APPENDIX N

MEMORANDUM

STATE OF ALASKA
Department of Revenue

To: File

Date: May 1, 2000

Telephone: 4652301

From: Wilson L. Condon

Subject: The Decision to Invest in a combination of State Street Global Advisors' S&P 500 Common Trust Fund and the State Street Global Advisors' Special Small Company Common Trust Fund; and modification of that Decision by converting to the State Street Global Advisors' Russell 3000 Common Trust Fund

This Memorandum summarizes Treasury's analysis and recommendation and the Commissioner's decisions relating to this matter.

a. The Decision to Pursue Broader Equity Exposure

Over the two and one-half year period, January 1, 1995 through June 30, 1997, the very largest companies in the S&P 500 Index performed significantly better than both (1) the balance of the companies in the Index and (2) the smaller companies which comprise the balance of the investable U.S. equity market. The following table illustrates the magnitude of this performance discrepancy.

	Market Capitalization (6/30/97)	**Annualized Returns (1/1/95 – 6/30/97)**
All 500 Companies	$41 billion	32.68%
Largest 10 Companies	$116 billion	40.89%
Largest 100 Companies	$59 billion	36.61%
Smallest 400 Companies	$7.2 billion	27.38%
Smallest 200 Companies	$2.9 billion	24.03%

Source: Prudential Securities, RCM Capital Management

As of July 1, 1997, the largest 10 companies included in the Index accounted for almost 20 percent of the Index's capitalization, and therefore, returns. Their very high returns during the 1995 to 1997 period elevated the return for the Index above the return for the balance of the U.S. equity market, and increased their representation in the index. Under these circumstances, although the S&P 500 index remained a viable investment option, Treasury believed it necessary to consider investing the pool in a manner to match broader market indices. Treasury identified two other indices: the Russell 3000 and the Wilshire 5000.

b. Treasury's Decision to Recommend the Russell 3000 Index

The Russell 3000 and the Wilshire 5000 would both (1) provide a broader spectrum of companies, (2) represent greater total market capitalization, and (3) have a lower average capitalization than the S&P 500 Index. Using either of these indices would reduce the effect of the very largest companies and increase the effect of smaller companies on the composite return of the index. The following table, compiled by State Street Global Advisers, compares the two indices as of March 31, 1996.

	Russell 3000	Wilshire 5000
Number of stocks included	3000	6500+
Incremental trading cost	N/A	8 basis points
Risk (Std Dev.)	14.97%	16.85%
Return		
1 Year	32.36%	32.18%
5 Years	15.11%	15.01%
10 Years	14.56%	14.41%
Average market capitalization	$24,611 million	$23,046 million
Price/Book ratio	2.87	2.86

Treasury's decision to use a passive approach to implement the equity investment strategy eliminated the Wilshire 5000. The Wilshire 5000 contains over 6500 stocks, and consequently, it is very expensive to replicate. The Russell 3000 is widely used in index strategies and covers over 97% of the capitalization weighted stocks in the Wilshire 5000. The Russell 3000 has had slightly better returns and exhibited slightly lower risk over the past 15 years. Other characteristics of the two indices are very similar.

c. The Mechanics of the Russell 3000 Index

The Russell 3000 differs in several ways from the S&P 500 Index it replaces as the measure of the broad equity market. The most significant differences involve rules for inclusion, rebalancing, and capitalization adjustments. Following is a summary of the procedures used by the Frank Russell Company in constructing the Russell 3000 Index:

Russell Index Methodology

Index membership criteria - The Russell 3000 Index contains the largest 3,000 companies domiciled (incorporated) in the U.S. and its territories. The companies are ranked by decreasing total market capitalization. All companies listed on a U.S. stock exchange or the

over-the-counter (OTC) are considered for inclusion in the Russell 3000 Index with the following exceptions:

Minimum trading price - Stocks must trade at or above $1.00 on May 31 to be eligible for inclusion in the Russell Indices. However, if a stock falls below $1.00 within the year, it will not be removed from the indices until the next reconstitution, if it is still trading below $1.00.

One class of stock - Only one class of security for any firm is allowed into the Russell 3000 Index. However, there are exceptions where the Frank Russell company determines that the classes truly act independently of each other. General Motors and GMH-Hughes illustrate this exception.

Non-U.S. domiciled companies - Stocks traded on different exchanges in the U.S., but domiciled in other countries (e.g., Royal Dutch Petroleum, Schlumberger Ltd., Seagrams, Co. Ltd. and Unilever N.V.) are excluded.

Other excluded stocks - Preferred and convertible preferred stock, participating preferred stock, redeemable and paired shares, warrants and rights, are also excluded. Trust receipts, royalty trusts, limited liability companies, OTC bulletin board and pink sheet stocks, closed-end mutual funds, limited partnerships, and foreign stocks are also ineligible for inclusion in the Russell Indices. Berkshire Hathaway is also excluded.

Deadline for inclusion - Stocks must be trading on May 31 and Russell must have access to documentation on that date verifying the company's eligibility for inclusion. This information includes corporate description, incorporation, number of shares, and other information needed to determine eligibility. As a result, companies that start trading in

June, or companies that started to trade in April or May but failed to provide the required information, are excluded until the next reconstitution.

Capitalization adjustments - This adjustment excludes the capitalization that is not available for purchase and is not part of the investing opportunity set. Stocks are weighted by their available market capitalization, calculated by multiplying the composite closing price by the adjusted shares. Unavailable shares include shares held by other listed companies and large holdings of private investors (10% or more) based on information recorded in the Standard and Poor's corporate records.

Pricing of Securities

Composite - Composite closing prices are used in the final daily Index calculations. Composite prices are the last trade price on any U.S. exchange. Frank Russell Company uses Muller Data Services as its primary source for U.S. security prices, income, and total shares outstanding.

Dividends - Gross dividends are included in the daily total return calculation of the Indices based on their ex-dates. The ex-date is used rather than the pay-date because the marketplace price adjustment for the dividend occurs on the ex-date. Monthly, quarterly, and annual total returns are calculated by compounding the reinvestment of dividends daily.

Corporate Actions Affecting the Indices

"No replacement" rule - Securities that leave the Index between reconstitution dates for any reason (e.g., mergers, acquisitions, or other similar corporate activity) are not replaced. Thus, the number of securities in the indices over the year will fluctuate according to corporate activity.

Rule for deletions - When a stock is acquired, delisted, or moves to the pink sheets or OTC bulletin boards on the floor of the Stock Exchange, the stock is deleted from the Index.

When acquisitions or mergers take place, the stock's capitalization moves to the acquiring stock, hence, mergers have no effect on the Index total capitalization if the acquiring stock is also a member for the Index.

Rule for additions - The only additions between reconstitution dates result from spin-offs. Spin-off companies are added to the parent company's Index and capitalization tier of membership if the spin-off is large enough. To be eligible, the market value of the spin-off company must be at least equal to the total market value of the smallest security in the Russell 3000 Index as of the latest reconstitution, adjusted for market movements from June 30 of that year onward.

Index Reconstitution/Rebalancing

The Russell Indices are reconstituted annually to reflect changes in the marketplace. The companies are ranked based on the May 31 total market capitalization, with the actual reconstitution effective June 30 of each year.

d. Transition to State Street Bank's Russell 3000 Index Trust

After deciding to adopt the Russell 3000 Index as a benchmark, Treasury initially chose to emulate the Russell 3000 Index by keeping most of the existing shares of the S&P 500 Trust, but combining those shares with a "completeness fund" offered by State Street called the Russell Special Small Company Common Trust Fund. The net effect was an index fund that closely replicated the Russell 3000 Index. The reason for this combination was twofold: first, to avoid the transaction costs that would have been incurred in liquidating all shares of the S&P 500 Trust and purchasing shares in the Russell 3000 Trust, and

second to avoid the higher management fees that would have been charged at that time for investing in a Russell 3000 Index. The Domestic Equity Pool remained invested in these two Trusts from October 1997 to May 2000.

Although this combination adequately accomplished the goal of emulating the Russell 3000 Index, it had the appearance of a complicated approach that caused some confusion. In addition, the combination did not perfectly track the Russell 3000 Index, because of the differences in the inclusion rules, including the timing of reconstitution/rebalancing, inclusion or exclusion of non-investable shares in the index weighting, and inclusion or exclusion of foreign domiciled companies.

In May 2000, State Street proposed to transfer the investment from the two combined Trusts into State Street's Russell 3000 Index Common Trust for no cost. Management fees for the Russell 3000 Trust would remain the same. The Department anticipates that liquidity will be equal to or greater than it was for the combined funds. The Department accepted this proposal, and the transfer took place in May 2000.

Treasury pays an average annual fee for the funds invested in the State Street Global Advisors Russell 3000 Common Trust Fund of one basis point (.01%).