

ALASKA PERMANENT FUND CORPORATION
Regular Meeting of the Board of Trustees
September 6, 2002

Location of Meeting
Alaska Permanent Fund Corporation
801 West 10th Street
Juneau, Alaska

SUMMARY MINUTES

Trustees Present: Jim Sampson, Chair
Eric Wohlforth, Vice Chair
Bruce Botelho
Wilson Condon
Clark Gruening
Janie Leask

Staff Present: Robert Storer
Allan Moore
Chris Phillips
Sandra Firestack
Michael Bell
Andrew Loney
Rick Shafer
Freda Westman
Kathy Thatcher
Marshal Kendziorek
Joyce Andrews
Tom Curtain (IT Intern)

Invited Participants: Michael O'Leary, Callan Associates
Ron Lorensen, legal counsel
Mike Barnhill, State of Alaska Asst. Attorney General

Others Present: Dr. Theresa Obermeyer (by teleconference)
Charles McKee (by teleconference)

CALL TO ORDER

VICE CHAIR WOHLFORTH called the meeting to order at 1:39 p.m. on Friday, September 6, 2002. Vice Chair Wohlforth chaired the meeting, as Chair Sampson was late in arriving.

ROLL CALL

All five Trustees were present at roll call, and Chair Sampson later joined the meeting at 1:54 p.m.

APPROVAL OF AGENDA

The agenda was approved as presented.

SCHEDULED APPEARANCES AND PUBLIC PARTICIPATION

DR. THERESA OBERMEYER stated that she is offended by the Alaska Permanent Fund Corporation (APFC) class action legal services. She asked why her husband is not licensed to practice law in Alaska. She referred to the Board agenda on June 26, 2002 and stated that she didn't see a document referring to the class action legal counsel per Resolution 02-05. She said good luck to the Board and asked that they stay on task.

CHARLES MCKEE said he classifies himself under the UCC 1-207. He asked that the record reflect that the last meeting he attended of the APFC that the Board approved the agenda at the April 9, 2002 meeting and his public comment was not correct. He stated that if Board was interested in hiring legal counsel in class action, that they might want to pay attention to a memorandum sent to Senator Robin Taylor on the legal research services of the State of Alaska Legislative Affairs Agency dated May 3, 2000.

FY04 BUDGET WORKSESSION

ROBERT STORER said Bob Bartholomew was called away on a medical emergency, so Kathy Thatcher would be presenting the FY04 budget on his behalf. The purpose of the worksession was to articulate to the Trustees the proposed budget they would be submitting for review to the Office of Management and Budget (OMB). They will take the Trustee's insight and make the appropriate adjustments and come back before the Board for formal adoption at the November 13-14, 2002 Board meeting.

KATHY THATCHER summarized that they were proposing two BRUs. One was for operations and the other for manager fees. She also informed the Trustees what they proposed for the capital budget.

MS. THATCHER stated that they proposed an operational budget of \$6,983,000 for the FY04 operations, which is approximately \$381,000 less than the FY03 authorization, which is a 5% reduction. They are proposing \$43,139,000 for manager and custody fees budget, which is \$450,000 less than the FY03 authorization and it represents a reduction of approximately 1.03%. They are not requesting any funds for capital projects.

The operations budget contains five different service components consisting of personnel, travel, contractual, supplies and equipment costs. Of the five, personnel services is the only component that they are asking for an increment of \$40,000. They have calculated the personnel services budget utilizing a 4.7% vacancy factor, and they estimate they would need approximately \$83,000 to fund the performance-based increases. They estimate \$45,000 of the costs can be absorbed at the current authorization level. They are requesting a total personal services budget of \$3,037,000.

MS. THATCHER stated they were requesting \$290,700 for travel, which represents a

decrement of \$38,600 over the FY03 allocation or approximately a 12% reduction. She stated that each department has reviewed their individual projections pertaining to travel projections and they all have proposed trimmings to more accurately reflect the actual travel activity they anticipate in FY04.

VICE CHAIR WOHLFORTH said they have talked in recent weeks about increased travel in respect to monitoring different equity managers. They also have new responsibilities that will be stemming from selections if they do select outside securities counsel. Under those circumstances, he wondered if staff has projected adequate travel money to meet the new responsibilities. MR. STORER responded by stating the budget reflects a potential for increased activity. Each department submitted their own budget and he added unless there is a specific need to visit managers due to mergers or problems, what he intends to do is to have staff visit the equity managers in conjunction with other activity, i.e., conferences, travel, etc. For example, when the Chief Investment Officer is in New York for the Council of Institutional Investors meeting, he will conduct due diligence for some of the small cap managers and take advantage of being on the east coast to visit other Fund managers. He said he is comfortable that the potential for increased travel is reflected in the budget they are submitting.

TRUSTEE LEASK pointed out as a follow-up to Mr. Storer's comments regarding travel budgeted for FY04 that the FY02 actual was \$18,520 and the FY03 allocation was \$32,700. She asked what the actual for FY03 was. MR. STORER responded by stating that the Fund was in FY03 right now. MS. LEASK questioned the reason for the big jump from \$18,520 to \$32,700, and now going back down to \$27,000. She is attempting to get a feel for the actual. MR. STORER said part of the lower cost was a reduced visitation to real estate properties. Now they have a quarterly review process whereby over the period of a year they visit the Fund's entire portfolio, so he anticipates increased costs associated with Real Estate travel.

VICE CHAIR WOHLFORTH said he does not want to argue that the Fund has budgeted for enough travel or not in FY04, but to urge staff to take another look because the Fund has been gaining activities and mandates and he is not sure that has been calibrated into this travel request. MR. STORER said staff would go back and revisit this question.

Chair Sampson joined the meeting at 1:54 p.m.

MS. THATCHER moved to contractual services where they are proposing a budget of \$3,407,000 for FY04, which is a reduction of approximately \$353,000 over the FY03 authorization. Staff reviewed the different accounts under contractual services and has trimmed those accounts where they have shown consistent excesses in the previous authorization. They are proposing a supplies budget of \$47,000, which is a 5% reduction over FY03 and they feel this better represents actual expenditures.

MS. THATCHER said the equipment budget is a proposed \$200,000 and this represents a \$27,000 decrement of FY03, which better reflects their equipment replacement cycle.

She said for the manager fees and custody budget they are requesting a total of \$43,139,000, which is a \$446,000 decrement over FY03. MS. THATCHER said for the investment manager fees portion of this budget they are proposing a \$41,000,000 budget that is a decrement \$526,000 from the FY03 authorization. She added that the FY04 budget was built using Callan Associates, Inc. median estimate for asset growth assumptions. They have made two adjustments to this budget, one was an adjustment to fees upward to reflect any potential fees due to an under weighting of equities. There was an additional adjustment to increase the allocation of actively managed international equities in domestic small cap manager fees from 65% to 75%. The custody fees budget has increased by \$80,000 this year to \$1,830,000. This is due to increased cost to cover additional staffing and services offered by the Bank of New York (BoNY).

CHAIR SAMPSON said he read that the FY02 actuals were \$30,755,000. He asked Ms. Thatcher if she had the budgeted amount for FY02? MS. THATCHER stated that she did not. CHAIR SAMPSON said he would like to have the budgeted amount and the actuals from FY99 forward (on each of those years to date), and he would also like the assets of the Permanent Fund on each of those years as well. He would also like staff to break out equities. MR. STORER said he would provide this information to the Trustees. CHAIR SAMPSON said he would like an answer as to why the Fund went from \$25 million to \$35 million in manager fees and asked for an explanation. It seems to him that the managers are making the money, but their performance isn't that good. MR. STORER responded to the Chair by stating it would be best if staff did as he requested by going back on a series of years and provide that information to see the impact of the bear market over the last two years as well. He stated that staff would provide a comprehensive paper for the Board that addresses these issues.

CHAIR SAMPSON said he had an additional request for a one- or two-page document stating the year in which staff negotiated the custody agreement with BoNY and a list of items in the agreement that BoNY was to perform. He would like this information from the first year the Fund negotiated the agreement forward, so he could see what the Fund's authorizations were initially compared to what the actuals were, so he could see the lapse each year. He also stated that if BoNY is taking on additional responsibilities, he would like to know what those responsibilities are. A while back, he recalls the argument that the Fund was going to see some cost savings, which they have not seen. He is seeing increases with BoNY in custody fees and no decreases in any other fees. MR. STORER responded by stating several years ago the Fund reduced the custody fees by several hundreds of thousands of dollars, and added that Chair Sampson would see this in the information that he has requested, which staff will provide to the Trustees.

VICE CHAIR WOHLFORTH said Trustee Leask pointed out that some of the information Chair Sampson seeks is not fully broken out in the budget. He pointed out that a bar chart titled "Corporation Operations History," which reflects the very considerable over budgeting for corporate operations, which is attributable mainly to the payment of manager fees, would be beneficial. He has the same thought that the Fund

has to zero in more closer to actuality.

TRUSTEE GRUENING stated he didn't think the operations budget included the manager and custody fees, but he did think there probably was a history of over budgeting because they have to estimate. He provided an example; in FY03 it wasn't even three months into the fiscal year, based on Callan's presumptions/assumptions on market performance, so he stated that the Fund should know a lot more by the time the legislature meets again whether or not those figures are even close. He added that given the market, those numbers are probably way over budget.

MR. STORER confirmed what Trustee Gruening stated and added that what the Board sees is only the operating budget in how money in the budget is lapsed. He said that they also see how the expenditures have come down as well. What they use now for manager fees is Callan's median expected return. There was other methodology used in prior years, which he will explain as well when they provide the requested information to the Board on manager fees. He added that money has been lapsed on manager fees over the past few years.

TRUSTEE LEASK said it would be helpful for her to see a similar chart with the manager fees included over the years, which includes a clear explanation as to the numbers that are all involved.

TRUSTEE CONDON said the Board should remember that the \$35,949,000 figure they see in the final authorization for FY03 resulted from a projection made one year ago. That projection was based on the assets the Fund had under management at that time with a projection that they were going to grow and he noted that they made that judgment before the September 11, 2002 events that triggered the decline that the Fund is still experiencing.

TRUSTEE GRUENING asked Ms. Thatcher how much the Fund lapsed in FY02 in both the operations budget and the manager fees. MS. THATCHER stated in the operations budget the Fund lapsed \$1.781 million and she didn't have the actual lapse for FY02 manager fees. She stated \$32,464,000 was the actual for both the custody and the manager fees for FY02. TRUSTEE GRUENING asked what the authorization was. MS. THATCHER responded by stating the authorization was \$47,585,800.

MS. THATCHER said the FY04 proposed budget represents a \$1.2 million reduction over the FY01 authorization, and almost a \$400,000 authorization reduction over FY03. There has been a dramatic reduction in expenditures from FY97 through FY01 that is close to \$3.1 million total. This reduction in expenditures has far outpaced the Fund's reduction in authorization. Staff has been attempting to narrow that gap between authorization and actuals in a prudent manner. With the proposed budget for FY04, they expect to narrow this down to approximately \$700,000. We also expect to have core operation expenditures increase in FY04 by approximately \$300-\$400,000. We propose that this \$700,000 buffer is reasonable due to some variability in different line items in the professional services category whose expenditures are

dependent upon investment activity and can vary significantly up to \$100,000 per each line item.

CHAIR WOHLFORTH asked Mr. Moore about the financial networks component detail regarding the various financial services that the investment staff has. He has heard commentary that Telerate which is a \$115,000 item may not be necessary. He also heard that what Telerate provides might be available from other sources such as Trade Web and/or Bloomberg as the services have recently become enhanced and/or better. He said this is just a query. MR. MOORE stated that what Chair Wohlforth has stated is correct; that there is increased competition and there was also a change in ownership with Telerate this past year. Staff did an investigation of what the Fund's needs were and what Telerate would bring to the Corporation that they were not receiving elsewhere. Staff concluded that they wanted to continue with the service provided by Telerate. MR. SHAFER added that they are continuing to utilize Telerate because it provides some redundancy to the fixed income desk in the event Bloomberg or Trade Web fail. As the Trustees know, staff requires financial information to conduct Fund business and staff would be flying blind without it. Bloomberg goes down with some frequency, which is not for long periods of time, but it does go down as often as once per month. MR. SHAFER said they need to have those live markets so they can price what they see is being offered to the Fund. In addition, staff gets some live swap spread information on Telerate from the Tokyo and Tullet service that staff does not get from any other provider. Staff continues to look for alternatives to Telerate. They would prefer a provider that proves to be technologically easier and less expensive, but at the moment they haven't been able to identify one.

VICE CHAIR WOHLFORTH clarified to the Board that the Trustees are not taking action on the FY04 budget at this time that it is purely an information item.

SELECT OUTSIDE COUNSEL FOR SECURITIES CLASS ACTION LEGAL SERVICES

MR. STORER said that as part of the Corporate Governance policy the Board instructed staff to conduct a Request For Proposal (RFP) to find legal counsel to advise and assist the Board in class action litigation. He said this was composed of two parts. The first part was to rate a group of legal firms to provide counsel on litigation and to select between three and five firms for the Board's choosing. The second part was to then identify one of those firms to assist in monitoring and evaluating any potential class action litigation.

He said there were four raters that served on the committee for the RFP. From the Board was Trustee Wohlforth, and also serving was Allan Moore from staff, Ron Lorensen from outside counsel and Mike Barnhill representing the Attorney General's office.

MR. STORER asked Mr. Barnhill and Mr. Lorensen to explain the process and to have the other raters that are part of the selection committee to provide comment as is appropriate. He said the goal was for the Board to select up to five firms.

MIKE BARNHILL said following the adoption of Resolution 02-05, several of the raters met in early July to design a process to implement this resolution. They met with Bob Meiners of the Department of Law (DOL), Administrative Services who is an expert in the area of procurement. At that meeting, they decided to engage in a limited competition procurement, which they would identify 12 firms that they would send the RFPs to. They decided on a schedule that would enable them to present a recommendation of five firms to the Board at this meeting. They decided they would send solicitations to 12 organizations and added that there wasn't any particular wisdom in selecting that particular number; it was mostly that they thought they could obtain a variety of firms in that 12. He said there probably aren't more than 12 firms, possibly upwards of 20, that do this particular type of work. They thought much more than 12 would be difficult for the selection committee to adequately review. The next step was to select those 12 firms to send the solicitations to. The way they endeavored to gather those 12 firms was that he and Mr. Lorensen spent some time on the telephone with other folks that deal with these types of law firms on a regular basis. They spoke with the general counsel for the State of Wisconsin Investment Board. He shared wisdom from his experiences in dealing with plaintiff securities fraud law firms. They spoke with the former general counsel of the Colorado Public Employee Retirement Administration. He shared with them a number of firms that he had worked with and had good experiences with. They contacted Sarah Teslik of the Council of Institutional Investors. She didn't share any particular firms with them, but she did refer them to Jerry Finlay the executive director of the Missouri Public Employee Retirement Systems. Mr. Lorensen spoke with the general counsel of CalPERS. Finally, Mr. Lorensen spoke with Don Percival who is the general counsel of Heller, Erhman, White, McGuliffe.

MR. BARNHILL stated they gathered all the information they received from the above individuals, plus materials they obtained from a securities litigation-clearing house web site regarding firms that had been involved in the biggest class action litigations settlements and the biggest law suits. They selected 12 of those firms and sent them proposals with a deadline for response of August 9, 2002. They received responses from all 12 firms, plus three additional firms who heard about the RFP through the grapevine. One of the additional responses was non-responsive and they did not consider it. But the other two were responsive, which they did consider because it was only two more and it wasn't going to create additional administrative difficulty to review 14 versus 12 responses. He said the raters did review all 14 RFPs.

He said the proposal asked proposers to provide a description and certain materials related to several categories. They rated each of the proposers for the following categories. The first criteria was an explanation of the firms understanding, knowledge and experience in evaluating and carrying out securities class action litigation. The second criteria was the identities, experience and capabilities of the attorneys that would be performing the work for the Permanent Fund. The third criteria was the fee proposal that would provide a range of contingency fees that they would make available to the Fund as litigation counsel considering a number of factors; timing of settlement, size of settlement, complexity of the case and any other factors that were appropriate. They also asked the firms if they would perform other services and if so, what were their hourly fees and if they would offer any discounts. Finally, they asked them to disclose

any conflicts of interest. Each of the 14 proposers said they had no conflicts of interest, so that criteria wasn't one that they could distinguish amongst the firms.

MR. BARNHILL said the next step was for the committee to meet prior to scoring to discuss the mechanics of scoring and to discuss the various proposals, which they did. Pursuant to the procurement requirements, they each independently rated the 14 firms. First they rated them on their abilities as litigation counsel and they came up with a list of five. Then they ranked them by their abilities as evaluation counsel. The list of five was almost identical in order by the raters, but not quite. The number one firm was Berman DeValerio Pease Tabacco Burt & Pucillo from San Francisco. Number two was Wolf Popper, LLP from New York. Number three was Milberg Weiss Bershad Hynes & Lerach, LLP from San Diego. Number four was Lief Cabraser Heimann & Bernstein, LLP from San Francisco. And finally, number five from Grant & Eisenhofer, PA from Wilmington, Delaware.

The scoring for the evaluation counsel was almost the same. Number one was Berman DeValerio Pease Tabacco Burt & Pucillo. Number two was Wolf Popper, LLP. Number three was Milberg Weiss Bershad Hynes & Lerach, LLP. Number four was Grant & Eisenhofer, PA. And number five from Lief Cabraser Heimann & Bernstein, LLP.

MR. BARNHILL said an observation that he gathered while discussing with various general counsels of other funds was that there really are a limited number of firms that perform this type of work in the country. He feels that they identified the major firms and probably any of the 14 proposers would be extremely capable to carry out the work of litigation counsel. This is a complex, narrow and very specialized field of law and for that reason there are only a few firms that do this type of litigation. The ones they have chosen are the best and they made those decisions based on materials that were presented to them as a committee. He feels it is going to take some time in working with each of these candidates to determine their specific comfort level with each of the firms.

RON LORENSEN stated the Board's policy per Resolution 02-05 gave rise to this process which calls for the Board to make a selection of a short list of attorneys that would be available to provide litigation services in the event that the Board decides particular matters should be pursued through litigation on behalf of the Fund. Under the policy the Board would select up to five, but could select fewer than five if they considered that appropriate. So the committee has provided the Board with a recommendation of the top five with the order that has been described by Mr. Barnhill. One of the subsets of the Board's consideration today is the question of whether to identify all five firms as its stable of litigation firms, or choose a lower number of three for that purpose.

In assisting the Board in attempting to make that initial determination, he spoke to Mr. Barnhill, Mr. Storer and Mr. Moore to try to identify both pros and cons of going forward with the larger number of five firms. MR. LORENSEN walked the board through what they collectively thought were the pros of going with a larger number, as

well as the disadvantages of going with the larger number of five firms. It had the potential for encouraging competition for fees, and keeping fees down in a particular case. Maintaining a low contingency arrangement is in the interest both of the Fund itself and the entire class the Fund might end up representing. A larger number of firms provides for the opportunity of what he has described as a second opinion pool.

It is the committee's recommendation that one firm be selected as an evaluation counsel in addition to the litigation counsel, but it would be of assistance to staff to be able to go to one or more of the other funds for a second opinion on a particular matter that has been recommended by evaluation counsel.

The larger the number of firms that are available to provide that second opinion, the more flexibility there is in a particular case of deciding who, given their background, etc., would be the most appropriate second or even third opinion on a particular matter. Having more firms in the Fund's stable gives the Board the opportunity over a period of time to pay attention to the work that those firms are doing on behalf of other clients and the kind of image they are presenting.

The Fund would hopefully become more informed about an individual firm that they may ultimately negotiate with for a particular case.

It seems to MR. LORENSEN that having a larger number of firms in the stable provides the opportunity for specific firms to bring unique experience or particular industry experience. For instance, financial entities versus technology companies versus aerospace, etc. One or more of these firms may have more experience in a particular kind of case than another.

He said those are the pros they have identified for staying with all of the top five selected firms. The disadvantages going with five are clearly that having five firms to deal with from time to time will provide some increased level of staff time for Mr. Moore and the investment staff that may divert attention, hopefully not, from other duties they otherwise might be performing.

In a more broad sense, when you step back there is a question as to how many firms a Fund of this size requires to be available for litigation. Wisconsin and CalPERS have five firms lined up in their short lists. Whether or not the Permanent Fund would have seemingly lower needs than either of those firms is probably a matter of debate.

There is also a possibility that having five firms to deal with makes it more difficult or it takes longer for staff to develop a comfortable relationship with any of the individual firms – again, because more attention would be devoted to the five and not to just three firms.

Those are the pros and cons that the committee came up with. The individual members of the Board may also see other advantages or disadvantages to going with five versus going with three. The feeling was that if it was either five firms or three firms there wasn't really any way they felt they could say that four would be better than five, or four

would be better than three. This is one of the issues the Board should be thinking about and should address today when they are making the final selection.

MR. LORENSEN then provided a brief description of each of the top five litigation firms in the order for which they were ranked.

The Berman DeValerio firm has offices in three locations. Their headquarters are in Boston, with an office in West Palm Beach and an office in San Francisco. They have a total of 34 attorneys on their staff. Their representative clients are the Florida State Board of Administration, LACERA in Los Angeles, Louisiana Municipal Police and School Employees and the Louisiana State Employees Retirement System, which is LACERTS. They have identified as their lead person to deal with the Fund, an attorney in the Boston office. They have also identified two senior partners, one in San Francisco and one in Boston as being secondary attorneys that would be responsible for the relationship with the Fund. They said at this time they are lead counsel, or co-lead, in some 40 securities litigation cases. They are presently retained to monitor and evaluate cases in excess of 12 separate public pension funds. They state that they have a core philosophy of selectivity and will be very careful, judicious and conservative in the cases they would bring to the Fund to consider for litigation.

The second firm is Wolf Popper and they have offices in New York City, which is their headquarters. They also have an office in Washington D.C. They said they have 22 attorneys on their staff. Their representative clients are the Wisconsin Retirement Investment Board, the University Retirement System of Illinois and number of New York State Counties that were specifically identified by them. They have identified a woman with 25 years of litigation experience who is headquartered in their New York City office who would be the Fund's point of contact for litigation matters. They also have an extensive shareholder rights litigation practice experience beyond securities fraud litigation issues. They say they are very selective in the cases they bring forward to their clients.

The third firm in the ranking order is Milberg Weiss and they are also the largest firm. Their headquarter office is in New York City. They also have offices in San Francisco, San Diego, Los Angeles, Boca Raton and Seattle. They have 225 attorneys. Representative clients are CalPERS and LACERA. Their lead attorney and the primary litigation individual in dealing with the relationship with the Fund are both based out of their San Diego office. They have provided resumes of the background of each of the lead attorneys, etc. They told them they employed extensive staff of forensic accountants, economists, damage analysts and investigators and with 225 attorneys he noted that they have the capacity to do this.

The fourth firm in the ranking is Lieff Cabraser. Their headquarter office is in San Francisco. They also have offices in New York City, Washington D.C. and Nashville. They have 55 attorneys nationwide. Their representative clients are the New York City pension funds, the Colorado Public and Employee Retirement Association Fund, CalSTERS and CalPERS. All of their lead attorneys are located in their San Francisco and New York City offices that would represent the Fund.

The final and fifth firm is Grant & Eisenhofer. They have a single office in Wilmington, Delaware. They are a firm that employs 20 attorneys. Their representative clients include the Wisconsin Retirement Board, LASEARS from Louisiana, Colorado Public Employees Retirement Association, CalPERS and the Florida pension funds. Their point person would be either of the named partners, Grant or Eisenhofer and they have identified a number of senior attorneys that would be involved in litigation on our behalf. They describe themselves as a litigation boutique. They offer the Fund, as one of the advantages of having them involved, is that they are ideally positioned to deal with corporate governance litigation issues in Delaware as such where they are located, and when many of the corporations are created and established. One item he notices from their proposal is that overall they seem to be a younger group of attorneys than some of the other firms who are apparently longer established.

MR. LORENSEN said one other point he wanted to make was when the Board adopted to initiate this entire process, the resolution itself contemplated that this process would include some interviews. It is fair to say that the committee as a whole has concluded that interviews are not necessary, and they would not add anything to the deliberative process that the committee went through, but he wanted to point out that the resolution calls for or contemplated an interview process. However, at this point he said the committee did not feel it was necessary. Unless the Board feels interviews should still take place, the Committee is comfortable with this process in the absence of specific interviews with the firms.

TRUSTEE GRUENING asked if anyone on the selection committee actually talked with the 'would be' lead counsel amongst the five firms assuming they were hired by the Fund? MR. LORENSEN responded that the answer is no across the Board. TRUSTEE GRUENING asked whom did they talk to directly? MR. LORENSEN said there has been no direct contact with any of the proposers since the RFPs went out.

MR. MOORE spoke to the issue of having three versus five litigation counsels. He said that Mr. Lorensen raised as a possible disadvantage that having five firms instead of three would impose a little more work on staff. MR. MOORE has reviewed this and is confident that he has the staff and the capacity to provide and accomplish liaison that they need with these law firms so that it should not impede the investment staff in anyway.

Secondly, MR. MOORE pointed out that at the time they wrote the staff report to the Board of Trustees on this matter, the evaluation committee had not yet ranked these firms as to their ability to provide the evaluation service. He said the Board had as its last recommendation directed the committee to review and bring back a recommendation on an evaluation firm. They have now done this and their recommendation is for the Berman DeValerio firm, so the Board can make both selections today as to the litigation counsel and the evaluation counsel.

VICE CHAIR WOHLFORTH said he concurs with the five-attorney panel. He thinks

the Attorney General's office, Mr. Barnhill and the Fund's legal counsel are going to have to spend real time with the Fund's Chief Investment Officer (CIO) Allan Moore and his staff in coming up to speed in this whole area. It could be that they could make sufficient evaluations of the work of the five firms and he feels they are far better off at this point in selecting five firms than narrowing it to three because he doesn't think their knowledge base is as broad or as deep yet as it should be in this area.

TRUSTEE CONDON said he has two questions. First, he assumes, and he wanted to make sure his assumption was correct, that they would look at this group of firms they have selected and make a judgment of which one would be the best suited for that job. It could easily turn out that they direct all of their business to one of these firms. He said after some experience they might conclude that that particular firm is far and away the best and could handle all the work. VICE CHAIR WOHLFORTH said that was his assumption. MR. LORENSEN said this is in fact correct. Under the policy adopted by the Board, in an individual case the Executive Director, CIO, and along with the Attorney General are to keep in mind a variety of factors. But in each case they are to identify that firm which they believe would best represent the interests of the Fund in a particular matter. If that determination always ended up with a particular firm, that certainly could be a possibility.

TRUSTEE CONDON continued stating that his second question was with respect to the review responsibility. He asked if the Berman DeValerio firm, which they would be selecting as the single review firm, would be not disqualified as a litigation firm as well? MR. MOORE said that is correct, and that is what the resolution states as well.

TRUSTEE LEASK asked that once these five firms are selected as the pool that the Fund is going to be working with, does the Fund place them on retainer or what is the process? MR. BARNHILL stated he believed the firms would be contacting the Fund whenever they needed to, and he didn't believe the Fund had to worry about contacting them. As far as retention, the committee still has to work with DOL Administrative Services to figure out the details of what documents need to be signed with each of these firms to have them in our stable or on the short list. In terms of payment, there will not be any money paid to any of these firms. The litigation services are paid a contingency fee arrangement and their evaluation services are for free. The committee put into the proposals the possibility there might be other work the Permanent Fund Board may want them to perform. At this point in time the committee does not contemplate there being any other work the Fund would ask them to do, but they wanted to get a feel for what their hourly fees were just in case they needed to retain them. MR. BARNHILL said it is highly doubtful the Permanent Fund would be asking them to perform any work in which we would actually pay them money.

CHAIR SAMPSON said he is comfortable with the process so far. He agrees with Vice Chair Wohlforth's statement that the Permanent Fund has the need to get up to speed in this whole area of securities litigation law, which he would like further discussion on at a later date. He would like to see the Fund's outside counsel, Mr. Barnhill and representatives from Attorney General's office actually become involved and travel to meet with these firms in person. He is comfortable with all five firms. He

asked what would be a normal contingency fee and if all five firms are similar? MR. LORENSEN said the firms provided a range of contingencies fees, which is what the committee asked them to do. Some provided a more detailed range than others. The lowest he saw was around 8%, and the highest was 25%. When you consider a contingency fee for traditional plaintiff's work, which is 33% or higher those percentages could be favorable. CHAIR SAMPSON believes that the Board has to move forward and would have preferred the selection committee reviewing representatives of the five firms eye-to-eye instead of doing this on paper. But he feels they have five good firms that have been recommended to the Board and he moved forward with the committee's recommendation.

CHAIR SAMPSON moved to select the top ranked litigation candidates as presented to the Board by the selection committee. VICE CHAIR asked to include into the motion the evaluation firm of Berman DiValerio, which was the consensus of the Board. TRUSTEE BOTELHO seconded the motion.

There being no objection, the motion passed unanimously.

TRUSTEE BOTELHO moved that the Board ratify the interview process used by the Class Action Litigation Counsel Selection Committee. TRUSTEE LEASK seconded.

There being no objection, the motion passed unanimously.

OTHER MATTERS:

There were none.

TRUSTEE COMMENTS

There were none.

FUTURE AGENDA ITEMS

There were none.

ADJOURNMENT

The meeting was adjourned at 3:00 p.m. on Friday, September 6, 2002.

APPROVAL OF MINUTES

/s/ James Sampson, Chair

November 13, 2002