

Introduced by: Mayor Cleworth
Council Member Gatewood
Permanent Fund Review Board Approval: October 31, 2012
Introduced: November 19, 2012

ORDINANCE NO. 5905, AS AMENDED

**AN ORDINANCE AMENDING FAIRBANKS GENERAL CODE
SECTIONS 2-260 AND 2-261 AND ENACTING 2-262 REGARDING THE
AUTHORIZED INVESTMENT SELECTIONS OF THE CITY
PERMANENT FUND INVESTMENT POLICY**

WHEREAS, the City Council established the investment policy of the City Permanent Fund by terms codified at Fairbanks General Code Sections 2-260 and 2-261; and

WHEREAS, current policy authorizes an "International Equity" allocation class which is defined as replicating the Morgan Stanley Europe, Australasia, Far East ("EAFE") Index; and

WHEREAS, current policy authorizes an "Emerging Markets" asset class which is defined as replicating the "MSCI Emerging Market Index;" and

WHEREAS, amending the policy to (a) replicate the International Equity allocation against the FTSE Developed ex North America Index, and (b) replicate the Emerging Market Index against the FTSE Emerging Market will not materially change performance but will help keep investment fees low; and

WHEREAS, proposed Section 2-262 will provide for a procedure to authorize interim change of indices in the future; and

WHEREAS, in addition, the City's investment manager recommends amendment of the allocation benchmarks and allocation ranges set in FGC 2-261 to reduce the predicted volatility of the entire portfolio; and

WHEREAS, the City Permanent Fund Review Board supports and recommends these amendments;and

NOW, THEREFORE, BE IT ENACTED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, as follows [new text shown in **underline bold** font; deleted text in ~~strikeout~~ font and AS AMENDED text shown in ***double underline italic*** font]:

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 U.S. 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 down grading;

(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 ninety days of down grading. 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; and

(6) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's).

(7) International equities, which taken as a whole, attempt to replicate the ~~Morgan Stanley Europe, Australasia, Far East (EAFE)~~ **FTSE Developed ex North America Index**, including both mutual funds and exchange traded funds (ETF's).

(8) Equities, which taken as a whole, attempt to replicate the universe of domestic real-estate investment trusts, including both mutual funds and exchange traded funds (ETF's).

(9) Domestic equities, which taken as a whole, attempt to replicate the S & P 400 MidCap Index, including both mutual funds and exchange traded funds (ETF's).

(10) Commodities, which taken as a whole, attempt to replicate a broad based commodity index, such as the Dow-Jones UBS Commodity Index, including mutual funds, exchange traded funds (ETF's) and exchange traded notes (ETN's).

(11) Emerging markets equity index funds, which taken as a whole, attempt to replicate the MSCI FTSE Emerging Market Index, including both mutual funds and (ETF's).

(12) International Bond index funds, which taken as a whole, attempt to replicate Barclays Capital Global Treasury ex-U.S. Capped Index, including both mutual funds and ETF's.

(13) U.S. Treasury Inflation Protected Securities (TIPS), and/or mutual funds or ETF's which attempt to replicate the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

(c) *Limitations.* The following investment practices are prohibited and shall constitute limitations to fund investments:

(1) Options and futures may not be purchased or sold; complex derivatives and complex structured notes which provide for uncertain payment dates and amounts are prohibited without the express, written consent of the city council, as are practices which involve the use of leveraging through reverse repurchase agreements;

(2) Investments in U.S. 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 ten 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 U.S. 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 U.S. and its agencies without quarterly disclosure to the Review Board for consideration.

(5) Effective January 1, 2009, no commercial residential mortgaged backed securities (MBS, etc. but not to exclude securities issued by a U.S. 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.

Sec. 2-261. Permanent fund asset allocation plan and performance measurement targets. The target for equities is ~~40%~~45% of the portfolio with an allowable range of 30% to ~~50~~60%. The target for fixed income is ~~60%~~55% of the portfolio with an allowable range of ~~50~~40% to 70%.

(a) Within the overall guidelines for equities and fixed income investments, the asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
Equities - Overall	40 <u>45</u>	30 - 50 <u>60</u>
Large Cap Equity	22	20 <u>15</u> - 50
Mid Cap Equity	2 <u>3</u>	0 - 10
Small Cap Equity	1 <u>2</u>	0 - 10
International Equity	8 <u>9</u>	0 - 15
Emerging Markets Equity	2 <u>4</u>	0 - 5 <u>10</u>
Real Estate Equity	5	0 - 10
Fixed Income - Overall	60 <u>55</u>	50 <u>40</u> - 70
US Bonds meeting Ordinance Criteria	45 <u>40</u>	40 <u>30</u> - 70
International Bonds	5	0 - 10
U.S Treasury Inflation Protected Securities	10 <u>5</u>	0 - 15 <u>10</u>
<u>Cash/1-3 month Treasuries</u>	<u>5</u>	<u>0 - 10</u>
Commodities	0	0 - 10

(b) 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 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 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 ~~Morgan Stanley Europe, Australasia, Far East (EAFE)~~ 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 for the benchmark.
5. Performance measurement for the U.S. Bond allocation will be measured against the target weighting using the Barclays Capital U.S. Aggregate Bond 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 Dow Jones-UBS Commodity 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 MSCIFTSE Emerging Market Index.

8. Performance measurement for the international bond allocation will be measured against the target weighting using the Barclays Capital Global Treasury ex. U.S. Capped Index.

9. Performance measurement for the U.S. Treasury Inflation Protected Securities (TIPS) allocation will be measured against the target weighting using the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

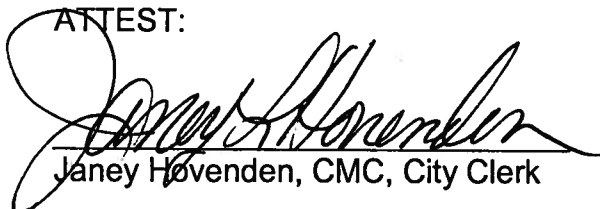
Section 2: That Fairbanks General Code Section 2-262 is adopted:


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.

Section 3: That the effective date of this Ordinance shall be the 8th day of December 2012.


Jerry Cleworth, City Mayor

AYES: Matherly, Hilling, Walley, Staley, Gatewood, Eberhart
NAYS: None
ABSENT: None
ADOPTED: December 03, 2012

ATTEST:

Janey Hovenden, CMC, City Clerk

APPROVED AS TO FORM

Paul J Ewers, City Attorney