



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

No. AIM 78-2020

Meeting Date: June 2, 2020

Municipal Clerk's Office

Accepted

Date: **June 2, 2020**

1 **FROM:** Mayor

2
3 **SUBJECT:** MOA Trust Fund Status – 2019 Year in Review

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5
6 This information memorandum is intended to meet Anchorage Municipal Code (AMC)
7 6.50.060K which requires a report on the performance of the MOA Trust Fund's
8 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 No new deposits were made to the Trust in 2019.

22
23 On two different occasions during 2019, a collective total of \$6.5 million in dividend
24 withdrawals were made to fulfill the 2019 budget expectation. The timing of these two
25 withdrawals was spread out and managed in order to reduce potential downside market
26 timing risk.

27
28 Per its definition in AMC 6.50.060, the *annual dividend* is subject to the controlled spending
29 policy and shall be paid no later than 15 days prior to the end of the fiscal year. The current
30 authorized payout rate cited in AMC is 4.25% and this percentage figure was applied to
31 the average of the trailing 20 quarters of market values marked at March 31, 2019, to
32 determine the final 2019 dividend payout amount.

33
34 **Market Value**

35 The market value of the Trust at December 31, 2019 was \$171.8 million (Fund 730000,
36 unaudited, rounded) -- this represented a \$26.9 million increase over the prior year,
37 excluding payment of the annual dividend payment and Trust expenses. The trailing 5

1 | years of calendar year-end market values for the Trust, as well as related annual dividend
2 | payouts and calculated annual returns, are summarized as follows:
3 |

<u>Calendar Year</u>	<u>Market Value</u>	<u>Dividend Paid in Calendar Year</u>	<u>Annual Return</u>
2015	\$144.8 million	\$5.2 million	0.8%
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%

4 |
5 | **2019 Performance (net of fees)**

6 | In 2019, the Trust's domestic stock holdings produced a return of 31.54% as compared to
7 | international stocks which returned 19.36%; domestic fixed income returned 8.75%;
8 | international fixed income (i.e., Emerging Market Debt) returned 12.57%; and direct real
9 | estate returned <2.92%>. The Trust experienced an overall 18.1% return (rounded) in
10 | calendar year 2019 per calculation by the Trust's investment consultant (i.e., RVK, based
11 | in Portland, Oregon). In 2019, the Trust underperformed its Investment Policy benchmark
12 | return by 142 basis points (i.e., 1.42%).
13 |

14 | Other major Alaskan investment funds experienced the following positive returns in 2019:

- 15 |
- 16 | • Alaska Permanent Fund experienced a 15.71% return.
- 17 | • Alaska Retirement Mgmt. Board (PERS) experienced a 17.34% return
- 18 | • Anchorage Police/Fire Retirement System experienced a 20.1% return.
- 19 |

20 | In commenting on the Trust's 2019 performance our investment consultant, RVK, offered
21 | the following:
22 |

23 | *The fourth quarter of 2019 was a strong period for global equity markets, with*
24 | *representative US, developed non-US, and emerging market indexes each*
25 | *substantially adding to gains realized earlier in the year. Emerging markets led with*
26 | *returns of 11.8%, while US markets added 9.1% to calendar year returns. Credit*
27 | *markets also finished in positive territory, as supportive financial conditions and a*
28 | *general risk-on market sentiment drove spreads to tighten across the quality*
29 | *spectrum. The only major asset class to struggle in Q4 was long duration*
30 | *government bonds, although the losses sustained were minimal in the context of a*
31 | *very strong year that saw yields fall considerably on longer maturity debt.*
32 |

33 | *Full-year gains for the S&P 500 Index finished at 31.5%, though performance did*
34 | *not appear to derive meaningfully from earnings growth. Rather, valuations, defined*
35 | *by the 12-month forward P/E ratio, climbed throughout 2019. Forward P/E ratios*
36 | *began the year roughly in line with their 10-year average of 14.9, but finished at*

1 18.3, while year-over-year earnings growth estimates were roughly flat. Valuations
2 in this range are among the highest seen during the post-crisis economic
3 expansion, only historically surpassed to a significant degree during the early 2000s
4 tech bubble.

5
6 *Falling discount rates drove valuations and performance for US equities during the*
7 *first half of the year, but increases in Q4 appeared more directly tied to optimism*
8 *around international trade. Bilateral negotiations between the US and China*
9 *resulted in an announced “Phase One” trade agreement, including a partial rollback*
10 *of tariffs, which de-escalated trade tensions to a degree. Markets reacted positively*
11 *to speculation around the prospects of this agreement throughout the quarter with*
12 *much tied to its successful implementation. The most recent World Bank Global*
13 *Economic Prospects report cited weakness in global trade and investment as key*
14 *factors contributing to the global growth slowdown realized in 2019—much of it*
15 *directly related to trade tensions between the US and China. The report found that*
16 *2019 global GDP growth forecasts fell by 0.2% from June’s estimate to 2.4%.*
17 *Emerging market economies, the traditional engine for global growth, saw 2019*
18 *growth estimates fall 0.5% over the prior period, to 3.5%.*

19
20 *US economic data released during Q4 was generally positive—although softness*
21 *remains in some key sectors, such as manufacturing. By December, the Institute*
22 *for Supply Management (ISM) Purchasing Managers Index (PMI) was below 50 for*
23 *the 5th straight month, indicating contraction in the manufacturing sector. However,*
24 *job growth in the US continues to be positive, with monthly non-farm payrolls*
25 *expanding by an average of 184,000 per month during Q4 and the unemployment*
26 *rate finishing the year at 3.5%. The US remains a bright spot for growth in*
27 *developed economies, while much of Europe and Japan continue to struggle.*
28 *Global central banks remain accommodative, though the market expects little*
29 *additional help from the Federal Reserve in 2020. During its most recent meeting,*
30 *the Federal Reserve Open Market Committee (FOMC) did not forecast any*
31 *additional rate cuts in 2020.*

32
33 *The MOA Trust posted a total return of 18.1% in calendar year 2019, the best single*
34 *calendar year return since 2009 coming out of the Global Financial Crisis. The*
35 *portfolio did modestly underperform its target policy index by 1.42%. The policy*
36 *index consists of market indices weighted in the same proportion as the Trust’s*
37 *long-term asset allocation policy. Going into 2019, the Trust had outperformed the*
38 *policy index in 6 of the last 8 calendar years. Since inception in 1999, the Trust has*
39 *outperformed the target policy index by 23 basis points per year on average.*

40
41 *Underperformance compared to the target policy index at the Total Fund level in*
42 *2019 was driven by three primary factors, in order: 1) The Trust’s Real Estate*
43 *manager UBS Trumbull Property Fund experiencing some write downs in the*
44 *valuations of the properties they owned in the Retail sector, 2) underperformance*

1 *relative to the index from one of the two international equity managers, Templeton,*
2 *and 3) a slight underweight relative to target going into 2019 to the year's top*
3 *performing asset classes, public equity, as a result of the drawdown in Q4 of 2018.*
4 *In the US equity portfolio, large- and mid-cap funds are passively managed, while*
5 *the active small cap manager Blackrock Small Cap Core fund outperformed its*
6 *index by 6.59%. As reported for 2018, The Trust continues to exceed its long-term*
7 *return objective of inflation plus 4.25%. Relative to other similar institutional*
8 *investors, the Trust significantly outperformed its peers in the longer term 3-, 5-, 7-*
9 *and 10-year periods, ranking in the 31st, 33rd, 37th, and 28th percentiles,*
10 *respectively.*

11
12 *In summary, we believe the Trust remains well diversified and is structured to*
13 *provide an appropriate long-term real return given the risk/return profile defined by*
14 *the strategic asset allocation target. The Trust's balance between return-seeking,*
15 *income-producing, and preservation assets constitutes a sound investment*
16 *approach that is expected to produce competitive investment returns.*

17 18 **Inflation Proofing**

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

29
30 AMC 6.50.060L states: *By March 15, 2007, and by the same date every fifth year*
31 *thereafter, the municipal treasurer shall review the controlled spending policy and*
32 *recommend adjustments, as necessary, to maintain the long-term purchasing power of the*
33 *MOA Trust Fund.*

34
35 The first scheduled analysis of inflation proofing for the Trust occurred in 2007 and found
36 the Trust to be in compliance at that time with inflation-proofing expectations. An updated
37 analysis of the Trust's inflation-proofing status in April 2019 projected that the Trust could
38 be fully recovered within seven years (not counting the positive impact of anticipated ML&P
39 sale proceeds). Over the life of Trust, since October 1999, the Trust generated a 5.90%
40 nominal return which lagged its real rate of return target of 6.37% (i.e., 4.25% payout +
41 2.12% inflation proofing) by 47 basis points, or 0.47%.

1 **Annual Dividend**

2 Assuming receipt of ML&P sale proceeds later in 2020, the budgeted dividend was initially
3 set at \$10.2 million, half of which was paid out in mid-January 2020. In conjunction with
4 the ML&P sale in 2020, the annual dividend payout methodology is expected to be revised
5 in Municipal Code and the amount of the annual dividend is consequently expected to
6 further adjusted.
7

8 In years where excess returns are generated (i.e., over and above a 4.25% real rate of
9 return) these retained excess returns help to re-establish an inflation-proofed Trust so that
10 the purchasing power can be restored and/or protected over the long-term. Accumulated
11 excess returns also help offset down years in the market.
12

13 **Investment Management**

14 As of December 31, 2019, the Trust employed ten money managers – i.e., Fidelity
15 Institutional Asset Management, Garcia Hamilton & Associates, Western Asset
16 Management, Ashmore, BlueBay Asset Management, Vanguard, BlackRock, Capital
17 Group, Franklin Templeton and UBS Realty Investors. In 2019, the Trust continued to use
18 RVK as its investment consultant and Wells Fargo Institutional Trust Services as its
19 custodial bank. Wells Fargo's custodian business was purchased by Principal Financial
20 Group in 2019, however the platform and service contract terms have been kept intact.
21

22 The Trust's target asset allocation at December 31, 2019, per the current Investment
23 Policy Statement (IPS), was 23% fixed income; 3% floating rate short duration debt; 5%
24 emerging market debt; 36.5% domestic equity; 25% international equity; and 7.5% direct
25 real estate.
26

27 In 2019, two additional real estate managers were chosen to further diversity the direct
28 real estate holdings. Full implementation of these two new real estate portfolios is not
29 expected until all the proceeds from the ML&P sale have been received later in 2020.
30

31 In 2020, the Finance Department along with the investment consultant (RVK) and
32 Investment Advisory Commission (IAC) intend to focus on the following areas:
33

34 **(1)** Proposing changes to investment authority and dividend payout formula and
35 presenting these proposed changes to the Municipal Assembly by early summer 2020;
36

37 **(2)** Implementing plan to invest newly received proceeds from ML&P sale after closing;
38

39 **(3)** Placing investment with the two newly selected direct real estate managers using
40 a portion of the proceeds from the ML&P sale.
41

42 **(4)** Formally rebalancing the Trust in accordance with revised Investment Policy and
43 revised Municipal Code, in conjunction with receipt of ML&P sale proceeds.
44

1 (5) Reviewing existing money managers' performance, asset allocation, risk levels and
2 expected return, and investment policy in light of significant downturn in stock market
3 caused by Coronavirus (COVID-19); and
4

5 (6) Receiving special presentations from specific money managers in the Trust's
6 lineup.
7

8 **Monitoring of Investment Fund Activities**

9 The performance of the Trust is continuously monitored to ensure compliance with the
10 Investment Policy Statement and to track performance:
11

- 12 ➤ The Trust's investment consultant issues a quarterly report focused on the
13 performance of each of the Trust's money managers and frequently communicates
14 with the Municipal Treasurer regarding investment-related issues as they arise
15 throughout the course of the year.
16
17 ➤ The Municipal Treasurer, Chief Fiscal Officer and Investment Advisory Commission
18 meet quarterly to review Fund results.
19

20 **Current Year Market Conditions**

21
22 Year-to-Date (YTD) returns through First Quarter 2020 were severely negative for equities
23 due to the Coronavirus (COVID-19). Specifically, Large Cap domestic equities as
24 measured by the S&P 500 index returned <19.60%> and broad international equities as
25 measured by the MSCI All Country World Ex-U.S. index returned <23.36%>. Domestic
26 investment grade fixed income as measured by the Bloomberg U.S. Aggregate Bond index
27 experienced a positive return of 3.15%.
28

29 Through April 2020 Large Cap domestic equities experienced YTD return of <9.30%>.
30 During this same time period, broad international equities returned <17.55%> and
31 domestic investment grade fixed income returned 4.98%. The market value of the Trust
32 as of May 14, 2020 was approximately \$150.7 million, which reflected approximately a
33 <9.4%> YTD return after adjusting for cash flow effects. As previously referenced, half of
34 the 2020 budgeted dividend from the Trust was paid in mid-January 2020, prior to the
35 market crash caused by the Coronavirus (COVID-19).
36

37 Market and economic conditions change frequently and results can vary dramatically,
38 positively or negatively, from one period to the next. A long-term view and adherence to
39 investment principles and guidelines are necessary to help ensure the Trust meets its long-
40 term objectives of:
41

- 42 • Maintaining the purchasing power of the Trust; and
43 • Maximizing rates of return over time without taking undue risk.
44

1 | **Additional information**

2 | For additional information about the MOA Trust Fund or the endowment model please visit
3 | the Trust's website at www.muni.org/moatrust for RVK's December 31, 2019 performance
4 | report as well as executive summary charts and graphs for Fourth Quarter 2019 which were
5 | prepared by the Treasury Division. Comparable performance reports for the most recent
6 | quarter end (March 31, 2020) have also been posted to the website.

7 |
8 | Prepared by: Daniel Moore, Municipal Treasurer

9 | Concurrence: Alexander Slivka, CFO

10 | Concurrence: William D. Falsey, Municipal Manager

11 | Respectfully submitted: Ethan A. Berkowitz, Mayor