORARY							

ANALYSIS:

Note (1) Net Increase of 0.5 FTE positions over the 19.5 FTE employees the Department of Revenue, Treasury Division currently charged to the Alaska State Pension Investment Board.

Note (2) This fiscal note represents the net impact from establishing a separate pension investment authority over that previously submitted for the Alaska State Pension Investment Board. If passed, the operating budget for the Board would be required to be used for operations of the new Authority.

Note (3) See attached analysis for additional detail.

Prepared by: <u>Mark W. Prussing, Comptroller</u>	Phone: <u>465-2350</u>
Division: <u>Treasury</u>	Date: <u>3/21/94</u>
Approved by: <u>Darrel J. Rexwinkel, Commissioner</u> <u>William A. Corbus, Chair</u>	Date: <u>3/21/94</u>
Agency: <u>Department of Revenue</u> <u>Alaska State Pension Investment Board</u>	

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Alaska State Pension Investment Board
Comparison of FY '95 Costs To Those For A Separate Authority (APIA)

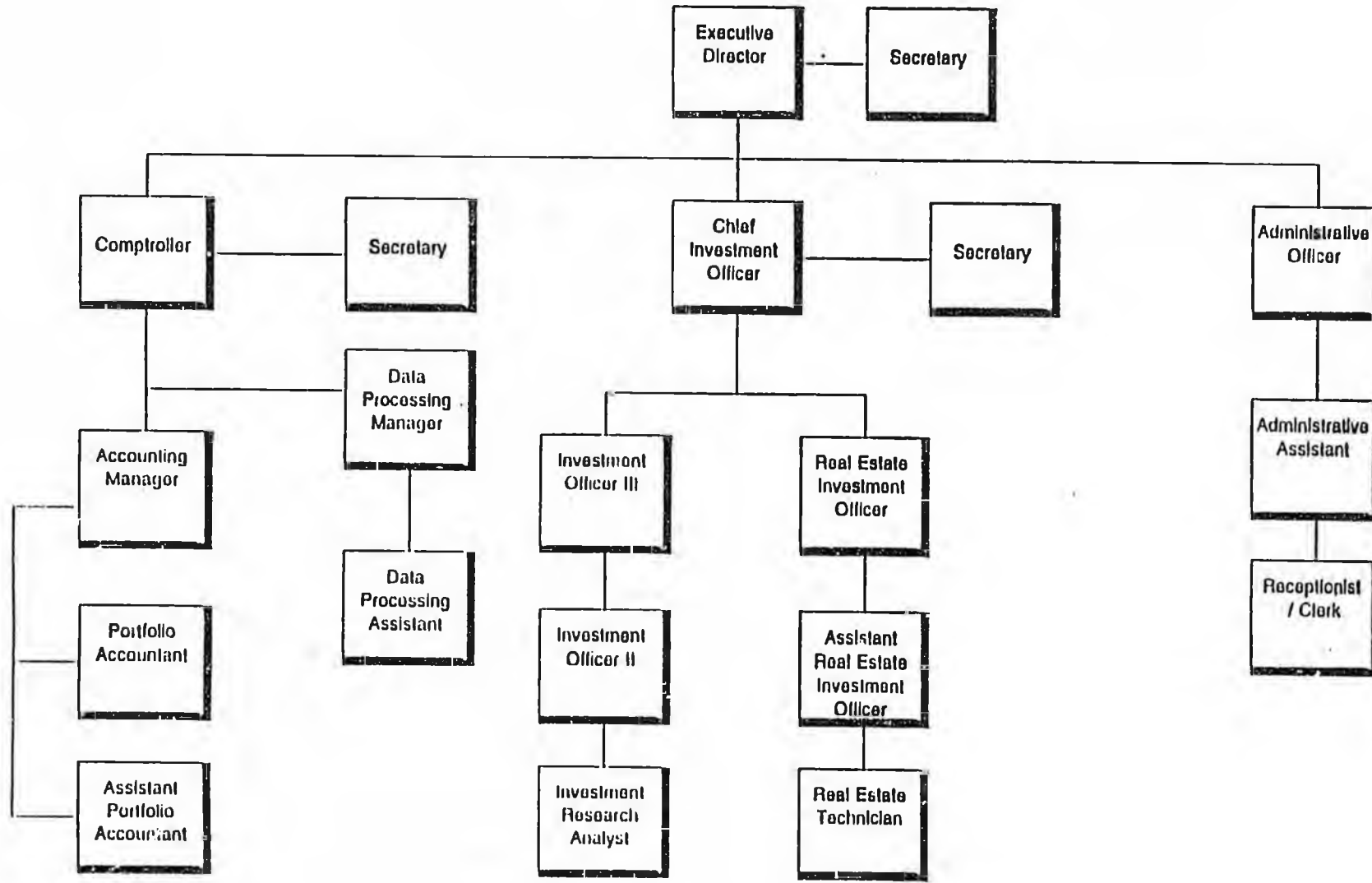
Revenues

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Public Employees' Retirement Trust Fund	\$10,891,600	\$11,303,807	\$412,207	\$293,919	\$293,919	\$293,919	\$293,919	\$293,919
Teachers' Retirement Trust Fund	7,255,700	7,530,302	274,602	195,801	195,801	195,801	195,801	195,801
Judicial Retirement Trust Fund	90,900	94,340	3,440	2,453	2,453	2,453	2,453	2,453
Military Retirement Trust Fund	29,100	30,201	1,101	785	785	785	785	785
Supplemental Benefit System Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
Deferred Compensation Fund	74,000	76,801	2,801	1,997	1,997	1,997	1,997	1,997
Total Revenues	\$18,415,300	\$19,112,252	696,952	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

Expenditures

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$1,380,900	\$1,540,502	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602
Investment Management Fees	14,827,700	14,827,700	0	0	0	0	0	0
Custody Fees	1,334,700	1,334,700	0	0	0	0	0	0
Travel	159,000	159,000	0	0	0	0	0	0
Performance Measurement	84,300	84,300	0	0	0	0	0	0
Investment Advisory	190,000	190,000	0	0	0	0	0	0
ASPIB Expenses	56,000	56,000	0	0	0	0	0	0
Professional Fees	109,000	119,000	10,000	10,000	10,000	10,000	10,000	10,000
Information Services	110,950	172,000	61,050	61,050	61,050	61,050	61,050	61,050
Software Support	121,050	121,050	0	0	0	0	0	0
Office Expenses	41,700	308,000	266,300	266,300	266,300	266,300	266,300	266,300
Equipment & Furniture	0	200,000	200,000	0	0	0	0	0
Total Expenditures	\$18,415,300	\$19,112,252	\$696,952	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

ALASKA PENSION INVESTMENT AUTHORITY
(Proposed)



FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 494

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act Relating to the Establishment of the BRU: Revenue Operations
Alaska Pension Investment Authority (APIA) Component: Alaska State Pension Investment
 Sponsor: Representative MacLean Board (See Note (2))
 Requestor: House State Affairs Committee COMPONENT SERIAL NO. #1961

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	159.6	159.6	159.6	159.6	159.6	159.6
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	325.6	325.6	325.6	325.6	325.6	325.6
SUPPLIES	11.8	11.8	11.8	11.8	11.8	11.8
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	497.0	497.0	497.0	497.0	497.0	497.0

CAPITAL EXPENDITURES	388.0					
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Pension Systems	884.9	497.0	497.0	497.0	497.0	497.0
TOTAL	884.9	497.0	497.0	497.0	497.0	497.0

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

FULL-TIME	Note (1)	1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY						

ANALYSIS:

Note (1) Net increase of 0.5 FTE positions over the 19.5 FTE employees the Department of Revenue, Treasury Division currently charged to the Alaska State Pension Investment Board.

Note (2) This fiscal note represents the net impact from establishing a separate pension investment authority over that previously submitted for the Alaska State Pension Investment Board. If passed, the operating budget for the Board would be required to be used for operations of the new Authority.

Note (3) See attached analysis for additional detail.

Prepared by: Mark W. Prussing, Comptroller Phone: 465-2350
 Division: Treasury Date: 3/4/94
 Approved by: Darrel J. Rexwinkel, Commissioner William A. Corbus, Chair Date: 3/4/94
 Agency: Department of Revenue Alaska State Pension Investment Board

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Alaska State Pension Investment Board
Comparison of FY '95 Costs To Those For A Separate Authority (APIA)

Revenues

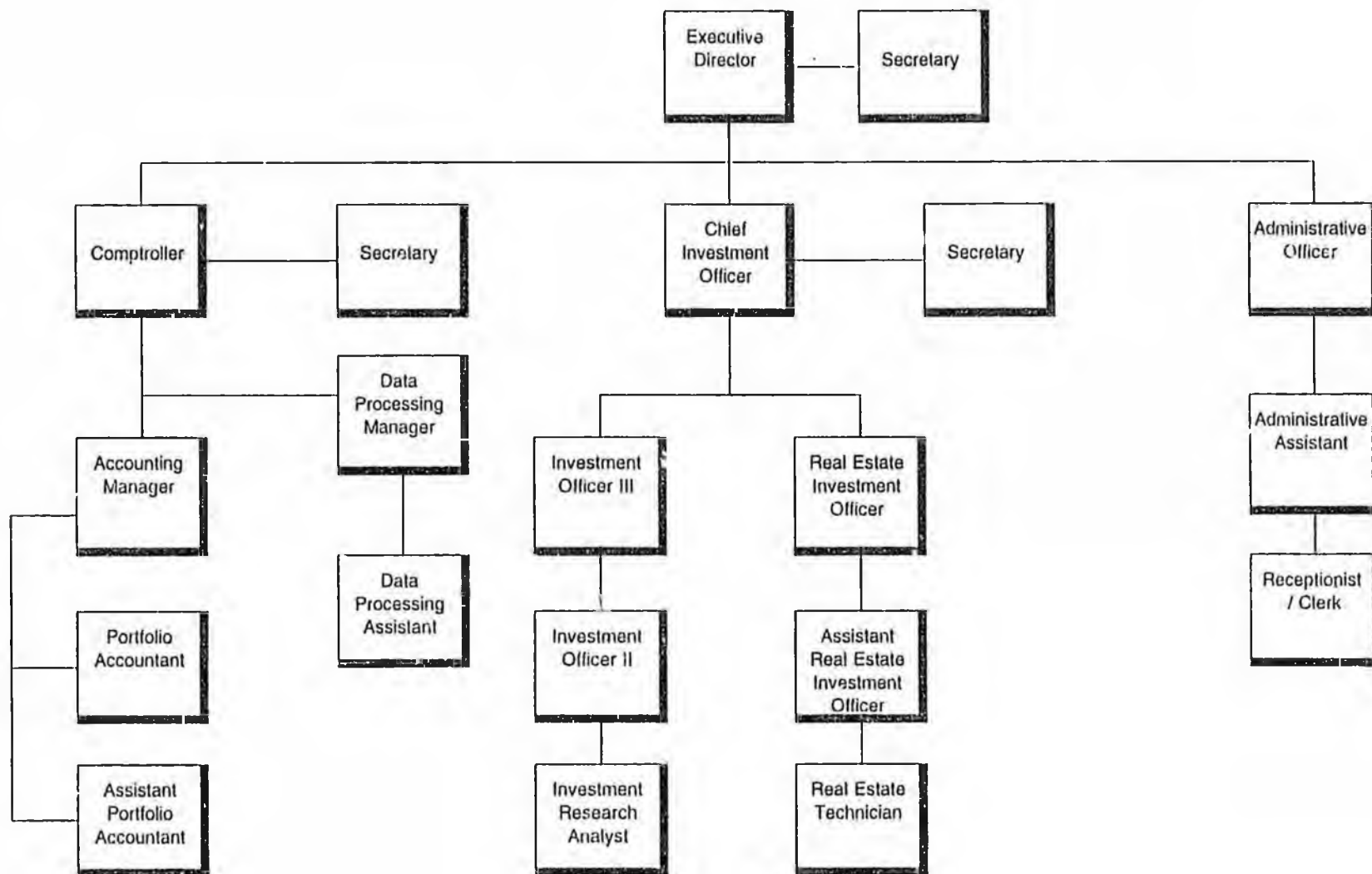
	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Public Employees' Retirement Trust Fund	\$10,891,600	\$11,414,987	\$523,387	\$293,919	\$293,919	\$293,919	\$293,919	\$293,919
Teachers' Retirement Trust Fund	7,255,700	7,604,367	348,667	195,801	195,801	195,801	195,801	195,801
Judicial Retirement Trust Fund	90,900	95,268	4,368	2,453	2,453	2,453	2,453	2,453
Military Retirement Trust Fund	29,100	30,498	1,398	785	785	785	785	785
Supplemental Benefit System Fund	74,000	77,556	3,556	1,997	1,997	1,997	1,997	1,997
Deferred Compensation Fund	74,000	77,556	3,556	1,997	1,997	1,997	1,997	1,997
Total Revenues	\$18,415,300	\$19,300,232	884,932	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

Expenditures

	FY 95 Budget Amount for ASPIB	FY 95 Budget Amount for APIA	First Year APIA Change from ASPIB 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$1,380,900	\$1,540,502	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602	\$159,602
Investment Management Fees	14,827,700	14,827,700	0	0	0	0	0	0
Custody Fees	1,334,700	1,334,700	0	0	0	0	0	0
Travel	159,000	159,000	0	0	0	0	0	0
Performance Measurement	84,300	84,300	0	0	0	0	0	0
Investment Advisory	190,000	190,000	0	0	0	0	0	0
ASPIB Expenses	56,000	56,000	0	0	0	0	0	0
Professional Fees	109,000	119,000	10,000	10,000	10,000	10,000	10,000	10,000
Information Services	110,950	172,000	61,050	61,050	61,050	61,050	61,050	61,050
Software Support	121,050	121,050	0	0	0	0	0	0
Office Expenses	41,700	308,000	266,300	266,300	266,300	266,300	266,300	266,300
Equipment & Furniture	0	387,980	387,980	0	0	0	0	0
Total Expenditures	\$18,415,300	\$19,300,232	\$884,932	\$496,952	\$496,952	\$496,952	\$496,952	\$496,952

ALASKA PENSION INVESTMENT AUTHORITY

(Proposed)



FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 494

Revision Date: _____ Dept. Affected: Administration
 Title: "An Act changing the Alaska State Pension BRU: Retirement and Benefits
Investment Board to the Alaska Pension Investment Authority" Component: Retirement and Benefits
 Sponsor: Rep. MacLean
 Requestor: (H) Sta COMPONENT SERIAL NO. 64

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
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 EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	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

Estimate of current year (FY94) cost: none

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Robert L. Stalnaker, Director Phone: 465-4460
 Division: Retirement and Benefits Date: _____
 Approved by Commissioner: Nancy Bear Userra Date: 3/7/94
 Agency: Administration

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FISCAL NOTE

STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. HB 494

Revision Date: _____ Dept. Affected: Revenue
 Title: An Act Relating to the Establishment of the BRU: Revenue Operations
Alaska Pension Investment Authority (APIA) Component: Treasury Management
 Sponsor: Representative MacLean
 Requestor: House State Affairs Committee COMPONENT SERIAL NO. #121

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
PERSONAL SERVICES	550.5	550.5	550.5	550.5	550.5	550.5
TRAVEL	17.7	17.7	17.7	17.7	17.7	17.7
CONTRACTUAL	(169.7)	(169.7)	(169.7)	(169.7)	(169.7)	(169.7)
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						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	398.5	398.5	398.5	398.5	398.5	398.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (Note (2))	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0	10,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	278.0	278.0	278.0	278.0	278.0	278.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other - Other State Funds	120.5	120.5	120.5	120.5	120.5	120.5
TOTAL	398.5	398.5	398.5	398.5	398.5	398.5

Estimate of any current year (FY94) cost: \$ 0

POSITIONS

	Notes (1) & (2)	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
FULL-TIME		7.0	7.0	7.0	7.0	7.0	7.0
PART-TIME							
TEMPORARY							

ANALYSIS:

Note (1) Net increase of 6.8 FTE positions over the 9.5 FTE employees currently charged to the Department of Revenue, Treasury Division
 Note (2) The change in staffing is expected to increase the amount available to the General Fund by \$9.7 million annually.
 Note (3) See attached analysis for additional detail.

Prepared by: Mark W. Prussing, Comptroller Phone: 465-2350
 Division: Treasury Date: 3/4/94
 Approved by: Darrel J. Rexwinkel, Commissioner Date: 3/7/94
 Agency: Department of Revenue

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Department of Revenue, Treasury Division

Comparison of FY '95 Costs to Those if the Retirement Funds form a Separate Authority (APIA)

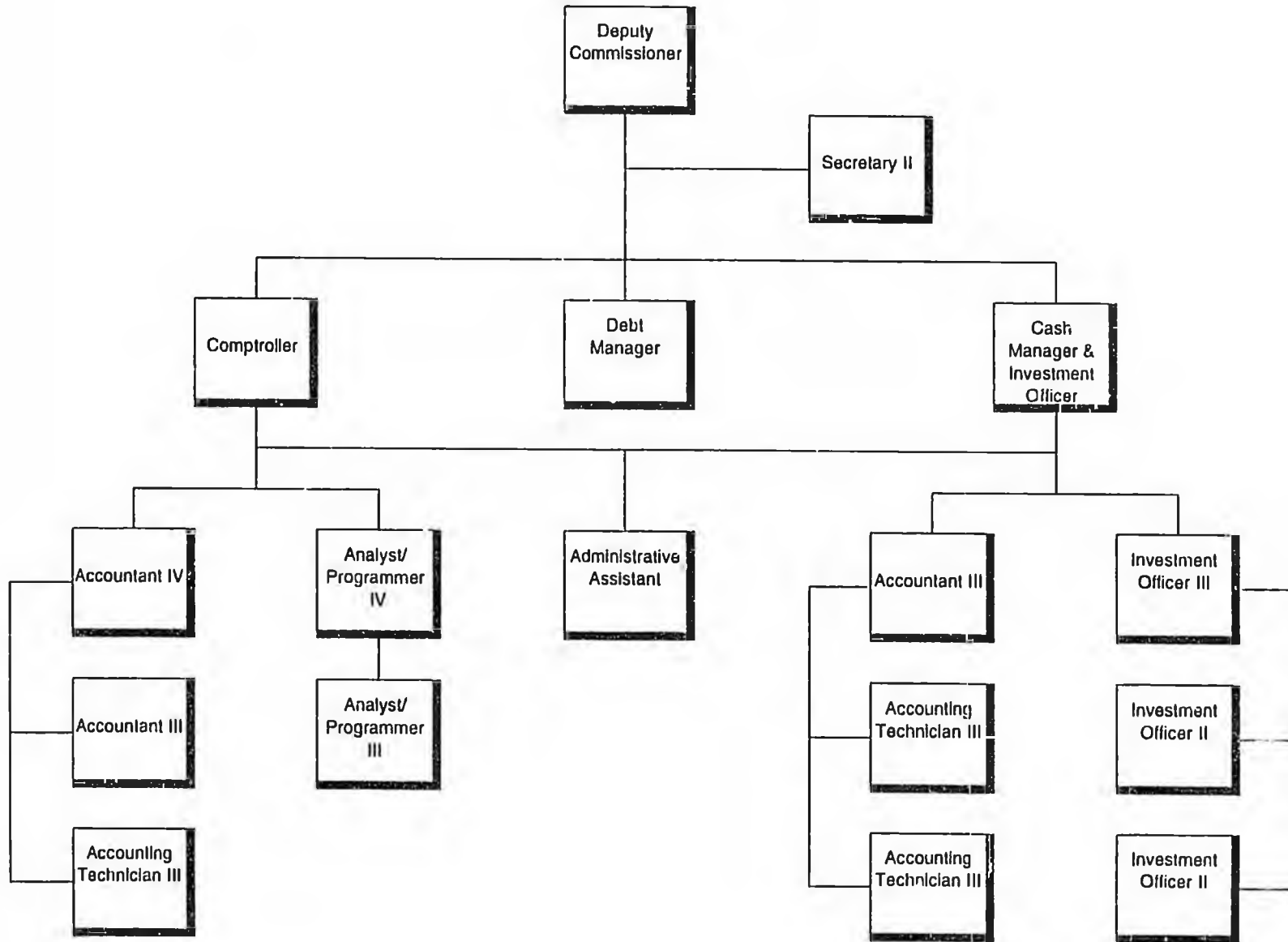
Revenues

	FY 95 Budget Amount for Treasury	Revised Treasury FY 95 Budget	First Year Change from Treas 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
General Fund	\$1,023,100	\$1,301,058	\$277,958	\$277,958	\$277,958	\$277,958	\$277,958	\$277,958
University of Alaska Trust Fund	71,400	90,798	19,398	19,398	19,398	19,398	19,398	19,398
Public School Trust Fund	302,000	384,048	82,048	82,048	82,048	82,048	82,048	82,048
Advance College Tuition Pmt Fund	35,100	44,636	9,536	9,536	9,536	9,536	9,536	9,536
Investment Loss Trust Fund	35,200	44,763	9,563	9,563	9,563	9,563	9,563	9,563
Total Revenues	\$1,466,800	\$1,865,303	\$398,503	\$398,503	\$398,503	\$398,503	\$398,503	\$398,503
Increase in General Fund Revenues			10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

Expenditures

	FY 95 Budget Amount for Treasury	Revised Treasury FY 95 Budget	First Year Change from Treas 95 Budget	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Salaries & Benefits	\$655,000	\$1,205,503	\$550,503	\$550,503	\$550,503	\$550,503	\$550,503	\$550,503
Investment Management Fees	201,700	201,700	0	0	0	0	0	0
Custody Fees	116,900	116,900	0	0	0	0	0	0
Travel	22,300	40,000	17,700	17,700	17,700	17,700	17,700	17,700
Performance Measurement	33,000	10,000	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)	(23,000)
Investment Advisory	10,000	0	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Professional Fees	39,500	45,000	5,500	5,500	5,500	5,500	5,500	5,500
Information Services	120,100	36,000	(84,100)	(84,100)	(84,100)	(84,100)	(84,100)	(84,100)
Software Support	15,600	15,600	0	0	0	0	0	0
Office Expenses	245,700	187,600	(58,100)	(58,100)	(58,100)	(58,100)	(58,100)	(58,100)
Equipment	7,000	7,000	0	0	0	0	0	0
Total Expenditures	\$1,466,800	\$1,865,303	\$398,503	\$398,503	\$398,503	\$398,503	\$398,503	\$398,503
Net Increase in Amount Available for General Fund			\$9,722,042	\$9,722,042	\$9,722,042	\$9,722,042	\$9,722,042	\$9,722,042

ALASKA DEPARTMENT OF REVENUE
TREASURY DIVISION ORGANIZATIONAL CHART
(Proposed)



FEB 25 1994

ALASKA STATE LEGISLATURE

Representative Eileen Panigeo MacLean
Co-Chair House Finance Committee
P.O. Box 830
Barrow, Alaska 99723
(907) 852-7111

WHILE IN JUNEAU
State Capitol, Room 507
Juneau, Alaska 99801-1182
465-4833
465-4525
463-3241 FAX

HOUSE OF REPRESENTATIVES

MEMORANDUM

District 37

North Slope
Borough

Anaktuvuk Pass
Atkasuk
Barrow
Kaktovik
Nulqsut
Point Hope
Point Lay
Wainwright


Northwest Arctic
Borough

Ambler
Buckland
Deering
Kiana
Kivalina
Kobuk
Kotzebue
Noatak
Noorvik
Selawik
Shungnak

Seward Peninsula

Brevig Mission
Diomedes
Shishmaref
Teller
Wales

TO: Rep. Al Vezey, Chair
House State Affairs Committee

FROM: Rep. Eileen P. MacLean 

DATE: February 25, 1994

RE: Hearing request for HB 494

I would appreciate it if you would schedule HB 494 for a hearing in the State Affairs Committee.

HB 494 represents the final step in establishing an appropriate management structure for the \$7 billion fund belonging to the State's retirement systems. It establishes an investment authority as the framework for a more efficient and responsive operation of the Alaska State Pension Investment Board (ASPIB).

The ASPIB is an eight-member board of trustees created in 1992 which has fiduciary responsibility for assets of the State's defined benefit pension programs including PERS, TRS and Judicial and Military retirement systems. Two trustees are elected by the PERS membership; two are elected by the TRS membership; three are appointed by the Governor; and the eighth trustee by statute is the Commissioner of Revenue.

Board structure is important for balancing accountability to the people of Alaska with direct representation by beneficiaries of the retirement systems. The current organizational structure was regarded as a compromise when the Board was established. In order to save on program costs, executive and administrative functions of the ASPIB were assigned to the Treasury Division in the Department of Revenue. This simply carried forward the administrative structure that had been in place when the Commissioner of Revenue had sole fiduciary responsibility for the defined benefit pension programs.

REQUEST

Prudent management practice suggests that program staff should be responsible to the person or persons holding fiduciary responsibility. Since the ASPIB Board now holds that responsibility, it stands to reason a separate, quasi-independent authority with its own staff should be established.

Staff that reports to only one member of the Board (the Commissioner of Revenue) creates the potential for a variety of conflicts, including the allocation of staff's time between the defined benefit pension funds and other funds in the Treasury Division. If a Commissioner of Revenue strongly disagrees with other members of the ASPIB regarding policy, there is clearly the potential for the Commissioner to influence policy implementation and undercut ASPIB policy decisions.

The 1992 legislation establishing the ASPIB gave it fiduciary responsibility for management of the pension funds' assets. They are accountable, not only to the Governor, but to the 57,000 beneficiaries and the 213 political subdivisions and school districts participating in the retirement plans. Under the current structure, allocation of resources and staff obscures accountability. HB 494 corrects this inherent flaw by establishing an investment authority and authorizing the ASPIB to hire an executive director and staff directly accountable to the ASPIB.

HB 494 creates a structure consistent with the way most large public pension plans are managed. The Department believes that the additional program costs for a quasi-independent agency are minimal compared to the increased revenue returns to the General Fund generated by the Treasury Division's enhanced cash flow analysis. As the fiscal note indicates, Revenue anticipates additional General Fund revenue of \$10 million or more.

In summary, HB 494 creates an investment authority that allows the ASPIB to hire an executive director and staff to assist in management of pension assets and implementation of policy for the retirement systems. This bill creates a more efficient organization and it clearly defines responsibility and accountability for management of pension assets.

If you need further information, please contact David Harding of my staff (-6871).

Sponsor Statement
HB 494
Rep. Eileen Panigeo MacLean

This bill (HB 494) is the final building block in creating an organization focused solely on managing over \$7 billion in financial assets belonging to the State's retirement systems. This legislation is important to the State, its political subdivisions and school districts, and all beneficiaries of the retirement systems. It represents the culmination of an extensive effort to ensure the best financial returns on the assets of the retirement systems, in an organizational structure responsible to participating interests.

This bill establishes an investment authority as the structural framework for the responsive and efficient operation of the Alaska State Pension Investment Board (ASPIB). The ASPIB is an eight member board of trustees created in 1992 by SB 329 (36 yes, 4 no in the House and 18 yes, 0 no in the Senate). The ASPIB has fiduciary responsibility for assets of the State's defined benefit pension programs including Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and Judicial and Military Retirement Systems, and assets of the Supplemental Benefits System (SBS) and the Deferred Compensation program.

All eight trustees are voting members and at least five votes are required to approve any action. Two trustees are elected by the Public Employees' System (PERS) participants from the membership of the system; one must be a participant in SBS. Two trustees are elected by the Teachers' Retirement System (TRS) participants from the membership of the system. Three trustees are appointed by the Governor; one must represent a participating employer. The eighth trustee by statute is the Commissioner of Revenue.

Board structure is important for balancing accountability to the people of Alaska with direct representation by beneficiaries of the retirement systems. This balance was established by SB 329 when the shared fiduciary board was established and prudent pension fund asset management practices were passed into law. An earlier bill in 1991, SB 18, "An Act establishing the Alaska State Pension Corporation...", passed the legislature (28 yes, 11 no in the House and 17 yes, 0 no in the Senate) but was vetoed by the Governor. There were two significant reasons why the legislation was vetoed: board composition and program costs.

SB 329 addressed the concern over board composition and encompassed most provisions of SB 18 relating to prudent investment practices. While program costs remain a factor, they are controllable. Enhanced investment earnings performance will likely more than offset cost factors. In fact, additional returns may well be in the tens of millions of dollars.

In an apparent effort to avoid the issue of program costs, SB 329 did not properly address organizational structure as did SB 18. As a result, the Treasury Division within the Department of Revenue provides staff to the ASPIB. It was thought that providing staff to the ASPIB in this manner would add limited economies of scale resulting in

reduced organizational costs. Prior to SB 329, the Commissioner of Revenue was the sole fiduciary for the defined benefit pension programs. Therefore, Treasury Division was the only reasonable staffing alternative. This is because staff must be responsible to the person having program responsibility.

A fiduciary board of trustees necessitates a changed reporting relationship -- one that can only be accomplished through a separate authority with its own staff. Staff that reports to the Commissioner of Revenue or any person other than the board creates a situation where conflicts are inevitable, and challenges the validity of limited economies of scale. Under the current system, conflicts can occur regarding allocation of staff's time and resources between the retirement systems (accountable to the ASPIB) and other funds in the Treasury Division of the Department of Revenue (accountable to the Commissioner). If a Commissioner of Revenue strongly disagrees with other members of the ASPIB regarding policy, potential clearly exists where the Commissioner could influence implementation of policy and make ASPIB policy decisions ineffective, or create immense discord.

SB 329 gave ASPIB trustees fiduciary responsibility for management of financial assets, and they will be held accountable. The trustees are accountable not only to the Governor, but to the 57,000 beneficiaries and the 213 political subdivisions and school districts participating in the retirement plans. Under the current structure, allocation of resources and staff obscures accountability. HB 494 establishes an investment authority and authorizes the ASPIB to hire an executive director and staff directly accountable to the ASPIB. The Executive Director will have full authority to carry out board policy and directives. This is essential because the trustees are responsible for the assets of employee trust funds.

A separate investment authority is in the best interests of the State. The proposed authority would continue to meet in public, report to the Governor and the legislature, use the same budget process, and have the Attorney General provide legal assistance in the same manner that currently exists. HB 494 creates a structure consistent with the way most large public pension plans are managed.

With PERS and TRS earning over 14% for 1993 and the funds' performance ranking in the top 25% of comparable public funds, it may appear that structural problems would not be an issue. However, every increase or decrease in performance of one basis point (1/100 of a percent) means an increase or decrease in earnings of approximately \$700,000. The PERS and TRS assets alone earned over \$775 million in fiscal year 1993, which is over \$2 million a day. While it cannot be absolutely quantified, it is apparent that an organization structured to respond directly to the ASPIB without potential conflicts will define accountability and, over the long term, increase returns and add earnings to the retirement systems.

In addition, a restructured Treasury Division in the Department of Revenue is expected to add at least \$10 million a year in additional revenue to the General Fund. This can be achieved by incremental investment returns through enhanced cash flow analysis.

One question that may be asked is, "Why not let the Alaska Permanent Fund Corporation (APFC) manage the assets?". There are many important reasons including different asset allocation needs, legal requirements, accounting requirements, constituency and objectives. The most important reason for individual boards and staff is that the funds have two entirely different mandates. The pension funds must be managed in the best financial interest of the beneficiaries. Beneficiaries have constitutionally protected benefits payable years into the future and these liabilities must be considered when making investment decisions. The Permanent Fund has a statutory legal list of investments and use of earnings.

Another question is, "Why not a board within the Department of Revenue with its own executive director and staff?". The simple answer is that the ASPIB is a fiduciary board legally responsible for managing the pension assets in the best financial interest of the beneficiaries. With over \$7 billion under management, there must be complete confidence in the system and accountability must not be obscured. Any obscurity of who has ultimate authority regarding implementation of board policies will work to the detriment of accountability, thus diminishing clear lines of fiduciary responsibility.

SB 18 was supported by the PERS and TRS Boards, the Alaska Municipal League, teachers' and State employee associations, and older Alaskan groups. It is expected that these entities will support HB 494.

In summary, HB 494 creates an investment authority that allows the ASPIB to hire an executive director and staff to assist in management of pension assets and implementation of policy for the retirement systems. This bill creates a more efficient organization and it clearly defines responsibility and accountability for management of pension assets.

DIVISION OF LEGAL SERVICES

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MEMORANDUM

February 17, 1994

SUBJECT: Sectional Summary of HB 494. (Changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority)

TO: Representative Eileen MacLean

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1 amends the section that addresses investment of state funds to constitute the Alaska Pension Investment Authority (APIA), created this bill to replace existing Alaska State Pension Investment Board (ASPIB). The amendment also makes the officers of the authority eligible to act as fiduciaries.

Sec. 2 establishes the Alaska Pension Investment Authority as a public corporation and government instrumentality in the Department of Revenue with responsibility for having custody of, managing, and investing state pension funds. Previously, the section gave responsibility to the ASPIB for providing prudent and productive management and investment of state pension funds and other funds entrusted to it by the fiduciary with responsibility for the other fund.

Sec. 3 gives the trustees of the APIA the duties that previously applied to the ASPIB.

Sec. 4 permits the chair of the trustees of APIA to appoint the executive director or a trustee to present information to the legislature about the authority's operating budget.

Sec. 5 makes the trustees, the executive director and the investment officers of the authority subject to the financial disclosure requirements found in AS 39.50 and

SECT. SUMMARY

Representative Eileen MacLean

February 17, 1994

Page 2

requires disclosure if one of them has an interest in an entity in which the authority has an investment.

Sec. 6 permits the executive director of the authority to designate additional officers and employees of the authority who will also be subject to financial disclosure requirements.

Sec. 7 permits the authority to employ an executive director who, with the approval of the trustees, may employ additional staff.

Sec. 8 permits identification of the source of the funds for the authority's budget as the funds that the authority managements and invests.

Sec. 9 requires the authority to ensure that the assets it holds in trust and the services of the trustees, officers, employees, and agents of the authority are protected, either by insurance or by provision of self-insurance retention.

Sec. 10 exempts from state taxes and assessments the authority, funds managed by the authority, properties owned, managed, or held by the authority, and income from those activities or funds.

Sec. 11 replaces the ASPIB with the APIA in a section that prohibits engaging in private banking or private trust activities.

Sec. 12 replaces a definition of "board" (which was defined to mean the ASPIB) with a definition of "authority" (which is defined to mean the APIA).

Sec. 13 places the officers and employees of the APIA in the exempt service.

Sec. 14 amends the duties of the Department of Revenue with regard to state funds for which the APIA has responsibility. The section removes from the department the responsibility for having custody of, investing, and managing those funds. Under 37.10.210(a), enacted by sec. 2 of the bill, the APIA has those responsibilities.

Sec. 15 repeals AS 44.25.028 which is made unnecessary because the APIA will directly employ staff to manage and invest funds for which the APIA has responsibility instead of using staff of the Department of Revenue. Portions of AS 44.25.028 have been added to AS 37.10.230 by bill sec. 6, adding subsection (d) to that statutory section.

Sec. 16 directs the revisor of statutes and the regulations attorney to make the changes necessary in the state statutes and regulations to implement the name change enacted by this bill.

Representative Eileen MacLean
February 17, 1994
Page 3

Sec. 17 directs that the trustees of the ASPIB shall become the trustees of the APIA when the bill takes effect.

Sec. 18 transfers the business of the ASPIB to the APIA on the effective date of the bill.

Sec. 19 gives the bill an effective date of July 1, 1994.

TC:pl
94-135.plm

Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

Position Paper

An Act Establishing the Alaska Pension Investment Authority

Position

The Trustees of the Alaska State Pension Investment Board (ASPIB) passed a motion without opposition to request legislation to establish the Alaska Pension Investment Authority (APIA). This action signifies the Trustees' strong belief that a separate authority is in the best interest of the beneficiaries and employers participating in the retirement systems for which the Trustees have fiduciary responsibility. The Trustees respectfully request support for this important legislation from members of the legislature and the Governor.

Background

SB 329 created the Alaska State Pension Investment Board and gave the Trustees the fiduciary responsibility for management and investment of the State's retirement assets. This proposed legislation to create the APIA provides the Trustees direct authority over staff to carry out the Trustee's fiduciary responsibilities. Conversely, SB 329 requires that staff for the ASPIB be provided by the Department of Revenue, Treasury Division. Therefore, many staff members have dual roles that are potentially conflicting and multiple organizations to which they are responsible. Creating the APIA, and staffing it with employees directly accountable to the APIA, will clearly define responsibilities for management of retirement system assets. The Trustees believe that it is imperative to have a staff responsible solely to them to provide a more focused effort. This will assure their ability to properly manage the funds.

Implementation Costs

Two fiscal notes associated with this legislation identify budgetary impacts from the formation of the APIA - one for ASPIB/APIA and one for the Treasury Division.

ASPIB/APIA Fiscal Note

The ASPIB/APIA fiscal note provides detail of the annual 2.7% increase over that budgeted for the ASPIB. The increase is primarily from staffing requirements and the need for additional office space. This legislation would result in the addition of only one-half full time equivalent

(FTE) position for the ASPIB/APIA budget. The increased cost for office space is due to the fact that the APIA will require separate facilities. ASPIB is not currently charged for the use of space within the Treasury Division. Other overhead costs for the Treasury Division are expected to decrease.

Treasury Fiscal Note

The revised structure for the Treasury Division would result in the generation of an additional \$10 million of revenues available for General Fund appropriation. This would occur as a result of the redirection of staff to enhance forecasting and management of the General Fund cash resources and would require the addition of 6.8 FTE positions. The additional \$10 million far outweighs any additional costs and further demonstrates the benefit from a more concentrated focus of effort.

Summary

Actuarial soundness of the retirement systems would not be adversely impacted as a result of this legislation. In fact, formation of the APIA, with a proper operational structure to direct staff, should result in increased returns over time, enhancing the actuarial soundness and overall integrity of the systems.

This legislation provides amendments to Alaska Statutes necessary for the establishment and operation of the APIA. This will allow the Trustees to properly manage and invest the retirement funds for which they currently have fiduciary responsibility. The trustees of the ASPIB strongly believe that this action is in the best interest of all of the beneficiaries and employers who participate in the various retirement systems under their control.

William A. Corbus
William A. Corbus, Chair

Gail R. Oba
Gail R. Oba, Vice-Chair

Gary M. Bader
Gary M. Bader, Secretary

3/3/94
Date

Alaska State Pension Investment Board



P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

March 3, 1994

The Honorable Eileen MacLean
Alaska State Legislature
State Capitol, Room 507
Juneau, Alaska 99801-1182

Dear Representative MacLean:

The Treasury Division in the Department of Revenue as restructured by HB 494 will be able to improve earnings to the General Investment Fund by \$10 Million. This sum is actually a lower case expectation. Recent history shows that enhanced forecasting would have increased revenue in a range between \$23 Million and \$30 Million.

This can be achieved through enhanced cash flow forecasting and investing the funds using the improved information. However, as you would expect, there is nothing simple about the process.

The current cash flow forecasting system provides general information which is not sufficient for the investment process. The focus of the existing system is on unexpended General Fund assets. A greater emphasis towards monitoring the daily ebbs and flows of cash during the fiscal year will allow Portfolio Management staff of the Treasury Division to take greater advantage of investment opportunities. First, significant improvement can be achieved by monitoring the daily cash flows. Secondly, a significant working relationship can be established with financial officers of the appropriate departments and agencies of the State. This dialogue will educate and increase the level of communication regarding the need for timely information.

The improved level of cash flow information, as noted earlier, will allow staff to take advantage of investment opportunities. In a normal interest rate environment, an investor of fixed income securities will receive a higher return (increased yield) by investing in securities that have a longer maturity date. For example, a three-month U.S. Treasury Bill will pay a greater interest rate than an overnight investment; a six-month U.S. Treasury Bill typically has a higher payout than a three-month U.S. Treasury Bill, etc. With a greater understanding of the daily cash flow, it will not be necessary to maintain

Representative Eileen MacLean
 March 3, 1994
 Page 2

as high a level of residual cash on hand to meet unanticipated demands on the General Investment Fund. Not only can staff reduce the amount of cash on hand, they can take advantage of the interest rate environment and invest more comfortably in longer dated U.S. Treasury Fixed Income Securities. I emphasize that this can be achieved in the context of safety of principal and liquidity.

An example of how an improved forecast would have increased the returns in Calendar Year 1992 and for the twelve months ending October 31, 1993, is listed below. The columns represent the General Investment Fund balance, actual returns and the returns of the most representative published index. This low risk index is structured in a manner consistent with investment objectives that would be applicable given the ability to enhance cash flow forecasting.

Date Year Year Ending	GIF balance ('000's)	Actual Performance	Lehman Government 1-3 Year Index
12-31-92		4.87%	6.25%
11-30-92	\$1,420,000	0.15	<0.15>
12-31-92	\$1,423,000	0.48	0.93
1-31-93	\$1,368,000	0.49	1.05
2-28-93	\$1,374,000	0.39	0.80
3-31-93	\$1,397,000	0.29	0.31
4-30-93	\$1,417,000	0.34	0.61
5-31-93	\$1,356,000	0.13	<0.24>
6-30-93	\$2,034,000	0.38	0.75
7-31-93	\$1,050,000	0.29	0.22
8-31-93	\$1,849,000	0.37	0.83
9-30-93	\$2,312,000	0.30	0.32
10-31-93	\$2,028,000	0.26	0.22
Average 12 months ending 10-31-93	\$1,660,000	3.92%	5.77%

For the twelve months ending October 31, 1993, the additional return would have been:

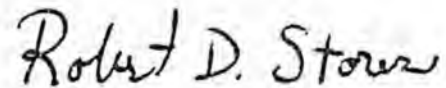
$$\$1,660,000,000 \times (5.77\% - 3.92\%) = \$30,710,000.$$

The same monthly average for Calendar Year 1992 would have increased revenue by \$22.9 Million. These returns are indicative of why staff believes an increase in revenue of \$10 Million is very conservative and achievable.

Representative Eileen MacLean
March 3, 1994
Page 3

I hope you find this information useful and I would be happy to provide additional information that may be required.

Sincerely,

A handwritten signature in cursive script that reads "Robert D. Storer".

Robert D. Storer
Chief Investment Officer

94-043

cc: Darrel J. Rexwinkel, Commissioner
Laraine L. Derr, Deputy Commissioner

RETIREMENT FUND ORGANIZATIONAL SURVEY

March 4, 1994

In order to ascertain the fiduciary responsibility and structure of large public retirement funds, a survey was conducted by staff of the Department of Revenue. The survey was designed to gather information about boards, staff, and accountability. The following questions were asked:

In regard to investment of pension funds, who is the fiduciary?

If a Board, is there a sub-committee?

If an individual, is the position elected or appointed?

To whom does the chief administrative officer report?

To whom do investment staff report?

Respondents were selected from Pensions & Investments, January 24, 1994, which listed the top 200 pension funds in the United States. Only public funds above \$5 billion were surveyed. This group included 46 public retirement funds.

Results were as follows:

- Thirty-seven (37) had boards with fiduciary responsibility and staff reporting to the administrative officer hired by the Board
- Six (6) had sole fiduciaries, either state treasurers or chief financial officers, with staff reporting directly. Of the six, four were elected and two appointed.
- Three (3) had boards, Oregon PERS, New York City and Alaska State, where the staff reported to the treasurer or other individual
 - New York City has a comptroller who is on the board of trustees. The comptroller is elected and investment staff report to the comptroller
 - Alaska State has a commissioner who is on the board of trustees. The commissioner is appointed and investment staff report to the commissioner
 - Oregon has a state treasurer that is elected and reports to the investment council. Investment staff report to the treasurer.

WHY SHOULD THE PENSION FUNDS BE INVESTED SEPARATELY FROM THE PERMANENT FUND?

The two Boards have a different focus for investment of funds. Significant points that detail those differences are as follows:

- Pension funds have a Constitutional mandate that there can be no diminishment of benefits - liabilities accrue and must be paid
- Permanent fund has discretionary liabilities - dividend payments are not mandatory
- Pension funds manage assets for four different defined benefit programs with different investment objectives. Deferred compensation and Supplemental Benefit System funds are participant directed.
- Pension funds are managed on a market basis as mandated by GAAP
- Permanent fund is managed on a cost basis
- Pension funds need elected membership on the Board who represent the beneficiaries
- Permanent fund Board is appointed by the Governor
- Each Board operates with a different set of investment objectives
- Permanent fund manages funds to a legal list
- Pension funds are managed with the prudent investor rule and is generally bound by ERISA guidelines.
- Competition and shared information leads to better results for both funds
- Pension funds must coordinate with PERS and TRS Boards and have different reporting guidelines than the Permanent Fund
- Pension funds are able to be managed with greater rate of return giving the funds greater returns over time than the Permanent Fund
- Redundancy in the funds work to everyone's benefit -- currently the Permanent Fund is back-up for the Pension Funds with disaster control in the data processing area and vice-versa. The funds are able to help one another and it would not be in anyone's best interest to have 85% of the State's assets under control of one Board (the old eggs in one basket theory!)

RECEIVED

FEB 23 1994

7021 Hunt Ave.
Anchorage, Ak. 99504
February 24, 1994

Rep. Eileen MacLean
State Capitol
Juneau, Alaska 99811

Dear Eileen:

I have just read through your bill, HB 494, changing the Alaska State Pension Investment Board to an independent authority. I am delighted that you have introduced this bill and want to lend my strong support.

Ironically, HB 494 puts forward the original intent of my pension investment legislation introduced in 1990 and subsequently vetoed by the Governor. At that time it was felt that the costs of maintaining an independent authority or corporation were excessive. There may have also been some old fashioned territorialism involved.

However, in 1992 the Administration, largely through the efforts of Commissioner Rexwinkle, and I and others worked out compromise legislation which subsequently passed and established the Pension Investment Board which exists today. This legislation gave the Board fiduciary responsibility and independent investment power over the State's pension funds, but did not authorize a staff to carry out its policies. That function remained with the Department of Revenue.

I think everyone has been generally pleased with the functioning of the new Board and the work of the Department of Revenue. Now, however, Board members are beginning to turn their sights to the future. I share their view that the investment policies of the Board have to be followed over a reasonably long time horizon, regardless of changes in Administration. Having an Executive Director and investment officers who work exclusively for the Board would provide much greater assurance that the Board receives all the assistance it requires in its decision-making, and that Board policies and directions are strictly followed.

As we found out with SBS funds, investment of these billions of dollars is serious business, and that considerable attention and safeguards are needed. This legislation will further ensure long-term protection and enhancement of these funds to the advantage of employees as well the state and participating municipalities.

If I can be of any help, please let me know.

With warm regards,


Pat Pourchot

PAT Pourchot 2/24/94 Letter

MAR 8 1994 MAR 9 07:56 AM 8 WAW

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To <i>Vezev</i>	From <i>DWells</i>
Co.	Co.
Dept.	Phone #
Fax # <i>465-2253</i>	Fax # <i>888-8933</i>

To: Al Vezev, State Affairs,
 From: Dorothy Wells, Alaska State Pension Investment Board
 Trustee
 Date: March 9, 1994
 Subject: ~~MB 494~~ An Act changing the Alaska State Pension
 Investment Board to the Pension Investment Authority

Al --

Since I will not be coming to Juneau to testify at the hearing regarding this bill, which I understand is scheduled for this coming Saturday, I'd like to very briefly reiterate some of the comments I made to you on the phone a couple of weeks ago.

As a member of this board, I feel strongly that this change would be an excellent one. As you know, the present law gives the trustees fiduciary responsibility; however, the accountability to go along with this fiduciary is less clear. As it works now, one Board member, the Commissioner of Revenue, is in charge of hiring staff and implementing the policies of the Board. This is working well now; however, it might not always work, and then, it seems to me, it gets a little muddy about who is really responsible. It seems to me that if the Board has the fiduciary responsibility for the pension funds, then it has to truly be where the "buck finally stops." I think this bill would cause that to be the case.

Additionally, when the law which created the present Pension Board was passed, there was a lot of testimony about why not using the Permanent Fund Board to manage this money also. If that comes up again, I think that is an especially bad idea because of significant differences in the two funds.

1. The Pension Funds are managed with a whole different set of investment objectives than is the Permanent Fund. The payment of pensions is mandated in the Constitution -- no such mandate exists for the permanent fund dividends.

2. The Board manages assets for four different defined benefit pension plans, plus deferred compensation and the SBS funds, which are participant directed.

3. The Pension Board must coordinate with the TRS and PERS Boards and have different reporting requirements.

Dorothy Wells, A.S.P.I. Board 3/9/94



NEA-ALASKA

Affiliated with the National Education Association

NEA-ALASKA POSITION STATEMENT

HB 494

NEA-Alaska, representing members of both the Teacher Retirement System and the Public Employee Retirement System, supports changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority.

By establishing a public corporation with a legal existence independent of and separate from the state, active and retired participants in the retirement systems will become more confident in the integrity and security of their vested benefits.

Creating an Authority with an executive director and other employees will provide greater opportunity to keep pace with rapid and continuous change occurring in the employee benefits field. Even though the Alaska Pension Investment Board executes its fiduciary responsibility in a dependable manner, an Authority has the potential of enhancing the financial stability of investments and promoting greater economic security for the retirement systems.

The Alaska Permanent Fund Corporation provides a good example of successful management of funds independent of state government. A system that manages the volume of investments the size of TRS and PERS must carefully evaluate investment strategy to determine if investment objectives can be better achieved. HB 494 creates a system with greater accountability between the Board and the Executive Director and the Department of Revenue to achieve economic security for the system. The Authority will have the capacity to evaluate system performance against the employees it hires to achieve the investment returns necessary for a sound system.

One of the biggest employee needs is the need for economic security. In retirement years, economic security is the insurance against poverty and low income, and it is the assurance that one will have the ability to obtain the medical care that grows more important, and more expensive, as we age.

We believe that HB 494 will help achieve economic security for the system in the short term so that our employees enjoy economic security in the long term.

3-12-94

A M E N D M E N T

Offered in the House
HB 494

By Rep. MacLean

On page 2, line 20, amend as follows:

council and the ^{Delete ✓} executive director [Department of Revenue];

HB-494

PUBLIC EMPLOYEES' RETIREMENT BOARD

March 11, 1994

MAR 14 1994

Honorable Al Vezey
Chair
House State Affairs Committee
Room 102
State Capitol
Juneau, Alaska 99801-1182

RE: Support for Creation of Alaska State Pension Investment Authority

Dear Representative Vezey:

My colleagues on the Public Employees' Retirement Board have requested that I, as chair, convey to you the support of the Public Employees' Retirement Board for enactment of legislation which would create an Alaska State Pension Investment Authority. As we understand it, HB 494, "An Act Changing the Alaska State Pension Investment Board to the Alaska Pension Investment Authority and Relating to the Authority" is presently before your committee. We have reviewed that bill and believe that the intentions of the bill to convert the Alaska State Pension Investment Board into an authority is clearly an idea whose time has come and would serve the interests of the State's public employees.

As you undoubtedly know, the Public Employees' Retirement Board has advised on many issues relating to investment and administration of Alaska's public employee retirement pensions. The Board includes two elected members and three appointed members representing the retirement and benefit interests of public employees, both current and retired. The Board supported creation of the Alaska State Pension Investment Board in 1993, and has been pleased with the operations of that Board as an independent manager and fiduciary of the substantial assets of the retirement funds for public employees. Two members of the Pension Investment Board are elected representatives of the same constituency as is represented by the Public Employees' Retirement Board.


Given the substantial size of the assets now being administered by the Pension Investment Board (over \$6.5 billion), we believe that the scope of that Board's duties has evolved enough to warrant creation of an independent authority

Honorable Al Vezev
March 11, 1994
Page 2

to in fact handle its responsibilities. Creation of a new authority will not compound bureaucracy. Rather the creation of an authority will constitute an appropriate acknowledgment of the fact that pension funds are indeed separate from the general funds of the State of Alaska. The independent authority (consisting of staff and officers) supporting the Alaska Permanent Fund is an example of a self-supporting entity which is reflective of the importance given to the administration of that fund. The sizeable pension funds of public employees deserve similar treatment and we believe that an authority created through legislation such as HB 494 would indeed be self-supporting and protect the interests of our public employees.

We urge your support of a bill such as HB 494 creating an Alaska Pension Investment Authority. Should you have questions regarding the position or role of the Public Employees' Retirement Board in this process please feel free to contact me or other members of our Board. Thank you very much for your attention.

PUBLIC EMPLOYEES'
RETIREMENT BOARD

By 
J. P. Wellington
Chair

cc: Members, House State Affairs Committee
Members, Public Employees' Retirement Board
Members, Alaska State Pension Investment Board
Deputy Commissioner Laraine Derr

Alaska State Pension Investment Board



MAR 16 1994

P.O. Box 110400 Juneau, Alaska 99811-0400
(907) 465-4880

March 15, 1994

The Honorable Al Vezey
Alaska State Legislature
State Capitol, Room 102
Juneau, Alaska 99801-1182

Dear Representative Vezey:

During the hearing held on HB 494 before the State Affairs Committee on March 12, 1994, the question was asked "Is there a resolution from the Board supporting the legislation?" Enclosed please find the Alaska State Pension Investment Board minutes authorizing the action. The pertinent section starts on pp 22.

If you have any questions, please call me at 465-4880.

Sincerely,

A handwritten signature in cursive script that reads "Laraine L. Derr".

Laraine L. Derr
Deputy Commissioner

LLD:sp
94-048

Enclosure

State of Alaska
**ALASKA STATE PENSION INVESTMENT BOARD
BOARD OF TRUSTEES MEETING**

**Centennial Hall Convention Center, Egan Room
Juneau, Alaska
January 20 and 21, 1994**

Thursday, January 20, 1994, 8:30 a.m.

ATTENDANCE

Trustees Present: William A. Corbus, Chair
Gail R. Oba, Vice Chair
Darrel J. Rexwinkel, Secretary (arrived 1:35 p.m.)
Gary M. Bader
Ross A. Kinney
Merritt C. Olson
James "Pat" Wellington
Dorothy Wells (arrived 10:20 a.m.)

Revenue Staff Present: Laraine Derr, Deputy Commissioner of Revenue; Robert D. Storer, Chief Investment Officer; Michael Cheung, Investment Officer; Mark Prussing, Comptroller; Martin W. Lentz, ASPIB Liaison Officer; Jeff Hassler, Real Estate Investment Officer; Carolyn Hartsog, Assistant Comptroller; Karen Carlson, Real Estate Officer; John Jenks, Investment Officer; Steve Verschoor, Investment Officer.

Others Present: Ronald J. Surz and Dr. Robert A. Haugen, Investment Advisory Council; James Baldwin, Assistant Attorney General; Robert Stalnaker, Director, Division of Retirement & Benefits; Mike Kirk; Doug Mertz; Scott Higgins and Charles Hetzel, Ark Asset Management; Earle Malm II and Peter Eadon-Clarke, G.T. Cap Management; William Ramseyer, JMB Institutional Realty; Michael O'Leary and Ronald Peyton, Callan Associates, Inc.; Bob Helliesen and Bill Cottle, Dorn, Helliesen & Cottle, Inc.; Leslie Christian and Harvey Rubinstein, William M. Mercer Asset Planning, Inc.; Mary Notar, PERS Board member.

CALL TO ORDER

Chair William Corbus called the meeting to order at 8:30 a.m.

ROLL CALL

The following trustees were present to form a quorum: Gary Bader, William Corbus, Ross Kinney, Gail Oba, Merritt Olson, and Pat Wellington. Commissioner Rexwinkel and Ms. Wells were absent but arrived later in the morning.

PUBLIC MEETING NOTICE

Mr. Lentz confirmed that proper meeting notice was published in the major newspapers in Anchorage, Fairbanks, and Juneau, as well as in the Alaska Administrative Journal.

APPROVAL OF MINUTES - December 9-10, 1993.

MOTION - by Merritt Olson to approve the minutes of the December 9-10, 1993 meeting as presented.

SECOND - by Pat Wellington.

Mr. Corbus pointed out that Bob Edgar of the IDS Advisory Group was not present as indicated under "Others Present."

The motion to approve the December 9-10, 1993 minutes as amended passed without objection.

PUBLIC PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

Chair Corbus introduced Michael Kirk and Douglas Mertz who last addressed the Board at the April, 1993 meeting. Mr. Kirk, a retired teacher, reviewed the history of his interest in the pension plan and distributed a laminated brochure containing a summary checklist to help trustees evaluate information from advisors, as well as a list of legal guidelines. He stated that he also gave Chair Corbus an agenda system.

Mr. Mertz told the Board not to interpret the lack of public participation in the meetings to mean there is lack of beneficiary interest in what the Board does. Referring to his earlier letter to the Trustees, he encouraged the Board to make an overt effort to keep the beneficiaries informed and to solicit helpful comments from them. He also stated that Board policies do not replace regulations, and according to the Supreme Court, regulations are required for agencies that deal with the public. He commended Mr. Kirk for his unselfish work on pension fund issues. He urged the Board to be constantly aware of the concerns of the beneficiaries and, in closing, he offered his and Mr. Kirk's assistance to the Board.

Mr. Olson said it was encouraging to hear from interested people and he urged Mr. Kirk and Mr. Mertz to stay involved. Mr. Kirk replied that he did not intend to become an institution. Chair Corbus thanked Mr. Kirk for his time and efforts.

APPROVAL OF AGENDA

MOTION - by Merritt Olson to approve the agenda subject to any modifications that might be necessary to leave enough time to hear and act on the finalists presentations for investment consultant on January 21.

SECOND - by Gail Oba.

There being no objection, the agenda was adopted as amended.

Chair Corbus noted that Mark Finn, Chair of the Investment Advisory Council, was ill and could not attend this meeting.

Laraine Derr reported that the featured speaker for the January 21 luncheon would be unable to attend due to poor weather conditions in Washington, D.C., so she was making arrangements for another speaker. Gary Bader complimented Ms. Derr and Mr. Lentz for organizing the luncheon and said that it was an excellent way for the trustees to meet with legislators and members of the community.

REPORTS

Fixed Income Review

Bob Storer introduced Investment Officers Michael Cheung and John Jenks to give a report on the in-house management of the fixed-income portfolio.

Michael Cheung stated that as of December 31, 1993, the fixed-income portfolio had 103 issues and the average coupon was 8.98% — much higher than the Lehman Government Corporate Index (7.59%). At the end of the year, the portfolio had a market yield to maturity of 5.76%, almost 0.13 basis points higher than the Index. The average maturity of the portfolio was 8.6 years at year end, down slightly from the September 30 average maturity of 9.11 years; the Index was 10.14 years. The shortening of the maturity is also reflected in the portfolio duration, dropping slightly to 5.1 years, making the portfolio slightly less sensitive to interest rate changes than the Index duration of 5.34 years.

Mr. Cheung reviewed bond quality and distribution by sector as of December 31, 1993, as follows:

<u>Bond Quality</u>	<u>12/31/93</u>	<u>Lehman Govt/Corp Index</u>
Cash/Cash Equiv.	7%	0%
AAA	51%	77%
AA	14%	4%
A	26%	12%
BAA	2%	7%
Total	100%	100%

<u>Distribution By Sector</u>	<u>12/31/93</u>	<u>Lehman Govt/Corp Index</u>
Treasury & Agency	51%	76%
Industrials	24%	9%
Utilities	5%	5%
Finance	7%	6%
Yankees	6%	4%
Cash	7%	0%
Total	100%	100%

Mr. Cheung noted that since September 30, the portfolio increased its holdings in cash and Yankees by 2% each, and decreased investments in industrials by 3%.

John Jenks reviewed the objectives of short maturity investments: preservation of principal, liquidity, and returns. Short maturity investments are a tool, or holding area, for some other investment strategy in the portfolio. The primary factors that affect the returns of short term investments are: the Federal Reserve monetary policy; the market demand for liquidity; and supply and demand (reflected in political upheavals throughout the world, or a domestic banking crisis). The short maturity investments are actively but conservatively managed; have specific maturity dates that have higher yields; and are handled with a keen eye for efficient execution during trading. Mr. Jenks referred to a graph illustrating historical credit premiums for ninety-day commercial paper over ninety-day Treasury Bills since 1988, which showed the downward trend due to the unwinding of short-term investments attributable to the banking crisis. He stated that investment management took advantage of the 35-basis-point additional return on ninety-day commercial paper over Treasury Bills in December 1993.

Ron Surz asked what other short-term investments are held besides notes, bills, and commercial paper. Mr. Jenks said that occasionally they hold corporate notes and overnight repurchase agreements.

Mr. Wellington asked staff to express the 7% cash holdings in the fixed-income portfolio into a dollar amount. Mr. Cheung said cash amounted to about \$280 million and that a portion

of the cash is being held in anticipation of funding two emerging market equity managers early in 1994.

Mr. Cheung reviewed the bond performance for calendar year 1993. The Lehman Government/Corporate Index returned 11.03%, broken down into 10.66% for the Government Index and 12.16% for the Corporate Index. Last year was the third consecutive year that the Corporate Index outperformed the Government Index (by roughly 1.5% in 1993). It was the first year since 1980 that both Moody's and Standard & Poors had more upgrades than downgrades for corporate issues. It was a year that saw record mortgage refinancing. Investments in mortgage-backed securities were negatively affected due to prepayments. Investors continued to move money out of mortgages into the corporate bond market.

Reviewing sector credit premiums for single-A-rated, ten-year maturity issues, Mr. Cheung noted that in the industrial sector corporations continued to see huge write-downs, while some companies like Sears and General Motors started to recover. The utility sector was affected by President Bush signing the National Energy Policy Act in 1992, and then in October, 1993, Standard & Poors revised the rating guidelines on utilities which had a negative effect. The finance sector performed very well due to low interest rates. The Yankee sector experienced quite a bit of volatility in 1993 related to political issues in Canada and Korea.

Ms. Oba asked if the portfolio invested in Sears securities a year ago. Mr. Cheung explained that Sears holdings were sold before the securities were downgraded to BBB.

Mr. Cheung, responding to a question from Mr. Olson, confirmed that the utility sector was expected to fall under pressure in 1994; the portfolio contains only two or three AA utility holdings and they are considered stable.

Looking at the market environment in 1994, Mr. Cheung reported expectations for moderate economic growth, improving corporate financial strength, a benign inflation pressure, and a cautious Federal Reserve policy. Based on these factors, in 1994 staff intends to focus on individual issue selection rather than investments by sector. Attention will also be given to where companies issue their bonds on a global basis.

Mr. Storer asked Mr. Cheung to explain how the rise or fall of interest rates affects a portfolio structured with higher coupons. Mr. Cheung said that the investment staff, because of the long investment horizon of the portfolio, prefers premium coupons where interest on interest becomes an important return component. Also, premium coupon issues are less sensitive to interest rate fluctuations. The rule of thumb is the higher the coupon rate you can get, the less duration risk you have.

In response to a query from Mr. Surz for a 1994 interest rate forecast, Mr. Cheung explained that pockets of growth in the domestic economy will most likely translate into an increase in the inflation rate, however, continued recessions in global economies, such as Germany and Japan, will help keep inflation down. He predicted that by the end of 1994 long Treasury bonds will be 6.5%, and if credit demand increases slightly, the Treasury Bill rate may go to 3.5% to 4%.

Gary Bader questioned the amount of cash needed to meet retirement payments versus the total amount of cash in all the portfolios. Mr. Storer stated that the cashflow is modestly positive; the PERS (Public Employees' Retirement System) spends about \$10 million a month, and the TRS (Teachers' Retirement System) spends less. Mr. Cheung added that the investment staff is looking for opportunities to invest cash, however, a substantial portion of the current cash holdings will go to fund two emerging market equity managers. Mr. Storer further explained that for both equity managers and the bond portfolio, cash can be considered as a defensive tool; however, in the bond portfolio, cash is part of the aggregate in the overall structure.

Mr. Wellington asked how the cash position compared to that of other pension funds. Mr. Storer replied that on the equity side the cash position is fairly consistent with other portfolios; a cash position of between 5% to 10% is normal. The portfolio's duration of 5.1 years is well within the bounds of most portfolios, but structured to be modestly defensive at this point. On the equity side, some equity managers tend to hold more cash as part of their defensive strategy.

Ms. Oba requested that future reports include average returns for each of the sectors.

Mr. Kinney mentioned that an article in The Wall Street Journal reported asset allocation as an aggregate for both public and private pension funds, and the cash percentages were higher than he thought they would be. Mr. Storer speculated that the higher cash holdings could be the result of a domestic stock market that historically has high-fair valuations or slightly overvalued equities.

(Later in the meeting, Mr. Storer reported that cash currently constitutes 6.22% of the PERS portfolio and 5.30% of the TRS portfolio. He noted that the State Pension Fund percentages in each asset category are relatively close to pension fund percentages quoted in The Wall Street Journal, January 19, 1994.)

Chair Corbus asked staff how they formalize their strategy, i.e., corporate bonds and high-average coupons. Mr. Cheung said that investment officers (Storer, Cheung, and Jenks) rely on historical information provided by Ibbotson Associates and conduct ongoing research and dialogue daily.

----- RECESS 9:55 a.m. to 10:12 a.m. -----

Real Estate Review

Jeff Hassler, Real Estate Investment Officer, briefly reviewed the attachments included in the meeting packets: a glossary of institutional real estate terms; a publication Emerging Trends In Real Estate; an article on "Real Estate Convalescence;" a listing of real estate investment advisors; a report outline for ASPIB real estate commingled fund advisor presentations; a continued discussion on Equitable Prime Property Fund; a memorandum regarding the real estate consultant Request For Proposal (RFP) evaluation committee; and introductory information about JMB Group Trusts III and IV.

Regarding Equitable Prime Property Fund, Mr. Hassler stated that at the March Board meeting staff will present its recommendation on whether to become part of the withdrawal queue. During the next two months, staff will learn more about the fund and its REIT activities. According to Equitable, March 31, 1994 is the last date to get into the withdrawal queue and possibly be paid out (near the end of June 1994) from the sale of assets to the REIT, should such sale occur. Once a real estate consultant is hired, they will analyze Equitable and make a recommendation about the advisability of the fund remaining in the PERS and TRS portfolios.

The Board directed Mr. Hassler to make a general analysis of Equitable and report back to the Board at the next meeting.

Mr. Hassler recommended that the Board form an evaluation committee to review the RFP proposals due March 1, 1994 for real estate consulting services. The evaluation period would be March 2 through March 16, 1994, with a real estate consultant being chosen by the Board at its March 17-18 meeting.

After a brief discussion, Chair Corbus announced that the evaluation committee will consist of himself, Merritt Olson, and Commissioner Rexwinkel. Mr. Olson agreed to act as committee chair.

Mr. Hassler revisited a couple of questions from the last meeting. For Mr. Corbus's benefit, he clarified that REITs are corporations which qualify for special tax treatment because they distribute 95% of their earnings, and they derive 75% of their income from mortgage interest or real estate ownership. Addressing Ms. Oba, he stated that staff is in the final process of obtaining environmental clean-up cost estimates on a property in the real estate portfolio, and will present that information at the next Board meeting.

In reference to the JMB Institutional Realty Corporation presentation scheduled for later in the agenda, Mr. Hassler provided some background information on the fund and Bill Ramsayer, the managing director. He stated that the total combined PERS and TRS commingled funds market value is \$183 million. He noted that investments in JMB Group Trusts III and IV have a market value of \$43 million and equal 23% of the commingled fund

investment (second in size only to Sentinel with 33%). Group Trusts III and IV are closed-end funds meaning that JMB is obligated to liquidate the funds by 2001. Group Trusts III and IV have been two of the poorest performers over the one-, three-, and five-year performance measurement periods, due to the substantial write-downs taken on their real estate assets. This write-down occurred as a result of the large office building holdings and the time the assets were purchased. Staff sent a letter to Mr. Ramsayer outlining specific topics and general information that he should present to the Board. Mr. Hassler informed the trustees that JMB has attempted to form private REITs, as well as public REITs created from some of their shopping center assets.

Asset Allocation Review

Mr. Storer stated that at its December, 1993 meeting, the Board decided to have an educational presentation on asset allocation at the January meeting, contract with an investment advisor, have the advisor make a presentation at the March meeting, and then adopt the asset allocation at the April meeting. He introduced Ron Surz and Dr. Robert Haugen, two members of the Investment Advisory Council. Mr. Storer also distributed copies of his memorandum to the Chairman in regards to the December 23, 1993 Dorn & Helliesen letter.

Mr. Surz first distributed copies of a handout dealing with the infrastructure of ETIs (Economic Targeted Investments). On behalf of the absent Mark Finn, Chair of the Investment Advisory Council, Mr. Surz stressed the importance of the Board's asset allocation decision. He outlined the asset management process as comprised of: (1) establishing investment policies; (2) implementing policies; (3) hiring managers; and (4) evaluating the managers. More than ninety percent of the investment results are tied to the type of investment policies established by the Board. The first step in establishing investment policies is to find out what level of risk is appropriate for the system with reasonable return expectations for that risk. The second step is to diversify the risk to get the best returns through an overall asset allocation. Mr. Surz stated that so far the Board has skipped the first step, presumed that the historical level of risk was correct, and went on to the return/risk optimization issue. He urged to Board to study the objectives over the life of the pension fund and set risk guidelines to meet the emerging requirements.

Mr. Surz stated that the cost of the system is tied to two important variables: the experience (funding, investment earnings, workforce growth, mortality, salary growth, cost of benefits) and the promise (the benefit). Although some of the "experience" factors are out of the Board's control, the possibility for future changes in these factors should always be evaluated by any investment consultant hired by the Board to help establish investment policies. Mr. Surz reviewed the key policy areas under the headings — funding, benefit, and investment. Regarding actuarial projections, he said that an investment consultant should develop projections of where the *future* growth of the liabilities is likely to be, some preliminary projections of where the *future* growth of the assets will be, and contribution trends.

Mr. Surz reviewed the performance of various investments (cash, long bonds, real estate, and stocks) over 25-year periods showing that stocks always outperformed other asset classes. He pointed out that the term of Board responsibility is much shorter than 25 years and the Board should also look at probability distributions for returns over shorter horizons, keeping in mind that pension fund liabilities fluctuate with interest rates. He reviewed the traditional perspective for measuring the investment performance of assets versus assets minus the liabilities marked to market value. The practical horizon includes an investment mix of bonds and stocks, but the mix will always be a matter of judgement. In closing, Mr. Surz urged the Board to address the complex issue of risk properly.

Mr. Olson asked if the PERS and TRS funds were similar enough in maturity level to have the same asset allocation. Mr. Surz said the two major funds were different enough to be handled separately and recommended that the Board develop investment policies for each, although it was possible the two policies would end up being the same. Mr. Olson wondered about the Judicial and Military retirement funds. Mr. Surz proposed that those funds be handled as a third investment policy. Mr. Storer, in agreeing with Mr. Surz's recommendation, noted that during the last review PERS and TRS had different earnings assumptions and were considered separately; however, it was determined that the plans were similar enough that the asset allocation should be the same for both.

Mr. Bader questioned whether the earnings assumption should precede the risk analysis of a pension fund. Mr. Surz said it was important to detach the funding policy question from the investment policy question; the actuarial interest rate assumption is a budgeting decision, not an investment decision. Mr. Bader asked how the Board could establish the level of risk it was willing to take. Mr. Surz reiterated that the Board's most important question to ask is what are the probabilities that the liabilities are going to be secure five or ten years from now. The question can only be answered by focusing on the Board's fiduciary responsibility to secure the benefits and try to control the costs.

Dr. Robert Haugen distributed copies of an example of an asset allocation study, which he reviewed in detail using a computer modeling program. He stated that most pension funds, when they do their asset allocation, focus on managing the volatility of their assets (stocks, bonds, real estate). Asset/liability management considers both sides of the balance sheet and focuses on the volatility of pension surplus or the funded status of the pension fund. As interest rates come down, the value of the liability goes up, and conversely. In order to stabilize the pension surplus, you must invest in assets that are also interest sensitive, such as long-term bonds and value-oriented common stocks. In this way, when liabilities increase, assets also increase; as liabilities go down, the assets can fall in value with them and the funded status will be preserved.

Dr. Haugen demonstrated one method of calculating expected returns based on a five-year Treasury yield-to-maturity of 5% as a base expected return and the historical realized returns for various asset classes for 1960 to 1992. Another method of calculating expected returns is

to project the long-term income from dividends for the S&P 500. Referring to the December 23, 1993 Dorn & Helliesen letter, he pointed out that if the price is low, there will be a high expected return on the S&P 500; if the market is over-valued relative to the future stream of dividends, the return will automatically become relatively low. He noted that the number of asset classes has grown, and he has written a book based on the theory that there is a premium on value stocks as opposed to growth stocks. Historically, value stocks have consistently produced higher returns than growth stocks. The value premium is bigger and more dependable than the size premium, therefore, it is time to split the large and small equities into additional groupings based on value and growth. Using his computer Monte Carlo simulation model, Dr. Haugen selected various weightings in different asset classes to illustrate how the program finds the lowest risk for the greatest returns. Portfolio risk depends not only on the volatility of the assets in the portfolio, but also on how they move relative to each other. Given expected rate of return objectives for the portfolio, we can find the efficient set, which are portfolios with the lowest possible risk given return, and highest possible return given risk.

Dr. Haugen stated that an investment consultant should be able to demonstrate what the expected returns will be given a different funded status of the pension fund. It is important to do "what if" scenarios, including disaster scenarios; the Monte Carlo method introduces the element of randomness in the portfolio analysis. Doing the analysis in terms of volatility of surplus does not necessarily mean investing more in bonds; it generally means investing in longer-term bonds to match up with long-term liability, and more interest-sensitive stocks.

Referring to the role of active management, Dr. Haugen noted that specialized portfolios, such as all value stocks or all growth stocks, are managed very cheaply (one or two basis points). Higher fees are paid for active managers' "crystal balls" — some technology, whether quantitative or subjective, for assessing future prospects of companies to buy the best value stocks or the best growth stocks.

Chair Corbus thanked Dr. Haugen for his thoughtful and technologically advanced presentation.

Mr. Surz, in closing, said that when selecting an investment consultant, the Board should find out if the firm has the technology and tools to do a good job, and the ability to analyze the information and present it in an understandable format to the Board. He reminded the Board to mentally separate the following duties: policy (the course of action taken by the Board regarding risk capacity, etc.); objectives (maintenance of funded ratio, control costs, etc.); and strategy (what portfolio managers are hired to do). He said the Dorn & Helliesen letter dealt with strategic information, not a policy issue.

Dr. Haugen offered to shadow the investment consultant's work to check that the assumptions used to make an asset allocation recommendation are valid. In addition, he offered to make available copies of his paper and book manuscript.

Mr. Storer, referring to the Dorn & Helliesen letter of December 23, 1993 that stated that bonds may be over-valued, observed that the letter implied a greater sense of urgency than exists. He reported that he reviewed the bond and equity valuations with the pension fund's strategic manager, Wells Fargo, and they are slightly weighted toward equities. In addition, the pension fund has hired a couple of global managers to take advantage of valuation differences in foreign and domestic markets. Moving forward, if and when the Board considers foreign debt as a component of the portfolio, one consideration would be a global debt and equity portfolio. He added that in 1993 the pension fund did reduce its exposure to bonds and funded more domestic and foreign equities.

Responding to Mr. Kinney's question about evaluating the Dorn & Helliesen letter, Dr. Haugen recommending checking out their contention that the equity markets are undervalued relative to the bond markets, i.e., on what assumptions were their calculations based.

FORMAL RECOGNITION OF NEW TRUSTEE

Chair Corbus welcomed Dorothy Wells, a TRS Board member, as a new Trustee on the Alaska State Pension Investment Board.

Chair Corbus also recognized former ASPIB Trustee, Roxy McDonaugh, for her service on the Board from December, 1992 through December, 1993. A commemorative plaque will be sent to Ms. McDonaugh.

----- LUNCH RECESS 12:15 p.m. to 1:35 p.m. -----

REPORTS (continued)

Ark Asset Management

Mr. Storer introduced Scott Higgins and Charley Hetzel of Ark Asset Management. He drew attention to a presentation format outline in the Board packet, courtesy of Ron Surz, that staff asked the money managers to follow when giving their presentations. The outline included policies, performance standards, portfolio profile, organizational changes, and the proxy policy. Mr. Storer mentioned that Ark's performance results are affected by contractual constraints that prohibit American Depository Receipts (ADRs). Contracts with newer managers do not include this constraint and Ark's new contract, as well as new contracts for IDS and Invesco, will drop the restriction.

Scott Higgins introduced Jim Warback, Ark's Director of Fixed Income, in the audience. He noted Ark's relationship with the State of Alaska for almost ten years, and briefly reviewed the history of the firm which currently has about \$15 billion under management. He summarized Ark's investment objective for the ASPIB to achieve the highest annual rates of return that are consistent with prudent investment management and the requirements and

limitations of the fund; the portfolio should not be exposed to an inordinate amount of risk of market value depreciation or realized losses. Ark's Growth-At-A-Reasonable-Price (GARP) investment style is a conservative approach where the primary objective is to outperform the S&P 500 while minimizing losses. He explained the investment process which first whittles the research universe of stocks down to 250 large-cap stocks (20% of highest price/earnings multiples stocks excluded).

Explaining ASFIB's asset allocation, Mr. Higgins stated that Ark strives to maintain an invested equity position of 80 to 100%, and cash builds as a result of taking profits and not finding buying opportunities. At the 20% cash level, Ark forces cash into existing positions, although their contract allows them to hold up to 50% in cash. Ark is in compliance with AIMR and the auditors, Coopers & Lybrand, will issue a formal report once they have audited Ark's December 31, 1993 composite returns.

Mr. Higgins reported the total fund returns for 1993 as follows: fourth quarter 3.9% compared to the S&P 500 at 2.3%; year-to-date 14.6% compared to 10.1% for the S&P 500; and 9-1/2 years since inception 17.2% compared to the S&P 500 at 16.5%. The fourth quarter was good largely due to stock selection in the energy area and other economically sensitive stocks in the consumer spending area. Ark has outperformed the S&P 500 in seven of the ten years since inception of the account in 1984.

Responding to Ms. Oba's question about the amount of cash normally kept in the pension fund's account, Mr. Higgins said cash is usually about 15%, or as much as \$45 to \$50 million.

Mr. Wellington questioned why cash was withdrawn from Ark Asset Management since 1988 if their performance was good. Mr. Storer explained that it was part of rebalancing the pension fund portfolio so managers were more evenly weighted; in the aggregate the rebalancing worked well because the pension fund ended up being a top quartile fund.

Referring to risk statistics, Mr. Higgins pointed out that Ark has added 1.52% per year to the account relative to the S&P 500, placing Ark's performance in the 19th percentile relative to other value managers. He covered the house results for a five-year period showing that Ark manages its money tightly with little variability between its high and low returns.

Responding to a question from Mr. Surz, Mr. Higgins stated that the ASFIB account has experienced about 40 basis points less in earnings per year (compared to the median fund) due to Ark not being authorized to invest in ADRs.

Mr. Higgins stated that stock selection has been the primary reason for Ark's outperformance of the market. He reviewed the portfolio characteristics using data provided by Callan Associates; specifically that Ark invests in large companies, dividend yield was 2.4%

compared to the S&P 500 at 2.8%, and price-to-book value and the normalized P/E are both less than the market.

Charley Hetzel next discussed the market outlook and portfolio tactics. Noting that the last twelve years in the market have had pleasing, positive results, he predicted that over the next three to five years equities will return high single-digit returns. The current bull market has lasted more than three years and is old by historic norms. The stock market continues to benefit from the flow of liquidity from CDs and money market funds to mutual funds at a rate of \$12 billion net new money per month. As a result, the stock market is at record high valuations and is vulnerable to a 10% correction at any time. The economy is moving at a slow pace while corporations have become "lean and mean" and are moving at a faster pace with increased productivity and profitability. If this trend continues, the more modest rates of return on equities will render the market more reasonably priced out on the time horizon.

Referring to Ark's method of "crystal ball" gazing, Mr. Hetzel reported that their portfolios continue to have a cyclical orientation. Ark recently added holdings to the weaker sectors/industries such as finance, energy, consumer spending, and airlines, while at the same time they took profits in the stronger consumer sectors such as autos and health care. He briefly reviewed the pension fund's portfolio composition at year end 1993, noting that over the last three to four months Ark has bought stocks in companies with lower valuations that have the potential for growth. For example, dropping oil prices have reflected negatively in the energy sector; Ark has added holdings in the energy sector in the fourth quarter 1993.

Commissioner Rexwinkel asked if Ark's prediction of moderate growth took into account the possibility of a stock market correction. Mr. Hetzel indicated that it did based on the study of historical market fluctuations where the stock market ultimately regained its losses over time and went to even higher levels.

Dr. Haugen asked how Ark predicted earnings per share. Mr. Hetzel said that Ark maintains direct communications with many large companies, uses market analysts extensively, and maintains a comprehensive database of information.

Mr. Bader asked if Ark also used earnings projections calculated by other firms, and if earnings were normalized when a normalized P/E was used. Mr. Hetzel replied that Ark uses an extensive amount of research from Wall Street experts and balances the consensus of these analysts against Ark's own seasoned judgement based on historical observations. He stated that in recent years there have been a large number of company write-offs, or one-time extraordinary charges, which affect the earnings of the company. Therefore, earnings are normalized to find the operating earnings on an ongoing basis in order to be able to assess the overall market evaluation.

Dr. Haugen asked why Ark eliminated the top 20% of the stock population based on the price/earnings per share on a normalized basis. Mr. Hetzel explained that Ark uses normalized earnings in order not to disregard cyclical elements that temporarily affect the P/E ratio. He said that Ark does not use price/book data because of the proliferation in the nineteen-eighties of write-offs and stock buy-backs that tainted the book value data.

Responding to Mr. Wellington's query about Ark's plans for the pension fund's large cash holding, Mr. Higgins stated that the cash will be invested if and when the market weakens. Mr. Wellington observed that in aggregate a large amount of the pension fund's assets are being held in cash. Mr. Storer agreed, explaining that new manager contracts include a requirement that for any cash in excess of 15% or any movement of cash plus or minus 5%, the manager must notify ASPIB management in writing. He noted that Ark uses a lot of cash as part of its portfolio management strategy. He commented that it is easy to question large cash holdings when the stock market is up.

Mr. Bader mentioned that asset allocation decisions are based on the assumption that the pension fund's assets are fully invested, and the target earnings assumption is then compared to the actual performance of portfolio managers, some of whom maintain large cash holdings. Dr. Haugen acknowledged that was correct, however, he said it would be wrong to preclude portfolio managers from holding some cash because it is part of their investment strategy. Commissioner Rexwinkel stated that the performance of a portfolio manager is measured against the total fund return and against other managers with similar investment styles. He added that, on the other hand, perhaps some of the excess cash should be managed internally in longer-term instruments in order to increase the return. Dr. Haugen proposed that one way to handle this is to recognize the portfolio managers' cash holdings as part of the aggregate cash investments for the pension fund.

In reply to a question from Mr. Wellington about the appropriate amount of cash, Mr. Higgins said that Ark wants the flexibility to hold up to 20% of the portfolio in cash as part of their conservative investment style. Mr. Storer inquired if Ark holds less cash in their portfolios with a global mandate. Mr. Higgins confirmed that Ark's global portfolios contain less cash — for example, the Permanent Fund's global account at 5.5% cash — because Ark is able to find investment opportunities outside the United States. He added that Ark would be happy to manage a global account for the State of Alaska pension funds.

Mr. Surz asked if Ark considered the pension fund account discretionary. Mr. Higgins said yes. Mr. Surz replied that in that case, according to AIMR standards, the pension fund account returns should be reported under the composite returns category. Mr. Higgins then clarified that the pension fund account is not entirely discretionary because it has restrictions, such as no ADRs, that other accounts in the composite do not have.

Mr. Higgins briefly reviewed personnel additions in 1993, noting that Ark did not have any departures of personnel from the GARP group. In terms of accounts gained and lost over

the past twelve months, The GARP group gained two accounts valued at \$50 million, lost two accounts valued at \$70 million, and had over \$300 million in cash flow from existing accounts. Mr. Higgins summarized Ark's proxy policy and control statement, stating that Ark votes proxies in the best interest of the plan and its participants and beneficiaries, and non-routine proxies are reviewed and voted on a case-by-case basis. Regarding brokerage commissions, Mr. Higgins emphasized that Ark strives to obtain the best price for each security it purchases or sells, and secondly, to minimize commissions (about six cents a share) and other transaction costs. When all things are equal in price, execution, brokerage commissions and other aspects of the trade, Ark systematically directs brokerage to firms with Alaska offices.

----- RECESS 2:42 p.m. to 2:46 p.m. -----

G. T. Cap Management

Mr. Storer introduced Earle Malm II and Peter Eadon-Clarke of G.T. Cap Management, one of the newer ASPIB equity manager, which manages a portfolio invested in the Pacific Basin ex-Japan plus the Indian subcontinent.

Mr. Eadon-Clarke explained that GT's Pacific Basin investment philosophy is based on their analysis of changes in monetary policies, interest rates, and business cycles as they relate to multiples and earnings momentum. Their Pacific Basin process emphasizes country allocation as the driving force behind successful investment returns. Mr. Eadon-Clarke expanded on GT's in-house market valuation techniques for Southeast Asian stock markets, specifically looking for extreme under- and over-valuations. Their risk management process has an exhaustive series of checks and controls at the asset allocation stage, weekly at the stock selection stage, and as part of the portfolio performance measurement.

Reviewing performance, Mr. Eadon-Clarke noted that GT has been managing an equity portfolio for the pension fund since June, 1993. The total fund is up 64.6% since inception, against the MSCI Index return of 49.8% for the same period. He stated that 20% of the portfolio is invested in Non-index countries (Indonesia, South Korea, and Thailand). Indonesia, Thailand, and Malaysia are all at the same stage of economic development having recently emerged from tight monetary policies, and are part of the ASEAN (Association of Southeast Asian Nations). Indonesia, Thailand, and Malaysia together comprised 32.6% of the portfolio as of December 31, 1993 versus the benchmark weighting of 24.2% for Malaysia alone. Indonesia and Thailand markets — in the early stages of a growth cycle — are attractive for their interest-rate-sensitive stocks, such as banking, housing construction, and cement. Australia, as a well developed country, is suffering from low growth so GT's investments there are company specific. Hong Kong comprised 34.8% at year end and its weighting has since been decreased to about 30%; the Hong Kong market is extremely sensitive to perceptions in China. China emerged from its recession in 1989 and is already experiencing a worrisome accelerated inflation rate of 20% and its trade position is

deteriorating quickly. GT expects that in 1994 the mainland Chinese authorities will impose monetary discipline, which will, in turn, affect Hong Kong.

Mr. Eadon-Clarke, referring to the sector weighting of investments in the ASPIB portfolio, stated that the finance sector includes property, is experiencing the benefits of disinflation, and at 46.5% is overweighted compared to the MSCI Index at 29.7%. Electric and gas utilities are slightly underweighted.

Directing attention to a handout entitled Where's The Growth?, Mr. Eadon-Clarke explained that while in the seventies and eighties capital was flowing out of the emerging markets and into OECD (Organization of Economic Cooperation & Development) countries, starting in 1990 capital started flowing strongly the other way into Asian markets. In addition, Hong Kong, Singapore, Korea and Taiwan, as newly middle-income countries, began investing in lower-income countries in the region such as Thailand, Malaysia, Indonesia, and China. He outlined the typical Asian cycle for high quality growth that is stimulated by exports and supported by capital investments, therefore, it takes longer before a country begins importing and the economy experiences inflation. Indonesia, Malaysia, Philippines, Singapore, and Thailand are currently growing their exports at around 15% compared to the 1993 world trade growth at about 3%. In addition, India looks good and GT expects to move some funds into India in 1994 after registry problems in that country are resolved. Meanwhile, China exports have been decelerating rapidly over the last year, in part due to an increased domestic demand for goods.

Mr. Eadon-Clarke summarized market expectations for 1994 by saying that stock investments in Asia ex-Japan should see accelerated earnings of over 20% at the beginning of a new three- to four-year bull market cycle. There could be sharp currency gains resulting from continuing capital inflows, and GT will be monitoring this closely. Also, the portfolio management will be watching for the consumption cycle to occur in the Asian countries and are buying into consumer spending stocks. Inflation should not be a 1994 concern anywhere except China.

Dr. Haugen asked if GT has different chief investment officers for each region. Mr. Malm said they have chief investment officers for each product, except for global and international type mandates where there is a chief investment officer within the region. Mr. Eadon-Clarke reported that each of the three regions (Europe, Americas, Asia) holds a two-day investment meeting every two months, followed by a global policy meeting.

Mr. Malm reviewed the personnel and structure changes at GT since June, 1993, pointing out that Pacific Basin team has changed with the hiring of Peter Lord, Managing Director, Asia. Mr. Eadon-Clarke interjected that he has hired an India specialist and another person for their smaller companies unit. Mr. Malm stated that the firm was put up for sale in March 1992 and withdrawn in March 1993 in order to develop a global asset management

business; since then assets have grown from \$11 billion to \$21 billion. GT acquired eight new accounts in 1993.

Dr. Haugen asked if GT considered its investment strength to be in country allocation. Mr. Malm agreed that country selection accounted for about two-thirds of their portfolio performance, but added that the focus is changing to encompass specific stock selection within countries. Mr. Clarke added that GT's regional specialists live in each country in the region for at least 18 months to develop their expertise, and thereafter visit about 20 to 30 companies in each country about once every two months.

Mr. Malm drew attention to the firm's proxy policy included in the handout. He reported that GT retains Global Proxy Services Corporation to identify the proxies as they fall in the portfolio so they can be voted on in a timely basis. Non-routine matters are referred to portfolio managers for voting. Mr. Malm explained that GT's commission payment policy is that portfolio transactions are always on a best execution basis. GT follows a strict policy of not paying commissions in excess of prevailing market rates. Directed trades are used for research and as requested by ASPIB.

----- RECESS 3:40 p.m. to 3:48 p.m. -----

JMB Institutional Realty

Mr. Hassler introduced Bill Ramseyer of JMB Institutional Realty Corporation to make a presentation to the Board regarding their management of a real estate portfolio for the pension fund.

Bill Ramseyer briefly reviewed the background and organization of the firm whose principals manage in excess of \$20 billion in real estate assets: office - \$10 billion; industrial - \$500 million; retail - \$8.5 billion; and apartments - \$750 million. Of the \$20 billion under management, about \$8 billion is tax-exempt institutional and the remainder is private investment.

Mr. Wellington asked if JMB suffered any property losses during the most recent earthquake in California. Mr. Ramseyer said Valencia Mall in the San Fernando Valley suffered severe damage, however, it is not part of the Alaska State Pension Fund's portfolio.

Mr. Ramseyer outlined the market outlook for real estate investments. With regard to the economy in general, job growth is occurring again, and low interest rates have stimulated the housing sector, prompting new construction and stimulating retail sales, especially home furnishings. GDP growth in 1994 is expected to exceed 1993's overall rate of 2.9%, and if economic recovery accelerates in Europe and Japan, U.S. could see faster growth. Commercial real estate values continued to fall during most of 1993, however, the real estate market has troughed and further value declines will be modest aided by the accelerated U.S.

economic recovery and the absence of new supply as vacancy rates fall in many markets. Capital appreciation has begun, especially in the apartment sector and, as a result, risk-adjusted real estate returns now compete with returns from financial assets.

There has been some growth in the retail sector, especially hard goods like furniture and appliances, and department store chains like Wal-Mart and Sears have posted solid gains. In the office sector national office vacancy rates are declining slightly with the increase in white-collar employment, however, JMB is not investing in the office sector until clearer trends are discernible. On the other hand, the warehouse and distribution sector is very sensitive to economic trends up and down. The demand for industrial space has begun to increase after a downturn during the recession, and the greatest appeal will be in properties with tenants serving local business and consumer markets in areas with solid population and employment growth. The apartment sector has been the first to experience widespread recovery and the major risk to continued recovery will come from the capital side of the market. As REITs (Real Estate Investment Trusts) and pension plans have become active buyers, yields begin to stabilize within a narrow range.

Dr. Haugen and Mr. Ramseyer discussed the fact that close to 20% of JMB's real estate investments are in California, principally the Los Angeles area. Mr. Ramseyer said that JMB has been oriented toward the central business districts and dominant properties, such as regional malls. Dr. Haugen noted that California's demography is changing rapidly with high rates of immigration, defense cutbacks, an exodus of taxpayers from the state, and a worsening tax situation. Mr. Ramseyer expressed optimism that California will ultimately benefit from the influx of immigrants through repriced labor and entrepreneurial ventures.

Mr. Ramseyer reviewed the structure of open-end and closed-end commingled real estate funds. Open-end funds have an infinite life; are generally capitalized under \$500 million; can be diversified; investments and divestments are at a unit value that is liquid (in favorable markets); and new shareholders are admitted on a quarterly or annual basis. Closed-end funds have a finite life (usually 10 to 15 years); are generally capitalized at more than \$500 million; are relatively static portfolios; investments and divestments of property are based on the cost and proceeds of the sale; there is limited unit liquidity; and no new shareholders are admitted after initial formation of the fund. For closed-end funds, JMB's strategy is to begin selling properties during the final five-year period of the 15-year fund life.

Mr. Ramseyer detailed the pension fund's portfolio investments in Group Trust III (\$24 million) and Group Trust IV (\$18 million) as of December 31, 1993. The total original capital investment in the two trusts was \$45 million, cash distributions to date total about \$3 million, and the total portfolio is now valued at \$42 million. Group Trust III had a 6.46% return over the past twelve months; Group Trust IV's return was -2.96%. Since inception, Group Trust III earned 2.7% and Group Trust IV had a return of -2.4% — the portfolio has failed to meet its target returns. Mr. Ramseyer reviewed the property type, property size, and geographic distribution of the portfolio for Group Trusts III and IV.

Responding to Ms. Oba's question about fees, Mr. Ramseyer stated that JMB charges 125 basis points on market value as adjusted by appraisal.

Dr. Haugen asked for an explanation of why JMB has had the lowest returns of all the real estate investment firms over the past three years. Mr. Ramseyer, referring to Callan performance measurement exhibits in the JMB report, explained that the Callan Database universe consists of 160 open- and closed-end commingled real estate funds, and NCREIF (the National Council of Real Estate Investment Fiduciaries) publishes the real estate index comprised of about 1,600 unleveraged properties. He stated that properties in Group Trust IV were acquired in 1987 and 1988 which was just before the collapse of the real estate market. Secondly, the JMB properties were about 25% leveraged when acquired and subsequently suffered in the declining real estate market. When the recovery occurs, JMB should be the beneficiary of their leveraged position. Thirdly, when Group Trusts III and IV were created, 60% of the assets were invested in New York and San Francisco office properties, markets which were hit hard in the real estate market collapse. JMB expects the portfolios to show better earnings as the economy improves. Responding to Dr. Haugen's question about leveraging, Mr. Ramseyer stated that JMB has used leveraging in no more than one-third of the portfolio and historically has made money with the strategy. Today, JMB uses leveraging more cautiously. Dr. Haugen observed that leveraging would likely hurt the portfolio returns, given that there is no tax advantage for the Alaska Retirement Pension Fund.

Mr. Olson asked why Group Trust III performed better than Group Trust IV. Mr. Ramseyer reiterated that Group Trust IV properties — mostly office buildings — were acquired in the late eighties when valuations were high, and Group Trust III contained more regional malls which were not at the peak of pricing and therefore performed well.

Mr. Ramseyer described the actual properties in Group Trusts III and IV, the occupancy levels, the market costs of the properties, their present values, and the strategic plan for each trust. The trusts lost about 58% of the value in the office sector and gained about 16% in the value of the regional malls. He answered several questions about property mortgages, how tax assessed values are calculated, and the property tax appeal process.

Responding to Commissioner's Rexwinkel's question about retail malls, Mr. Ramseyer explained that lease rates have remained fairly constant, but the cap rates have moved down. One exception is where small retail stores connecting the anchor stores are merging and becoming powerful negotiators for better leases, therefore, less income to the fund.

Prompted by Mr. Wellington, Mr. Ramseyer explained the sell/hold analysis for the Shell Building in San Francisco, a B-rated quality building where JMB is trying to increase the lease occupancy percentage to the mid-nineties in order to get a better selling price.

Mr. Kinney asked who appraised the JMB Group Trust properties. Mr. Ramseyer stated that at least every two years a property is appraised using one of about fifteen independent appraisers across the country.

Ms. Oba asked if it was possible that JMB's fees were calculated on out-of-date appraisal values. Mr. Ramseyer clarified that fees are based on JMB's interim valuations of the properties which are done every May and December, not on the appraised values. He further stated that it has been customary for fees to be paid on the property values, but for new real estate funds being put together the fees are based on the amount of profit realized by the investors. Ms. Oba wondered how the pension fund could be assured that JMB was managing the portfolio in the fund's best interest if the existing fee structure is based on property values rather than the new fee structure based on income generated from the property. Mr. Ramseyer pointed out that the pension fund's investments are in static portfolios that do not compete with the new real estate funds. He conceded that there was a potential for conflict having to do with which building to steer new tenants to, however, JMB's focus is to increase the income from all the properties under their management.

Mr. Ramseyer reported that JMB has not had any new funds in the marketplace for about 3-1/2 years because of declining property values and poor demand for property. Now that the real estate market has been repriced and yields are very competitive, JMB is in the process of establishing a series of four private market equity funds each dedicated to a different sector (industrial, office, retail, and apartments).

Mr. Ramseyer informed the Board that JMB is also in the process of acquiring large portfolios of commercial loans from insurance companies and banks, securitizing them, and managing a mortgage pool.

In closing, Mr. Ramseyer acknowledged that it not pleasant to deliver news of poor earnings results, however, he expected that most of the bad performance was history and JMB is working hard to position various properties for a profitable sale.

Mr. Surz asked if JMB was pressured by investors to close any closed-end real estate funds early. Mr. Ramseyer replied that there is about \$26 million in the redemption queue from Group Trust IV, about five or six percent of the fund. He added that investors are more inclined to want to maximize their returns on the assets in the portfolios.

At Mr. Hassler's request, Mr. Ramseyer briefly reviewed JMB's acquisition of Urban Investment and Development Company in the mid-eighties, which JMB converted to a public REIT in November, 1993 in order to pay down some of the debt and access the public investment markets. He speculated that most of the major retail mall developers in the U.S. will create public REITs in the future.

Ms. Derr handed out a Compensation Committee report to the Board for their information prior to tomorrow's compensation review.

After a brief discussion regarding tomorrow's agenda and a reminder about dinner at seven at the Baranof, Chair Corbus recessed the meeting for the day at 5:00 p.m.

Friday, January 21, 1994

Chair Corbus called the meeting back to order at 8:30 a.m. All eight Trustees were present.

UNFINISHED BUSINESS

TRS Funding Liability

Robert Stalnaker, Director, Division of Retirement of Benefits, Department of Administration, reported on the arrearage of contributions to the TRS fund — an issue raised by trustee Roxy McDonough at the December, 1993, Board meeting. He distributed information for 1985 to 1987 regarding the budget request for the TRS match, the amount that was appropriated, any supplementals that were requested, the actual employer contributions which were supposed to be matched, and if there were any shortfalls. He reviewed the budgeting for 1985 to 1987 in detail, indicating a 1985 matching shortfall of \$1.161 million; \$4.485 million in 1986; and \$2.102 million in 1987. The total shortfall was \$7.748 million, a figure that Mr. Stalnaker said was much larger than he had thought.

Mr. Stalnaker stated that in 1987 he advocated legislation to do away with the TRS match and the law was passed that year. The Legislature realized that the proper funding method for TRS was to put the burden on the people receiving the benefit from the system, that is, the employer. Beginning with FY88, the employers were responsible for paying their full costs.

Mr. Stalnaker reviewed the funding ratio history of the TRS fund, speculating that in 1987 perhaps the Administration and/or the Legislature interpreted the funding level of 101.2% to mean the system was well funded and did not need any extra money. He drew attention to a September 30, 1986, letter in the packet from the actuary, William Mercer, Inc., explaining the meaning of full funding in PERS/TRS.

Referring to Ms. Oba's question at the December meeting, Mr. Stalnaker said that the Attorney General's Office does not believe the statute of limitations would apply to the TRS matching shortfall situation because an appropriation request could be made to the Legislature.

Mr. Olson observed that although the shortfall is of great concern to the TRS Board and membership, in light of the projected state budget deficit, this is not an opportune time to ask the Legislature for restitution of the \$7.748 million shortfall. Mr. Stalnaker agreed, adding that the retirement system now has a solid funding policy which will provide for lower costs in the future and the funding ratio is heading back towards 100% funding. He explained that the system developed a funding ratio taking into account the shortfall as an unfunded liability which was amortized to be collected over 25 years.

Mr. Wellington stated that although there appears to be little chance of recouping the \$7.748 million shortfall, the ASPIB Board would be remiss in its fiduciary duties to write it off. He felt the Board should contact the Administration and at least make some effort to recover the money. Mr. Stalnaker reminded him that actuarially the shortfall has not been written off; the school districts, funded by the State, have been paying off the shortfall a little at a time since 1987. Mr. Olson remarked that although the shortfall will be recovered over a 25-year period from the school districts, ultimately the TRS fund will have lost the benefit of the revenues from the \$7.748 million over that period. He said it was a good idea to keep the shortfall on the record.

Dorothy Wells agreed that although there was little hope of recovering the shortfall through a legislative appropriation request, perhaps the Board should write a letter to the Administration and the Legislature letting them know the TRS funding shortfall has not been forgotten.

Mr. Bader voiced the opinion that the TRS Board, as fiduciaries of the Teachers' Retirement System, should seek restitution of the funding shortfall if they so desire; the ASPIB Board's responsibility is limited to investing the funds within the system. Mr. Stalnaker agreed with him.

MOTION - by Merritt Olson to refer the matter of the TRS funding shortfall to the Teachers' Retirement Board for their attention.

SECOND - by Commissioner Rexwinkel.

There being no objection, the motion passed unanimously.

Legislation for Alaska Pension Investment Authority (APIA)

Ms. Oba conducted a review of draft legislation — included in the Board packet — to establish an independent authority to manage the retirement funds. Mr. Olson wondered if the Commissioner of Revenue should be designated as the treasurer of the fund, or if the legislation should indicate "a fiduciary of the authority." Ms. Oba replied that she researched the Alaska Permanent Fund Corporation legislation and the Commissioner of Revenue was named as the treasurer of that fund. Commissioner Rexwinkel and Mr. Bader

questioned the source of funding in the unlikely event there was no revenue generated in any one year. The Board agreed that Section 37.10.255 (Authority Budget) should begin, "The investment of the funds under the control of the board . . ." (Deleted "The revenue generated by").

Mark Prussing, State Comptroller, reviewed the drafts of two fiscal notes to be submitted along with the proposed legislation; one for the ASPIB budget and one for the Treasury Division of the Department of Revenue. When the fiscal notes are finalized for submission, they will contain a narrative analysis of the legislation. The fiscal notes illustrated the change in the FY95 budgets as a result of the proposed APIA legislation.

(Commissioner Rexwinkel was excused at 9:20 a.m. to attend to other business.)

Referring to the fiscal note for the ASPIB budget, Mr. Prussing indicated that first year costs (FY95), including set-up expenses, would be approximately \$912,000, and the budget for following years was estimated at \$524,000. Portfolio management fees and custodial fees, estimated at \$325,600 per year, account for a substantial portion of the APIA budget. He answered various questions about line items in the proposed budgets for the APIA and Treasury. Mr. Prussing indicated that the Board might want to discuss whether they want to prepare a position paper in support of the proposed legislation to establish the APIA.

A general discussion followed on the advisability of the Board pursuing getting the draft APIA legislation introduced in the Legislature. Ms. Oba stated that there has been some indication that the Administration's position might be more supportive now of legislation to form an APIA than when the issue was raised a couple of years ago. She added that if the Board decided to go forward with the draft APIA legislation, Representative McLean would be willing to introduce a bill.

Mr. Bader said he supported the legislation because it would put the employees of the APIA in an exempt service whereby the authority could go outside the merit system of the State and pay the going rate for the best talent. Having an Executive Director that is responsible to the Board is also an attractive feature. He expressed concern that if and when legislation to establish the APIA is introduced it could revive old arguments that the Alaska Permanent Fund Corporation should manage the retirement system pension funds. In closing, he broached the notion that the Board find out the Administration's position on an APIA before pursuing introduction of a bill.

Mr. Olson agreed with Mr. Bader's comments. He recalled a previous discussion with Mr. Stalnaker about the future possibility of the APIA encompassing the TRS and PERS boards to handle both the benefits and investments, in the interest of reducing duplication and cutting costs. Mr. Stalnaker further explained that a bill was introduced by Senator Pourchot in the past, but defeated by the Governor, that would have adopted a model of a single board to oversee the total operation of the pension system, including both the liability and asset side.

He said that although he personally supported the concept, he understood that the present Administration does not look favorably on autonomous boards.

Mr. Wellington, a 16-year PERS board member, said that he had supported the move to an independent investment board (ASPIB). He said that establishing the Alaska Pension Investment Authority (APIA) is the next logical step and it would be helpful if the current Administration supported it. He remarked that the Governor's position on the APIA bill could change and become favorable, however, the ASPIB, if it strongly supports such a bill, should proceed with or without the Governor's blessing. The APIA would give the pension fund the necessary continuity through different Administrations and is in the best interest of the plan participants. He said he viewed creation of the ASPIB as phase I, establishment of the APIA as phase II, and folding the PERS and TRS boards into one board as phase III.

Mr. Olson advocated having the Board Chair and Vice Chair contact the Governor's Office to determine the Governor's stance on a bill to establish the APIA before proceeding with introduction of a bill. He speculated that the APIA bill could be changed so drastically on its way through the legislative committee process that the Board might be opposed to the final version of the bill.

Mr. Kinney voiced his support for establishment of the APIA because — based on the fiscal notes — the beneficiaries will derive a benefit from additional revenues generated in-house by two additional fixed-income investment officers. Mr. Prussing noted that the projected \$10 million in increased revenues could be generated by adding a cash forecasting position in Treasury now.

(Commissioner Rexwinkel rejoined the meeting just prior to the vote on APIA legislation.)

MOTION - by Pat Wellington to proceed with introduction of a bill to establish an Alaska Pension Investment Authority.

SECOND - by Dorothy Wells.

AMENDMENT - by Gary Bader to amend the fiscal notes to reflect salaries at the level in the budget currently before the Legislature.

SECOND - by Ross Kinney.

Roll Call: (Amendment)

Ayes:	Olson, Wells, Ola, Wellington, Bader, Kinney, Corbus
Nays:	None
Abstain:	Rexwinkel

The amendment to the motion passed unanimously with one abstention.

Roll Call: (Main Motion)

Ayes: Wells, Oba, Wellington, Bader, Kinney, Olson, Corbus
Nays: None
Abstain: Rexwinkel

The motion passed unanimously with one abstention.

Chair Corbus indicated that he and Gail Oba would set up a meeting with the Governor to discuss the proposed APIA legislation.

Commissioner Rexwinkel recommended that the Board prepare a position paper on the proposed APIA legislation. Ms. Oba asked that Treasury staff prepare a draft position paper for her review. Chair Corbus requested that Ms. Oba review staff's draft position paper with Mr. Wellington and Mr. Bader by telephone.

----- RECESS 10:05 a.m. to 10:20 a.m. -----

Legal Report

James Baldwin, Assistant Attorney General, reported that on January 20, 1994, the Department of Law issued a Notice of Intent to Award to the law firm of Wohlforth et al. The Department of Law received two letters inquiring about the RFP process; one firm (Foster, Pepper/Jeff Bush) indicated that they did not intend to protest. Following the mandatory waiting period and if there are no protests, a contract for legal services should be awarded by the next Board meeting.

Mr. Baldwin indicated that the Department of Law provided some legal assistance to the Treasury Department's Real Estate Investment Officer regarding the mortgage loan portfolio. Although difficult to assess at this time, it appears that the matter may not require any more legal services.

Mr. Baldwin brought the Board up to date on the status of the Executive Life situation, noting that although not under the Board's control, the assets involved affect the retirement systems. Settlement talks are ongoing and the determination date is February 13 for the State to decide whether to accept a restructured GIC (Government Insured Contract) or take the money as a lump sum. Potential recovery for the State is estimated at between \$70 and \$105 million.

Regarding the ASPIB regulations, Mr. Baldwin reported that they passed Department of Law review with minor editing and are ready for the 30-day public notice period.

Mr. Baldwin informed the Board that the Department of Law was closely involved in the previous APIA bill that failed to become law, and offered the department's assistance if the Board should decide to go forward with a new APIA bill.

Mr. Bader asked if the ASPIB is exempt from the State procurement code. Mr. Baldwin explained that the Board can set their own rules but must adopt regulations that embody competitive pricing. He clarified that the Department of Law conducted the procurement for outside legal counsel for ASPIB matters because the ASPIB process was not yet in effect.

Mr. Bader inquired about the union lawsuit against the State regarding the SBS (Supplemental Benefit System). Mr. Baldwin stated that the suit has been concluded as far as confirming that the investment loss trust fund funded by the Legislature satisfies any obligation relative to the participants. He added that settlement of that lawsuit may become a vehicle for litigation against third-party advisors. The Department of Law can sue William Mercer, Inc., but when that suit will be filed depends largely on what happens in the rehabilitation proceedings. In addition, the State has assigned the rights to those claims to a litigation trust and agreed to be a named party in action against Standard & Poors, Moody's, A.M. Best, and Deloitte & Touche.

Compensation Review

Ms. Oba reported that the Compensation Review Committee met yesterday and she distributed a proposed salary structure grid which was taken from the Alaska Permanent Fund Corporation (APFC) policy manual, and a memorandum setting out the APFC's staff positions as compared to the Treasury investment staff positions. She stated that the Compensation Review Committee recommended adoption of the proposed salary structure grid and requested that the Treasury revise the salaries paid to the investment staff to align with the proposed salary grid so that by 1996 the salaries would have parity with the APFC's investment staff salaries.

Mr. Wellington, as a member of the Compensation Review Committee, explained that the committee considered conducting a salary survey but decided to use the APFC's seasoned salary structure for investment staff. He voiced support for the Committee's recommendation because it would give the Treasury's investment officers parity with the APFC's investment staff by 1996.

Mr. Bader, as a member of the Compensation Review Committee, agreed because the pension system should be managed by the best professionals and they should be paid on par with their peers in Juneau. He suggested that the Office of Budget & Management be approached about getting approval for 1994 investment officer salary increases.

Commissioner Rexwinkel asked when the salary increases would become effective. Ms. Oba said that the Committee wanted to leave that to the discretion of the Commissioner of

Revenue. Commissioner Rexwinkel stated that he believed the APFC's salary schedule was too high, therefore, he would vote no on the Committee's recommendation to adopt the same salary schedule for Treasury investment staff.

Mr. Kinney asked if the proposed salary increases had been submitted to the Office of Budget & Management. Ms. Derr said not until the Board has taken action.

MOTION - by Gary Bader to adopt the Alaska Permanent Fund Corporation salary guidelines for the exempt investment officer positions in the Department of Revenue working for the Alaska State Pension Investment Board.

SECOND - by Pat Wellington.

Mr. Olson wondered if introduction of the proposed APIA legislation would influence the recommended salary structure; however, he supported the concept.

Roll Call:

Ayes: Oba, Wellington, Bader, Olson, Wells, Corbus
Nays: Rexwinkel, Kinney

The motion passed, 6-2.

Finance-Budget Report

Ms. Derr reported that the ASPIB budget will be heard on February 4, 1994.

Comptroller Mark Prussing and Assistant Comptroller Carolyn Hartsog presented a status report on the expenditures for the Board for FY94. The most recent monthly financial statements for the retirement funds were included in the packet.

Mr. Prussing indicated there was little activity in the FY94 operation budget since the last meeting, except for moving some money out of the Treasury budget into the ASPIB budget to cover contractual expenses that were underestimated. Regarding the FY95 budget, there has not been any substantial change since the last meeting, and the current version of the budget is included in the legislation fiscal note analysis.

The Board discussed the high contractual expenses and Ms. Derr explained that costs for the election of a new Board member were not budgeted.

Newsletter Review

Ms. Derr reported that the cost to produce and mail a newsletter from the Board would be approximately \$18,000 per mailing. She consulted with the Department of Administration

and found that space in their Newsbreak publication could be reserved for ASPIB news at no additional cost to the system. Staff recommended coordinating with the Department of Administration to provide ASPIB news to be published in the Newsbreak.

MOTION - by Merritt Olson that staff coordinate with the Department of Administration for purposes of communicating ASPIB news in the Newsbreak.

SECOND - by Dorothy Wells.

There being no objection, the motion passed unanimously.

Trustee Election Update

Ms. Derr reported that Dorothy Wells, a retired teacher from Fairbanks, has been elected to a four-year seat on the Alaska State Pension Investment Board (until December 31, 1997). The final cost for the trustee election was \$45,200 compared to the budgeted amount of \$53,600.

Independent Audit Contract Time-Line

Ms. Derr drew attention to a time-line contained in the packet for completion of the audit RFP process to be initiated after completion of the FY94 audit.

Disclosure Reports

Disclosure reports received by staff since the previous meeting were included in the Board packet.

Meeting Schedule

There was no objection to the meeting schedule contained in the Board packet. The next meeting is scheduled for March 17 and 18 in Juneau.

Signature Authorization

Ms. Derr explained that money manager Miller Anderson asked for a signature authorizing Venezuelan investments, however, according to the resolutions, the Secretary of the Board cannot sign the document without approval by the Board. Staff recommended that the Board approve the signing of the attached document for Venezuelan investments.

Staff further recommended that the Board discuss Resolution 93-2 regarding signatures and perhaps amend the resolution to resolve the issue of obtaining signature authorization to expedite business between Board meetings.

Chair Corbus ascertained that the Board had no objection to having Commissioner Rexwinkel, as Secretary of the Board, sign the document authorizing Venezuelan investments.

MOTION - by Merritt Olson to amend Resolution 93-2 to include the following language:

"To expedite business between Board meetings, either the Chairman or the Secretary of the Board is authorized to sign all deeds, contracts or other documents. All documents so signed shall be presented to the Board at the succeeding meeting for Board information."

SECOND - by Pat Wellington.

While a Board discussion took place, Ms. Derr consulted with Assistant Attorney General Jim Baldwin to devise suitable amendment language to Resolution 93-2, as follows:

"To expedite business between Board meetings, either the Chairman or the Secretary of the Board is authorized to sign all deeds, contracts or other documents. All documents so signed shall be presented to the Board at the succeeding meeting for Board information."

WITHDRAWAL - of motion by Merritt Olson and second Pat Wellington.

MOTION - by Merritt Olson to amend Resolution 93-2 to include the following language:

"To expedite business between Board meetings, either the Chairman or the Secretary of the Board is authorized to sign all deeds, contracts or other documents. All documents so signed shall be effective immediately, but shall be presented to the Board at the succeeding meeting for Board information."

SECOND - by Commissioner Rexwinkel.

Roll Call:

Ayes: Wellington, Bader, Olson, Wells, Oba, Rexwinkel, Corbus
Nays: Kinney

The motion passed, 7-1.

NEW BUSINESS

At the request of the Chair, Mr. Storer spent a few minutes outlining the process by which the Board would interview the three finalists for investment consultant later in the day. Chair Corbus stressed the importance of the Board's selection for investment consultant and

he urged the Trustees to keep in mind the sample questions provided in the outline from Dr. Haugen.

Election of Officers

MOTION - by Commissioner Rexwinkel to nominate the current officers to serve one more year in their current positions.

SECOND - by Ross Kinney.

Commissioner Rexwinkel explained that the current Board only began its official duties on July 1, 1993, and he proposed that the officers continue until the next election in January 1995.

Mr. Bader noted that if there was a change in Administration before January 1995, there could be a change in the Secretary position currently held by the Commissioner of Revenue, Darrel Rexwinkel. Commissioner Rexwinkel commented that Board vacancies can happen mid-term for any number of reasons at which time another election can be held.

Roll Call:

Ayes: Rexwinkel, Kinney, Wells, Oba
Nays: Wellington, Bader, Olson, Corbus

The motion failed on a tie, 4-4.

MOTION - by Gary Bader to nominate William Corbus for the office of Board Chair for one year.

SECOND - by Merritt Olson.

There being no further nominations, it was moved, seconded and carried to close nominations for Chair.

Mr. Wellington asked Chair Corbus if, as Chair, he felt inhibited in participating in Board discussions. Chair Corbus said he felt the Chair's job is to run the meeting in an orderly fashion and make sure that all points of view are heard without influencing the outcome of an issue. He added that he would be interested in being Chair for another year.

Roll Call:

Ayes: Wellington, Bader, Kinney, Olson, Wells, Oba, Rexwinkel, Corbus
Nays: None

The motion carried unanimously, 8-0.

MOTION - by Commissioner Rexwinkel to nominate Gail Oba for the office of Board Vice Chair for one year.

SECOND - by Ross Kinney.

There being no further nominations, it was moved, seconded and carried to close nominations for Vice Chair.

Roll Call:

Ayes: Wellington, Bader, Kinney, Olson, Wells, Oba, Rexwinkel, Corbus
Nays: None

The motion carried unanimously, 8-0.

MOTION - by Merritt Olson to nominate Commissioner Rexwinkel for the office of Board Secretary for one year.

SECOND - by Gail Oba.

MOTION - by Pat Wellington to nominate Gary Bader for the office of Board Secretary for one year.

SECOND - by Dorothy Wells.

Commissioner Rexwinkel declined his nomination as Secretary.

There being no further nominations, it was moved, seconded and carried to close nominations for Secretary.

Roll Call:

Ayes: Bader, Kinney, Olson, Wells, Oba, Rexwinkel, Wellington, Corbus
Nays: None

The motion to elect Mr. Bader as Board Secretary carried unanimously, 8-0.

Each officer so elected was present and accepted the office to which he or she was elected.

OTHER MATTERS TO PROPERLY COME BEFORE THE BOARD

There were no other matters to come before the Board.

TRUSTEE COMMENTS

Mr. Kinney praised the educational presentations by the Advisory Council members, Dr. Haugen and Ron Surz.

Mr. Wellington agreed, noting that the Advisory Council's participation is valuable and each member of the Council should make every effort to attend ASPIB meetings, especially when the Board is in its formative stages. He expressed appreciation for the work of outgoing Board Secretary, Commissioner Rexwinkel, and explained that he nominated Gary Bader for Secretary because the ASPIB did not have any other elected member as an officer of the Board.

Dr. Haugen clarified that he had wanted to attend the last Board meeting but missed it due to a miscommunication with Mark Finn.

Ms. Oba thanked Mike Kirk for his participation and the educational materials he prepared for the Board.

Mr. Olson voiced recognition for Treasury staff's efforts in keeping distant Board members informed.

Ms. Wells said she looked forward to serving on the Board.

Chair Corbus commented that he was happy to see the goals and objectives discussion back on a future meeting agenda in Fairbanks.

FUTURE AGENDA ITEMS

Commissioner Rexwinkel suggested that a new Board photograph be taken for the next annual report.

Mr. Olson asked that staff prepare — for the sake of uniformity — general guidelines for sub-committee meetings. Ms. Derr offered to furnish the requested guidelines.

Mr. Surz raised several issues that the Board might want to take future action on. The first issue is whether the Board wants to formally respond to the Dorn, Helliesen & Cottle, Inc. letter. The second issue deals with Ark's comment that they consider their Alaska Retirement System account as non-discretionary because they are barred from investing in ADRs. Although it could mean a bit more foreign exposure for the pension fund, the Board might want to consider giving Ark Asset Management the discretion to invest in ADRs. The third area deals with proper appropriations to meet the actuarial requirements of the system; this should be considered as part of the Board's asset/liability analysis when making investment policy decisions.

Commissioner Rexwinkel stated that he has no reason to believe there will not be full funding of the employer contribution rates to the retirement system as set by the actuary.

Mr. Storer reiterated that Ark's contract is inconsistent with other external manager contracts and staff intends to include the ability to purchase ADRs in Ark's new contract. Regarding the Dorn, Helliesen & Cottle, Inc. letter, he advocated sticking with the Board's plan to hire an investment advisor to review all components of the asset allocation policy and make a presentation at the March meeting, after which the Board will adopt the asset allocation policy at the April meeting.

MOTION - by Commissioner Rexwinkel to accept the recommendation of Bob Storer, Chief Investment Officer, with respect to the Dorn, Helliesen & Cottle, Inc. letter.

SECOND - by Merritt Olson.

There being no objection, it was so ordered.

EXECUTIVE SESSION

MOTION - by Commissioner Rexwinkel that the Board move into Executive Session to discuss matters that may affect the finances of the Alaska State Pension Investment Board, and request that Bob Storer, Laraine Derr, James Baldwin, and Robert Stalnakar remain in the meeting.

SECOND - Pat Wellington.

Roll Call:

Ayes: Wellington, Bader, Kinney, Olson, Wells, Oba, Rexwinkel, Corbus
Nays: None

The motion passed unanimously, 8-0.

The Board went into executive session at 11:47 a.m. and recessed for lunch at 12:07 p.m. Chair Corbus stated that no action was taken as a result of the executive session.

----- LUNCH RECESS 12:07 p.m. to 1:35 p.m. -----

All trustees were present when the Chair called the meeting back to order after lunch.

NEW BUSINESS (Continued)

Finalists for Investment Consultant

Mr. Storer explained that each finalist would have 20 minutes for their presentation and 15 minutes for questions and answers.

Callan Associates, Inc.

Mr. Storer introduced representatives from Callan Associates, Inc., Michael O'Leary, Jr., Senior Vice President, and Ron Peyton, President. Mr. Peyton and Mr. O'Leary distributed a written summary of their presentation (see for details).

Ron Peyton stated that the Callan organization of 145 people is the largest pure investment consulting firm in the industry with a client-to-consultant ratio of less than 12 to one. Callan has 280 plan sponsor clients whose assets exceed \$300 billion. Callan considers its core business to be education and operates the Callan Investments Institute in San Francisco, as well as the Center for Investment Training which trains consulting professionals from other firms.

Mr. Peyton reviewed the proposed consulting team and assured the Board that Michael O'Leary would be their primary consultant while he personally would be the back-up person if Mr. O'Leary was not available.

Mr. O'Leary outlined Callan's services, including the integrated asset/liability study; manager search capability; assistance in policy formulation; and expertise in alternative investments. He reviewed in more detail the integrated asset/liability study whereby a PC-based, dynamic model of the liabilities uses the most recent actuarial valuations. On the asset side, looking at up to 50 different asset categories, Callan does modeling of the range of returns. Three primary things drive the asset model: the expected rate of return; the risk of the return; and the correlation coefficient. Callan's Client Policy Review Committee annually sets Callan's assumptions used in the modeling; historically, with the exception of real estate, all Callan assumptions have been within the forecast range. Regarding manager searches, Callan has done searches across all asset categories. In closing, Mr. O'Leary pointed out that Callan is familiar with serving accounts in Alaska and has never missed a meeting in Alaska or needed a rescheduling.

Commissioner Rexwinkel asked what benchmarks Callan used for measuring real estate and alternative investments. Mr. O'Leary responded that real estate performance is measured against the large Callan real estate database that takes into account the risk associated with real estate. For venture investments, Callan uses data from Britson Partners.

Mr. Kinney questioned how the performance of foreign stocks and bonds are measured. Mr. O'Leary said that Callan has a quantitative modeling group that anticipates a 10% to 20% expected rate of return in international equity markets over the next five years. International bonds are forecasted to earn 6.25% over the next five years.

Commissioner Rexwinkel asked if Callan perceived any conflict in handling both the manager searches and performance measurement function. Mr. Peyton said that there is no conflict; Callan has very few relationships where they do only one of those functions. The manager search criteria is established by working with the client and Callan is indifferent as to which manager is selected. Performance evaluation is backed up by facts and figures and Callan is under constant scrutiny by both clients and the managers to make sure the published returns are correct.

Commissioner Rexwinkel questioned employee turnover at Callan and the recent publicity regarding events in Kansas. Mr. Peyton explained that the publicity occurred because Callan, as part of its responsibility as a consultant, always supports its clients when the trustees of funds are under investigation. In some cases, the consultant has been an expendable solution to a fund's performance-related problems. Mr. O'Leary added that Callan has had very low account turnover. In 1992, Callan initiated employee turnover as part of restructuring; the 1993 turnover was due to employees leaving for the more lucrative investment management business. To combat that, Callan has broadened ownership among senior management and institutionalized participation in senior management through a management committee.

Ms. Oba asked the Callan representatives to comment on the California Public Employees' Retirement System situation. Mr. Peyton explained that a different board sued Callan 18 months after Callan resigned. There are currently about ten outstanding suits; the suit against Callan was filed in March 1993 alleging Callan concealed their interest in a limited partnership investment. Mr. O'Leary added that Callan previously had an \$12 million interest in a Stanford University venture capital technology transfer limited partnership which is still alive and well. Mr. Peyton assured the Board that Callan has plenty of documentation that they did not act inappropriately.

Ms. Wells asked for examples of Callan's asset/liability studies. Mr. O'Leary listed the New York State Permanent Fund (\$40 billion) and the L.A. County Fund (\$17 billion).

----- RECESS 2:14 p.m. to 2:19 p.m.

Dorn, Helliesen & Cottle, Inc.

Mr. Storer introduced Bob Helliesen and Bill Cottle, the Alaska State Pension Investment Board's current consultant, who distributed a written summary of their presentations (see for details). Bill Cottle apologized for Doug Dorn's absence due to illness.

Bob Helliesen reviewed the history of Dorn, Helliesen & Cottle, Inc. since 1982, a small firm dedicated strictly to investment consulting services to a few plan sponsors (currently 13 clients). The firm is not involved in any litigation. Bob Helliesen said he intended to be the lead consultant to the Board with back-up from Bill Cottle.

Bill Cottle discussed the firm's consulting philosophy which employs a team of experienced consultants with investment backgrounds to conduct hands-on analytical research. Dorn, Helliesen & Cottle, Inc. closely monitors external managers' investment strategies in order to offer well-reasoned action recommendations to a limited number of clients. Each consultant at Dorn, Helliesen & Cottle, Inc. works with only five or six clients and the firm has had limited client turnover.

Mr. Cottle summarized the work done for the State of Alaska over the past two years, including an asset allocation study and subsequent implementation plan, developing a comprehensive policies and objectives statement, and conducting six manager search projects and hiring 11 money managers. All work performed for the State of Alaska met expectations and was presented on time. The Fund's performance improved from the 90th percentile to the 10th percentile during Dorn, Helliesen & Cottle, Inc.'s term as consultant, and the firm was partly responsible for that radical improvement.

Mr. Helliesen outlined what Dorn, Helliesen & Cottle, Inc. proposed to do for the State of Alaska Pension Funds, including another asset allocation study, investment manager selection, and a quarterly review of manager performance. Mr. Cottle mentioned recent research Dorn, Helliesen & Cottle, Inc. did on historical correlations for bonds in relation to various major asset classes, and emphasized that the firm would continue checking to ensure their assumptions used in the models stay current. He stated that a key part of risk analysis is funding risk, the level of assets relative to liabilities.

Mr. Helliesen referred to the firm's consulting fees over the past five years as reasonable to low over the past five years. He pointed out that Dorn, Helliesen & Cottle, Inc. has helped the State of Alaska through a complete restructuring of the pension fund investing and met expectations.

Mr. Olson questioned if Dorn, Helliesen & Cottle, Inc. would analyze the PERS and TRS funds together or separately to determine the asset allocation. Mr. Cottle

recalled that the previous asset allocation study treated each plan separately and found that the sensitivity of the liabilities were not too dissimilar, and the separate target asset mixes generated for PERS and TRS were very similar. He recommended looking at the two plans separately in the upcoming asset allocation study.

Mr. Bader, acknowledging that Dorn, Helliesen & Cottle, Inc.'s record on asset allocation is clear, asked them to explain how the firm measures liabilities. Mr. Cottle explained that Dorn, Helliesen & Cottle, Inc. has an in-house model to project future liabilities, however, the best person to measure pension fund liabilities is the actuary who has the individual plan member information. He added that Dorn, Helliesen & Cottle, Inc. looks at the variability of the asset mixes as well as the variability of the funding level. Mr. Helliesen interjected that the goal is to look for an asset mix that moves with the liabilities of the pension fund, with some additional return as a cushion.

Commissioner Rexwinkel asked for an opinion on doing both performance measurement and other consulting activities for a client. Mr. Helliesen stated that their firm does not see any significant conflict with fulfilling both asset allocation and performance measurement for a client, but it does not matter — Dorn, Helliesen & Cottle, Inc. is comfortable with either arrangement. A conflict could be perceived where an investment advisory firm is, in essence, conducting performance measurement on itself in that they have added some value to the returns through their recommendations.

Mr. Wellington questioned Dorn, Helliesen & Cottle, Inc.'s association with another firm. Mr. Helliesen disclosed that there is a start-up investment management company, Berkeley Quantitative Advisors, which Dorn, Helliesen & Cottle, Inc. does not sell. Mr. Cottle added that Berkeley Quantitative Advisors has one client, an Idaho bank.

Mr. Bader inquired about the performance records of Dorn, Helliesen & Cottle, Inc.'s other clients. Mr. Cottle acknowledged that none of their other clients' funds experienced such a radical improvement as the State of Alaska pension fund. The City of Miami is consistently a top quartile fund, but not all the funds have such a good track record. Mr. Helliesen stated that he is happy with consistent, second quartile earnings ratings.

Commissioner Rexwinkel asked what benchmark real estate and alternative investment returns are measured against. Mr. Helliesen explained that published appraisal-based real estate numbers are too smooth and need to be tempered with the risk factor. Dorn, Helliesen & Cottle, Inc. predicts that the immediate expected return on real estate is in the 8% range. Mr. Cottle said that for venture capital the risk level is probably 30% to 35%. The expected return for venture capital (13.5% to 14%)

should be some increment above the returns for small capitalization equities, which are forecasted at 11.5% to 12%.

Mr. Kinney questioned how Dorn, Helliesen & Cottle, Inc. estimated the expected rate of return on foreign stocks and bonds. Mr. Helliesen said that returns on foreign bonds would probably be the same as domestic bonds, exempting any currency influences. Mr. Cottle explained that Dorn, Helliesen & Cottle, Inc. does historical analysis and compares it to recent events and expectations for the economic forecast over the next three to five years. Mr. Helliesen added that they expect a higher return on international stocks than on domestic stocks, although there is more risk.

Mr. Olson inquired about the effect on the firm structure if Doug Dorn is successful in his quest to be Governor of Idaho. Mr. Helliesen said that Dorn, Helliesen & Cottle, Inc. would hire another consultant to replace Mr. Dorn, however, it is a decision they will not have to make for awhile.

----- RECESS 2:56 p.m. to 3:02 p.m. -----

William Mercer Asset Planning, Inc.

Mr. Storer introduced Leslie Christian and Harvey Rubinstein of William Mercer Asset Planning, Inc., who circulated a written copy of their presentation.

Harvey Rubinstein began by discussing the firm's credentials and the five Alaska team members: 120 professionals in 24 offices around the world; 500 clients, half of which are public funds; and the firm serves as actuaries to the Alaska PERS and TRS Boards.

Leslie Christian emphasized Mercer's ongoing support to clients by being available at any time at any location. The firm is an independent consulting firm without any brokerage or investment manager arrangements, therefore, Mercer can conduct unbiased investment manager searches.

Ms. Christian, using an overhead illustration, guided the Board through Mercer's asset allocation and asset/liability modeling process. She said the first step is to project liabilities for the pension plan, then structure an allocation that maximizes return with a minimal amount of acceptable risk, and finally to combine the two into a model that provides a range of projected outcomes. She drew attention to the asset allocation and liability study Mercer conducted for the Kansas Public Employees Retirement System in May, 1993, included in their presentation materials.

Ms. Christian reviewed Mercer's manager search capabilities, assisted by a very large database of domestic and international investment managers, and the National

Resource Group located in Illinois. Mercer's intent is to help a client select the best investment manager to meet the fund's goals.

Mr. Rubinstein outlined the advisory role Mercer proposes to fulfill in a proactive manner with the ASPIB Board, noting that Mercer is nearby in Seattle for quick response.

Commissioner Rexwinkel asked how Mercer calculated expected returns and risk for real estate and alternative investments. Ms. Christian said for real estate they use the NCREIF Index adjusted for inflation and general market conditions. Mr. Rubinstein stated that for venture capital they use the First Chicago Venture Capital Index for analysis.

Ms. Oba solicited comment on the SEC (Securities and Exchange Commission) review of Mercer's Seattle office in 1991. Mr. Rubinstein said that Mercer was selected at random for a one-week examination and it concluded without any comment for suggestions or changes.

Commissioner Rexwinkel questioned William M. Mercer's involvement in the SBS (Supplemental Benefit System) situation with Executive Life. Mr. Rubinstein said he was not a member of the firm in the mid-eighties and had no personal knowledge on the matter.

Ms. Oba asked about the relationship of William M. Mercer Asset Planning, Inc. to the parent company. Mr. Rubinstein stated that they are a wholly owned subsidiary with a separate board of directors and officers, but they share office space and services with the parent company. He was unsure if the two boards shared any common members.

Commissioner Rexwinkel asked if Mercer viewed the performance measurement function as a benefit or potential conflict. Mr. Rubinstein stated that although there is no intrinsic conflict in having an asset allocation consultant also conduct performance measurement, large public plans benefit from having a diversity of opinion from multiple advisors.

Commissioner Rexwinkel wondered if small cap stocks were treated as a separate asset class. Ms. Christian said small cap stocks were separate. Further responding to the Commissioner about the composition of a global portfolio, she stated that it was an implementation decision.

Mr. Kinney asked how Mercer would estimate the expected rates of return on foreign stocks and bonds. Ms. Christian said it is standard to use the EAFE Index for