



MUNICIPALITY OF ANCHORAGE
ASSEMBLY INFORMATION MEMORANDUM
AIM 114-2023

Meeting Date: June 6, 2023

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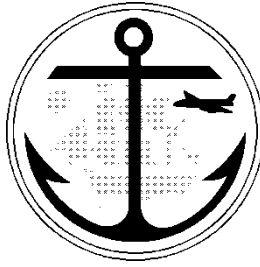
FROM: MAYOR
SUBJECT: INVESTMENT ADVISORY COMMISSION ANNUAL REPORT – YEAR IN REVIEW.

The ordinance that created the Investment Advisory Commission (AO 95-46) requires that the Commission report annually to the Mayor and the Assembly.

Attached to this AIM is the Investment Advisory Commission Annual Report.

Prepared by: Daniel Moore, Municipal Treasurer
Concurrence: Grant Yutzenka, CFO
Concurrence: Kent Kohlhase, Acting Municipal Manager
Respectfully submitted: Dave Bronson, Mayor

Municipality Of Anchorage



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Dave Bronson, Mayor

INVESTMENT ADVISORY COMMISSION

June 6, 2023

Mayor Dave Bronson
Municipal Assembly
Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519

RE: Investment Advisory Commission Annual Report – 2022

Dear Mayor Bronson and Assembly Members:

The Investment Advisory Commission (“IAC”) is charged under enabling ordinance AO No. 95-46 to act in a non-fiduciary advisory capacity to the Administration and the Assembly on matters related to the investment of municipal funds, including the Municipality of Anchorage (“MOA”) Trust Fund (“Trust”) and the Municipal Cash Pool (“MCP”). AO 95-46 further requires that the Investment Advisory Commission report annually to the Mayor and the Assembly.

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

The Annual Report for 2022 follows:

MOA TRUST FUND HISTORY

For purposes of this report, all information provided is limited to activities associated with the Municipal Trust Fund, only. Although a portion of the ATU sale proceeds and the Police and Fire Retirement Settlement were deposited into a legally separate Trust Reserve Fund (“Reserve”), the Reserve was fully expended and terminated by action of the Municipal Assembly in 2003. The Reserve was closed/extinguished/spent almost 20 years ago and has not been part of the oversight of the IAC since that time.

The MOA Trust Fund was established in May 1999. It was created in accordance with Anchorage Municipal Charter, section 13.11, after Anchorage voters approved the sale of the Anchorage Telephone Utility (ATU). The Trust was initially funded with a deposit of \$101.7 million from ATU net sale proceeds, plus nearly \$17 million of

release ATU revenue bond reserves. Since the initial deposit in 1999; \$20.0 million from the Police & Fire Retirement Settlement was deposited in 2000, \$229.8 million from the sale of ML&P was deposited in 2020, and \$5.9 million from four smaller sources were designated by the Assembly for deposit between 2000 and 2014. As of December 31, 2022, a total of \$357.4 million has been deposited into the Trust.

MOA TRUST FUND DIVIDEND HISTORY

Between its inception in 1999 and December 31, 2022, the Trust generated investment earnings of \$210.1 million, an annualized compound net return of 5.41%. During this same period, the dividend payout rate of the Trust varied between 4% and 5%, resulting in cumulative cash dividends paid to the MOA of \$188.8 million. During 2022, the Trust dividend payout to the MOA was \$17.1 million, compared to the 2021 payout of \$18.8 million.

AMC 6.50.060 provides that the Controlled Spending Policy of the Trust shall be reviewed every five years with adjustments recommended, as necessary, to maintain the long-term purchasing power of the Trust. The IAC views its participation in the timely review and adjustment to the Trust Investment and Controlled Spending Policy as one of its most important functions. The IAC began working with the MOA Treasurer and the Trust Investment Consultant during the second half of 2021 to review and provide recommendations regarding these key policies. On February 3, 2022, the IAC adopted its own Resolution recommending the Trust payout rate be limited to no more than 4% during the next five-year period. This resolution was transmitted to the Assembly through AIM 35-2022 and accepted by the Assembly at its March 1, 2022 regular meeting.

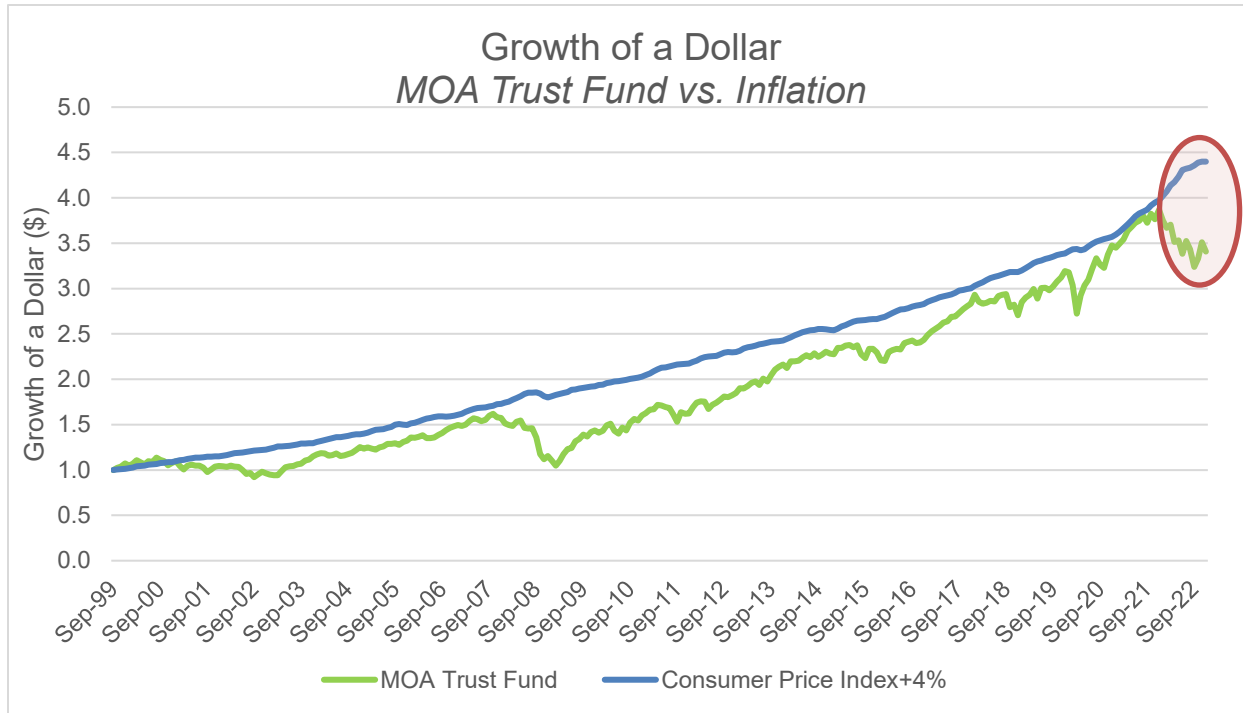
MOA TRUST FUND PERFORMANCE

On a long-term basis, the Trust Fund has been invested to deliver results that allow a consistent dividend payment to the Municipality. The market value of the Trust as of December 31, 2022, was approximately \$381 million, compared to a market value of \$448 million one year earlier. The year-end market value exceeded the nominal amount of Trust deposits since inception by \$23.6 million, and is below the inflation adjusted value of the nominal deposits of \$487 million.

	<u>1 year</u>	<u>3 year</u>	<u>5 year</u>	<u>10 year</u>	<u>Since Inception Oct-99</u>
Trust Performance*	-11.94%	2.17%	3.76%	6.31%	5.41%
Policy Target/Benchmark	-12.41%	3.28%	4.59%	6.69%	5.26%

*annualized, net of fees

After many years of strong equity returns, the market experienced losses in 2022 with a steep decline in both equity and fixed income returns. This, in tandem with rapidly rising inflation, served as a major headwind for the Trust to keep pace with inflation (see following chart). Supply chain issues, geopolitical tensions, and persistent elevated inflation - despite the Fed's dramatic rate increases - led to poor equity and bond markets. The Fed's historic interest rate hikes resulted in the worst year of returns in history for the broad fixed income market, with the Bloomberg US Aggregate Bond Index at a -13.0% decline. 2022 was an unprecedented year in which all major asset classes experienced negative returns.



2022 TRUST RESULTS

On an absolute basis, Trust investments returned -11.94% in 2022. Private real estate was the only portfolio area with a positive return. On a relative basis, the Trust outperformed 0.47% compared to its policy benchmark of -12.41%. The policy benchmark is comprised of market indices weighted in the same proportion as the Trust's asset allocation policy. Domestic equity and fixed income both outperformed their benchmarks, while international equity and real estate both underperformed relative to their policy benchmarks.

Although 2022 was a difficult year for the Trust, the Commission believes the Investment Policy Statement adopted for management of the Trust was fundamentally prudent and appropriate given:

- investment time horizon is greater than five years
- risk tolerance is moderate to moderately high
- specific stated objective to maintain purchasing power of the Trust while simultaneously generating earnings for distribution

The Investment Policy was based on modern portfolio theory to maximize expected long-term returns while keeping risks within acceptable levels. Investable assets are allocated to a diversified mix of differentiated asset classes defined in the Investment Policy. The Policy was developed under the leadership of the MOA Treasurer with expert advice and guidance provided by the Trust's Investment Consultant. The policy is executed by the MOA Treasurer with support from the Trust's Investment Consultant. All investments are managed by external portfolio managers. The IAC reviews the portfolio during quarterly meetings.

As per the Investment Policy Statement, the asset allocation for the Trust covered four broad asset classes, namely: Domestic Equity, International Equity, Fixed Income, and Real Estate. These asset classes were managed by ten individual managers, each tasked with a specific mandate for their respective asset class. The individual managers' portfolio market value at year-end, percentage of total portfolio, annual return for 2022, and corresponding benchmark return as calculated by RVK, were as follows:

	<u>Market Value</u>	<u>Percent of Portfolio</u>	<u>2022 Return</u>
DOMESTIC EQUITY	\$110,526,262	29.0%	-18.3%
<i>Russell 3000 Index</i>			-19.2%
INTERNATIONAL EQUITY	\$78,255,795	20.5%	-17.3%
<i>MSCI ACW ex-US Index (USD) (Net)</i>			-16.0%
FIXED INCOME	\$91,037,777	23.9%	-12.2%
<i>Bloomberg US Aggregate Bond Index</i>			-13.0%
PRIVATE CREDIT	\$20,839,282	5.5%	-0.6%
<i>CS Leveraged Loan Index +2%</i>			0.9%
EMERGING Markets Debt	\$17,995,048	4.7%	-17.7%
<i>EMD Blended Index</i>			-16.4%
REAL ESTATE	\$62,228,272	16.3%	10.2%
<i>NCREIF ODCE Index (AWA) (Net)</i>			6.6%
CASH	\$157,981	0.0%	
<hr/> TOTAL TRUST	<hr/> \$381,040,417	<hr/> 100.0%	<hr/> -11.9%
<i>Policy Target</i>			-12.4%

MUNICIPAL CASH POOL (MCP)

In October 2006, the Assembly passed AO 2006-145 which broadened the parameters for investment of the Municipality’s General Cash Pool (GCP). Prior to this, the GCP, along with much of the Anchorage School District’s (ASD) general cash, were managed in-house but separately using a very short duration buy-and-hold strategy that obtained a return comparable to the 90-day Treasury Bill. In early 2007, the Commission participated in the process which redefined the investment strategy and created the Municipal Cash Pool (MCP). The Commission also participated in the selection of external money managers for the MCP. On June 1, 2007, the MCP was funded with MOA and ASD general cash. In June 2013, the Anchorage Community Development Authority (ACDA) began investing in the MCP as well.

The MCP is comprised of three Portfolios of fixed income securities, each with a separate manager, targeted duration, and respective benchmark. Each year Public Finance and Investments Division staff performs a rebalancing review of the three based on forecasted cash flows, including liquidity needs and projected issuance of Tax Anticipation Notes.

The returns below are reported net of investment management fees and are compared to each manager's respective benchmark. The IAC periodically reviews manager fees against appropriate peer groups for reasonableness.

WORKING CAPITAL PORTFOLIO

This portfolio is managed by Alaska Permanent Capital Management (APCM) and held assets in excess of \$333 million on December 31, 2022. It is the shortest portfolio of the MCP, with a duration target of 90 days, and is used for day-to-day cash flow and liquidity needs. The benchmark for this portfolio is the ICE BofA 3-Month U.S. Treasury Bill Index. In calendar year 2022, the APCM Portfolio returned 1.69% net of investment management fees, while its benchmark returned 1.46%.

CONTINGENCY PORTFOLIO

This portfolio is managed by PNC Capital Advisors (PNC), and held assets in excess of \$72 million at December 31, 2022. It is the middle portfolio of the MCP, with a duration target of 1-3 years. This portfolio provides liquidity when the Working Capital Portfolio has been exhausted, or when rebalancing is required. Its benchmark is the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index. In calendar year 2022, the PNC Portfolio returned -3.64% net of investment management fees, while its benchmark returned -3.69%.

STRATEGIC RESERVE PORTFOLIO

This portfolio is managed by BlackRock, and held assets in excess of \$167 million at December 31, 2022. It is the longest portfolio in the MCP, with a duration target of 3-5 years. This portfolio provides liquidity only when the shorter duration portfolios have been exhausted, or when rebalancing is required. Its benchmark consists of 75% Bloomberg Barclays Intermediate U.S. Government/Credit Index and 25% Bloomberg Barclays Intermediate U.S. High Yield Total Return Index. BlackRock has discretion to invest up to 30% of this portfolio in high yield securities. In calendar year 2022, the BlackRock Portfolio returned -8.40% net of investment management fees, while its benchmark returned of -8.76%.

RESTRICTED/INTERNALLY MANAGED PORTFOLIO

This portfolio is managed by the Municipality's Public Finance & Investments Division staff. It is a collection of discretely managed accounts, each containing specifically restricted assets that are required to be managed independent of the MCP. Examples include: Grant proceeds, bond proceeds, debt service reserve accounts, utility customer deposits and other receipts restricted by regulatory order, and certain ASD funds. These accounts are managed primarily for safety and liquidity rather than for return. As of December 31, 2022, the aggregate market value of these accounts was in excess of \$146 million. Returns for each account vary and are influenced by the specific restrictions that apply. In 2022, returns for individual accounts ranged from -3.21% to 1.69%.

CONCLUSION

Negative market returns combined with high inflation created a challenging environment in 2022. The Investment Advisory Commission affirms its support of the core tenants of the Trust's Investment Policy – namely, that diversification and asset allocation remain the most effective strategy to achieve the long-term investment goals of the Trust. Regarding the MCP and the Restricted/Internally Managed Portfolio, the IAC affirms that they are being managed by the Municipal Public Finance staff with assistance from the MCP Investment Consultant in a prudent and appropriate manner consistent with investment parameters outlined in AMC 6.50.030.

The IAC looks forward to working with Treasury staff to implement Proposition 11 in the coming year and expects to serve as a resource to the Administration and Assembly in the transition to the new governance structure serving the Trust.

This annual report was approved unanimously by the Commission at its May 9, 2023 regular meeting.

Respectfully submitted,

/Julee Farley/, Chair
Investment Advisory Commission