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# MOA Trust Fund

Proposed Change to Dividend Calculation  
Assembly Worksession: Jan. 16, 2009, 1:00 – 1:30pm

# Agenda

- MOA Trust Fund - Background & Investment Objective
- Diversification & Performance / Market Data
- Discussion of Past, Present, and Future Dividend Calculations
- Why Should We Consider a Change?
- Proposed Change

# Background of Trust Fund

- Established May 1999
- Initial stock investment Sept. 1999
- 1999 corpus of \$102 million + reserve fund of \$18 million
- 5/19/00 corpus increased \$20 million due to Police/Fire Pension Fund Settlement
- 12/31/08 Estimate: corpus of \$97 million + reserve fund – n/a
- Through 2008, Trust has paid \$79 million in dividends to City

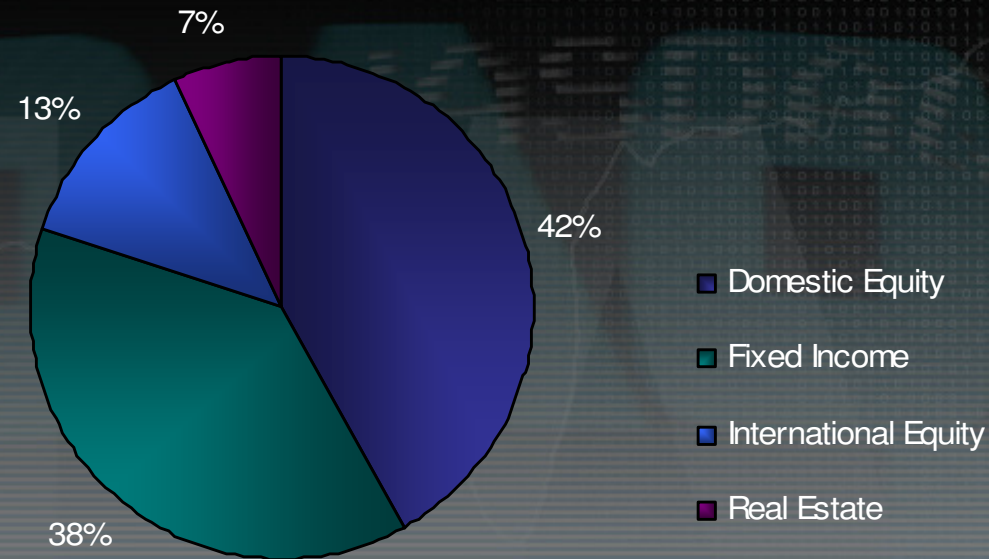
# Investment Objective of Trust Fund (excerpts)

from Investment Policy Statement shown below)

- "...to maintain the purchasing power of the corpus and to maximize rates of return over time by utilizing a balanced investment approach, investing in both equity and fixed income instruments, within prudent levels of risk."
- "Assets are to be managed in a manner consistent with the need to distribute up to 5% of the trailing 20-quarter average market value."

# Trust Fund Diversification

- Broadly diversified among bonds, stocks and real estate



# History of Trust Fund Returns

- 2008: 3<sup>rd</sup> worst investment year in over 100 years
- Nowhere to hide: significant negative returns in all major traditional investment areas – i.e., non-Treasury bonds, domestic stocks, int'l stocks

1999	7.3%
2000	0.3%
2001	-2.8%
2002	-7.6%
2003	19.9%
2004	9.1%
2005	5.9%
2006	12.2%
2007	6.2%
2008 (approx.)	-26.7%

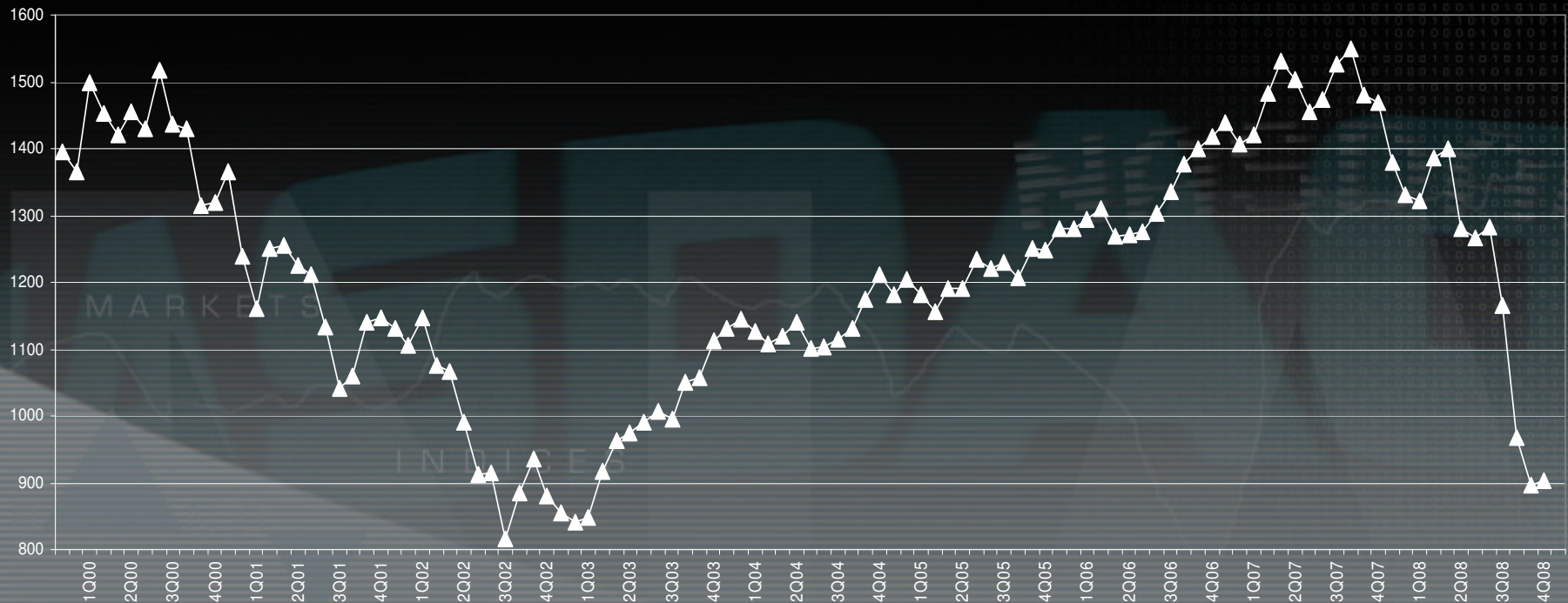
# Broad Market Performance – 2008

- S&P 500 Index <37.0%>
- EAFE int'l stock index <43.4%>
- Barclay's (formerly Lehman) broad bond index +4.6%

# Domestic Stock Returns since Trust Fund's 1999 inception

MOA Trust Fund (730)  
Domestic Equity Benchmark  
S&P 500 Month End Values

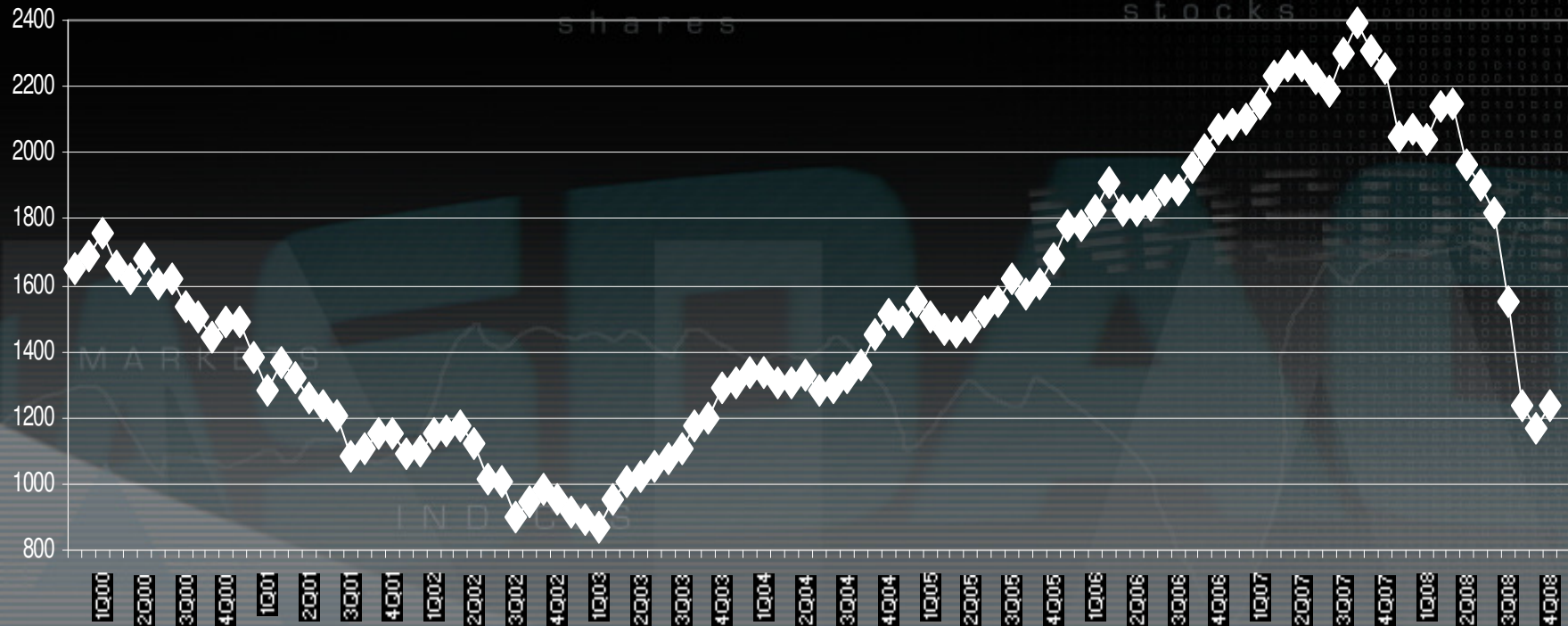
As of Dec. 31, 2008



# International Stock Returns since Trust Fund's 1999 inception

MOA Trust Fund (730)  
International Equity Benchmark  
EAFE Price Index (US Dollars) Month End Values

As of Dec. 31, 2008



# 2008 Trust Fund Changes (figures are approximate)

- Beginning value, 1/1/08: \$141M
- Int/Div: \$ 4.4M
- Realized Gain <Loss>: \$ 1.2M
- Unrealized Loss: <\$43.1M>
- 2008 Dividend: <\$6.6M>
- Other: <\$0.1M>
- Ending value, 12/31/08: \$97M

# Brief History of Dividend Calculations

- 1999-2001: arbitrary payments of up to 9% of Trust's corpus – (ultimately deemed too high and non-sustainable)
- 2002-2003: voter-approved endowment payout model limiting annual payout to 5% of average asset value (defined by Code initially as trailing 12 quarters of market value ended March 31 of each year) – AO 2002-10 and 2002-11
- 2004-2009: continuation of same approach except 5% figure applied to more conservative trailing 20 quarters of market value – AO 2003-16<sup>7</sup>

# Trust Fund – Annual Dividends

- 2009 Budgeted Dividend \$7.0M; Projected Actual Dividend \$6.5M
- 2010 Projected Dividend if Ordinance is approved: \$5.0M

1999	\$9.4M
2000	\$9.6M
2001	\$9.4M
2002	\$9.4M
2003	\$8.2M
2004	\$6.6M
2005	\$6.6M
2006	\$6.3M
2007	\$6.4M
2008	\$6.6M

# Current Problem w/ Dividend Calc

- Trust's market value for the first time in its history is below the corpus amount of \$122M
- Trust's governing objective is to preserve its purchasing power while paying out a predictable dividend to help offset property taxes
- 2008 and 2009 dividend payouts are set in approved budgets

# Proposed Solution

- AO 2009-3: effective 1/1/2010 Trust's annual payout will be temporarily limited to 4% (rather than 5%) of the 20 trailing quarter average market value
- New clause in Code no longer applicable once Trust's market value returns to its 12/31/07 level, adjusted for inflation

# Financial Effects of Proposed Solution

- Purchasing power of Trust corpus expected to be fully restored
- Long recovery period for MOA Trust likely (i.e., 20+ years, depending upon prevailing market conditions)
- 2010 operating budget will need to assume less revenue from the MOA Trust

# Inflation Proofing Assumption

- Assumptions use Anchorage inflation for 1999-2008 and future year inflation of 2.75% applied to Trust corpus of \$122M
- If AO is approved, the Trust Fund Corpus will be restored in 2037
- If 5% dividends are maintained, restoration would never be reached according to the projection model.

# Projected Future Dividend Payouts

- Assumes 12% annual return in 2009 and 7.75% average annual return in all years beyond
- Payout is calculated beginning in 2010 based on 4% of trailing 20 calendar quarters of market value date, as of March 31 of each year

2009	\$6.5M
2010	\$5.0M
2011	\$4.8M
2012	\$4.6M
2013	\$4.4M
2014	\$4.4M
2015	\$4.6M
2016	\$4.7M
2017	\$4.9M
2018	\$5.1M
2019	\$5.3M
2020	\$5.6M
2021	\$5.8M
...	...

# Conclusion

- AO 2009-3 scheduled for public hearing January 20, 2009 *(attached for reference)*
- Proposed Ordinance change supported by Investment Advisory Commission and the Trust Fund's investment consultant (Callan Associates)