

City of Fairbanks  
Permanent Fund Review Board  
Quarterly Meeting Minutes  
April 26, 2023

The Permanent Fund Review Board (PFRB) convened at 1:33 p.m. in the City Council Chambers to conduct a quarterly meeting.

Board Members Present: Patty Mongold  
Bernard Gatewood  
Dave Owen  
Jennifer Imus (online)

Board Members Absent: Council Member John Ringstad

Also Present: Margarita Bell, Chief Financial Officer  
Brandy Niclai, Chief Investment Officer – APCM  
Lindsey Cashman, Client Relationship Manager - APCM

Dave Owen moved, and Bernard Gatewood seconded to approve the minutes from the January 23, 2023 meeting. The PFRB unanimously agreed.

Margarita Bell reviewed the account's performance through March 31, 2023:

- \$ 136,036,215 - Balance including accrued income
- \$ 543,697 - Dividends and interest earnings
- \$ 446,148 - Realized gain
- \$ 4,178,320 - Unrealized gain
- \$ (19,197) - Management and custodial fees
- \$ 5,148,968 - Earnings, net of expenses

Margarita Bell reported that custodial services were transferred to U.S. Bank on April 19, 2023.

Margarita Bell reported that the 2023 draw will be made in December 2023 in the amount of \$6,171,214 to the general fund (\$5,485,524) and capital fund (\$685,690).

Brandi Niclai presented a historical review of the permanent fund to include the goal of preserving the principal and maintaining purchasing power. She stated that the portfolio has a value of \$136 million with deposits of \$109.9 million and withdrawals of \$117.4 million. She reported that over the last ten years as of December 31, 2021, the permanent fund realized an annualized return of 8.1% while supporting a withdrawal rate of 4.5% and an inflation protection rate of 3.6%. Over the last ten years as of March 31, 2023, the permanent fund realized an annualized return of 5.6% while supporting a withdrawal rate of 4.5% and an inflation protection rate of 1.1%. She stated that the strategic planning and diversification have improved the risk-adjusted return of the portfolio and that council decision to adopt additional allowable asset

classes and adjustments to the strategic asset helped the portfolio to outperform the traditional stocks and bonds allocation by 3.3%.

Brandy Niclai presented a strategic review for PFRB consideration. The current strategic asset allocation is expected to meet the goal of inflation plus 4.5%. The strategic plan include a higher interest rate of 7.4% versus 6.8% and inflation rate of 2.5% versus 2.25%. Based on the return expectations, the portfolio is expected to have a value of \$180 million in ten years. APCM recommended one modification to the fixed income guideline by increasing the exposure limit on BBB-rated securities from 15% to 20%.

Dave Owen expressed concerns about the inflation protection rate of 1.1% as of March 31, 2023 with an annual draw of 4.5%. Chair Patty Mongold stated that the board expressed concerns about the draw five years ago. Margarita Bell stated that the PFRB could make a recommendation to council to reduce the draw for one year to address the negative returns in 2022.

Brandy Niclai presented a market review. She reported that there were positive returns amidst uncertainty due to bank turmoil, high inflation, and geopolitical frictions. She reported that the stress in the financial sector increases the probability of a moderate recession and eventual rate cuts (scenario two). She reported that APCM positioned portfolios neutral for risk control, risk assets, and alternatives. Within risk assets, portfolios were positioned to be modestly overweight companies with high free cash flow yield, attractive valuations, and strong balance sheets. REITS have been positioned in favor of industries that have a stronger fundamental backdrop, reasonable valuations, and elastic demand.

Brandy Niclai reported that the balance of the fund was \$135,335,263 on April 25, 2023.

Brandy Niclai presented a portfolio review for the first quarter. She stated that underperformance was due to an underperformance of alternative beta compared to the benchmark and US Treasuries decreasing intermediate and long-term interest rates. The combined equity allocation returned 4.28% and the combined fixed income allocation returned 2.98% for the quarter.

Portfolio Summary							
1st Quarter		Year to Date		Prior Year		Inception to Date	
Account	Benchmark	Account	Benchmark	Account	Benchmark	Account	Benchmark
3.96%	4.29%	3.96%	4.29%	-5.83%	-5.81%	5.40%	5.21%
	0.13% <sup>1</sup>		0.13% <sup>2</sup>		0.50% <sup>3</sup>		
<u>3.96%</u>	<u>4.42%</u>	<u>3.96%</u>	<u>4.42%</u>	<u>-5.83%</u>	<u>-5.31%</u>	<u>5.40%</u>	<u>5.21%</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.

APCM report indicated that there were no compliance issues.

PFRB discussed APCM recommendation to modify the fixed income guideline by increasing the exposure limit on BBB-rated securities from 15% to 20%. Dave Owen made a motion and Bernard Gatewood seconded the motion to change the exposure limit on BBB-rated securities from 15% to 20%. Margarita Bell will work with Council Member John Ringstad to prepare an ordinance to change the guidelines.

The next quarterly meeting will be held on July 26, 2023 in the City Council Chambers. This meeting was changed to July 12, 2023.

The meeting was adjourned at 2:32 p.m.