



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

No. AIM 116-2023

Meeting Date: June 6, 2023

1 FROM: MAYOR

2
3 SUBJECT: MOA TRUST FUND STATUS – 2022 YEAR IN REVIEW.
4

5
6 This information memorandum is intended to meet Anchorage Municipal Code (AMC)
7 6.50.060K which requires a report from the Municipal Treasurer on the performance of the
8 MOA Trust Fund’s investments to be provided to the Assembly on an annual basis.
9

10 The MOA Trust Fund Report:

11 Background

12 The MOA Trust Fund (hereinafter referred to as the “Trust”) was established May 14, 1999,
13 from the net proceeds generated by the sale of the Anchorage Telephone Utility. The Trust
14 began with two components, the “Corpus” which, except under very specific
15 circumstances, cannot be spent without a vote of the people, and the “Reserve,” which
16 cannot be spent without Assembly authorization. *Note: In 2003 the decision was made to*
17 *extinguish the Reserve, with the residual balance being transferred to the Trust.*
18
19

20 Change in Governance

21 Anchorage voters responded positively to Proposition 11 at the April 4, 2023, regular
22 election to change the management and governance structure of the Trust Fund. This next
23 step in the evolution of the MOA Trust is significant, as governance of the Trust passes
24 from the current sole fiduciary model to a newly established Fiduciary Board of Trustees.
25 MOA Treasury believes this change represents best practices for the management and
26 governance of funds of the size and complexity of the MOA Trust Fund and will serve to
27 strengthen the management and protection of this valuable resource of the Municipality in
28 perpetuity. MOA Treasury looks forward to the public hearing and approval of the
29 implementation ordinance with the expectation of the seating of a new formal board of
30 Trustees within the calendar year.
31

32 Additions/Subtractions

33 On three different occasions during 2022, a collective total of \$17.1 million in dividend
34 withdrawals were paid to the General Government Operating Budget in accordance with
35 the not-to-exceed dividend calculation formula and payout provisions cited in AMC
36 6.50.060. The timing of these three withdrawals was spread out to reduce potential
37 downside market timing risk.
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Market Value

The market value of the Trust on December 31, 2022, was \$381.0 million (unaudited, rounded and net of year end accruals) -- this represented a \$49.8 million decrease over the prior year, excluding payment of the annual dividend payment. The trailing 5 years of calendar year-end market values for the Trust, as well as related annual dividend payouts and calculated annual returns, are summarized as follows:

<u>Calendar Year</u>	<u>Market Value</u>	<u>Dividend Paid in Calendar Year</u>	<u>Annual Return</u>
2018	\$151.4 million	\$6.3 million	<4.5%>
2019	\$171.8 million	\$6.5 million	18.1%
2020	\$418.0 million	\$14.0 million	8.8%
2021	\$447.9 million	\$18.8 million	11.4%
2022	\$381.0 million	\$17.1 million	<11.94%>

2022 Performance (net of fees)

In 2022, the Trust's domestic stock holdings produced a return of <18.28%> as compared to international stocks which returned <17.25%>; domestic fixed income returned <10.23%>; international fixed income (i.e., Emerging Market Debt) returned <17.73%>; and direct real estate returned 10.21%. The Trust experienced an overall <11.94%> return (rounded) in calendar year 2022 per calculation by the Trust's investment consultant (i.e., RVK, based in Portland, Oregon). In 2022, the Trust outperformed its Investment Policy benchmark return by forty-seven basis points (i.e., 0.47%).

Other major Alaskan investment funds with differentiating asset allocations experienced the following negative returns in 2022:

- Alaska Permanent Fund experienced a <6.4%> return.
- Alaska Retirement Mgmt. Board (PERS) experienced a <9.8%> return.
- Anchorage Police/Fire Retirement System experienced a <11.65%> return.

In commenting on the Trust's 2022 performance our investment consultant, RVK, offered the following relating to both the broad capital markets environment as well as the Trust's experience specifically:

During Q4, equity and fixed income markets delivered improved results while continuing to experience elevated volatility. However, the positive returns for the quarter came on the tail of a year that yielded significantly negative returns for many investors. Global equities ended 2022 with an annual return of -19.4%, as measured by the MSCI All Country World (ACW) Investable Market Index, while bonds finished with a return of -13.0%, as measured by the Bloomberg US Aggregate Bond Index. Capital markets during the final quarter of 2022 were driven by similar themes as prior quarters, with investors remaining focused on central bank activity, inflation data, and geopolitical turmoil.

1 *While current economic growth estimates for the US remained positive at the end*
2 *of 2022, the outlook for 2023 is more dour. The most recent reading of the Atlanta*
3 *Federal Reserve’s GDP Nowcast pointed to growth above 3% for Q4, and a survey*
4 *conducted by the Federal Reserve Bank of Philadelphia in November indicated an*
5 *expected range of 1.5% to 2.4% for GDP growth in 2022. However, estimates for*
6 *2023 GDP growth remain muted at 0.7%, on average. The combination of*
7 *tightening monetary policy and persistent inflation, as well as continued supply*
8 *shocks and energy availability concerns in Europe, led some industry observers to*
9 *increase odds of a global recession in 2023. One commonly cited recession*
10 *indicator, the spread between the 2-year and 10-year Treasuries, remained*
11 *inverted—indicating a potential recession to come. Some other economic activity*
12 *indicators started to indicate slowing as well as the ISM Services Purchasing*
13 *Managers Indexes, for Manufacturing and Services, dipped into contractionary*
14 *territory (below 50) at the end of December. In contrast to these indicators, labor*
15 *markets remained tight. The unemployment rate was 3.5% at quarter-end, though*
16 *there were some signs of slowing wage growth.*

17
18 *While inflation remains a concern for policymakers, recent data indicated that it is*
19 *showing some signs of abating. In December, the US Consumer Price Index*
20 *calculated year-over-year overall inflation at 6.5%, the lowest reading since October*
21 *2021. As the impact of its prior rate increases began to show in inflation and other*
22 *data, the Federal Reserve Open Market Committee (FOMC) began to slow its pace*
23 *of interest rate hikes. In December, the FOMC raised its key policy rate by only fifty*
24 *basis points, following a series of four straight seventy-five basis point increases.*
25 *Current market pricing indicates that the federal funds rate is expected to settle in*
26 *the 4.75% to 5.25% range in 2023, increasing from the current range of 4.25% to*
27 *4.50%.*

28
29 *International events, including the war in Ukraine, energy price shocks, and trade*
30 *tensions continued to test economic and political relationships across multiple*
31 *countries and regions. Similar to the US, forecasts of global inflation indicate an*
32 *expectation for moderating levels. The Organization for Economic Co-operation*
33 *and Development (OECD) recently estimated inflation of 6.6% among developed*
34 *countries during 2023, compared to its current estimate of 9.4% for 2022. During*
35 *Q4, the Bank of Japan made an unexpected move to increase the upper target of*
36 *its 10-year government bond yield from 0.25% to 0.50%. While Japan’s policy*
37 *interest rate level still trails other major central banks, the move was viewed as a*
38 *signal that Japan is taking steps away from accommodative policies.*

39
40 *Economic news from emerging markets was primarily focused on China, where*
41 *signs of a softening stance toward pandemic restrictions and past interest rate cuts*
42 *were viewed as reasons for optimism regarding the country’s outlook. However,*
43 *concerns over lockdown-related social unrest and the consolidation of power*
44 *around President Xi Jinping provided cautionary notes for investors. Overall, global*

1 *GDP growth, estimated by the OECD at 3.1% in 2022, was forecasted by the*
2 *organization to decline to 2.2% in 2023.*

3
4 *Nearly all major public market asset classes had double digit negative performance*
5 *in 2022, with Core Real Estate being one of the lone exceptions. As a result, the*
6 *MOA Trust posted a total return of -11.9% in calendar year 2022 (net of fees),*
7 *although the portfolio outperformed its target policy index by 0.5%. The policy index*
8 *consists of market indices weighted in the same proportion as the Trust’s long-term*
9 *asset allocation policy. Going into 2022, the Trust had outperformed the policy index*
10 *in five of the last ten calendar years. Since inception in 1999, the Trust has*
11 *outperformed the target policy index by five basis points per year on average.*

12
13 *The Trust’s outperformance versus the target policy index during 2022 was*
14 *primarily due to the outperformance of some of the Trust’s domestic equity,*
15 *domestic fixed income, and real estate managers. Alternatively, the Trust’s*
16 *international equity and emerging market debt portfolios were detractors to relative*
17 *performance during this period. Relative to other similar institutional investors, the*
18 *Trust trailed its peers in the 5-, 7-, and 10-year periods, ranking in the 79th, 78th,*
19 *and 65th percentiles, respectively. However, a significant amount of the*
20 *underperformance seen over trailing time periods was due to cash being held in the*
21 *portfolio following the ML&P sale in 2020, during a period when risk assets were*
22 *performing exceptionally well.*

23
24 *In summary, we believe the Trust remains well diversified and is structured to*
25 *provide an appropriate long-term real return given the risk/return profile defined by*
26 *the strategic asset allocation target. The Trust’s balance between return-seeking,*
27 *income-producing, and preservation assets constitutes a sound investment*
28 *approach that is expected to produce competitive investment returns. The expected*
29 *long-term (10+ years) geometric return for the Trust is 5.66% according to RVK’s*
30 *2023 Capital Markets Assumptions.*

31
32 **Inflation Proofing**

33 *In April 2002, Anchorage voters approved by a 70% affirmative vote a new endowment*
34 *approach to be followed by the Trust, similar to the Percent of Market Value (POMV)*
35 *approach endorsed by the Alaska Permanent Fund Board. The endowment approach*
36 *adopted by voters limits the amount of annual dividend distribution from the Trust to no*
37 *more than 5% of the average market value of the Trust. The current payout rate is set at*
38 *4%. The payout rate is a not-to-exceed annual rate subject to approval by the governing*
39 *fiduciary entity and is intended to keep pace with real return assumptions (i.e., long-term*
40 *expected return, “net” of long-term expected inflation).*

41
42 *AMC 6.50.060L states: By March 15, 2007, and by the same date every fifth year*
43 *thereafter, the municipal treasurer shall review the controlled spending policy and*
44 *recommend adjustments, as necessary, to maintain the long-term purchasing power of the*
45 *MOA Trust Fund.*

1
2 Year 2022 represented a five-year marking point to fulfill the above referenced Code
3 requirement regarding evaluation of the payout rate in connection with the Trust’s long-
4 term purchasing power. In January and February 2022 two special meetings of the
5 Investment Advisory Commission were held with the Treasurer, CFO, and investment
6 consultant to formally evaluate the appropriateness of the long-term payout rate. Key
7 findings included: (1) as of December 31, 2021 the Trust lagged its calculated inflation-
8 proofed value by \$9.8M; (2) real return expectations going forward are expected to be
9 significantly less than the 2021 dividend payout rate of 4.50%; and (3) continuing to payout
10 an annual dividend at 4.50% is not sustainable and not supportive of the primary
11 investment objectives cited in AMC 6.50.060 – i.e., maintaining the long-term purchasing
12 power of the Trust while also maintaining a balanced investment approach without taking
13 on excess risk and volatility to stretch for higher returns. The IAC transmitted a Resolution
14 to the Assembly at the March 1, 2022, Regular Assembly meeting (i.e., AIM 35-2022)
15 recommending that the long-term payout rate be adjusted downward to no higher than
16 4.00% based on data received from the investment consultant.

17
18 Over the fully invested life of the Trust (i.e., October 1999 through December 2022), the
19 Trust has generated an annualized real return of 2.93% (i.e., nominal return of 5.41%
20 minus inflation of 2.48%). Looking back at performance from 1999 through December 31,
21 2022, the Trust’s 5.41% nominal return lagged its target return of 6.58% (i.e., 4.00%
22 average payout rate + 2.48% inflation proofing, compounded), by 117 basis points, or
23 1.17%.

24
25 **Annual Dividend**

26 The Trust’s annual dividend calculation methodology is cited under AMC 6.50.060. Per
27 the preceding section discussing the Trust’s inflation-proofed status, the Treasurer
28 followed through in 2022 with lowering the Trust’s annual payout rate to a 4% payout rate
29 which resulted in a \$17.1 million dividend payment. The payout rate will be re-evaluated
30 by the next five-year mark (i.e., March 15, 2027), or sooner if extraordinary negative
31 market events warrant such action.

32
33 In years where excess returns are generated (i.e., over and above the payout rate
34 specified in Municipal Code) these excess returns are retained to help support an inflation-
35 proofed Trust so that the purchasing power is protected over the long-term. Accumulated
36 excess returns help offset down years in the market and automatically become part of
37 Corpus once the annual dividend has been paid out.

38
39 **Investment Management**

40 As of December 31, 2022, the Trust employed ten money managers – i.e., Fidelity
41 Institutional Asset Management, Garcia Hamilton & Associates, PIMCO, BlueBay Asset
42 Management, Vanguard, BlackRock, Capital Group, UBS Trumbull Property Fund,
43 Invesco U.S. Income Real Estate Fund, and Harrison Street Core Property Fund. In 2022,
44 the Trust entered year two of its 5-year contract with RVK as its investment consultant and
45 continued its use of Principal Custody Solutions as its custodial bank.

1
2 The Trust's target asset allocation on December 31, 2022, per the current Investment
3 Policy Statement (IPS), was 22.56% domestic fixed income; 5.40% private credit; 4.74%
4 emerging market debt; 29.80% domestic equity; 21.37% international equity; and 16.02%
5 direct real estate.

6
7 In 2023, the Finance Department along with the investment consultant (RVK) and
8 Investment Advisory Commission (IAC) intend to focus on reviewing existing money
9 managers' performance, asset allocation, risk levels and expected return, and investment
10 policy. In addition, there will be collective focus on transitioning the Trust's governance
11 structure from the current sole named fiduciary model (i.e., Treasurer) to a newly formed
12 fiduciary Board of Trustees.

13
14 **Monitoring of Investment Fund Activities**

15 The performance of the Trust is continuously monitored to ensure compliance with the
16 Investment Policy Statement and to track performance:

- 17
18 ➤ The Trust's investment consultant issues a quarterly report focused on the
19 performance of each of the Trust's money managers and frequently communicates
20 with the Municipal Treasurer regarding investment-related issues as they arise
21 throughout the course of the year.
22 ➤ The Municipal Treasurer, Chief Fiscal Officer and Investment Advisory Commission
23 meet quarterly to review Fund results and hold special meetings as needed to review
24 and discuss specialty topics.

25
26 **Current Year Market Conditions**

27 Year-to-Date (YTD) returns through First Quarter 2023 were positive for equities.
28 Specifically, Large Cap domestic equities as measured by the S&P 500 index returned
29 7.45% and broad international equities as measured by the MSCI All Country World Ex-
30 U.S. index returned 6.87%. Domestic investment grade fixed income as measured by the
31 Bloomberg U.S. Aggregate Bond index experienced a positive return of 2.96%.

32
33 Through April 2023 Large Cap domestic equities experienced YTD return of 9.16%. During
34 this same time period, broad international equities returned 8.72% and domestic
35 investment grade fixed income returned 3.59%. The market value of the Trust as of May
36 15, 2023, was approximately \$394.4 million, which reflected approximately a 5.24% YTD
37 return after adjusting for cash flow effects.

38
39 The first portion of the 2023 Trust dividend for 2023 (i.e., \$6.55 million) was paid in
40 February and March 2023. The total dividend payout from the Trust in 2023 is projected
41 to be approximately \$16.3 million, subject to final posting of Q1 2023 data by the Trust's
42 custodian bank in mid-to-late May 2023.

43
44 Market and economic conditions change frequently, and results can vary dramatically,
45 positively, or negatively, from one period to the next. A long-term view and adherence to

1 investment principles and guidelines are necessary to help ensure the Trust meets its long-
2 term objectives of:

- 3
- 4 • Maintaining the purchasing power of the Trust; and
- 5 • Maximizing rates of return over time without taking undue risk.
- 6

7 **Additional information**

8 For additional information about the MOA Trust Fund please visit the Trust's website at
9 www.muni.org/moatrust which includes RVK's December 31, 2022 performance report as
10 well as executive summary charts and graphs for Fourth Quarter 2022 which were prepared
11 by the Treasury Division. Comparable performance reports for the most recent quarter end
12 (March 31, 2023) have also been posted to the website.

13
14 Prepared by: Daniel Moore, Municipal Treasurer
15 Concurrence: Alden Thern, Acting CFO
16 Concurrence: Kent Kohlhase, Municipal Manager
17 Respectfully submitted: Dave Bronson, Mayor