

City of Fairbanks
Permanent Fund Review Board
Quarterly Meeting Minutes
January 17, 2022

The Permanent Fund Review Board (PFRB) convened at 3:35 p.m. in the City Council Chambers to conduct a quarterly meeting.

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

Board Member Absent: Jennifer Imus

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

Bernard Gatewood moved, and Dave Owen seconded to approve the minutes from the October 13, 2021 meeting. The PFRB unanimously agreed.

Margarita Bell reviewed the account's performance through December 31, 2021:

- \$157,040,678 - Balance including accrued income
- \$ 3,274,199 - Dividend and interest earnings
- \$ 6,441,245 - Realized gain
- \$ 8,719,353 - Unrealized gain
- \$ (108,179) - Management and custodial fees
- \$ 18,326,618 - Earnings, net of expenses

The City received \$426,357 in deposits as of December 31, 2021. The 2021 draw was made on December 13, 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 \$155,284,532 on January 13, 2022.

Brandy Niclai presented information about APCM Model 6; an investment strategy to meet the expected goals of the permanent fund of asset preservation and budgetary stabilization. Model 6 will have a higher risk but will provide the 4.5% distribution rate while preserving purchasing power at a 2% inflation rate. Model 6 would require a change in the code to add alternative beta and high yield bonds asset classes.

PFRB members discussed APCM Model 6. Patty Mongold inquired about the transition; Brandy Niclai responded that it would take one month. Dave Owen inquired about the risk of high yield bonds; Brandy Niclai responded that high yield bonds are not as risky as investing in stock. Valerie Therrien

inquired about the 2% inflation rate with the current inflation being higher; Brandy Niclai responded that 2% is the Federal Reserve objective. Valerie Therrien made a motion to move forward with Model 6, Bernard Gatewood seconded the motion. PFRB unanimously agreed.

Brandy Niclai presented the market outlook. The market is still transitioning from recovery to expansion. Developed economic growth is expected to be higher than the trend while emerging market growth is expected to be lower than the trend. Monetary policy will be tighter but remain accommodative with rates below neutral. Inflation, supply chain issues, and tight labor markets are expected to gradually improve. There are still key risks involving policy mistakes in timing, inflation expectations, and coronavirus variants. The mid-cycle investing selectivity with underweight global fixed income asset classes; overweight equities and alternatives asset classes; and emphasis on sectors and countries levered to spending have been successful for the portfolio.

Brandy Niclai presented a portfolio review for the fourth quarter. She stated that the portfolio allocation was slightly positive over the quarter as equity outperformed fixed income; however, the overweight to cash dampened the positive effects. An overweight to credit was a contributor to performance during the quarter and an underweight to 30yr bonds due to anticipating interest rate increases detracted from relative performance. The combined equity allocation returned 7.25% and the combined fixed income allocation returned 0.20% for the quarter.

Portfolio Summary							
4th Quarter		Year to Date		Last 12 Months		Inception to Date	
Account	Benchmark	Account	Benchmark	Account	Benchmark	Account	Benchmark
4.46%	4.48%	12.82%	12.25%	12.82%	12.25%	6.14%	5.94%
	0.13% ¹		0.50% ²		0.50% ³		
4.46%	4.61%	12.82%	12.75%	12.82%	12.75%	6.14%	5.94%

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 reviewed all compliance issues with the PRFB. There were no compliance issues.

Margarita Bell reported that the recommendation to accept APCM proposal is scheduled to be approved by Council on January 17, 2022.

The next quarterly meeting will be held on April 20, 2022 in the City Council Chambers.

The meeting adjourned at 4:50 p.m.