



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

AIM 108-2022

Municipal Clerk's Office

Accepted

Date: **June 21, 2022**

Meeting Date: June 21, 2022

1 **FROM: MAYOR**

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3 **SUBJECT: INVESTMENT ADVISORY COMMISSION ANNUAL REPORT- 2021**
4 **YEAR IN REVIEW.**

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7 The ordinance that created the Investment Advisory Commission (AO 95-46)
8 requires that the Commission report annually to the Mayor and the Assembly.

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10 Attached to this AIM is the Investment Advisory Commission Annual Report.

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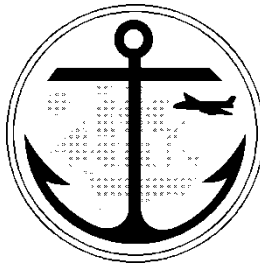
13 Prepared by: Daniel Moore, Municipal Treasurer

14 Concurrence: Travis C. Frisk, CFO

15 Concurrence: Amy Demboski, Municipal Manager

16 Respectfully submitted: Dave Bronson, Mayor

Municipality Of Anchorage



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Dave Bronson, Mayor

INVESTMENT ADVISORY COMMISSION

June 21, 2022

Mayor Dave Bronson
Municipal Assembly
Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519

RE: Investment Advisory Commission Annual Report – 2021

Dear Mayor Bronson and Assembly Members:

The Investment Advisory Commission (“IAC”) is charged under enabling ordinance AO No. 95-46 to act in a non-fiduciary advisory capacity to the Administration and the Assembly on matters related to the investment of municipal funds, including the Municipality of Anchorage (“MOA”) Trust Fund (“Trust”) and the Municipal Cash Pool (“MCP”). AO 95-46 further requires that the Investment Advisory Commission report annually to the Mayor and the Assembly. The Annual Report for 2021 follows:

MOA TRUST FUND HISTORY AND LONG-TERM RESULTS

For purposes of this section of the report, all information provided is limited to activities associated with the Municipal Trust, only. Although a portion of the ATU sale proceeds and the Police and Fire Retirement Settlement were deposited into a legally separate Trust Reserve Fund (“Reserve”), the Reserve was fully expended and terminated by action of the Municipal Assembly in 2003. The Reserve was closed/extinguished/spent almost 20 years ago and has not been part of the oversight of the IAC since that time.

The MOA Trust Fund was established in May 1999. It was created in accordance with Anchorage Municipal Charter, section 13.11, after Anchorage voters approved the sale of the Anchorage Telephone Utility (ATU). The Trust was initially funded with a deposit of \$101.7 million from ATU net sale proceeds. Since the initial deposit in 1999; \$20.0 million from the Police & Fire Retirement Settlement was deposited in 2000, \$229.8 million from the sale of ML&P was deposited in 2020 and 2021, and \$5.9 million from four smaller sources were designated by the Assembly for deposit between 2000 and 2014. As of December 31, 2021, a total of \$357.4 million has been deposited into the Trust.

Between its inception in 1999 and December 31, 2021, the Trust generated investment earnings of \$262.2 million, an annualized compound return of 6.27%. During this same period, the dividend payout rate of the Trust varied between 4% and 5%, resulting in total cash dividends paid to the MOA of \$171.7 million.

The market value of the Trust as of December 31, 2021 was approximately \$447.9 million. This exceeded the nominal amount of Trust deposits since inception by \$90.5 million, but it was \$9.8 million less than the inflation

adjusted value of those same deposits. According to calculations performed by the Trust Investment Consultant, the inflation adjusted value of the nominal deposits as of December 31, 2021 was \$457.7 million. The inflation adjusted value of the Trust deposits reflects the purchasing power of the Trust.

AMC 6.50.060 provides that the Controlled Spending Policy of the Trust shall be reviewed every five years and adjustments recommended, as necessary, to maintain the long-term purchasing power of the Trust. The IAC views its participation in the timely review and adjustment to the Trust Investment and Controlled Spending Policy as one of its most important functions. The IAC began working with the MOA Treasurer and the Trust Investment Consultant during the second half of 2021 to review and provide recommendations regarding these key policies. On February 3, 2022, the IAC adopted its own Resolution recommending the Trust payout rate be limited to no more than 4% during the next five-year period. This resolution was transmitted to the Assembly through AIM 35-2022 and accepted by the Assembly at its March 1, 2022 regular meeting.

2021 TRUST RESULTS

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

The Commission believes the Investment Policy Statement adopted for management of the Trust during 2021 was fundamentally prudent and appropriate given the investment horizon and earning objectives of the Trust. The Investment Policy was based on modern portfolio theory to maximize expected returns while keeping risks within acceptable levels. Investable assets are allocated to a diversified mix of differentiated asset classes defined in the Investment Policy. The Policy was developed under the leadership of the MOA Treasurer with expert advice and guidance provided by the Trust's Investment Consultant. The policy is executed by the MOA Treasurer with support from the Trust's Investment Consultant. All investments are managed by external portfolio managers. The IAC participates in regular quarterly meetings. The primary focus of the meetings is to review the performance of external investment managers, ask questions and provide input and recommendations to the Treasurer. During 2021, the IAC also held a number of special meetings for educational purposes and to conduct business when circumstances or timing required it. All meetings in 2021 were conducted virtually due to COVID-19.

Overall, the Trust investments performed well during 2021. On an absolute basis, Trust investments returned a combined 11.4% in 2021. Domestic equity and real estate were both strong absolute performers. On a relative basis, the Trust underperformed slightly (0.2%) compared to its policy benchmark of 11.6%. The policy benchmark is comprised of market indices weighted in the same proportion as the Trust's asset allocation policy. Domestic equity and fixed income both outperformed their benchmarks, while international equity, emerging markets debt and real estate underperformed relative to their policy benchmarks.

The market value of the Trust Fund portfolio as of December 31, 2021 was approximately \$447.9 million, compared to a market value of \$418.0 million one year earlier. During 2021, the Trust dividend payout to the MOA was \$18.8 million, compared to the 2020 payout of \$14.0 million. All portfolio returns for the Trust cited in this report are shown net of fees.

As per the Investment Policy Statement, the asset allocation for the Trust in 2021 covered four broad asset classes, namely: Domestic Equity, International Equity, Fixed Income, and Real Estate. These asset classes were managed by eleven individual managers, each tasked with a specific mandate for their respective asset class. The portfolio market value at year-end for each distinct asset class, percentage of total portfolio, annual return for 2021, and corresponding benchmark return as calculated by RVK, were as follows:

	<u>Market Value</u>	<u>Percent of Portfolio</u>	<u>2021 Return</u>
DOMESTIC EQUITY COMPOSITE	\$139,033,870	31.04%	27.79%
<i>Russell 3000 Index</i>			25.66%
INTERNATIONAL EQUITY COMPOSITE	\$101,140,332	22.58%	5.82%
<i>MSCI ACW ex-US Index (USD) (Net)</i>			7.82%
FIXED INCOME COMPOSITE	\$105,414,891	23.54%	(0.07%)
<i>Bloomberg US Aggregate Bond Index</i>			(1.55%)
PRIVATE CREDIT	\$20,954,768	4.68%	N/A
<i>CS Leveraged Loan Index + 2%</i>			N/A
EMERGING MARKETS DEBT COMPOSITE	\$21,823,157	4.87%	(6.44%)
<i>EMD Blended Index</i>			(2.83%)
REAL ESTATE COMPOSITE	\$59,295,139	13.24%	17.92%
<i>NCREIF ODCE Index (AWA) (Net)</i>			21.02%
CASH ACCOUNT	\$238,947	0.05%	
TOTAL TRUST	\$447,901,104	100.00%	11.37%
<i>Policy Target</i>			11.55%

In 2022, the IAC intends to focus on individual investment manager performance, including the new real estate managers and private credit manager added during 2021. The IAC also plans to work with the Municipal Treasurer and the Trust’s Investment Consultant to assess the impact of geopolitical events on the Trust’s Investment Policy and the need for any policy changes. Finally, and as appropriate, the IAC expects to serve as a resource to the Administration and Assembly in their review of the Trust’s governance structure and role of the IAC.

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, were managed in-house 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 based on forecasted cash flows, including liquidity needs and projected issuance of Tax Anticipation Notes.

The returns below are reported net of investment management fees and are compared to each manager's respective benchmark. The IAC 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 \$198 million at December 31, 2021. 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 ICE BofA 3-Month U.S. Treasury Bill Index. In calendar year 2021, the APCM Portfolio returned 0.08% net of investment management fees, while its benchmark returned 0.05%.

CONTINGENCY PORTFOLIO

This portfolio is managed by PNC Capital Advisors (PNC), and held assets in excess of \$75 million at December 31, 2021. 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 U.S. Government/Credit Index. In calendar year 2021, the PNC Portfolio returned (0.60%) net of investment management fees, while its benchmark returned (0.47%).

STRATEGIC RESERVE PORTFOLIO

This portfolio is managed by BlackRock, and held assets in excess of \$182 million at December 31, 2021. 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 U.S. Government/Credit Index and 25% Bloomberg Barclays Intermediate U.S. High Yield Total Return Index. BlackRock has discretion to invest up to 30% of this portfolio in high yield securities. In calendar year 2021, the BlackRock Portfolio returned 0.00% net of investment management fees, while its benchmark returned of 0.14%.

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, 2021, the aggregate market value of these accounts was in excess of \$110 million. Returns for each account vary and are influenced by the specific restrictions that apply. In 2021, returns for individual accounts ranged from 0.01% to 0.73%.

CONCLUSION

The Investment Advisory Commission affirms its support of the core tenants of the Trust’s investment policy – namely, that diversification and asset allocation remain the most effective strategy to achieve the long-term investment goals of the Trust. The IAC also affirms that the Municipal Treasurer, with support from the Trust’s Investment Advisor, are managing the Trust in a prudent and appropriate manner consistent with the Trust’s Investment and Controlled Spending Policies. Regarding the MCP and the Restricted/Internally Managed Portfolio, the IAC affirms that they are being managed by the Municipal Public Finance staff with assistance from the MCP Investment Consultant in a prudent and appropriate manner consistent with investment parameters outlined in AMC 6.50.030.

This annual report was approved unanimously by the Commission at its May 11, 2022 regular meeting.

Respectfully submitted,

/Jeffrey Sinz/, Chair
Investment Advisory Commission