

Jorgan Gustafson, Senior Institutional Portfolio Manager of U.S. Bank, provided a market and economic update. Since February we have seen the U.S. economy slow down, an incredibly strong dollar, and a fall in energy prices with little inflation. This has affected corporate earnings, subduing markets in most of North America for 2015. Overseas we have an acceleration of growth in Japan and throughout Europe. They are buying their own safe investments making everyone else buy riskier investments. This results in inflated markets and recovering economies since corporate earnings are improving. The biggest concern for long term global growth is a lack of inflation; there is 2% inflation throughout the world.

Equities: For the first time since the 1970's the S&P 500 or the U.S. Market has been the top market to be invested in. There is little to no growth since the first of the year; overseas there are significant returns although they come with greater volatility.

Fixed Income: Last year there were negative rates. Until there is sustainable recovery in Japan the rates may remain status quo.

Commodities: Global growth, inflation, and a weak dollar are needed for commodities to grow. None of these things exist at this time. Markets peaked a year ago.

Real Estate: Stronger employment gains and continued strengthening of the economy has improved real estate.

An overview of the City's Permanent Fund:

Fixed Income is 92% of the account; 8% is cash. Period ending March 31, 2015 the fund is up .64%. One year at 1.42% gross; three years at 1.67% gross. The fund is currently invested with principal protection first and foremost. There are no risks taken and not a lot being returned.

Growth Income is 88% of the account; 4% is cash; 4% is real estate; 4% is commodities. Period ending March 31, 2015 the total portfolio net of fees is 10.75%; for the last three years the average is 9.60% per year. For the last three years total equity is at 12.10%; domestic equity is 15.49%. The S&P 500 was up 16.11%.

Fixed Income 40%; Growth Income 60% - current balancing of fund. U.S. Bank recommended the Investment Policy Statement (IPS) be amended for more favorable returns. The City's expectation is to meet or exceed the S&P 500, but the IPS only allows us to hold 30% in the S&P 500 making it very difficult. The amendment will allow more exposure to domestic stocks if needed. The current IPS does not allow for enough exposure to U.S. stock to keep up.

The portfolio caps international holdings at 20% (of portfolio value). The last couple of years foreign equity has been negative or flat. The key to a new IPS is allowing for larger ranges.

The current IPS states domestic stocks are allocated in between large (38%), mid (13%), and small (10%) cap. The proposed IPS includes domestic equities at a target range of 65% with a 80% max. The current IPS states international equities are capped at 20%; proposed IPS states a 30% cap. Real estate commodities would increase from 7% cap to 10% under the new proposed IPS.

The goal of the portfolio over the long term is to match or beat the S&P 500 net of fees. The proposed IPS includes the ability to have a significant allocation to large cap U.S. stocks and to allocate to international opportunities appropriately. The proposed IPS provides for more flexibility.

The size of the account does not quantify the impact of the money. The City should not be treated any different than other U.S. Bank clients. The current IPS was written by U.S. Bank and it can be improved upon. Within ten years we expect to double the amount of the Permanent Fund. The Council wishes us to be prudent with the funds but does not expect the money to be turned over to bank fees. The fund came to us as a whole community and the income should be turned back to the community.

STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS

PUBLIC HEARING

PENDING BUSINESS

NEW BUSINESS

A. Memorandum from City Clerk, Re: Draft Investment Policy Statement

Draft Investment Policy Statement with U.S. Bank

Income and Growth Statements for 3-year Period and Period Ending December 31, 2014

Chair Johnson called for a motion to have a comparison written from the existing and proposed policy statement and present that to the Council.

LI/REYNOLDS – SO MOVED.

Committee Member Howard was asked to speak to the Council when it is brought forward.

Committee Member Howard asked that we have this ready to go to the Council in September to fold into the budget process. They will be dependent on the funds we will be distributing.

Earnings from the fixed income are used for distribution; the growth funds stays invested. It has been easier to create income on the equity side instead of the fixed income side.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

INFORMATIONAL MATERIALS

COMMENTS OF THE AUDIENCE (3 MINUTE TIME LIMIT)

There was no audience.

COMMENTS OF THE CITY STAFF

COMMENTS OF THE COUNCILMEMBER

COMMENTS OF THE CHAIR

Chair Johnson said it was good to have Barbara back. She thanked Jorgen for coming and explaining the investment accounts to us.

COMMENTS OF THE COMMISSION

Committee Member Howard said she was glad to be back. If she keeps acting like the chair, she apologized that she is not the chair anymore. It has been a bugaboo program for her with the glitches and frustrations and bad things. She feels like we are finally on the right path. She thanked Jorgen for coming to talk to us tonight and making us feel like we are big people and not country bumpkins. The money means a lot to us. These people spend their time to come to the meetings and we can be proud of our work that we take to the Council.

Committee Members Li and Reynolds had no comment.

ADJOURNMENT/NEXT REGULAR MEETING

There being no further business to come before the committee, Chair Johnson adjourned the meeting at 6:10 p.m. The next Regular Meeting is scheduled for Thursday, August 13, 2015 at 5:15 p.m. in the Homer City Hall Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

Submitted by Jo Johnson