



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

No. AIM 35-2022

Meeting Date: March 1, 2022

Municipal Clerk's Office

Accepted

Date: **March 1, 2022**

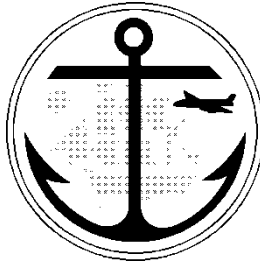
1 **FROM: MAYOR**

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3 **SUBJECT: INVESTMENT ADVISORY COMMISSION RESOLUTION RE:**
4 **RECOMMENDED MOA TRUST PAYOUT RATE TO MAINTAIN LONG-**
5 **TERM PURCHASING POWER.**
6

7 Attached to this Assembly Information Memorandum is a Resolution generated by the
8 Investment Advisory Commission (IAC) which was unanimously approved at their
9 February 3, 2022, Special Meeting. The IAC worked closely with the MOA Trust Fund's
10 ("Trust") independent investment consultant to provide the basis for their Resolution. The
11 Resolution recommends an annual dividend payout rate for the Trust not-to-exceed
12 4.00%. This is necessary in order to preserve the long-term purchasing power of the
13 Trust, which is the primary objective cited for the Trust in both Municipal Charter and
14 Municipal Code. The Municipal Treasurer is the sole named fiduciary for the Trust and
15 supports the IAC's recommendation. As an additional note, both the IAC and Treasurer
16 plan to transmit their respective annual reports to the Assembly by late May or early June
17 2022 consistent with prior years and in accordance with AMC 4.50.090 and 6.50.060
18 requirements.

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20 Prepared by: Daniel Moore, Municipal Treasurer
21 Concurrence: Travis C. Frisk, CFO
22 Concurrence: Cheryl Frasca, OMB Director
23 Concurrence: Amy Demboski, Municipal Manager
24 Respectfully submitted: Dave Bronson, Mayor

Municipality Of Anchorage



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Dave Bronson, Mayor

MOA TRUST FUND – PRESERVATION OF LONG-TERM PURCHASING POWER INVESTMENT ADVISORY COMMISSION

Resolution 2022-1

WHEREAS, the MOA Trust Fund (“Trust”) was established pursuant to the Anchorage Municipal Charter, Section 13.11, and is defined as an endowment fund with a controlled spending policy limiting dividend distributions; and

WHEREAS, per the Municipal Charter, the Trust is managed by the Municipal Treasurer who serves as the sole named fiduciary, and who works under the direction of the CFO and regularly consults with the Investment Advisory Commission (“IAC”) comprised of highly qualified finance professionals appointed by the Municipal Assembly; and

WHEREAS, Anchorage Municipal Code (AMC) 6.50.060 requires that by March 15, 2007, and by the same date every 5th year thereafter, the Municipal Treasurer shall review the controlled spending policy and recommend adjustments, as necessary, to maintain the long-term purchasing power of the Trust; and

WHEREAS, year 2022 is the third 5-year cycle for formal review of the Trust’s controlled spending policy necessary to maintain the long-term purchasing power of the Trust; and

WHEREAS, the Trust is guided by formally adopted investment and payout policies based on consultation with the IAC along with research and recommendations from the Trust’s independent investment consultant (RVK, Inc.); and

WHEREAS, any fundamental change to the Trust’s investment policy, dividend payout policy or governance structure necessitates a full, deliberative review involving the Municipal Treasurer, CFO, IAC and investment consultant; and

WHEREAS, the Municipal Treasurer, IAC and RVK held special meetings in January and February 2022 to formally review the Trust’s historical and prospective spending policy necessary to maintain the long-term purchasing power of the Trust; and

WHEREAS, the following major factors were used in evaluating the spending policy:

- The Trust’s *real* return (i.e., nominal return minus inflation) has been 3.97% since inception (see RVK report attached).
- Per the Trust’s investment consultant, the median level of future long-term annual returns for the Trust over the next ten to twenty years are projected to be 5.7% with long-term annual inflation over this same time period projected to average

2.5% (notwithstanding recent inflation experienced over the trailing year), resulting in a net real return of 3.2%.

- The Trust's spending policy (i.e., payout rate) should reflect expected returns, net of inflation in order to maintain intergenerational equity (i.e., maintaining long-term purchasing power) and best practices observed amongst similar sized endowment/foundation type funds across the U.S.
- Setting a payout rate above the expected level of real returns would reasonably be expected to result in a decline in the real value of the Trust and a loss in the Trust's long-term purchasing power.
- The return expectations and the risk tolerance of the Trust are currently appropriate and ultimately limited by the characteristics of the capital markets.
- Increasing the risk level of the Trust's investment strategy in an attempt to increase returns is not considered viable. It would run counter to endowment fund best practices and conflict with parameters established in AMC 6.50.060.

NOW, THEREFORE, BE IT RESOLVED that after formal review of the spending policy necessary to maintain the long-term purchasing power of the Trust, the Investment Advisory Commission recommends that the payout rate of the Municipal Trust should be limited to no more than 4.00% during the next five-year period and that this limitation be revisited in five years as provided in AMC 6.50.060.

DATED this 3rd day of February 2022.



Jeffrey Sinz, Chair
Investment Advisory Commission

**Municipality of Anchorage Trust Fund
Annualized Nominal and Real Rates of Return**

As of December 31, 2021

	QTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
Total Fund (Nominal Return)	3.76	11.31	11.31	12.64	9.69	7.81	9.06	6.60	6.27	10/01/1999
Consumer Price Index (Inflation)	1.64	7.04	7.04	3.53	2.92	2.48	2.14	2.18	2.30	
Total Fund (Real Return)	2.12	4.27	4.27	9.11	6.77	5.33	6.92	4.42	3.97	

Performance shown is net of fees. Performance is annualized for periods greater than one year. Consumer Price Index represents the unadjusted Consumer Price Index for All Urban Consumers: All Items.



RVK Capital Markets Assumptions

2022 Long-Term Assumptions (10-20 Years) Using 12/31/2021 Data

Return & Risk Assumptions

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption
Broad US Equity	5.80	16.00
Broad International Equity	8.35	18.65
US Agg Fixed Income	2.50	5.00
Emerging Markets Debt	6.00	10.00
Private Credit	7.25	13.00
Core Real Estate	6.00	12.50
Cash Equivalents	1.50	2.00

Historical Observations

Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annualized Standard Deviation
Russell 3000 Index	Jan 1979 - Dec 2021	12.43	16.23
MSCI ACW Ex US IMI (Gross)	Jun 1994 - Dec 2021	6.03	20.77
Bloomberg US Agg Bond	Jan 1980 - Dec 2021	7.28	6.77
JPMorgan EMBI Global Div.	Jan 1999 - Dec 2021	9.86	9.01
Credit Suisse Leveraged Loan Index	Jan 1992 - Dec 2020	5.52	10.42
NCREIF ODCE (Gross) (AWA)	Mar 1978 – Sep 2021	8.45	9.21
BofA ML 3 Mo US T-Bill	Jan 1978 - Dec 2021	4.63	4.07

Long-term inflation is assumed to be 2.5%

Current Asset Allocation & Expected Return / Risk

	Current Target (%)
Broad US Equity	31
Broad International Equity	22
US Agg Fixed Income	24
Emerging Markets Debt	5
Private Credit	5
Core Real Estate	13
Expected Arithmetic Return (Nominal)	5.7
Expected Risk (Std. Deviation)	10.3
Expected Compound Return (Nominal)	5.2
Expected Long-Term Inflation	2.5
Expected Arithmetic Return (Real)	3.2
Expected Compound Return (Real)	2.7