



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

No. AIM 87-2021

Meeting Date: June 8, 2021

1 FROM: Mayor

2
3 SUBJECT: MOA Trust Fund Status – 2020 Year in Review

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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 May 14, 1999
14 from the net proceeds generated by the sale of the Anchorage Telephone Utility. The
15 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 The Trust received \$229.6 million of newly deposited from the Municipality Light & Power
22 (ML&P) sale proceeds on October 30, 2020. This increased the market value of the Trust
23 by approximately 2.5 times its previous value.

24
25 On three different occasions during 2020, a collective total of \$14.0 million in dividend
26 withdrawals were paid to the General Government Operating Budget in accordance with
27 the revised dividend calculation formula and timing cited in AMC 6.50.060. The timing of
28 these three withdrawals was spread out in order to reduce potential downside market
29 timing risk.

30
31 **Market Value**

32 The market value of the Trust at December 31, 2020 was \$418.0 million (Fund 730000,
33 unaudited, rounded) -- this represented a \$260.7 million increase over the prior year,
34 excluding payment of the annual dividend payment and Trust expenses. The trailing 5
35 years of calendar year-end market values for the Trust, as well as related annual dividend
36 payouts and calculated annual returns, are summarized as follows:

37

<u>Calendar Year</u>	<u>Market Value</u>	<u>Dividend Paid in Calendar Year</u>	<u>Annual Return</u>
2016	\$147.7 million	\$5.4 million	6.1%

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%

1
2 **2020 Performance (net of fees)**

3 In 2020, the Trust's domestic stock holdings produced a return of 17.14% as compared to
4 international stocks which returned 15.22%; domestic fixed income returned 6.90%;
5 international fixed income (i.e., Emerging Market Debt) returned 4.04%; and direct real
6 estate returned <4.78%>. The Trust experienced an overall 8.8% return (rounded) in
7 calendar year 2020 per calculation by the Trust's investment consultant (i.e., RVK, based
8 in Portland, Oregon). In 2020, the Trust underperformed its Investment Policy benchmark
9 return by 402 basis points (i.e., 4.02%), almost exclusively as a result of carrying high
10 levels of one-time cash in the two months following the ML&P sale close date. This higher
11 level of cash acted as a drag on the Trust's performance relative to its target allocation
12 index because of the extraordinary rise in the equity markets during the final two months
13 of 2020. The Trust followed its methodical plan to invest the ML&P sale proceeds in four
14 phases over a 6.5 week investment period.

15
16 In excluding the impact of the ML&P sale proceeds cash on the portfolio, the Trust
17 experienced a return of 12.1% (vs. 8.8% as listed above), slightly underperforming its
18 Investment Policy benchmark by 66 basis points. This underperformance is primarily due
19 to some intricacies with the Trust's chosen domestic large and mid-capitalization indices
20 underperforming the broad domestic market index, although poor benchmark relative
21 performance by UBS and Western Asset also contributed to the underperformance.

22
23 Other major Alaskan investment funds experienced the following positive returns in 2020:

- 24
25
 - Alaska Permanent Fund experienced a 12.15% return.
 - Alaska Retirement Mgmt. Board (PERS) experienced a 11.99% return
 - Anchorage Police/Fire Retirement System experienced a 11.97% return.

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27
28
29 In commenting on the Trust's 2020 performance our investment consultant, RVK, offered
30 the following:

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32 *In Q4, multiple fundamental developments reinforced market sentiment and kept*
33 *many investors positioned to add incremental risk despite the relatively weak*
34 *economic environment and ongoing global pandemic. Importantly, two closely*
35 *watched coronavirus vaccine trials from Pfizer/BioNTech and Moderna released*
36 *promising efficacy results leading to emergency use authorizations from the FDA,*
37 *allowing market participants to pull forward expectations for normalized economic*
38 *activity for much of the developed world in 2021. Investors also reacted favorably*
39 *to completed negotiations around new fiscal stimulus following the November US*
40 *elections, which culminated in a \$900B package being signed into law under a*

1 *larger omnibus spending bill. The package included new supplemental*
2 *unemployment benefits of \$300 per week for the 6.7% of unemployed Americans,*
3 *as well as another one-time round of stimulus checks in the amount of \$600 for*
4 *most individuals. Meanwhile, the Eurozone passed its own €750 billion stimulus*
5 *plan in December as part of a larger budget, backed by joint debt. Central banks,*
6 *the Federal Reserve (Fed) in particular, remained highly accommodative. The Fed*
7 *reiterated its commitment to maintain monthly asset purchases, currently at \$120*
8 *billion, and zero interest rates until significant progress is made toward its goal of*
9 *full employment.*

10
11 *Given the backdrop of supportive monetary and fiscal policies, risk assets posted*
12 *stellar returns during Q4. Broad equity market indices provided double-digit gains*
13 *as the S&P 500, MSCI ACWI Ex-US and MSCI EM Index returned 12.1%, 17.0%,*
14 *and 19.7%, respectively. The S&P 500 Forward Price-to-Earnings ratio ended the*
15 *quarter at 22.6, a valuation level last experienced during the dot-com era tech*
16 *bubble. At the same time, the CY2020 earnings of the S&P 500 fell an estimated*
17 *16% year-over-year according to preliminary data from FactSet. Non-US equities*
18 *were aided in part by a modest rotation toward cyclical and value stocks, as well as*
19 *a weaker dollar, which depreciated against a trade weighted basket of foreign*
20 *currencies. Commodities also benefited from the weaker dollar and an uptick in*
21 *inflation expectations with the 5Y/5Y forward breakeven inflation rate moving above*
22 *2.0% during Q4 for the first time since July 2019. Government bonds were the only*
23 *broad asset class to experience negative returns as increased inflation*
24 *expectations flowed through to modestly higher nominal interest rates.*

25
26 *Though financial markets have rebounded from the sharp drawdown in early 2020,*
27 *global economic activity remains well off its pre-pandemic peak. The World Bank*
28 *Global Economic Prospects report estimated that 2020 world GDP shrank by 4.3%*
29 *compared to a year earlier. Meanwhile, the Federal Reserve Open Market*
30 *Committee indicated that it does not anticipate raising the Federal Funds rate until*
31 *2023 or later, and market implied expectations for a rate hike are consistent with*
32 *that timeline. Considerable uncertainty remains with respect to the pace of*
33 *economic recovery going forward, though household balance sheets remain strong,*
34 *leaving room for optimism should the pandemic be brought under control.*

35
36 *The MOA Trust posted a total return of 8.8% in calendar year 2020 (net of fees),*
37 *although the portfolio underperformed its target policy index by 4.0%. The policy*
38 *index consists of market indices weighted in the same proportion as the Trust's*
39 *long-term asset allocation policy. Going into 2020, the Trust had outperformed the*
40 *policy index in 6 of the last 9 calendar years. Since inception in 1999, the Trust has*
41 *outperformed the target policy index by 4 basis points per year on average.*

42
43 *Underperformance compared to the target policy index at the Total Fund level in*
44 *2020 was almost exclusively driven by cash held in the portfolio following the ML&P*

1 *sale. The drag on performance was due to holding cash during a period when risk*
2 *assets were performing exceptionally well. Excluding cash, the Trust experienced*
3 *a return of 12.11%, slightly underperforming its Investment Policy benchmark by 66*
4 *basis points. This underperformance is primarily due to the Trust’s chosen domestic*
5 *large and mid-capitalization indices underperforming the broad domestic market*
6 *index, although poor performance by UBS and Western Asset also contributed to*
7 *the underperformance. Relative to other similar institutional investors, the Trust*
8 *trailed its peers in the 3-, 5-, and 7-year periods, ranking in the 84st, 72rd, and 63rd*
9 *percentiles, respectively. However, The Trust continues to outperform its peers*
10 *over the 10-year trailing period, ranking in the 42nd percentile. Prior to Q4 2020*
11 *when the ML&P proceeds cash drag took place, the Trust ranked 50th, 42nd, 39th,*
12 *and 30th relative to peers for the 3-, 5-, 7-, and 10-year trailing periods, respectively,*
13 *as of September 30, 2020.*

14
15 *In summary, we believe the Trust remains well diversified and is structured to*
16 *provide an appropriate long-term real return given the risk/return profile defined by*
17 *the strategic asset allocation target. The Trust’s balance between return-seeking,*
18 *income-producing, and preservation assets constitutes a sound investment*
19 *approach that is expected to produce competitive investment returns.*

20 21 **Inflation Proofing**

22 In April 2002, Anchorage voters approved by a 70% affirmative vote a new endowment
23 approach to be followed by the Trust, similar to the Percent of Market Value (POMV)
24 approach endorsed by the Alaska Permanent Fund Board. The endowment approach
25 adopted by voters limits the amount of annual dividend distribution from the Trust to no
26 more than 5% of the average market value of the Trust. In response to the severe 2008
27 market downturn the Assembly approved AO 2009-3, revising the annual dividend cap to
28 a lower rate of 4.00%; this was subsequently adjusted to 4.25% per AO 2016-127; and
29 then further revised to a long-term payout rate starting in 2021 of 4.50% per AO 2020-98.
30 The current adjusted payout limit is intended to keep pace with real return assumptions
31 (i.e., long-term expected return, “net” of long-term expected inflation).

32
33 AMC 6.50.060L states: *By March 15, 2007, and by the same date every fifth year*
34 *thereafter, the municipal treasurer shall review the controlled spending policy and*
35 *recommend adjustments, as necessary, to maintain the long-term purchasing power of the*
36 *MOA Trust Fund.*

37
38 Over the life of Trust, since October 1999, the Trust generated a 6.03% nominal return
39 which lagged its real rate of return target of 6.43% (i.e., 4.25% payout + 2.18% inflation
40 proofing) by 40 basis points, or 0.40%.

1 **Annual Dividend**

2 The Trust's annual dividend calculation methodology is governed under AMC 6.50.060
3 and was further amended in response to the ML&P sale in 2020 per AO 20200-98. In
4 years where excess returns are generated (i.e., over and above a 4.50% real rate of return)
5 these excess returns are retained to help support an inflation-proofed Trust so that the
6 purchasing power is protected over the long-term. Accumulated excess returns help offset
7 down years in the market.

8
9 **Investment Management**

10 As of December 31, 2020, the Trust employed nine money managers – i.e., Fidelity
11 Institutional Asset Management, Garcia Hamilton & Associates, Western Asset
12 Management, Ashmore, BlueBay Asset Management, Vanguard, BlackRock, Capital
13 Group and UBS Realty Investors. In 2020, the Trust continued to use RVK as its
14 investment consultant and Principal Trust & Custody (formerly Wells Fargo Institutional
15 Trust Services) as its custodial bank.

16
17 The Trust's target asset allocation at December 31, 2020, per the current Investment
18 Policy Statement (IPS), was 24% fixed income; 5% private credit (*to be newly invested in*
19 *2021*); 5% emerging market debt; 31% domestic equity; 22% international equity; and 13%
20 direct real estate (*allocated amongst one existing manager and two new managers; funds*
21 *to be newly invested with the two new managers in 2021*).

22
23 In 2021, the Finance Department along with the investment consultant (RVK) and
24 Investment Advisory Commission (IAC) intend to focus on the following areas:

25
26 (1) Placing investment with the new private credit manager and two new direct real
27 estate managers and beginning to monitor performance of these portfolios.

28
29 (2) Reviewing existing money managers' performance, asset allocation, risk levels and
30 expected return, and investment policy; and

31
32 (3) Receiving special presentations from specific money managers in the Trust's
33 lineup.

34
35 **Monitoring of Investment Fund Activities**

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

- 38
39 ➤ The Trust's investment consultant issues a quarterly report focused on the
40 performance of each of the Trust's money managers and frequently communicates
41 with the Municipal Treasurer regarding investment-related issues as they arise
42 throughout the course of the year.
43 ➤ The Municipal Treasurer, Chief Fiscal Officer and Investment Advisory Commission
44 meet quarterly to review Fund results.

1 **Current Year Market Conditions**
2

3 Year-to-Date (YTD) returns through First Quarter 2021 were positive for equities.
4 Specifically, Large Cap domestic equities as measured by the S&P 500 index returned
5 6.18% and broad international equities as measured by the MSCI All Country World Ex-
6 U.S. index returned 3.49%. Domestic investment grade fixed income as measured by the
7 Bloomberg U.S. Aggregate Bond index experienced a negative return of <3.37%>.
8

9 Through April 2021 Large Cap domestic equities experienced YTD return of 11.83%.
10 During this same time period, broad international equities returned 6.54% and domestic
11 investment grade fixed income returned <2.61%>. The market value of the Trust as of
12 May 18, 2021 was approximately \$422.3 million, which reflected approximately a 4.6%
13 YTD return after adjusting for cash flow effects. Approximately 80% of the 2021 budgeted
14 dividend from the Trust has been paid year-to-date in tranches during late January and
15 mid-May 2021.
16

17 Market and economic conditions change frequently and results can vary dramatically,
18 positively or negatively, from one period to the next. A long-term view and adherence to
19 investment principles and guidelines are necessary to help ensure the Trust meets its long-
20 term objectives of:
21

- 22 • Maintaining the purchasing power of the Trust; and
- 23 • Maximizing rates of return over time without taking undue risk.
24

25 **Additional information**

26 For additional information about the MOA Trust Fund or the endowment model please visit
27 the Trust's website at www.muni.org/moatrust for RVK's December 31, 2020 performance
28 report as well as executive summary charts and graphs for Fourth Quarter 2020 which were
29 prepared by the Treasury Division. Comparable performance reports for the most recent
30 quarter end (March 31, 2021) have also been posted to the website.
31

32 Prepared by: Daniel Moore, Municipal Treasurer

33 Concurrence: Alexander Slivka, CFO

34 Concurrence: Anna C. Henderson, Municipal Manager

35 Respectfully submitted: Austin Quinn-Davidson, Acting Mayor