

Submitted by: Chair of the Assembly
at the Request of the
Mayor
Prepared by: Finance Department
For reading: October 17, 2006

CLERK'S OFFICE

APPROVED

Date: 10-31-06 ANCHORAGE, ALASKA

AO No. 2006- 146

1 AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION 6.50.060
2 TO AUTHORIZE ALTERNATIVE INVESTMENTS AND STRATEGIES CONSISTENT
3 WITH PRACTICES FOLLOWED BY ESTABLISHED ENDOWMENT FUNDS IN ORDER
4 TO FURTHER DIVERSIFY HOLDINGS OF THE MOA TRUST FUND AND TO
5 ENHANCE FUTURE POTENTIAL RETURNS.

7
8 **THE ANCHORAGE ASSEMBLY ORDAINS:**

9
10 **Section 1.** Anchorage Municipal Code section 6.50.060 is amended as follows (*the*
11 *remainder of the section is not affected and therefore is not set out*):

12
13 **6.50.060 MOA Trust Fund**

14
15 *** *** ***

16 G. *Management of the pooled funds.* Pursuant to Anchorage Municipal Charter §
17 13.11(c) and Section 6.70.010, the municipal treasurer, under the direction and
18 supervision of the chief fiscal officer shall manage the pooled trusts in
19 accordance with the provisions of this section.

20
21 *** *** ***

22 2. The assets of the pooled trusts shall be managed and invested in
23 accordance with subsections H. thru J [THE INVESTMENT POLICY
24 ESTABLISHED UNDER SUBSECTION I].

25
26 H. *Investment objectives.* The investment objectives of the pooled trusts are to
27 utilize a balanced investment approach, combined with a controlled spending
28 policy, to preserve the purchasing power of the corpus and to maximize rates of
29 return over time by investing in equity and fixed income instruments, real
30 estate and alternative investments and strategies, within prudent levels of risk
31 and consistent with established endowment investment practices.

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33 1. An investment policy, consistent with this section, for the investment
34 of the pooled trusts, shall be established and from time to time
35 modified, as necessary.

36
37 I. *Authorized Investments.* In addition to the investments authorized by
38 section 6.50.030, but subject to the investment restriction of this section, the
39 assets of the pooled trusts may be invested in the following types of
40 investments:

1. Publicly traded equity investments, including but not limited to preferred and common stock and investment company shares;
2. Debt instruments issued by the U.S. government, its agencies and instrumentalities, and debt instruments that have been issued by domestic and non-domestic entities [RATED TRIPLE B MINUS OR ABOVE BY STANDARD AND POOR'S RATING SERVICE (INVESTMENT GRADE) OR THE EQUIVALENT BY ANOTHER NATIONALLY RECOGNIZED RATING AGENCY AND DOLLAR DENOMINATED DEBT INSTRUMENTS OF COMPARABLE QUALITY ISSUED BY NONDOMESTIC ENTITIES], subject to investment grade and currency denomination restrictions cited in subsection J.2.;
3. Real estate investments in a diversified portfolio of institutional quality, income producing properties held in a collective investment vehicle which limits the pooled trusts' liability;
4. Alternative, basket clause investments utilizing special purpose investment vehicles, subject to restrictions cited in subsection J.4.;
5. Fixed income derivative instruments used in an unlevered manner to implement portfolio strategies consistent with this section;
- 6 [3]. Cash and cash equivalents including but not limited to 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 listed above;
- 7 [4]. Mutual funds or other interests in collective and commingled investment vehicles that invest [CONSIST OF SECURITIES] predominantly in investments permitted in this section [OF THE TYPE AND QUALITY AS THOSE LISTED ABOVE].
 - a. 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.

J. *Investment restrictions.* Notwithstanding any other provision of this title, investment of the assets of the pooled trusts shall be restricted as follows:

1. *Equity securities.* No more than:

- a. Sixty five [65] percent (65%) of the pooled trusts' assets may be invested in equity investments;
- b. The greater of five percent (5%) or one and one-half times the security's weight in the S&P 500 stock index of the market value of the equity portfolio assets, at the time of the purchase, shall be invested in the equity securities of any one issuer;
- c. Five percent (5%) of the voting stock of any corporation may be acquired by the pooled trusts.

2. *Fixed income securities.* No more than:

- a. F[f]ive percent (5%) of the pooled trusts' fixed income portfolio assets may be invested in the fixed income securities of any single issuer, with the exception of the U.S. government, its agencies and instrumentalities;
- b. Ten percent (10%) of the overall pooled trusts' portfolio at time of purchase may be invested in domestic fixed income securities with:
 - i. An investment rating below BBB- as measured by Standard & Poor's rating agency (or an equivalent national rating agency), subject to the totality of fixed income asset holdings having an equivalent, aggregate investment grade rating of BBB- or higher when examined on a dollar weighted basis;
- c. Thirty percent (30%) of total fixed income assets at time of purchase may be invested in investment grade fixed income securities issued by non-domestic entities whose securities are dollar denominated (or fully hedged in U.S. dollars);
- d. Five percent (5%) of the overall pooled trusts' portfolio value at time of purchase may be invested in fixed income securities with:
 - i. Unhedged, non-dollar denominated investment grade securities, including emerging market debt securities.

3. *Real Estate.* No more than:

- a. Five percent (5%) of the overall pooled trusts' portfolio value at time of purchase may be invested in real estate investments cited above in subsection I.3.

4. Basket clause flexibility. No more than:

a. Five percent (5%) of the overall pooled trusts' portfolio value at time of purchase may be used to provide basket clause flexibility in:

i. Extending investment parameters in any of the asset classes cited in this section; or

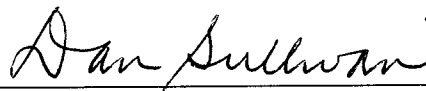
ii. Utilizing investment vehicles such as limited partnerships or special purpose trusts to provide access to well-diversified alternative investment portfolios or strategies. Examples of such limited liability investments include, but are not limited to, hedge fund of funds (absolute return strategy), private equity fund of funds, and various real return and/or inflation hedge products.

*** *** ***

(AO No. 99-50(S), § 1, 4-6-99; AO No. 99-156, § 1, 1-11-00; AO No. 2000-89, § 1, 6-13-00; AO No. 2000-162(S), § 1, 11-21-00; AO No. 2002-10, § 1, 4-16-02; AO No. 2003-167, § 1, 1-6-04)

Section 2. This ordinance shall become effective immediately upon passage and approval by the Anchorage Assembly.

PASSED AND APPROVED by the Anchorage Assembly this 31st day of October, 2006.


Chair

ATTEST:


Municipal Clerk

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects - General Government

AO Number: 2006- 146 Title: An Ordinance amending AMC Section 6.50.060 to authorize alternative investments and strategies consistent with practices followed by established endowment funds in order to further diversity holdings of the MOA Trust Fund and to enhance future potential returns.

Preparing Agency: Finance Department

Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES: (Thousands of Dollars)

	FY06	FY07	FY08	FY09	FY10
Operating Expenditures					
1000 Personal Services					
2000 Supplies					
3000 Other Services					
4000 Debt Service					
5000 Capital Outlay					

TOTAL DIRECT COSTS:

Add: 6000 Charges from Others

Less: 7000 Charges to Others

FUNCTION COST:

REVENUES: Not applicable during first five years -- see note below

CAPITAL:

POSITIONS: FT/PT and Temp.

PUBLIC SECTOR ECONOMIC EFFECTS:

Per the investment consultant for the MOA Trust Fund (i.e., Michael O'Leary of Callan Associates) once the Trust fully implements the proposed initial phase of alternative investments (namely, higher yield fixed income, real estate and a basket of alternative investments and strategies) the returns for the Trust are expected to increase would increase by approximately 32 basis points on a \$130M portfolio, or \$416K per year. This will compound over time and increase the Trust's ability to pay higher incremental dividends at a point beyond the 5-year S.E.E. time period.

Since the Trust's annual payout is based on a 5-year average market value, a \$416K increase in value will not immediately lead to an increase in the annual dividend payout. Given the conservative formula used for Trust dividends the annual payout is not expected to increase during the 5-year time period cited in this Summary of Economic Effects. The proposed diversification changes will, however, help the Trust to better ensure that it meets its long term real rate of return target (i.e., 8% return minus 3% inflation = 5% real rate of return).

PRIVATE SECTOR ECONOMIC EFFECTS:

Diversifying the Trusts holdings will further promote the Trust's long-term earning power and continue to help provide an offset to local property taxes as a budgeted revenue source. The direct impact on the private sector is limited to the selection of additional qualified money managers which will be selected to provide investment management services for the newly chosen alternative investment categories and strategies. The investment consultant will search the universe of money managers to select the best group of candidates in each specific investment discipline. Candidates will be evaluated against a common set of criteria and a committee involving the Treasurer, CFO, Investment Advisory Commission members and the investment consultant will work together in the selection process.

Prepared by: Daniel Moore, Treasurer

Telephone: 343-4092

Validated by OMB: _____

Date: _____



MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 767 -2006

Meeting Date: October 17, 2006

FROM: MAYOR

1 **SUBJECT: AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE**
2 **SECTION 6.50.060 TO AUTHORIZE ALTERNATIVE**
3 **INVESTMENTS AND STRATEGIES CONSISTENT WITH**
4 **PRACTICES FOLLOWED BY ESTABLISHED ENDOWMENT**
5 **FUNDS IN ORDER TO FURTHER DIVERSIFY HOLDINGS OF**
6 **THE MOA TRUST FUND AND TO ENHANCE FUTURE**
7 **POTENTIAL RETURNS.**

8 This ordinance amends AMC section 6.50.060, MOA Trust Fund, to authorize
9 investments and strategies consistent with practices followed by established endowment
10 funds in order to further diversify holdings of the MOA Trust Fund and to enhance future
11 potential returns.

12
13 The Finance Department Investment Consultant (Michael O'Leary of Callan Associates)
14 and Investment Advisory Commission provided a detailed briefing regarding proposed
15 diversification of Trust Fund assets at an Assembly work session on June 16, 2006. The
16 draft amendments were presented to the Investment Advisory Commission at a special
17 meeting on September 19, 2006. After a full briefing, the Commission approved a motion
18 to recommend submittal of the code amendments to the Assembly for approval.

19
20 The ordinance proposes diversifying the MOA Trust's holdings in three new investment
21 areas, specifically:

- 22
23 • Authorizing up to 10% of the total Trust Fund assets to be invested in fixed
24 income obligations not currently authorized, such as high yield (below investment
25 grade) bonds, non-dollar denominated bonds (fully hedged in U.S. dollars or
26 unhedged up to 5% of the total Trust portfolio) and emerging market debt
27 instruments;
- 28
29 • Authorizing up to 5% of the total Trust Fund assets to be invested in a diversified
30 real estate portfolio of institutional quality, income producing properties held in a
31 collective investment vehicle limiting the Trust's liability; and
- 32
33 • Authorizing up to 5% to be invested in alternative, basket clause investment
34 products/strategies through limited partnerships or special purpose trusts. Such
35 investments are well-diversified, typically through a fund-of-funds approach.
36 Examples of such limited liability investments include, but are not limited to,
37 hedge fund of funds (absolute return strategy); private equity fund of funds, and
38 various real return and/or inflation hedge products.
- 39
40

The code amendments are the result of more than a year and a half of effort involving the Investment Advisory Commission, Investment Consultant and Finance Department. This further diversification of MOA Trust assets is consistent with investment practices followed by major Alaskan Funds (as well as major established endowment funds). Representative Alaska funds include:

- Anchorage Police & Fire Pension Fund – real estate and high yield bonds.
- Alaska Permanent Fund – real estate, private equity and absolute return strategies.
- Alaska State Pension Systems – real estate, high yield bonds, absolute return strategies and private equity.
- University of Alaska – private equity, non-investment grade bonds, absolute return strategies and real estate.

The MOA Trust Fund closely aligns with endowments because of its long term investment horizon and objectives. The Trust's investment consultant, at the June 2006 work session, indicated the three categories of change cited above work to collectively enhance return and increase the probability of the Trust achieving its long-term investment goals. The consultant conservatively estimates the MOA Trust's potential returns to increase by a factor of 32 basis points while incurring minimal additional investment risk (**note:** 32 basis points of additional return of a \$130 million Trust equates to \$416,000 of additional annual income starting out). The three categories of change are intended to be a modest initial phase-in into alternative investments and strategies.

THE ADMINISTRATION RECOMMENDS APPROVAL OF AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION 6.50.060 TO AUTHORIZE ALTERNATIVE INVESTMENTS AND STRATEGIES CONSISTENT WITH PRACTICES FOLLOWED BY ESTABLISHED ENDOWMENT FUNDS IN ORDER TO FURTHER DIVERSIFY HOLDINGS OF THE MOA TRUST FUND AND TO ENHANCE FUTURE POTENTIAL RETURNS.

Prepared by:	Finance Department / Treasury Division
Approved by:	Daniel Moore, Municipal Treasurer
Concur:	Jeffrey E. Sinz, Chief Fiscal Officer
Concur:	Denis C. LeBlanc, Municipal Manager
Respectfully submitted:	Mark Begich, Mayor

Content Information

Content ID : 004475

Type: Ordinance - AO

An Ordinance Amending AMC Section 6.60.060 to Authorize

Title: Alternative Investments & Strategies to Further Diversify Holdings of the MOA Trust Fund, Finance

Author: pruittns

Initiating Dept: Finance

Keywords: AMC Section 6.50.060, Trust Fund, Investment Alternatives, Amending

Date Prepared: 10/5/06 5:27 PM

Director Name: Jeffrey Sinz

Assembly Meeting Date MM/DD/YY: 10/17/06

Public Hearing Date MM/DD/YY: 10/31/06

M.O.A.
 2006 OCT - 6 PM 3:55
 CLERK'S OFFICE

Workflow History

<u>Workflow Name</u>	<u>Action Date</u>	<u>Action</u>	<u>User</u>	<u>Security Group</u>	<u>Content ID</u>
AllOrdinanceWorkflow	10/5/06 5:31 PM	Checkin	pruittns	Public	004475
Finance_SubWorkflow	10/5/06 6:00 PM	Approve	sinzje	Public	004475
OMB_SubWorkflow	10/6/06 11:48 AM	Approve	mitsonjl	Public	004475
Legal_SubWorkflow	10/6/06 11:58 AM	Approve	fehlenrl	Public	004475
MuniManager_SubWorkflow	10/6/06 3:13 PM	Approve	leblancdc	Public	004475
MuniMgrCoord_SubWorkflow	10/6/06 3:20 PM	Approve	abbottmk	Public	004475