



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

No. AIM 98-2022

Municipal Clerk's Office

Accepted

Date: June 7, 2022

Meeting Date: June 7, 2022

1 FROM: MAYOR

2
3 SUBJECT: MOA TRUST FUND STATUS – 2021 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 12 Background

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

20 Additions/Subtractions

21 In 2021, the Trust received newly deposited funds from two sources, namely: (1) monthly
22 contractual payments from Anchorage Hydropower Utility in accordance with the sale
23 agreement between Municipal Light & Power (ML&P) and Chugach Electric Association
24 totaling \$2.5 million; and (2) \$166K from residual funds post-ML&P sale coming from the
25 escrow agent as part of sale closeout.
26

27 On three different occasions during 2021, a collective total of \$18.8 million in dividend
28 withdrawals were paid to the General Government Operating Budget in accordance with
29 the not-to-exceed dividend calculation formula and payout provisions cited in AMC
30 6.50.060. The timing of these three withdrawals was spread out to reduce potential
31 downside market timing risk.
32

33 Market Value

34 The market value of the Trust on December 31, 2021, was \$447.9 million (Fund 730000,
35 unaudited, rounded, and net of year-end accruals) -- this represented a \$46.0 million
36 increase over the prior year, excluding payment of the annual dividend payment, Trust
37 expenses, and new deposits. The trailing 5 years of calendar year-end market values for

1 | the Trust, as well as related annual dividend payouts and calculated annual returns, are
2 | summarized as follows:

<u>Calendar Year</u>	<u>Market Value</u>	<u>Dividend Paid in Calendar Year</u>	<u>Annual Return</u>
2017	\$165.1 million	\$6.0 million	16.3%
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%

3 |
4 | **2021 Performance (net of fees)**

5 | In 2021, the Trust's domestic stock holdings produced a return of 27.8% as compared to
6 | international stocks which returned 5.8%; domestic fixed income returned <0.07%>;
7 | international fixed income (i.e., Emerging Market Debt) returned <6.4%>; and direct real
8 | estate returned 17.9%. The Trust experienced an overall 11.4% return (rounded) in the
9 | calendar year 2021 per calculation by the Trust's investment consultant (i.e., RVK, based
10 | in Portland, Oregon). In 2021, the Trust underperformed its Investment Policy benchmark
11 | return by 18 basis points (i.e., <0.18%>).
12 |

13 | Other major Alaskan investment funds with differentiating asset allocations experienced
14 | the following positive returns in 2021:

- 15 |
- 16 | • Alaska Permanent Fund experienced an 18.7% return.
- 17 | • Alaska Retirement Mgmt. Board (PERS) experienced a 19.3% return
- 18 | • Anchorage Police/Fire Retirement System experienced a 14.2% return.
- 19 |

20 | In commenting on the Trust's 2021 performance our investment consultant, RVK offered
21 | the following:

22 |

23 | *Inflation in the United States finished December at 7.0%, according to the year-*
24 | *over-year change in the Consumer Price Index—a level not seen since 1982. The*
25 | *combination of supportive monetary policy, which kept long-term interest rates low,*
26 | *and an unprecedented \$5 trillion-plus in fiscal stimulus related to pandemic relief*
27 | *buoyed household balance sheets and fueled aggregate demand. As the*
28 | *emergence of new variants prolonged the pandemic, the rise in consumer spending*
29 | *flowed toward durable and non-durable goods, while services spending remained*
30 | *below its pre-pandemic peak in real terms through November. The world economy*
31 | *also experienced a negative supply-side shock from pandemic-related issues such*
32 | *as factories closing in Asia and periodic shortages of available workers in Europe*
33 | *and the United States. These combined supply and demand factors created upward*
34 | *pressure on prices throughout much of the global economy.*

35 |

36 | *Throughout much of 2021, the Federal Open Market Committee (FOMC), led by*
37 | *Federal Reserve Board of Governors Chair Jerome Powell, made clear its intent to*

1 *let inflation run somewhat above target to achieve a quicker labor market recovery.*
2 *Although non-farm payroll growth slowed in Q3 and Q4 relative to the first six*
3 *months of the year, the unemployment rate still fell precipitously, ending the year at*
4 *3.9%. The decline in the unemployment rate, which gives a more immediate read*
5 *on labor supply and associated wage growth pressures, occurred faster than*
6 *committee members had initially forecasted, as the labor force participation rate*
7 *remained well below pre-pandemic levels (at 61.9% compared to 63.4% in February*
8 *2020). The faster than anticipated improvement in US labor market conditions,*
9 *combined with the significant increase in inflation, forced the FOMC to reevaluate*
10 *its accommodative monetary stance. As recently as the June meeting, the median*
11 *FOMC member anticipated zero interest rate increases until 2024. By the*
12 *December meeting, the median member anticipated three interest rate hikes in*
13 *2022 alone, significantly pulling forward the path for tightening monetary policy. The*
14 *FOMC also announced a tapering of its asset purchase program in November—*
15 *and accelerated the timeline during the December meeting—with market*
16 *participants now expecting an end to asset purchases by March 2022. Markets are*
17 *predicting that an initial rate hike might occur as early as March 2022.*

18
19 *November also saw significant fiscal policy activity with President Biden signing a*
20 *\$1.2 trillion infrastructure bill that Congress had passed on a bipartisan basis.*
21 *However, President Biden’s more expansive “Build Back Better” agenda was*
22 *stymied by moderate Democrats in the Senate and failed to pass by the party’s self-*
23 *imposed Christmas deadline. While the debate over the bill’s provisions continues,*
24 *it remains uncertain if or when some form of the proposed legislation will become*
25 *law.*

26
27 *Despite the evolving economic and political environment, risk assets performed well*
28 *in Q4, primarily due to strong fundamentals in corporate earnings and the relative*
29 *strength of the broader economy. The S&P 500 Index returned 11.0% in Q4, leading*
30 *major equity markets higher. Although valuations remain elevated relative to*
31 *historical averages, the 2021 index return of 28.7% was supported by year-over-*
32 *year earnings growth of 45.3%, according to analyst estimates from FactSet.*
33 *Calendar year equity returns in developed markets were more modest at 11.3%*
34 *according to the MSCI EAFE Index, while emerging market equities finished the*
35 *year at -2.5% as measured by the MSCI EM Index. The relative strength of dollar*
36 *assets coupled with Chinese regulatory changes for certain industries put*
37 *downward pressure on prices for many Asia-based companies during the second*
38 *half of the year. Commodity performance was mixed during Q4, though the asset*
39 *class still finished the year up 27.1%, the highest returning year for the Bloomberg*
40 *Commodity Index since 2000. While the rate curve flattened during Q4, duration-*
41 *sensitive assets finished the year in negative territory.*

42
43 *The MOA Trust posted a total return of 11.4% in the calendar year 2021 (net of*
44 *fees), although the portfolio slightly underperformed its target policy index by 0.2%.*
45 *The policy index consists of market indices weighted in the same proportion as the*

1 *Trust's long-term asset allocation policy. Going into 2021, the Trust had*
2 *outperformed the policy index in 6 of the last 10 calendar years. Since its inception*
3 *in 1999, the Trust has outperformed the target policy index by 4 basis points per*
4 *year on average.*

5
6 *The Trust's slight underperformance versus the target policy index during 2021 was*
7 *primarily due to the underperformance of some of the Trust's international equity,*
8 *emerging markets debt, and real estate managers. Alternatively, the Trust's*
9 *domestic equity and domestic fixed income portfolios were additive to relative*
10 *performance during this period. Relative to other similar institutional investors, the*
11 *Trust trailed its peers in the 5-, 7-, and 10-year periods, ranking in the 78th, 74th,*
12 *and 56th percentiles, respectively. However, a significant amount of the*
13 *underperformance seen over trailing periods was due to cash being held in the*
14 *portfolio following the ML&P sale in 2020, during a period when risk assets were*
15 *performing exceptionally well.*

16
17 *In summary, we believe the Trust remains well-diversified and is structured to*
18 *provide an appropriate long-term real return given the risk/return profile defined by*
19 *the strategic asset allocation target. The Trust's balance between return-seeking,*
20 *income-producing, and preservation assets constitutes a sound investment*
21 *approach that is expected to produce competitive investment returns.*

22 23 **Inflation Proofing**

24 In April 2002, Anchorage voters approved by a 70% affirmative vote a new endowment
25 approach to be followed by the Trust, similar to the Percent of Market Value (POMV)
26 approach endorsed by the Alaska Permanent Fund Board. The endowment approach
27 adopted by voters limits the amount of annual dividend distribution from the Trust to no
28 more than 5% of the average market value of the Trust. In response to the severe 2008
29 market downturn, the Assembly approved AO 2009-3, revising the annual dividend cap to
30 a lower rate of 4.00%; this was subsequently adjusted to 4.25% per AO 2016-127, and
31 then further revised to a long-term payout rate 4.50% per AO 2020-98. The payout rate is
32 a not-to-exceed annual rate specified in Municipal Code and is intended to keep pace with
33 real return assumptions (i.e., long-term expected return, "net" of long-term expected
34 inflation).

35
36 AMC 6.50.060L states: *By March 15, 2007, and by the same date every fifth year*
37 *thereafter, the municipal treasurer shall review the controlled spending policy and*
38 *recommend adjustments, as necessary, to maintain the long-term purchasing power of the*
39 *MOA Trust Fund.*

40
41 The year 2022 represents a five-year marking point to fulfill the above-referenced Code
42 requirement regarding the evaluation of the payout rate in connection with the Trust's long-
43 term purchasing power. In January and February 2022 two special meetings of the
44 Investment Advisory Commission were held with the Treasurer, CFO, and investment
45 consultant to formally evaluate the appropriateness of the long-term payout rate. Key

1 findings included: (1) as of December 31, 2021, the Trust lagged its calculated inflation-
2 proofed value by \$9.8M; (2) real return expectations going forward are expected to be
3 significantly less than the current dividend payout rate of 4.50%; and (3) continuing to pay
4 out an annual dividend at 4.50% is not sustainable and not supportive of the primary
5 investment objectives cited in AMC 6.50.060 – i.e., maintaining the long-term purchasing
6 power of the Trust while also maintaining a balanced investment approach without taking
7 on excess risk and volatility to stretch for higher returns. The IAC transmitted a Resolution
8 to the Assembly at the March 1, 2022, Regular Assembly meeting (i.e., AIM 35-2022)
9 recommending that the long-term payout rate be adjusted downward to no higher than
10 4.00% based on data received from the investment consultant that showed the current
11 4.50% payout rate is unsustainable. The Treasurer concurs with the findings and
12 recommendations cited in the IAC's Resolution and has worked with OMB to lower budget
13 expectations relative to the annual dividend payout coming from the Trust. Over the fully
14 invested life of the Trust (i.e., October 1999 through December 2021), the Trust has
15 generated a cumulative real return of 3.97% (i.e., nominal return of 6.27% minus inflation
16 of 2.30%). Looking back at cumulative performance between 1999 through December
17 31, 2021, the Trust's 6.27% nominal return lagged its target return of 6.91% (i.e., 4.50%
18 average payout rate + 2.30% inflation proofing, compounded), by 64 basis points, or
19 0.64%. It is the intent of the Treasurer to include in this annual report an update each year
20 regarding the calculated inflation-proofed value of the Trust.

21 22 **Annual Dividend**

23 The Trust's annual dividend calculation methodology is governed under AMC 6.50.060.
24 Per the preceding section discussing the Trust's inflation-proofed status, the Treasurer
25 intends later in 2022 to present to the Assembly an ordinance to update the not-to-exceed
26 payout rate so that it cites 4.00% which was the rate used during the years 2010-2016.
27 The payout rate will be re-evaluated by the next five-year mark (i.e., March 15, 2027), or
28 sooner if extraordinary negative market events warrant such action.

29
30 In years where excess returns are generated (i.e., over and above the payout rate
31 specified in Municipal Code) these excess returns are retained to help support an inflation-
32 proofed Trust so that the purchasing power is protected over the long term. Accumulated
33 excess returns help offset down years in the market and automatically become part of
34 Corpus once the annual dividend has been paid out.

35 36 **Investment Management**

37 As of December 31, 2021, the Trust employed eleven money managers – i.e., Fidelity
38 Institutional Asset Management, Garcia Hamilton & Associates, PIMCO, Ashmore,
39 BlueBay Asset Management, Vanguard, BlackRock, Capital Group, UBS Trumbull
40 Property Fund, Invesco U.S. Income Real Estate Fund, and Harrison Street Core Property
41 Fund. In 2021, the Trust initiated a second 5-year contract with RVK as its investment
42 consultant and continued its use of Principal Custody Solutions (formerly Wells Fargo
43 Institutional Trust Services) as its custodial bank.

1 The Trust's target asset allocation at December 31, 2021, per the current Investment
2 Policy Statement (IPS), was 24% domestic fixed income; 5% private credit; 5% emerging
3 market debt; 31% domestic equity; 22% international equity; and 13% direct real estate.
4 In 2022, the Finance Department along with the investment consultant (RVK) and
5 Investment Advisory Commission (IAC) intend to focus on the following areas:

6
7 (1) Evaluating the appropriateness of the long-term payout rate from the Trust, in
8 relation to market expectations and the primary investment objectives and standards
9 required of the Trust in AMC 6.50.060;

10
11 (2) Reviewing alternative governance models for the Trust to broaden fiduciary
12 responsibilities and promote continuity and sufficient knowledge and skillsets amongst
13 internal support resources;

14
15 (3) Monitoring the first full year of performance regarding the new private credit
16 manager and two new direct real estate managers;

17
18 (4) Reviewing existing money managers' performance, asset allocation, risk levels, and
19 expected return, and investment policy; and

20
21 (5) Receiving special presentations from specific money managers in the Trust's
22 lineup.

23 24 **Monitoring of Investment Fund Activities**

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

- 27
28 ➤ The Trust's investment consultant issues a quarterly report focused on the
29 performance of each of the Trust's money managers and frequently communicates
30 with the Municipal Treasurer regarding investment-related issues as they arise
31 throughout the course of the year.
32 ➤ The Municipal Treasurer, Chief Fiscal Officer, and Investment Advisory Commission
33 meet quarterly to review Fund results and hold special meetings as needed to review
34 and discuss specialty topics.

35 36 **Current Year Market Conditions**

37
38 Year-to-Date (YTD) returns through the First Quarter of 2022 were negative for equities.
39 Specifically, Large Cap domestic equities as measured by the S&P 500 index returned
40 <4.60%> and broad international equities as measured by the MSCI All Country World Ex-
41 U.S. index returned <5.44%>. Domestic investment grade fixed income as measured by
42 the Bloomberg U.S. Aggregate Bond index experienced a negative return of <5.93%>.

43
44 Through April 2022 Large Cap domestic equities experienced a YTD return of <12.92%>.
45 During this same period, broad international equities returned <11.38%> and domestic

1 investment grade fixed income returned <9.50%. The market value of the Trust as of
2 May 12, 2022, was approximately \$384.8 million, which reflected approximately a
3 <11.6%> YTD return after adjusting for cash flow effects.

4 The first portion of the 2022 Trust dividend for 2022 (i.e., \$11.85 million) was paid in mid-
5 January 2022. Based on the reduced 4.00% payout rate cited in AIM 35.2022, the planned
6 total dividend payout from the Trust in 2022 will be approximately \$17.0-\$17.1 million,
7 subject to the final posting of Q1 2022 data by the Trust's custodian bank in mid-to-late
8 May 2022.

9
10 Market and economic conditions change frequently, and results can vary dramatically,
11 positively or negatively, from one period to the next. A long-term view and adherence to
12 investment principles and guidelines are necessary to help ensure the Trust meets its long-
13 term objectives of:

- 14
- 15 • Maintaining the purchasing power of the Trust; and
- 16 • Maximizing rates of return over time without taking undue risk.
- 17

18 **Additional information**

19 For additional information about the MOA Trust Fund or the endowment model please visit
20 the Trust's website at www.muni.org/moatrust for RVK's December 31, 2021 performance
21 report as well as executive summary charts and graphs for Fourth Quarter 2021 which were
22 prepared by the Treasury Division. Comparable performance reports for the most recent
23 quarter-end (March 31, 2022) have also been posted to the website.

24

25 Prepared by: Daniel Moore, Municipal Treasurer
26 Concurrence: Travis C. Frisk, CFO
27 Concurrence: Amy Demboski, Municipal Manager
28 Respectfully submitted: Dave Bronson, Mayor