MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

Municipal Clerk's Office
Accepted
Date: June 4, 2019

AIM 76-2019

Meeting Date: June 4, 2019

FROM: Mayor

SUBJECT: Investment Advisory Commission Annual Report – 2018 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 4, 2019

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

RE: Investment Advisory Commission Annual Report – 2018 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 2018 for the Trust represented a prudent investment policy which the Commission viewed as appropriate for the capital markets environment. This policy was reviewed and updated in 2018. In 2019, the Commission intends to explore, with the investment consultant, various private market strategies such as direct real estate, private credit, and private equity in anticipation of a significantly larger portfolio after the ML&P sale. 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, $132.4 million in annual dividends have been paid to the MOA as return on investment. Including the bond defeasance, just over $147.5 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.

The projected dividend to be paid to the MOA from the Trust in 2019 is $6.5 million based on AO No. 2016-127. The spending policy was changed from 4% 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.

2018 RESULTS

The market value of the Trust Fund portfolio on 12/31/18 was $151.4 million (before net effect of year-end accruals) compared to the 12/31/2017market value of $165.0 million. There were no additional deposits to the fund in 2018 and the total dividend withdrawal for the calendar year ended 12/31/2018 was $6.3 million. All portfolio returns for the Trust cited in this report are shown net of fees. The Trust experienced an overall return of <4.49%> in calendar year 2018 (results per RVK). This return exceeded the target policy index by 0.43%. 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 <4.92%> for 2018.

As per the Investment Policy Statement, the asset allocation for the Trust in 2018 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 2018, and corresponding bench mark returns as calculated by RVK, were as follows:

	Market Value	Percent of Portfolio	2018 Return
DOMESTIC EQUITY COMPOSITE	**$ 50,787,060**	**33.54%**	**-4.88%**
Russell 3000 Index			-5.24%
Vanguard Institutional Index Fund	**$ 43,538,484**	**28.75%**	**-4.42%**
S&P 500 Index (Cap Wtd)			-4.38%
Vanguard Mid Cap Index Fund	**$ 3,759,510**	**2.48%**	**-9.23%**
Vanguard Spliced Mid Cap Index			*-9.22%*
BlackRock Small Cap Equity Fund	**$ 3,489,066**	**2.30%**	**-8.83%**
Russell 2000 Index			-11.01%
INTERNATIONAL EQUITY COMPOSITE	**$ 36,080,738**	**23.83%**	**-14.87%**
MSCI ACW Ex US Index (USD) (Net)			-14.20%
EuroPacific Growth Fund	$ 18,092,850	11.95%	-14.91%
MSCI ACW Ex US Grth Index (USD) (Net)			-14.43%
Templeton Foreign Equity Fund	$ 17,987,888	11.88%	-14.87%
MSCI ACW Ex US Val Index (USD) (Net)			-13.97%

DOMESTIC FIXED INCOME COMPOSITE	**$ 43,300,747**	**28.59%**	**0.11%**
Bloomberg US Aggregate Bond Index			-0.01%
FIAM Core Plus Bond Fund	$ 19,091,542	12.61%	**-0.54%**
Garcia Hamilton Core Bond Fund	$ 19,189,574	12.67%	**N/A**
Bloomberg US Aggregate Bond Index			0.01%
Western Asset Floating Rate Fund	$ 5,019,631	3.31%	**-0.08%**
S&P/LSTA Performing Loans Index			0.60%
EMERGING Markets Debt Composite	**$ 8,386,686**	**5.54%**	**N/A**
EMD Blended Index			**N/A**
Ashmore Emerging Mkts Debt Fund	$ 4,185,415	2.76%	**N/A**
Ashmore EMD Custom Index			-2.54%
BlueBay Emerging Mkts Debt Fund	$ 4,201,271	2.77%	**N/A**
BlueBay EMD Custom Index			-5.15%
REAL ESTATE COMPOSITE	**$ 12,854,384**	**8.49%**	**6.04%**
UBS Trumbull Property Fund	$ 12,854,384	8.49%	6.04%
NCREIF ODCE Index (AWA) (Net)			7.36%
Cash Account	**$ 20,101**	**0.01%**	
Total Fund	**$151,429,716**	**100.00%**	**-4.49%**
Policy Target			**-4.92%**

Overall, the Trust returned <4.49%> outperforming its Investment Policy benchmark by 0.43% in what proved to be a very difficult market for equity investments in general. Equity returns for the year were uniformly negative, with non-US markets doing worse than the US market. The US market fell <5.2%>, while the Emerging Markets fell <14.5%> for 2018. Fixed income investments also posted negative returns, albeit smaller in magnitude compared to equity markets. Real estate was the only asset class with consistently positive returns in 2018. The diversification strategy of global equities, fixed income, and real estate provided stability in a volatile year.

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 late October 2006, the Assembly passed AO 2006-145 which broadened the investment parameters available for investment of the Municipality's general cash pool. Prior to this time the general cash pool was managed in-house with a 90-day Treasury and Agency strategy. In early 2007, the Commission participated in the process which redefined the investment strategy and created the Municipal Cash Pool ("MCP"), a subset of the general cash pool. The Commission also participated in the selection of external money managers for the MCP to invest cash on behalf of General Government, Municipal Utilities and the Anchorage School District. On June 1, 2007, the Municipality initiated the new MCP structure, which is comprised of three Portfolios of fixed income securities, each with a separate manager, targeted duration, and respective benchmark and together these three Portfolios hold the majority of funds in the general cash pool. Each year the Public Finance and Investments Division staff performs a rebalancing evaluation of the three Portfolios of the MCP in consultation with Callan LLC. This review is based upon forecasted cash flows, liquidity needs and projected issuance of Tax Anticipation Notes.

The return numbers reported below for 2018 are gross of fees and are compared to the respective benchmarks. Return gross of fees is the most appropriate comparison on how the manager is performing. While returns are reported gross of fees, the Commission periodically reviews manager fees against appropriate peer groups for reasonableness.

Strategic Reserve Portfolio This Portfolio is managed by BlackRock, and at year end, had assets of approximately $192 million. This Portfolio is the longest duration Portfolio of the MCP. The intent is that this Portfolio would be the last one tapped in the event of required liquidity. The benchmark is a composite of 75% Bloomberg Barclays Intermediate US Government/Credit Index and 25% Bloomberg Barclays Intermediate US High Yield Total Return Index. Blackrock may invest up to 30% of the Portfolio into High Yield securities. For calendar 2018, the Portfolio returned -0.04% versus the blended benchmark return of 0.25%.

Contingency Portfolio This Portfolio is a Core Short Term Duration Portfolio that is currently managed by PNC Capital Advisors (PNC). The Portfolio at year end held approximately $89 million. This Portfolio is the middle duration Portfolio of the MCP. The intent of this Portfolio is to provide liquidity should the Working Capital Portfolio be depleted. PNC competes against the Bloomberg Barclays 1-3 Year US Government/Credit Index. For calendar year 2018, the Portfolio returned 1.70% versus the benchmark return of 1.60%.

Working Capital Portfolio This Portfolio is used for day to day cash flow and liquidity and is managed by Alaska Permanent Capital. Assets at year-end in this Portfolio were approximately $230 million. The benchmark for this portfolio is the BofA Merrill Lynch 3-Month U.S. Treasury Bill Index. For calendar year 2018, the Portfolio returned 1.85% versus the benchmark return of 1.87%.

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 funds, bond proceeds, debt service reserves, utility receipts restricted by regulatory orders, certain Anchorage School District funds, and Restricted Municipal Funds. These accounts are managed primarily for safety and liquidity rather than return. As of December 31, 2018, the aggregate market value of these accounts was $76,728,192. Returns for each account vary and are influenced by the specific restrictions that apply. Returns in 2018 ranged from 0.13% to 1.96%. The Public Finance and Investments Division staff regularly consults with Callan LLC, its independent investment advisor for the MCP, to ensure its investment management practices follow Best Practices.

MCP Reporting

Effective April 1, 2018, the Municipality added Quarterly MCP Reporting to the contract with its independent investment advisor Callan LLC. Outsourcing this reporting function to a qualified third party helps ensure independent and timely reporting consistent with Best Practices. It also frees up valuable Public Finance Division staff resources to focus on its 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 8, 2019 regular meeting.

/John Nofsinger, Ph.D./, Chair
Investment Advisory Commission