APPENDIX M

MEMORANDUM

STATE OF ALASKA
Department of Revenue

To: File

Date: July 1, 1998

Telephone: 465-2301

From: Wilson L. Condon
Commissioner

Subject: The Decision to Invest in State Street Global Advisors' S&P 500 Common Trust Fund

Based on the recommendation of Treasury, the Department decided that the Equity Investment Pool should be invested in the State Street Global Advisors' S&P 500 Common Trust Fund, a broad market, passive index fund. The Department made this decision in 1991 and reaffirmed it in 1996.

From time to time, Treasury has considered whether it should place some of the funds invested in this pool with active U.S. equity managers as both the Alaska Permanent Fund Corporation and the Alaska State Pension Investment Board have done with a large portion of their U.S. equity portfolios. Treasury concluded that the relatively small amount of money in this pool, coupled with the uncertainty of the amount of the Constitutional Budget Reserve Fund to be invested in this pool over time, justify using only passive management, particularly in light of the much higher management fees commanded by active managers.

Both the professional investment staff in Treasury and the investment consultant who advises Treasury believe the relative merits of using a passive index fund or one or more active managers to gain exposure to the U.S. equity markets can be evaluated by comparing the performance of the S&P 500 Index with the performance of the core active equity managers who manage funds for institutional investors. The following table compares the performance of the S&P 500 Index with the performance of the core active U.S. equity managers from whom Callan Associates, Treasury's investment consultant, has been able to collect information.

Comparative U.S. Equity Portfolio Returns
for Periods Ending December 31, 1996
(gross of fees)

		3 Years	5 Years	10 Years
10th Percentile	26.5%	20.7%	16.2%	16.3%
25th Percentile	23.6%	19.5%	15.3%	15.9%
Median	22.3%	18.7%	14.4%	15.1%
75th Percentile	20.2%	16.6%	13.6%	13.7%
90th Percentile	19.3%	15.0%	11.5%	13.0%
S&P 500	23.1%	19.7%	15.2%	15.3%

According to a recent study by Greenwich Associates, the "average" management fee for core equity managers employed by institutional investors is 31 basis points. The State Street Global Advisors' S&P 500 Index Fund charges Treasury one basis point (.01%) for the State's various funds invested in their S&P Index fund. This placed the Index Fund well above the median core active U.S. equity manager for all the time periods reflected in the table.

The managers of this fund track the S&P 500 by purchasing all of the securities used in the Index in proportion to their relative weighting in the Index.

Many incorrectly believe that the S&P 500 Index is simply derived using the current market value for the stocks of the largest 500 domestic companies traded on the New York Stock Exchange.

Standard and Poor's actually assembles this Index by selecting a representative sample of 500 companies from a list of more than two thousand corporations traded on the New York, American and NASDAQ exchanges. Almost all of the corporations selected for inclusion in the Index are U.S. corporations. However, foreign companies whose regular shares are traded on these exchanges are eligible for inclusion in the Index. Foreign companies whose shares trade as American Depository Receipts (ADR's) or American Depository Securities (ADS's) are not eligible. As of January, 1997, 12 foreign companies were included in the S&P 500 Index. 381 of the companies included in the Index were classified as industrial companies; 67 were classified as financial companies; 40 were classified as utility companies; and 12 were classified as transportation companies. The stocks of 458 of these companies were traded on the New York Stock Exchange; 36 were traded on the NASDAQ; and 6 were traded on the American Stock Exchange. The Index is capitalization-weighted with each stock weighted by its proportion of the total market value of all 500 issues. Standard and Poor's uses a committee that meets once a month to consider deleting and adding stocks to the list used for calculating this Index. The general guidelines Standard and Poor's uses for removing a stock from this Index are:

1. **Merger, Acquisition, LBO**: A company is removed from the Index if it merges with another firm, is acquired by another firm, or is the object of a leveraged buy-out.

2. **Bankruptcy**: A company is removed from the Index immediately after a Chapter 11 filing or as soon as an alternative recapitalization plan changing the company's debt/equity mix is approved by the shareholders.

3. **Restructuring**: Any company included in the Index that is the object of a major restructuring is examined to determine if it should remain in the Index. Both the restructured company as well as any spin-offs are reviewed for inclusion or exclusion from the Index.

4. **Lack of Representation**: A company can be removed from the Index because it no longer meets the general guidelines.

The general guidelines for including stocks in the Index are:

1. **Industry Group Classification**: Companies selected for the S&P 500 must represent a broad range of industry segments within the U.S. economy.

2. **Capitalization**: Ownership of a company's outstanding common shares is carefully analyzed to screen out closely-held companies.

3. **Trading Activity**: The trading volume of a company's stock is analyzed on a daily, monthly, and annual basis to ensure ample liquidity and efficient share pricing.

4. **Fundamental Analysis**: Both the financial and operating condition of a company are rigorously analyzed. The goal is to add companies to the Index that are relatively stable to keep turnover in the Index low.

5. **Emerging Industries**: Companies in emerging industries and/or new industry groups - industry groups currently not represented in the Index - are considered for the Index if they otherwise meet the applicable guidelines.

Treasury has paid an annual fee for the funds invested in the State Street Global Advisors' S&P 500 Index Fund of one basis point (.01%) of the market value of the funds invested in this Fund.