

Session 15-01 a Regular meeting of the Permanent Fund Committee was called to order on February 12, 2015 at 5:15 p.m. by Committee Member Jo Johnson at the Cowles Council chambers located at 491 E. Pioneer Avenue, Homer, Alaska.

**PRESENT:** COMMITTEE MEMBERS: JO JOHNSON, ZHIYONG (JOHN) LI,  
CATRIONA REYNOLDS, FRANCIE ROBERTS

ABSENT: MATT NORTH

Committee Member Howard has requested excusal.

**APPROVAL OF AGENDA**

REYNOLDS/ROBERTS – MOVED TO APPROVE THE AGENDA AS WRITTEN.

There was no discussion.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

**PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**

**APPROVAL OF MINUTES**

A. Synopsis of Regular Meeting of November 13, 2014

ROBERTS/REYNOLDS – MOVED TO APPROVE THE MINUTES.

There was no discussion.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

**VISITORS**

**STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**

**PUBLIC HEARING**

**PENDING BUSINESS**

A. Three-year Comparison of U.S. Bank Returns and the S&P 500

The committee expressed concerns with the performance of the funds. The growth fund with almost a \$1.4M investment showed a 4.72% return while the S&P Index had a 13.69% return over the year ending 2014. The S&P 500 does not require active management.

Questions for U.S. Bank include: Why is U.S. Bank return so low? How often does U.S. Bank trade/move the money for active management of the fund?

Rod Castello, Relationship Manager, and Jurgen Gustafson, Portfolio Manager, appeared by telephone to review U.S. Bank comparisons with the S&P 500.

Jurgen Gustafson joined U.S. Bank in 2014. Overall there was a 3% growth for 2014. Low growth was due to energy prices, recession in Japan, and depression in the European Union. International markets had negative years with global rates pushed to all-time lows; there are negative interest rates internationally. High unemployment is a contributing factor. Low growth made it a difficult year for commodities. In contrast, it was a great year in real estate.

Committee Member Li noted the City's portfolio is below the S&P 500 Index. The growth fund annualized return for the last three years is 13.29% while the S&P 500 Index was at 20.41% annualized return.

Jurgen Gustafson advised the committee that 2014 was the first time the S&P 500 was the top worldwide market since 1998.

Committee Member Roberts commented her own personal stocks follow the NASDAQ and Dow Jones average. She asked why we are not showing the good returns on our stocks.

Jurgen Gustafson answered due to the City's investment policy the maximum U.S. large cap is 38%. If we can only put 30%-38% in large cap stock it limits the options.

Committee Member Li noted U.S. Bank has held the Permanent Fund investment for 55 months yet U.S. Bank has made no suggestions for revisions.

Rod Castello noted they have to adhere to the investment policy statement. They are constricted by the policy in how much exposure they can invest in. He cautioned this is a long-term investment.

Asked how often the funds were moved around and the account examined, Jurgen Gustafson answered he reviews the account every day. It gives him the information if the accounts need to be rebalanced. It is unlikely the account will be rebalanced weekly. In 2013 there were probably quarterly adjustments, maybe more. Jurgen Gustafson expressed the desire to visit

Homer to discuss the investment policy and the City's portfolio. There is a little urgency to re-evaluate the policy and he would welcome the opportunity to rewrite the policy.

Committee Member Li told U.S. Bank they have an investment responsibility to advise the City of Homer. Five years of consistent low returns indicates that need. He asked if we would be treated differently if we had a larger fund. The City hires U.S. Bank and pays an annual fee for management. Committee Member Roberts expressed concern in having to ask U.S. Bank for assistance when they are paid \$15,000 each year to manage the accounts.

Jurgen Gustafson extended his availability to appear telephonic at quarterly meetings. He would be happy to put together a policy to outline how U.S. Bank will communicate with the City of Homer.

Committee Member Li asked for advice on how the Permanent Fund should be managed for greater returns. The current investment policy does not allow the full potential. In the last five years U.S. Bank has failed to notify the City of the urgency to amend the investment policy. Committee Member Reynolds asked for recommendations from U.S. Bank to make the City's fund more fruitful.

Jurgen Gustafson suggested revamping the investment policy statement. Expanding the investment ranges and flexibility will be beneficial. He will submit written recommendations within a week for the most beneficial plan for the City. Mr. Gustafson manages 64 clients. The low end of assets is \$100,000 and the top is \$70M in assets. He values the City's account as an important one.

JOHNSON/REYNOLDS - MOVED TO REVIEW THE INVESTMENT POLICY STATEMENT AND THE INVESTOR AT THE MAY MEETING.

The committee would like to review if we need to RFP the service.

VOTE: YES. NON OBJECTION. UNANIMOUS CONSENT.

Motion carried.

## **NEW BUSINESS**

A. Election of Chair and Vice Chair

ROBERTS/LI - NOMINATED JO JOHNSON AS CHAIR.

Committee Member Jo Johnson accepted the nomination.

JOHNSON/REYNOLDS – NOMINATED CATRIONA REYNOLDS AS VICE CHAIR.

Committee Member Catriona Reynolds accepted the nomination.

**INFORMATIONAL MATERIALS**

- A. Appointment of Barbara Howard to the Permanent Fund Committee
- B. U.S. Bank Income and Growth Statements, December 2014

**COMMENTS OF THE AUDIENCE (3 MINUTE TIME LIMIT)**

There was no audience.

**COMMENTS OF THE CITY STAFF**

**COMMENTS OF THE COUNCILMEMBERS**

**COMMENTS OF THE CHAIR**

Chair Johnson thanked the committee for their confidence and will try to do her best.

**COMMENTS OF THE COMMISSION**

Committee Member Roberts is glad we had the conversation with U.S. Bank. We had a similar conversation a year ago about the fees and nothing has changed.

Committee Member Li will request an update from U. S. Bank for every meeting.

**ADJOURNMENT**

There being no further business to come before the committee, Chair Johnson adjourned the meeting at 6:09 p.m. The next Regular Meeting is scheduled for Thursday, May 14, 2015 at 5:15 p.m. in the Homer City Hall Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

Submitted by Jo Johnson