

City of Fairbanks
Permanent Fund Review Board
(Quarterly Meeting Minutes)
January 23, 2017

The Permanent Fund Review Board (PFRB) convened at 3:30 P.M. on the above date in the Council Chambers to conduct a quarterly meeting with the following board members in attendance.

Board Members Present: Council Member Valerie Therrien
Jennifer Imus
Jeff Johnson
Dave Owen

Board Members Absent: Patty Mongold

Also Present: Carmen Randle, Chief Financial Officer
Bernard Gatewood, Former Council Member
Mike Meeks, Chief of Staff
Jason Roth, Senior Vice President, Investments – APCM
Brandy Niclai, Chief Investment Officer-APCM

Dave motioned and Jeff seconded to approve the October 19, 2016 minutes and the board unanimously agreed.

Carmen reviewed the account's performance through December 31, 2016:

- \$119,265,903 - December 31, 2016 balance including accrued income
- \$ 3,759,569 - Dividend and interest earnings
- \$ 456,690 - Realized gain
- \$ 3,084,825 - Unrealized gains
- \$ 150,000 - Management and custodial fees
- \$ 7,171,923 - 2016 Earnings - net of expenses

Carmen reported the City deposits into the Permanent Fund consist of the \$501,427 transfer from the City's General Fund, the GHU lease payment for \$396,900, sale of City real property for \$40,950 and receipt on outstanding G2 and G3 notes of \$30,747.

The 2017 draw is expected to be made in December 2017. The budgeted appropriations to the general and capital funds are shown below, respectively:

- 2016 \$4,469,551 and \$558,694
- 2017 \$4,672,448 and \$584,056

Reported Performance							
4th Quarter		Year to Date		Last 12 Months		Inception to Date	
Account	Benchmark	Account	Benchmark	Account	Benchmark	Account	Benchmark
-0.59%	-0.56%	5.93%	6.32%	5.93%	6.32%	5.25%	4.90%
	0.13% ¹		0.50%		0.50% ²		
<u>-0.59%</u>	<u>-0.43%</u>	<u>5.93%</u>	<u>6.82%</u>	<u>5.93%</u>	<u>6.82%</u>	<u>5.25%</u>	<u>4.90%</u>

1 12.5 bps - per quarter rounded
2 50 bps hurdle -annual
3 50 bps hurdle codified in March, 2009. Inception performance begins January 31, 1998.

Brandy reported the fund was around \$120,790,000 on January 23, 2017.

Brandy reviewed the market return with the PFRB. She reported the portfolio was up 5.9% year-to-date, and 5.25% since inception. She indicated that markets are pricing in support through fiscal policy in the form of tax cuts. The anticipated tax breaks should benefit U.S. mid and small cap stocks and focus on U.S. production.

APCM expects two increases of rates by the Federal Reserve in 2017. This will likely drive short yields higher and make holding additional cash attractive. Holding more cash will help APCM deal with volatility and take advantage of the different options in the market.

Jason reported that staying true to the benchmarks allow the fund to recover from the volatility.

Jason reviewed APCM compliance activity and reemphasized the need to increase the BAA threshold from 10 percent to 15 percent. This change will allow inclusion of BAA rated securities at levels similar to that of fixed income benchmark while continuing to protect the overall investment grade of the fixed income securities held in the permanent fund. The PFRB unanimously agreed to propose this change to the City's investment policy.

The PFRB discussed the changes to the annual draw and investment policy that would be presented to the City Council. In order to change the asset mix from 45 percent equities and 55 percent fixed income to 60 percent equities and 40 percent fixed income, the target weighting and ranges within the asset classes would need to be modified.

Brandy proposed two different target weightings and ranges for the PFRB to consider. After much discussion, David motioned and Jennifer seconded to select the first target weighting and range presented by Brandy. The PFRB unanimously agreed:

Asset Class	Target % Weighting	Range %
Equities-Overall	60	45-75
Large Cap	24	15-35
Mid Cap	9	0-15
Small Cap	6	0-10
International	10	0-20
Emerging Markets	5	0-10
Real Estate	6	0-15
Total	60	
Fixed Income-Overall		
US Bonds meeting Ordinance Criteria	25	15-55
International Bonds	5	0-10
U.S. Treasury Inflation Protected Securities (TIPS)	5	0-10
Cash/1-3 month Treasuries	5	0-10
Total	40	
Commodities	0	0-20

Jennifer motioned and Dave seconded to propose a decrease in the annual draw by 1/10 percentage point each year for five years (starting in 2018), after which the annual draw will be 3.5% of the five-year market value of the fund. The PFRB agreed unanimously.

- 2018-3.9 percent of the average five prior years' year end audited market value
- 2019-3.8 percent of the average five prior years' year end audited market value
- 2020-3.7 percent of the average five prior years' year end audited market value
- 2021-3.6 percent of the average five prior years' year end audited market value
- 2022-3.5 percent of the average five prior years' year end audited market value

In addition to the changes mentioned above, the PFRB agreed with APCM's recommendation to extend the "substantially similar" language utilized for the international equities. This change will allow APCM to incrementally adjust the portfolio's strategic asset class exposure based upon the assessment of current market conditions and/or valuation. The language provides an appropriate level of risk control to ensure the exchange traded funds (ETFs) and/or mutual funds selected provide adequate exposure to asset classes specified in the strategic asset allocation designed to meet the City's long term investment goals. It will also allow APCM to purchase ETFs and/or mutual funds which have the potential to incrementally enhance return and/or reduce risk relative to the strategic asset allocation benchmark.

The PFRB and APCM will present the proposed changes to the City Council during the 6:00 p.m. work session immediately following today's PFRB quarterly meeting. *Ordinance 6041 Amending the Fairbanks General Code Sections 2-260 and 2-261 Regarding the Authorized Index Language and Asset Allocations in the City Permanent Fund Investment Policy and Ordinance 6042 Modifying the Annual General Fund Transfer From the Permanent Fund* will be open for first reading on February 6th and, if Council agrees with the changes, the second reading and passage should be on February 27, 2016.

The PFRB set the next quarterly meeting for Wednesday May 4, 2017 at 1:30 P.M.

The PFRB meeting adjourned at approximately 5:45 P.M.

Minutes will be placed on the May 4, 2017 agenda for approval.