



MUNICIPALITY OF ANCHORAGE
ASSEMBLY INFORMATION MEMORANDUM

No. AIM 79-2020

Meeting Date: June 2, 2020

Municipal Clerk's Office

Accepted

Date: **June 2, 2020**

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FROM: Mayor

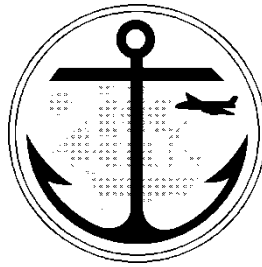
SUBJECT: Investment Advisory Commission Annual Report – 2019 Year in Review

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: Alexander Slivka, CFO
Concurrence: William D. Falsey, Municipal Manager
Respectfully submitted: Ethan A. Berkowitz, Mayor

Municipality Of Anchorage



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Ethan Berkowitz, Mayor

INVESTMENT ADVISORY COMMISSION

June 2, 2020

Mayor Ethan Berkowitz
Municipal Assembly
Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519

RE: Investment Advisory Commission Annual Report – 2019 Year in Review

Dear Mayor Berkowitz and Assembly Members:

The Investment Advisory Commission's (the "Commission") charge under the enabling ordinance AO No. 95-46 is to act in a non-fiduciary capacity to the Administration and the Assembly in giving advice on matters concerning the investment of municipal funds including the Municipality of Anchorage (the "MOA") Trust Fund (the "Trust"). In that capacity, the Commission believes that the Investment Policy Statement utilized in 2019 for the Trust represented a prudent investment policy which the Commission viewed as appropriate for the capital markets environment. This policy was reviewed and further updated in late 2019 / early 2020. For the new calendar year, the Commission intends to work with the investment consultant to monitor placement of the initial investment with two newly chosen direct real estate managers, chosen to further diversify the Trust. The Commission further intends to review the investment consultant's (RVK) proposed plan for investing the additional proceeds from the sale of Municipal Light & Power (ML&P), as well as review the effect of the Coronavirus (COVID-19) outbreak on capital markets and what if anything should be addressed with respect to the MOA Trust Fund. AO 95-46 further requires that the Commission report annually to the Mayor and the Assembly, the text of which is as follows:

THE MOA TRUST FUND

The MOA Trust Fund and MOA Trust Reserve ("Reserve Fund") were established in May 1999, following the sale of the Anchorage Telephone Utility (ATU), with an initial total deposit of \$118.6 million. In May 2000, \$40 million was received from the Police/Fire Retirement Fund settlement; these new assets were allocated 50% to the Trust Fund (Fund 730) and 50% to the Reserve Fund (Fund 731). Late in 2000 approximately \$15.1 million of the \$20 million deposited in the Reserve Fund was used to defease two municipal revenue bonds. In January 2002, an additional \$1.3 million from a Bank of America Settlement was added to the Trust Fund. In June 2014 an additional \$1.93 million was deposited into the Trust following Assembly appropriation made in conjunction with the 1st Quarter 2014 General Government Operation Budget revision. Since the ATU sale closing, \$138.9 million in annual dividends have been paid to the MOA as return on investment through 2019. Including the year 2000 bond defeasance, just over \$154.0 million has been distributed from the Trust Fund/Reserve Fund. This is now contained in its entirety within a single fund (730), as the need for the Reserve Fund was eliminated when the dividend distribution formula was changed to a percentage of market value approach in 2002.

The Trust’s planning time horizon is greater than five years and its risk tolerance is moderate to moderately high with a specific stated objective to maintain purchasing power of the corpus while simultaneously generating earnings for distribution.

Per AO No. 2016-127, the spending policy changed from 4.00% of the “average asset balance” to 4.25% to reflect the Trust Fund’s recovery in market value from the impact of the downturn in the markets resulting from the 2008-2009 recession. For this calculation the “average asset balance” is defined as the average of the trailing 20 calendar quarters ended March 31 each year. It is anticipated that the spending policy formula will be further adjusted through a proposed Assembly Ordinance in 2020, in response to the magnitude and timing of the expected ML&P sale proceeds. Both the Commission and the investment consultant (RVK) intend to be actively engaged in the details of the proposed ordinance and its presentation to the Assembly.

2019 RESULTS

The market value of the Trust Fund portfolio on 12/31/19 was approximately \$171.8 million (excluding net effect of year-end accruals), as compared to the 12/31/2018 market value of \$151.4 million. There were no additional deposits to the fund in 2019 and the total dividend withdrawal for the calendar year ended 12/31/2019 was \$6.5 million. All portfolio returns for the Trust cited in this report are shown net of fees. The Trust experienced an overall return of 18.1% in calendar year 2019 (results per RVK). This return lagged the target policy index by 1.4%. The policy index is comprised of market indices weighted in the same proportion as the Trust’s long term allocation policy. The policy index had a total return of 19.5% for 2019.

As per the Investment Policy Statement, the asset allocation for the Trust in 2019 covered four core asset classes, namely: Domestic Equities, International Equities, Fixed Income, and Real Estate. These asset classes are managed by ten individual managers, each tasked with a specific mandate for their respective asset class.

The individual manager’s portfolio market values at year end, percentage of total portfolio, annual return for 2019, and corresponding benchmark returns as calculated by RVK, were as follows:

	<u>Market Value</u>	<u>Percent of Portfolio</u>	<u>2019 Return</u>
DOMESTIC EQUITY COMPOSITE	\$62,491,744	36.38%	31.54%
<i>Russell 3000 Index</i>			31.02%
Vanguard Institutional Index Fund	\$53,033,635	30.88%	31.46%
<i>S&P 500 Index (Cap Wtd)</i>			31.49%
Vanguard Mid Cap Index Fund	\$4,646,629	2.71%	31.03%
<i>Vanguard Spliced Mid Cap Index</i>			31.09%
BlackRock Small Cap Equity Fund	\$4,811,480	2.80%	32.12%
<i>Russell 2000 Index</i>			25.53%
INTERNATIONAL EQUITY COMPOSITE	\$43,377,488	25.25%	19.36%
<i>MSCI ACW ex-US Index (USD) (Net)</i>			21.51%

EuroPacific Growth Fund	\$22,051,632	12.84%	27.42%
<i>MSCI ACW Ex US Grth Index (USD) (Net)</i>			27.34%
Templeton Foreign Equity Fund	\$21,325,856	12.42%	11.57%
<i>MSCI ACW Ex US Val Index (USD) (Net)</i>			15.72%
DOMESTIC FIXED INCOME COMPOSITE	\$44,962,905	26.20%	8.75%
<i>Bloomberg US Aggregate Bond Index</i>			8.72%
FIAM Core Plus Bond Fund	\$20,013,719	11.67%	10.49%
Garcia Hamilton Core Bond Fund	\$19,957,635	11.62%	7.31%
<i>Bloomberg US Aggregate Bond Index</i>			8.72%
Western Asset Floating Rate Fund	\$4,991,552	2.91%	7.70%
<i>S&P/LSTA Performing Loans Index</i>			8.70%
EMERGING Markets Debt Composite	\$8,395,831	4.89%	12.57%
<i>EMD Blended Index</i>			13.59%
Ashmore Emerging Mkts Debt Fund	\$4,119,787	2.40%	9.77%
<i>Ashmore:Ems Tot Rtn Custom Index</i>			12.17%
BlueBay Emerging Mkts Debt Fund	\$4,276,044	2.49%	15.38%
<i>JPM Emg Mkts Gond Gbl Dvf'd Index (TR)</i>			15.04%
REAL ESTATE COMPOSITE	\$12,592,768	7.27%	-2.92%
UBS Trumbull Property Fund	\$12,592,768	7.27%	-2.92%
<i>NCREIF ODCE Index (AWA) (Net)</i>			4.39%
Cash Account	\$12,354	0.01%	
Total Fund	\$171,833,090	100.00%	18.08%
Policy Target			19.50%

Overall, the Trust returned 18.1% and lagged its Investment Policy benchmark by 1.4% in an extraordinarily strong market for both equity and fixed income investments. The two portfolios most lagging their benchmarks were International Equity Value and Direct Real Estate. In late 2019, the Commission worked with the investment

consultant (RVK) and the Finance Department to recommend two additional real estate managers with diversifying mandates. In 2020, these two new real estate managers are expected to receive initial funding in conjunction with receipt of the ML&P sale proceeds. Also, in 2020, the Commission intends to focus on individual money manager performance, including the International Equity Value portfolio manager whose performance lagged in 2019 and over the trailing three-year period.

In consideration of market forces, the Commission reiterates its belief that the core tenants of Investment Policy, diversification, and asset allocation remain the most effective strategy to achieve the long term investment goals of the Trust, while also mitigating risk and volatility within the portfolio.

The 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, was 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 portfolios of the MCP in consultation with independent investment advisor Callan. This review is based upon forecasted cash flows, including liquidity needs and projected issuance of Tax Anticipation Notes.

The returns below are reported gross of fees and are compared to each manager's respective benchmark. The Commission 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 \$193 million at December 31, 2019. 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 B of A Merrill Lynch 3-Month U.S. Treasury Bill Index. In calendar year 2019, the APCM Portfolio returned 2.58%, while its benchmark returned 2.28%.

Contingency Portfolio

This portfolio is managed by PNC Capital Advisors (PNC), and held assets in excess of \$93 million at December 31, 2019. 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 US Government/Credit Index. In calendar year 2019, the PNC Portfolio returned 4.35%, while its benchmark returned 4.03%.

Strategic Reserve Portfolio

This portfolio is managed by BlackRock, and held assets in excess of \$209 million at December 31, 2019. 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 US Government/Credit Index and 25% Bloomberg Barclays Intermediate US High Yield Total Return Index. BlackRock has discretion to invest up to 30% of this portfolio in high yield securities. In calendar year 2019, the BlackRock Portfolio returned 9.18%, while its benchmark returned of 8.56%.

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, 2019, the aggregate market value of these accounts was over \$131 million. Returns for each account vary and are influenced by the specific restrictions that apply. In 2019, returns for individual accounts ranged from 0.20% to 2.16%.

MCP Reporting

Effective April 1, 2019, the Municipality added Quarterly MCP Reporting to the contract with its independent investment advisor Callan. Outsourcing this reporting function to a qualified third party helps ensure independent and timely reporting, adds detailed peer-group comparisons and analysis not available in-house for MCP managers, and allows Public Finance Division staff to focus on our growing debt and investment management responsibilities.

Conclusion

The Commission reaffirms its commitment to the core tenants of the MOA Trust's current investment policy – namely diversity and fixed allocation guidelines that it believes will continue to serve the Trust well in the current economic environment. The Commission also reaffirms that the MCP and the Restricted/Internally Managed Portfolio are being managed in an appropriate manner consistent with investment parameters approved by the Assembly, and with an appropriate level of review and input by the Investment Advisory Commission.

This annual report was approved unanimously by the Commission at its May 12, 2020 regular meeting.

/Ty Schommer/, Chair
Investment Advisory Commission