

ATTACHMENT #1 – RFP 21-21 PERMANENT FUND INVESTMENT SERVICES

Sec. 2-256. - Creation; composition; appointment of members; qualifications; duties.

- (a) In accordance with Charter section 8.8(b), there is created a permanent fund review board which shall consist of five members, including one member of the Fairbanks City Council, appointed by the mayor and confirmed by the city council. The terms shall be staggered, and the mayor shall designate each of the initial three members to the terms of one year, two years and three years.
- (b) Members of the board shall possess some background in any one or several fields in accounting, banking, financial investment advisement, securities regulation, public finance, or other similar professional fields regulated by the State of Alaska or other professional or national organizations. Failure to attend regular meetings of the board, unless excused for cause by the chairman, shall create an immediate vacancy in the office.
- (c) Members of the board shall advise and make recommendations to the city council concerning investment policy, strategy, and asset selection and allocation of the permanent fund. The board may use the services of a professional investment advisor/manager in rendering its advice and recommendations to the city council.

(Code 1960, § 2.414; Ord. No. 5817, § 1, 8-28-2010)

Sec. 2-257. - Compensation; indemnification.

Members of the permanent fund review board shall serve without compensation and shall be held harmless against and indemnified for any claims and/or judgments arising from any actions, decisions, directions, advice or other conduct while serving as members of the board.

(Code 1960, § 2.415)

Sec. 2-258. - Removal of members.

Members of the permanent fund review board may be removed by the mayor or the city council at any time and without cause.

(Code 1960, § 2.416)

Sec. 2-259. - Meetings; quorum; rules of procedures; records.

- (a) The permanent fund review board shall establish rules of procedure; provided there shall be a regular meeting of the board once every quarter, which shall be open to the public under the provisions and terms of AS 44.62.310—44.62.312. The chairman is authorized to call special meetings, or a majority of the members may require that a special meeting be called.
- (b) A majority of the board shall constitute a quorum for the transaction of business, and a majority vote shall be necessary to carry any question.
- (c) Permanent records, or minutes, shall record the vote of every member on each question. Every decision, action or finding, shall promptly be filed in the office of the city clerk and shall be open to inspection by any person.

(Code 1960, § 2.417)

Sec. 2-260. - Permanent fund investment policy, procedure and governance.

- (a) *Purpose of fund.* The purpose of the permanent fund is to maximize income for capital and operating expenses of the city and preserve in trust assets of the city for present and future generations of city residents. The principal goal shall be to preserve principal and maintain purchasing power.
- (b) *Investment policy.* The investment policy of the city is to allow only the following investment vehicles:
- (1) Obligations of or obligations insured or guaranteed by the United States or agencies or instrumentalities of the United States;
 - (2) Bonds or other taxable yield United States dollar denominated debt instruments of this state, its agencies, municipalities, any other state, or corporation which at the time of investment have an investment grade rating of a nationally recognized rating agency; if the rating of a bond becomes less than investment grade and has a maturity greater than one year, it must be sold in an orderly manner within 90 days of downgrading;
 - (3) Bank certificates of deposit which are insured or secured as to the payment of principal and interest;
 - (4) Corporate obligations of investment grade quality as recognized by a nationally recognized rating organization. If, after purchase, these obligations are downgraded below investment grade, they shall be sold in an orderly manner within 90 days of downgrading. In no circumstance shall any bond be purchased after January 1, 2009 with a yield to maturity that exceeds 600 basis points above a comparable duration treasury note/bond at the date of purchase;
 - (5) Short term investment funds (STIF) which are limited to investments set forth in subsections (b)(1)-(4) of this section or the Alaska Municipal League Investment Pool as set forth in state statute;
 - (6) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs);
 - (7) International equities, which taken as a whole, attempt to replicate the FTSE Developed ex North America Index or Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) or a substantially similar index, including both mutual funds and exchange traded funds (ETFs);
 - (8) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts or a substantially similar index, including both mutual funds and exchange traded funds (ETFs);
 - (9) Domestic equities, which taken as a whole, attempt to replicate the S&P 400 MidCap Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs);
 - (10) Commodities, which taken as a whole, attempt to replicate a broadbased commodity index, such as the Bloomberg Commodity Index or a substantially similar index, including mutual funds, exchange traded funds (ETFs) and exchange traded notes (ETNs);
 - (11) Emerging markets equity index funds, which taken as a whole, attempt to replicate the FTSE Emerging Market Index or Morgan Stanley Capital International Emerging Markets Index (MSCI EMERGING) or a substantially similar index, including both mutual funds and (ETFs);
 - (12) International Bond index funds, which taken as a whole, attempt to replicate Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index, or a substantially similar index, including both mutual funds and ETFs;
 - (13) U.S. Treasury Inflation Protected Securities (TIPS), and/or mutual funds or ETFs which attempt to replicate the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, or a substantially similar index;
 - (14) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's SmallCap 600 Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs);

- (15) Global infrastructure equities, which taken as a whole, attempt to replicate the STOXX Global Broad Infrastructure Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs); and
 - (16) Diversifying alternative beta funds, which taken as a whole, attempt to provide systematic exposure to trading strategies that emphasize return sources not found in traditional stock and bond portfolios.
- (c) *Limitations.* The following investment practices are prohibited and shall constitute limitations to fund investments:
- (1) The city will take a conservative posture on derivative securities in order to maintain a risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. The fund is prohibited from engaging in short sales and margin transactions or investing in complex derivatives and complex structured notes which provide for uncertain payment dates and amounts are prohibited at the fund level without the express, written consent of the city council, as are practices which involve the use of leveraging through reverse repurchase agreements. However, the city recognizes that derivatives may be used within products as a portfolio management tool. Derivative use within a product is permissible when used for the purpose of creating or enhancing exposure to an asset class or implementation strategy. Due to the inherent characteristics of derivatives, embedded leverage is permissible when fully collateralized. Direct leverage or borrowing for the purpose of magnifying returns is prohibited. Exposure must be net long at all times;
 - (2) Investments in United States dollar denominated obligations of corporations shall be limited to a percentage level as provided for by the city council from time to time. Investment grade to be defined by at least one nationally recognized rating service. The investment in the lowest level of investment grade securities is to be limited to no more than 15 percent of the marketable debt securities;
 - (3) No investment shall be made in any one individual security or issuer in excess of five percent of the total investment portfolio, measured by market value, except for obligations of the United States government and its agencies;
 - (4) No investments, cumulatively, shall be made in any one industry in excess of 25 percent of the total investment portfolio except for obligations of the United States and its agencies without quarterly disclosure to the review board for consideration; and
 - (5) Effective January 1, 2009, no commercial residential mortgage backed securities (MBS, etc., but not to exclude securities issued by a United States government agency) and no further commercial mortgage backed securities (CMBS, etc.) may be purchased.
- (d) *Transactional records.* The board shall maintain on file within the offices of the city, monthly reports which indicate the following:
- (1) All transactions affecting the investment account, to include purchases and sales of securities, transfers of cash into and out of the account, interest or dividends received by the account; and
 - (2) A listing of all assets held in the investment account, including identification of the security, original purchase price, and current market price.
- (e) *Fund performance evaluation.* The city council and the board may have an objective performance evaluation of the investment program every year. The board may retain a performance measurement consultant whose contractual purpose will be to provide objective measurement of the performance of investment managers and the portfolio against appropriate indices, universes and/or benchmarks as recommended by the consultant and adopted by the city council and the board. Portfolio performance may be reviewed by the consultant at least semiannually with the city council and the board. Such consultant may not manage in any capacity any portion of the portfolio.
- (f) *Custodian bank.* The city council and the board shall retain a bank custodian to hold all investment cash and securities in the name of the city's permanent fund. The custodian shall render monthly

reports to the city council and the board regarding assets held at both book and market values, and individual transactions which have taken place. The bank shall have adequate fidelity insurance. A written contract will be entered into between the city and the custodian bank.

- (g) *Investment managers.* The city council and the board shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the written investment policies adopted by the city council. The investment managers must be registered financial advisers with both the United States Securities and Exchange Commission and the state and may not serve in any multiple role as investment manager or securities broker custodian. They must agree to serve as a fiduciary to the fund and carry professional liability insurance in the minimum amount of \$5,000,000.00. A written contract must be entered into between the fund and the investment managers.
- (h) *Fiduciary status; conflict of interest.* The board shall be considered to have the responsibility of a fiduciary to the fund and shall be indemnified by the city in any action brought against them collectively or individually while acting in this capacity. No board member may act on behalf of the board in any manner involving the investments of the portfolio or its management pursuant to this policy, except as specifically authorized by the city council in writing.
- (i) *Prudent investor rule.* The city council, the board, the staff, the investment managers and the bank custodians shall exercise the judgment and care under the circumstances then prevailing which an investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the long-term investment of funds considering the probable safety of capital as well as probable income.
- (j) *Balance available for appropriation.* The city council may only appropriate from the permanent fund as follows: In any fiscal year, an amount not to exceed four percent of the five-year average fund market value, to be computed using the five prior years' year end audited market value, for the city operations, and an additional 0.5 percent solely for capital needs.

(Code 1960, § 2.418; Ord. No. 5374, § 1, 11-28-1998; Ord. No. 5494, § 1, 7-22-2002; Ord. No. 5583, § 1, 11-22-2004; Ord. No. 5595, § 1, 3-7-2005; Ord. No. 5658, § 1, 7-24-2006; Ord. No. 5764, 1-1-2009; Ord. No. 5766, 3-14-2009; Ord. No. 5791, § 1, 10-26-2009; Ord. No. 5801, § 1, 4-10-2010; Ord. No. 5808, § 1, 6-12-2010; Ord. No. 5905, § 1, 12-8-2012; [Ord. No. 5957, 9-27-2014](#); [Ord. No. 5987, § 1, 8-29-2015](#); Ord. No. [6041](#), § 1, 3-4-2017; Ord. No. [6058](#), § 1, 8-26-2017; Ord. No. [6085](#), § 1, 10-27-2018)

Sec. 2-261. - Permanent fund asset allocation plan and performance measurement targets.

- (a) The target for equities is 54 percent of the portfolio with an allowable range of 40 percent to 70 percent. The target for alternatives is six percent of the portfolio with an allowable range of zero percent to 20 percent. The target for fixed income is 40 percent of the portfolio with an allowable range of 25 percent to 55 percent.
- (b) Within the overall guidelines for equities, alternatives, and fixed income investments, the asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
Equities—Overall	54	40—70
Large Cap Equity	24	15—35
Mid Cap Equity	9	0—15

Small Cap Equity	6	0—10
International Equity	10	0—20
Emerging Markets Equity	5	0—10
Alternatives—Overall	6	0—20
Real Estate	2	0—10
Infrastructure	4	0—10
Commodities	0	0—10
Alternative Beta	0	0—10
Fixed Income—Overall	40	25—55
U.S. Bonds Meeting Ordinance Criteria	25	15—55
International Bonds	5	0—10
U.S. Treasury Inflation Protected Securities	5	0—10
Cash/1—3 Month Treasuries	5	0—10

- (c) The performance of the investment advisors for the overall portfolio will be measured against the weighted blended target allocation plus 50 basis points (0.5%). Components of the portfolio will be measured as follows:
- (1) Performance measurement of the domestic equity allocation will be measured against the target weighting, using the Standard & Poor's 500 or a substantially similar index as the benchmark.
 - (2) Performance measurement for the mid/small cap equity allocation will be measured against the target weighting, using the Standard & Poor's 400 MidCap Index or a substantially similar index as the benchmark.
 - (3) Performance measurement for the international equity allocation will be measured against the target weighting using the FTSE Developed ex North America Index or Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) or a substantially similar index for the benchmark.

- (4) Performance measurement for the real estate allocation will be measured against the target weighting using the Standard & Poor's REIT Index or a substantially similar index for the benchmark.
- (5) Performance measurement for the United States Bond allocation will be measured against the target weighting using the Bloomberg Barclays Capital U.S. Aggregate Bond Index or a substantially similar index for the benchmark. Duration should be maintained between 80 percent and 120 percent of the duration of the benchmark.
- (6) Performance measurement of the commodity allocation will be measured against the target weighting, using a broad based index such as the Bloomberg Commodity Index or a substantially similar index, selected by the permanent fund review board.
- (7) Performance measurement for the emerging markets equity allocation will be measured against the target weighting using the FTSE Emerging Market Index or Morgan Stanley Capital International Emerging Markets Index (MSCI EMERGING) or a substantially similar index for the benchmark.
- (8) Performance measurement for the international bond allocation will be measured against the target weighting using the Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index or a substantially similar index.
- (9) Performance measurement for the U.S. Treasury Inflation Protected Securities (TIPS) allocation will be measured against the target weighting using the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index or a substantially similar index.
- (10) Performance measurement for the small cap equity allocation will be measured against the target weighting, using the Standard & Poor's SmallCap 600 Index or a substantially similar index as the benchmark.
- (11) Performance measurement for the cash/1—3 month treasuries will be measured against the target weighting, using the Citigroup 3-Month Treasury Bill Index or a substantially similar index as the benchmark.
- (12) Performance measurement for the infrastructure allocation will be measured against the target weighting, using the STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.
- (13) Performance measurement for the alternative beta allocation will be measured against a commonly accepted performance benchmark that adequately measures the alternative strategy and is unambiguous, measurable, and specified in advance.

(Ord. No. 5658, § 1, 7-24-2006; Ord. No. 5764, 1-1-2009; Ord. No. 5766, 3-14-2009; Ord. No. 5801, § 1, 4-10-2010; Ord. No. 5808, § 1, 6-12-2010; Ord. No. 5905, § 1, 12-8-2012; [Ord. No. 5957, 9-27-2014](#); [Ord. No. 5987, § 2, 8-29-2015](#); Ord. No. [6041](#), § 2, 3-4-2017; Ord. No. [6058](#), § 2, 8-26-2017; Ord. No. [6085](#), § 1, 10-27-2018)

Sec. 2-262. - Interim use of substitute index.

In the event that one of the indices specified in sections 2-260 and 2-261 becomes, in the professional judgment of the investment manager, unavailable or inappropriate, a substitute index may be used on an interim basis with the written consent of the city chief financial officer, who shall notify the mayor and city council and, after receiving the input of the permanent fund review board at a regular or special meeting, prepare an ordinance amending the investment policy accordingly for introduction at the next council meeting.

(Ord. No. 5905, § 2, 12-8-2012)