

City of Fairbanks  
Permanent Fund Review Board  
Quarterly Meeting Minutes  
October 30, 2019

The Permanent Fund Review Board (PFRB) convened at 1:32 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

Also Present: Margarita Bell, Interim Chief Financial Officer  
Brandy Niclai, Chief Investment Officer - APCM  
Blake Phillips, Director of Institutional Solutions – APCM

Valerie Therrien moved, and Bernard Gatewood seconded to approve the corrected minutes from the July 24, 2019 meeting. The PFRB unanimously agreed.

Margarita Bell reviewed the account's performance through September 30, 2019:

- \$134,136,883 - Balance including accrued income
- \$ 2,165,032 - Dividend and interest earnings
- \$ 2,359,476 - Realized gain
- \$ 10,305,828 - Unrealized gain
- \$ (78,192) - Management and custodial fees
- \$ 14,752,144 - Earnings, net of expenses

Brandy Niclai reported that the balance of the fund was \$135,752,157 on October 29, 2019.

The 2019 draw is expected to be made in December 2019. The appropriations of \$5,463,741 to the general and capital funds are shown below, respectively:

- \$4,856,659 and \$607,082

Portfolio Summary							
3rd Quarter		Year to Date		Last 12 Months		Inception to Date	
Account	Benchmark	Account	Benchmark	Account	Benchmark	Account	Benchmark
1.28%	1.15%	12.44%	13.48%	3.85%	4.91%	5.48%	5.25%
	0.13% <sup>1</sup>		0.38% <sup>2</sup>		0.50% <sup>3</sup>		
1.28%	1.28%	12.44%	13.86%	3.85%	5.41%	5.48%	5.25%

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 presented a market review for the third quarter. She stated that equities ended flat after an eventful quarter due to two rate cuts and a resilient economy (rising wages, labor force participation, and consumer confidence). She stated that real assets had some of the best performance relative to other asset classes and that interest rates had multiple changes through the quarter and finally landed at 1.66%.

Brandy Niclai also reported that policy risks support neutral allocation because the economy is slower but positive; earnings expectations are modest but still positive; interest rates have fallen so bonds are more expensive resulting in higher returns for equities; and volatility increased across the market on trade trends and softer economic data. She reported that the Alternative was sold since other asset classes were more favorable, but the Alternative helped the portfolio when the stock market fell.

Brandy Niclai also presented the challenges of the City’s goal of the permanent fund to maximize income for capital and operating expenses while preserving the principal. Based on an analysis, the permanent fund strategic asset allocation (60% equity) can support the 4.5% distribution rate while preserving the principal, but only provides partial inflation protection based upon APCM’s inflation expectations of 2% per year.

PFRB members discussed the impacts of changing the equity allocation from 60% to 70%; since 70% will cover the annual draw and inflation proof the portfolio. PRFB members also discussed the City’s goals for the permanent fund to maximize income while preserving the principal and to seek Council input on which of the two would be the primary goal since they can be challenging to maintain both while inflation proofing the portfolio. PFRB members expressed the importance of the Council to understand that the current equity percentage would not be sufficient for a 2% inflation.

The next quarterly meeting will be January 27, 2020 in the City Council Chambers, followed by a work session with City Council members.

The meeting adjourned at 2:50 p.m.