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INVESTMENT POLICY STATEMENT

For

Municipality of Anchorage  
MOA Trust Fund

Revised February 28, 2018  
Investment Advisory Commission

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# EXECUTIVE SUMMARY

MOA Trust Fund - Investment Policy Stmt.

Current Assets: \$160,000,000  
Planning Time Horizon: Greater than 5 years  
Risk Tolerance: Moderate to moderately high, due to objective to maintain purchasing power of Corpus and to generate earnings for distribution

Income Needs: Assets will be managed in a manner consistent with the need to distribute up to 4.25% of the trailing 20-quarter average market value

## Asset Allocation:

	Min	Strategic <u>Allocation</u>	Max
Domestic Equities	30%	35%	40%
International Equities	22%	25%	28%
Fixed Income	21%	24%	27%
Emerging Markets Debt	0%	5%	8%
Bank Loans	0%	3%	5%
Real Estate	6%	8%	10%

Performance Evaluation Benchmark: The total Trust is expected to produce a total return exceeding that of an index based upon the strategic asset allocation of the Trust and various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

<u>Allocation</u>	<u>Benchmark</u>
35%	Russell 3000
25%	MSCI ACWI ex-U.S. Index
24%	Bloomberg US Aggregate Bond Index
5%	JPM GBI-EM Global Diversified Index
3%	S&P/LSTA Leveraged Loan Index
8%	NCREIF Total Index

Expected Total Return: 10-year geometric mean expected return of 6.53% with an annual standard deviation of 12.08%. Two thirds of the time we expect the annual total return of the Trust to fall in a range of 6.53% plus or minus 12.08%.

# PURPOSE OF THE INVESTMENT POLICY STATEMENT

MOA Trust Fund – Investment Policy Stmt.

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The purpose of this Investment Policy Statement (IPS) is to assist the Treasurer in effectively investing the assets of the MOA Trust Fund (the Trust) and in monitoring investment results, by communicating the investment objectives to the Anchorage Assembly, the Investment Advisory Commission, the Consultant, and external investment managers. The IPS is required by Subsection H of Anchorage Municipal Code Chapter 6.50.060. The Trust's investment program is defined in the various sections of the IPS by:

- Stating in a written document the objectives and guidelines for the investment of Trust assets, including explicit consideration of liquidity needs and risk tolerance.
- Setting forth an investment structure for managing Trust assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an intended level of overall diversification and total investment return over the long-term.
- Providing guidelines for each investment portfolio that controls the level of overall risk and liquidity assumed in that portfolio, so that all Trust assets are managed in accordance with stated objectives.
- Establishing formal criteria to select and monitor the performance results achieved by the investment managers on a regular basis.
- Encouraging effective communications between the Treasurer's department, the Assembly, the Investment Advisory Commission, the investment consultant, and the investment managers.
- Complying with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state and federal entities that may impact Trust assets.

This IPS has been formulated after consideration by the Treasurer and the Investment Advisory Commission of the financial implications of a wide range of policies, and represents a prudent investment process deemed appropriate for the Trust.

# AUTHORIZATION

MOA Trust Fund - Investment Policy Stmt.

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Authorization to manage the Trust is derived from Anchorage Municipal Charter section 13.11 and the Anchorage Municipal Code 6.70.010. The Investment Policy Statement must comply with Anchorage Municipal Code section 6.50.060, which is incorporated herein by reference.

This section describes the guidelines for the overall management of the Trust, specifically the time horizon, liquidity constraints, risk tolerance, and income distribution needs. All of these factors are incorporated in the asset allocation, which is described in this section.

## Investment Objectives

The investment objective of the Trust is to maintain the purchasing power of the Corpus and to maximize rates of return over time by utilizing a balanced investment approach, investing in equity, fixed income, and alternative investment strategies, within prudent levels of risk.

## Time Horizon

The Trust has a very long time horizon. This statement is based on the fact that Anchorage Municipal Code requires that the Trust be managed according to an endowment model whereby up to 4.25% of the Trust's average market value over 20 trailing calendar quarters may be paid annually as a distribution to the City's general fund. Implicit in the 4.25% cap is an assumption that net long-term earnings after inflation-proofing will meet or exceed 4.25%. Thus, the assets are to be invested with a long-term time horizon. The assumptions underlying the asset allocation analysis are based on a 10+ year projection of financial markets. While the future of the Trust extends beyond the next ten years, the relevant planning horizon is consistent with the use of the assumptions. The assumptions utilized were developed by the Trust's investment consultant, RVK Inc., and are consistent with long-term returns, risks, and statistical interrelationships observed among major asset categories.

## Liquidity Analysis

Distributions from the Trust will be based on a percentage of market value not to exceed 4.25% per year as applied to the average of the trailing 20 calendar quarters, ended March 31 each year. Annual distributions, if made, must be completed by no later than 15 days from the end of the fiscal year (i.e., December 31). The Trust will be rebalanced as necessary to fund such distributions in excess of available dividend and interest income.

## Risk Tolerances

The overall risk tolerance of the Trust is heavily influenced by the objectives of the fund: to maintain the purchasing power of the fund and to generate earnings linked to a percentage of market value. Based on modern portfolio theory, the Trust must have a meaningful equity commitment to protect the Corpus from inflation and to generate meaningful earnings for distribution. Based on the Capital Market Assumptions used in the asset allocation study, such an equity commitment will entail a moderate level of risk, as measured by the volatility of investment returns. The Trust maintains a long-term investment horizon, which allows the Trust to absorb near term volatility.

# GUIDELINES

## Asset Allocation

Based on the Trust's time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified. The strategic asset allocation of the Trust is as follows:

<u>Strategic Asset Allocation</u>	<u>Lower Limit</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>
Domestic Equities	30%	35%	40%
International Equities	22%	25%	28%
Fixed Income	21%	24%	27%
Bank Loan Investments	0%	3%	5%
Emerging Markets Debt	0%	5%	8%
Real Estate	6%	8%	10%
Cash Equivalents		0%	15%

The Trust will be diversified within each equity allocation and balanced to avoid any intentional style bias.

## Rebalancing of Strategic Allocation

The Strategic Allocation, shown in the middle column, is the target. Some variability around the target is expected and acceptable. Extreme deviation from the target is undesirable -- as it alters the risk and return expectations for the Trust. Therefore, upper and lower limits are established for each asset class. Generally, deviation plus or minus two percent from any midpoint target should trigger action to formally evaluate the need for rebalancing and a plan, including timeline, to follow through with rebalancing should the issue persist more than two calendar quarters.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation. If cash flows are insufficient to bring the Trust within the strategic allocation ranges, transactions may be affected within a 12 month period to bring the allocation back to the target Strategic Allocation.

## Distribution of Income

The investment policy explicitly recognizes the fact that the distribution and investment decisions are related, yet separate decisions. An annual review of the investment policy will be conducted to determine that it is consistent with the distribution target set in the budgeting process, recognizing the potential for short-term fluctuations in investment returns.

# SECURITY AND PORTFOLIO GUIDELINES

MOA Trust Fund - Investment Policy Stmt.

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The following guidelines apply to all Trust assets. Any mutual funds or other interests in collective and commingled funds utilized should be reviewed to determine that their governing instruments are substantially consistent with the following guidelines. All assets are to be managed pursuant to the Investment Restrictions contained in Anchorage Municipal Code section 6.50.060.

## General

- All guidelines are considered at the time of purchase. The sale of a security is not automatically required due to a subsequent change in circumstance.
- The following securities and transactions are not authorized, as described below:
  - Letter stock and other unregistered securities; commodities or commodity contracts; and short sales or margin transactions are not permitted; and
  - The use of leverage is not permitted, notwithstanding leverage limits separately adopted for real estate investment.
- Holdings of individual securities shall be of sufficient size to assure easy liquidation.
- Each portfolio will be diversified with regard to specific issuer, industry, and economic sector, in order to reduce risk.
- Securities may be sold at a loss, if such an action is deemed to be consistent with the overall portfolio investment objectives.
- Assets may be invested through a limited liability entity, including a corporation, limited partnership, limited liability partnership, or limited liability company, or through a collective or commingled investment fund, including a fund-of-funds.

# SECURITY AND PORTFOLIO GUIDELINES

MOA Trust Fund - Investment Policy Stmt.

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## Fixed Income

Eligible Securities The Trust may invest in debt instruments subject to the limitations contained in the Anchorage Municipal Code section 6.50.060. Owing to the size of the Trust, fixed income investments are made through an institutionally oriented collective investment vehicle. The vehicle's governing documents control the specific investment practices utilized. The Treasurer and the Investment Advisory Commission and the Investment consultant shall consider whether or not the collective investment vehicles are substantially consistent with the limitations contained in the Code.

## Domestic Equities

- Equity holdings in any one company should not exceed the greater of 5% or 1.5 times the stock's weighting in the applicable market index, such as the S&P 500 Index, at the time of purchase. If a security is not included in the applicable index, the limit is 5% of the portfolio market value at the time of purchase.
- Managers are expected to remain fully invested in equity securities (i.e., 5% maximum cash holdings), unless the manager has requested and received permission to hold significant cash.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- Convertible securities will be considered as equities.
- Investments for the purpose of exercising control of management are prohibited.
- The use of futures and options is prohibited except when used on an unlevered basis in an index fund.

# SECURITY AND PORTFOLIO GUIDELINES

MOA Trust Fund - Investment Policy Stmt.

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## International Equities

- Equity holdings in any one company should not exceed the greater of 5% or 2 times the stock's weighting in the applicable market index, such as the Morgan Stanley Capital International All Countries World ex-U.S. Index, at the time of purchase. If a security is not included in the applicable index, the limit is 5% of the portfolio market value at the time of purchase.
- Countries represented within the Morgan Stanley Capital International All Countries World ex-U.S. Index are available for investment. Allocations among countries are expected to be diversified. Investments in emerging markets are permitted when such investments are well diversified and held within a mutual fund or commingled investment vehicle utilized to efficiently gain international equity exposure.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation.
- If the Trust achieves international equity exposure through a commingled fund, the policies of the fund will be examined with the objective of selecting a fund whose policies are substantially consistent with the spirit of the guidelines.

## Real Estate

- Real estate investments shall be made in a diversified portfolio of institutional quality, income producing properties, held in a collective investment vehicle which limits the overall Trust's liability. The vehicle(s) utilized shall provide diversification both in terms of property type and location. The vehicle should not engage in significant real estate development activities and should have a primary objective of providing investors with competitive equity income returns and preservation of purchasing power over the long term, with leverage use at or below the average comparable peer group, as provided by the investment consultant.

## Cash and Cash Equivalents

- Cash and cash equivalents shall include repurchase agreements, certificates of deposit and shares in a money market or short-term investment fund that consist of securities of the type and quality as those permitted for the Trust as a whole.
- Cash equivalent reserves shall consist of cash instruments having a quality rating of at least A-1 by Standard & Poor's or its equivalent by another nationally recognized securities rating service.

# SECURITY AND PORTFOLIO GUIDELINES

MOA Trust Fund - Investment Policy Stmt.

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## Cash and Cash Equivalents (cont'd)

- Any idle cash not invested by the investment manager shall be invested daily by either the Custodian or Treasurer.
- In the use of mutual funds, careful attention should be paid to the fund's policy for investing cash and cash equivalents, with the objective of selecting funds whose policies are consistent with the spirit of the guidelines.
- Certificates of deposit must have been issued by United States commercial banks or trust companies (including foreign branches of such banks), provided that such institutions (or, in the case of a branch, the parent institution) have total assets of \$1 billion or more, be adequately capitalized, and have an excellent or superior rating from a bank rating agency.
- Repurchase Agreements must be secured by obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States.
- Instruments not deemed to be appropriate by the Securities and Exchange Commission for use in money market funds are prohibited.
- Cash and cash equivalents may include any security that has an effective duration under one year, a weighted average life of less than one year and spread duration less than one year.

# SELECTION OF EXTERNAL INVESTMENT MANAGERS

MOA Trust Fund – Investment Policy Stmt.

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To achieve the investment objectives of the Trust, external investment managers will be employed to invest the assets. Both separate accounts and collective investment vehicles may be considered. The selection process shall conform to appropriate Municipal procurement requirements. External managers must meet the following minimum criteria:

1. Be a bank, insurance company, independent investment counselor, or investment adviser as defined by the Investment Advisers Act of 1940.
2. Clearly articulate the investment strategy that will be followed, provide historical performance associated with the strategy, and document that the strategy is consistent with the IPS guidelines.
3. Provide historical quarterly performance numbers calculated on a time-weighted basis.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
5. Selected firms shall have no outstanding legal judgments or past judgments, which may reflect negatively upon the firm's ability to perform.
6. Demonstrate highly ethical business principles and strictly manage potential conflicts of interest.
7. Offer a competitive fee structure.
8. Have assets under management in an amount appropriate for the Trust's assets assigned.

## Investment Managers

The duties and responsibilities of each investment manager retained for the Trust include the following:

1. Manage the Trust assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein.
2. Exercise investment discretion within the IPS objectives and guidelines set forth herein.
3. Provide monthly reports of the holdings and transactions, and the total return achieved. Provide quarterly reports that provide additional detail on the investment strategy and outlook, and performance attribution for the prior quarter. Quarterly reports must state whether the portfolio is in compliance with the guidelines, and note the steps being taken to correct any failures to comply. Compliance requirements of particular interest include duration, quality ratings, and the use of derivatives.
4. Promptly inform the Treasurer in writing regarding all significant and/or material matters and changes within the investment management firm pertaining to the investment of Trust assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All material, legal, SEC, and other regulatory agency proceedings affecting the firm
  - j. Significant account losses
  - k. Significant growth of new business
5. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Trust set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

## Investment Managers (cont'd)

6. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like investment programs with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
7. Adopt a brokerage policy that ensures that all transactions effected for the Trust are “subject to the best price and execution”.
8. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.
9. Provide on an annual basis a disclosure concerning whether the firm makes use of soft dollars. If the firm does use soft dollars, the report shall disclose how the soft dollar benefits are utilized.

## Treasurer

Under the direction of the Chief Fiscal Officer and in consultation with the Investment Advisory Commission, the Treasurer shall:

1. Invest the assets of the Trust in accordance with this IPS and Anchorage Municipal Code 6.50.060.
2. Coordinate investment manager, investment consultant and Investment Advisory Commission meetings, activities and presentations.
3. Administer investment consultant, investment manager and custodian contracts.

## Custodian

The Custodian shall:

1. Provide safekeeping and custody of securities purchased by investment managers on behalf of the Trust.
2. Provide for timely settlement of securities transactions.

# DUTIES AND RESPONSIBILITIES

MOA Trust Fund – Investment Policy Stmt.

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## Custodian (cont'd)

3. Maintain short-term investment vehicles for investment of cash not invested by investment managers.
4. Check all manager accounts daily to make sure all available cash is invested.
5. Collect interest, dividend and principal payments on a timely basis.
6. Process corporate actions.
7. Price all securities on a daily basis.
8. Provide monthly, quarterly and annual reports.

## Investment Consultant

The Investment Consultant will provide general consulting services as required by the Municipality in connection with the investment of the Trust's assets. As directed, the Consultant will:

1. Review the IPS to assure it is consistent with the Trust's goals and objectives.
2. Conduct and review an asset allocation study to establish the classes of assets, the strategy and style to be used within each class of assets, levels of risk, acceptable risk tolerance and predicted rates of return that will meet the Trust's goals and objectives.
3. Recommend investment manager performance standards and guidelines to monitor and measure investment managers.
4. Provide guidelines as to the selection of investment managers and custodian for the Trust.
5. Conduct a quarterly analysis of, and report on, the performance of the investment manager(s).

## Investment Advisory Commission

The Investment Advisory Commission will perform the responsibilities provided under Anchorage Municipal Code section 4.50.090.

## Monitoring of Investment Managers

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer performance comparisons with managers employing similar styles.

The following will be reviewed on a quarterly basis:

- Manager's adherence to the security and portfolio guidelines and the duties and responsibilities of investment managers, as prescribed above;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups, specifically:

<b>Asset Class</b>	<b>Index</b>	<b>Peer Universe</b>
Domestic Equity	Appropriate style / capitalization index: S&P, MSCI, or Russell series	Appropriate U.S. equity style / capitalization peer universe
International Equity	Appropriate MSCI style index:	Appropriate international equity style / capitalization peer universe
Fixed Income	Bloomberg US Aggregate Bond Index	Appropriate fixed income style universe
Bank Loans	S&P/LSTA Leveraged Loans Index	Appropriate Bank Loan peer universe
Emerging Markets Debt	JPM GBI-EM Global Diversified Index	Appropriate Emerging Markets Debt peer universe
Real Estate	NCREIF Total index	

\*NCREIF = National Council of Real Estate Investment Fiduciaries.

The risk associated with each manager's portfolio, as measured by the variability of quarterly returns (i.e., annualized standard deviation), should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

It is recognized that on-going review and analysis of investment managers is an important component of fiduciary responsibility. Accordingly, thorough and regular reviews of investment managers will be conducted. Further review of managers may be warranted when:

- A manager performs in the bottom quartile (75th percentile) of their peer group over a three- or five-year period;
- A manager falls in the southeast quadrant of the risk/return scatter plot over a 5-year time period or full market cycle;
- A manager's 5-year risk-adjusted return fall below that of the median manager within the appropriate peer group.

Major organizational changes may also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the investment managers will be monitored on an on-going basis. External investment managers may be terminated at any time subject to contract provisions.

## Review of Investment Objectives

The investment program will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

# HISTORY OF POLICY CREATION/AMENDMENT DATES

MOA Trust Fund – Investment Policy Stmt.

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	<u>Effective Date</u>
Original - MOA Trust Fund Investment Policy Statement	April 30, 1999
Amendment #1 - MOA Trust Fund Investment Policy Statement	June 13, 2000
Amendment #2 - MOA Trust Fund Investment Policy Statement	February 15, 2005
Amendment #3 - MOA Trust Fund Investment Policy Statement	August 29, 2007
Amendment #4 - MOA Trust Fund Investment Policy Statement	September 1, 2010
Amendment #5 - MOA Trust Fund Investment Policy Statement	February 25, 2014
Amendment #6 - MOA Trust Fund Investment Policy Statement	August 23, 2017
Amendment #7 - MOA Trust Fund Investment Policy Statement	February 28, 2018