

City of Fairbanks  
Permanent Fund Review Board  
Quarterly Meeting Minutes  
July 21, 2021

The Permanent Fund Review Board (PFRB) convened at 1:30 p.m. in the City Council Chambers to conduct a quarterly meeting with the following board members in attendance.

Board Members Present: Council Member Valerie Therrien  
Patty Mongold  
Bernard Gatewood  
Dave Owen  
Jennifer Imus

Also Present: Margarita Bell, Chief Financial Officer  
Brandy Niclai, Chief Investment Officer – APCM  
Blake Phillips, Director of Institutional Solutions – APCM  
Richard Cochinos, Senior Portfolio Manager - APCM  
Mickela Covieo, Client Relationship Manager - APCM

Jennifer Imus moved, and Bernard Gatewood seconded to approve the minutes from the April 28, 2021 meeting. The PFRB unanimously agreed.

Margarita Bell reviewed the account's performance through June 30, 2021:

- \$157,143,779 - Balance including accrued income
- \$ 1,054,739 - Dividend and interest earnings
- \$ 3,807,022 - Realized gain
- \$ 7,601,850 - Unrealized gain
- \$ (53,700) - Management and custodial fees
- \$ 12,409,911 - Earnings, net of expenses

The City received \$411,612 in deposits as of June 30, 2021. The 2021 draw is scheduled for December 2021 in the amount of \$5,833,254 to the general fund (\$5,185,115) and capital fund (\$648,139).

Brandy Niclai reported that the balance of the fund was \$155,225,483 on July 19, 2021.

APCM provided an investment review report for the second quarter. Brandy Niclai reported that the combined equity allocation returned 6.10% and the combined fixed income allocation returned 1.59% for the quarter. She also reported that the compliance report was updated to include derivative use and leverage limitations.

Portfolio Summary							
2nd Quarter		Year to Date		Last 12 Months		Inception to Date	
Account	Benchmark	Account	Benchmark	Account	Benchmark	Account	Benchmark
4.47%	4.40%	8.76%	8.04%	24.91%	24.36%	6.11%	5.90%
	0.13% <sup>1</sup>		0.25% <sup>2</sup>		0.50% <sup>3</sup>		
<u>4.47%</u>	<u>4.53%</u>	<u>8.76%</u>	<u>8.29%</u>	<u>24.91%</u>	<u>24.86%</u>	<u>6.11%</u>	<u>5.90%</u>

1 - 12.5 bps - per quarter rounded  
2 - 50 bps hurdle - annual (YTD = 12.5 basis pts X # quarters)  
3 - 50 bps hurdle codified in March 2009. Inception performance begins January 31, 1998.

Brandy Niclai reported that with a 2% inflation rate assumption, the current portfolio will not provide the full 4.5% distribution rate while preserving purchasing power. She stated that additional asset classes such as Private Equity will need to be explored to achieve the primary goal of the permanent fund to preserve principal and maintain purchasing power.

Richard Cochinos presented information about Private Equity. Private equity is a private investment that refer to a wide range of debt and equity strategies for securities that are not available on a public exchange. There are four primary types as follows: venture capital, buyouts, mezzanine debt, and distressed debt. Private market investing relies heavily on manager skill to produce returns. These investments are usually characterized by illiquidity and long investment horizons of five to ten years. Returns are usually negative in the early stages of the investment cycle but turn positive later in the investment horizon; however, Private Equity outperforms Public Assets.

Brandy Niclai presented a model for expected ranges including Private Equity at 5% (equivalent to \$7,850,000). She also stated that the City could adopt a Model 6 which would increase the amount in Equities. Richard Cochinos also presented information about municipalities that invest in Private Equity and the Government Finance Officer Association (GFOA) best practices for investing in Private Equity.

PFRB members inquired about the impacts of Private Equity with rising inflation; the fees associated with this new asset class; and the legal review for this type of asset class. APCM responded that the fee will remain the same and the City would have to sign legal documents as a partnership with the Private Equity company.

A special meeting will be held on August 18, 2021 to discuss Private Equity and the Request for Proposal for Permanent Fund Services.

The next quarterly meeting will be held on October 13, 2021 in the City Council Chambers.

The meeting adjourned at 2:45 p.m.