

Permanent Fund Committee

Regular Meeting
August 13, 2015
5:15 p.m.



City Hall
Cowles Council Chambers
491 E. Pioneer Avenue
Homer, Alaska

**NOTICE OF MEETING
REGULAR MEETING AGENDA**

- 1. CALL TO ORDER**
- 2. APPROVAL OF AGENDA**
- 3. PUBLIC COMMENTS REGARDING ITEMS ON THE AGENDA**
- 4. APPROVAL OF MINUTES**
 - A. Synopsis of Regular Meeting of May 14, 2015 Page 5
- 5. VISITORS**
- 6. STAFF & COUNCIL REPORT/COMMITTEE REPORTS/BOROUGH REPORTS**
- 7. PUBLIC HEARING**
- 8. PENDING BUSINESS**
 - A. Investment Policy Statement – Comparison of Existing and Proposed Policy Statement with U.S. Bank Page 9
- 9. NEW BUSINESS**
 - A. Prepare Recommendation to Homer City Council, Re: Permanent Fund Investment and Management
- 10. INFORMATIONAL MATERIALS**
- 11. COMMENTS OF THE AUDIENCE (3 MINUTE TIME LIMIT)**
- 12. COMMENTS OF THE CITY STAFF**
- 13. COMMENTS OF THE COUNCILMEMBERS**
- 14. COMMENTS OF THE CHAIR**
- 15. COMMENTS OF THE COMMISSION**

- 16. ADJOURNMENT/NEXT REGULAR MEETING** is scheduled for Thursday, November 12, 2015 at 5:15 p.m. in the Homer City Hall Cowles Council Chambers, 491 E. Pioneer Avenue, Homer, Alaska.

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



City of Homer

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Memorandum

TO: PERMANENT FUND COMMITTEE
FROM: JO JOHNSON, MMC, CITY CLERK
DATE: AUGUST 6, 2015
SUBJECT: REVIEW DRAFT INVESTMENT POLICY STATEMENT

At the May 14th meeting the Permanent Fund Committee reviewed the U.S. Bank account growth and income statements over a three-year period. The Committee heard from Jorgen Gustafson, Portfolio Manager of U.S. Bank, who suggested expanding investment ranges and flexibility to allow for greater returns. A draft Investment Policy Statement (IPS) was prepared by Mr. Gustafson.

The Committee is to review the draft IPS to determine if an amendment to the Permanent Fund portfolio is desired. The review will also determine if the recommended IPS is compliant with the current ordinance defining investment of the Permanent Fund as outlined in HCC Chapter 3.10.130 and Chapter 3.12.

RECOMMENDATION:

Review the draft IPS and make recommendations for changes, including amendments to HCC Chapter 3.10.130 and Chapter 3.12.

City of Homer, Alaska

Permanent Fund Equity-Growth Portfolio

Objectives

The primary investment objective is to grow the assets of the portfolio by earning a total return for the fund. The portfolio will be managed according to the appropriate time horizon, liquidity needs and risk tolerance.

Asset Mix

To accomplish the portfolios investment objectives, the portfolio may consist of mutual funds, publicly traded equity securities, and short-term cash investments. The account is to be invested in growth instruments only. These instruments include common and preferred stocks, mutual funds, exchange traded funds, and closed-end funds. Any equity security shall be diversified with no more than 5% of the allocation in any one company. No more than 25% of the equity portfolio shall be invested in any one industry.

Asset Allocation

Asset Class	Target	Range	Benchmark
Domestic Equities	65%	50-80%	Russell 3000
International Equities	20%	10-30%	MSCI World Ex U.S.
Real Estate	5%	2-10%	DJ US Real Estate Index
Commodities	5%	2-10%	Bloomberg Commodity
Cash	5%	0-20%	Merril 90 Day T-Bill

Asset Quality

1. Equities

The investment manager may invest in any unrestricted, publicly traded common or preferred stock that is listed on a major exchange or national over-the-counter market that is appropriate for the portfolio objectives, asset class, and or investment style of the fund that is to hold such shares.

2. Cash/Cash Equivalents

To include Prime Obligation Money Market Funds or US Government Money Market Funds and Commercial Paper. The assets of any money market mutual funds must comply with the standard quality provisions for fixed income securities.

3. Real Estate

Real Estate investments shall be publicly traded common or preferred stock, or real estate investment trusts (REITS) that are listed on a major exchange or a national over the counter the market.

4. Commodities

Commodities shall only be held in the form of Mutual Funds, or Closed End Funds.

Transactions

All purchases of securities will be for cash. There will be no margin, short selling, or direct commodity transactions.

Reporting Requirements

1. Monthly

The investment manager will provide a monthly statement containing all pertinent transaction and allocation details for the assets held in the portfolio for the preceding month. In addition, these statements will be provided to the Permanent Fund Committee at regularly scheduled meetings.

2. Annually

The investment manager will provide detailed information on asset allocation, investment performance, future investment strategies, and any other matter of interest to the committee. In addition these statements will be provided to the Homer City Council at regularly scheduled meetings.

Performance

It will be the objective of the portfolio to equal the performance of a composite index comprised of the target ranges listed above for the Russell 3000, MSCI All World ex US, Dow Jones US Select REIT Index, Bloomberg Commodity Index and the Merrill 90 day Treasury Bill Index.

**City of Homer, Alaska
Permanent Fund Equity-Growth Portfolio
Investment Policy Statement**

Objectives

The primary investment objective is to grow the assets of the portfolio by earning a total return for the fund. Each category of fund will be managed according to the appropriate time horizon, liquidity needs, and risk tolerance.

Asset Mix

To accomplish the portfolio's investment objectives, the portfolios may consist of mutual funds, equity securities (common stocks and convertible securities), and short-term (cash) investments. The account is to be invested in growth instruments. To include Common and Preferred Stock, Mutual Funds, Exchange Traded Funds, and Closed End Funds. Any equity shall be diversified with no more than 5% of the equity allocation in any one company. No more than 25% of the equity portfolio shall be invested in any one industry. International holdings shall be limited to 20% of portfolio value

Asset Allocation

Sub class	Range
Large Cap Stock	30-38%
Mid Cap Stock	7-13%
Small Cap Stock	3-10%
Foreign	10-20%
Real Estate (REIT)	3-7%
Commodity	3-10%
Cash	0-20%

Asset Quality

1. Equities-

The investment manager may invest in any unrestricted, publicly traded common or preferred stock that is listed on a major exchange or a national, over-the-counter market that is appropriate for the portfolio objectives, asset class, and/or investment style of the fund that is to hold such shares.

2. Cash/Cash Equivalents-

To include Prime Obligation Money Market Funds or U.S. Government Money Market Funds and Commercial Paper. The assets of any money market mutual funds must comply with this standard and/or the quality provisions for fixed income securities.

3. Real Estate

Real Estate investments shall be publicly traded common or preferred stock, or real estate investment trusts that are listed on a major exchange or a national, over-the-counter market.

4. Commodities

Commodities shall only be held in the form of Mutual Funds, or Closed End Funds. Any Commodity fund shall be diversified limited to no more than 10% portfolio value.

Transactions

All purchases of securities will be for cash. There will be no margin transactions, short selling, or direct commodity transactions.

Reporting Requirements

1. Monthly

The investment manager will provide a monthly written statement containing all pertinent transaction and allocation details for the assets held in the portfolio for the preceding month. In addition, these written statements will be provided to the Permanent Fund Committee at regularly scheduled meetings.

2. Annually

The investment manager will provide detailed information about (a) asset allocation, (b) investment performance, (c) future investment strategies, and (d) any other matters of interest to the Committee. In addition, these written statements will be provided to the Homer City Council at regularly scheduled meetings.

Performance

It will be the objective of the portfolio to equal a composite index comprised of the 90 day U.S. Treasury Bill, the S&P 500, and Europe, Australia, and Far East (EAFE) Index. The benchmark percentages will be adjusted to reflect the allocation of assets in the portfolio.

Regina Dauria
Representative

9/21/2010
Date

Oliver M...
Senior Portfolio Manager
US Bank

9/21/2010
Date

Homer City Code

Chapter 3.10.130 Governance of Homer Permanent Fund Assets.

a. In investing and managing the monies of the Permanent Fund established pursuant to HCC Chapter 3.12, the persons having responsibility for making decisions shall exercise the judgment and care under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the long term investment of funds considering the probable safety of capital as well as probable income, in accordance with the stated objectives of the Permanent Fund.

b. In order to ensure sound investment strategy, the city council will take action in the following manner:

1. The city council shall establish written investment policies by formal resolution which shall be adhered to without exception;

2. The city council shall review the investment policies of the permanent fund at least once each year during the first quarter and shall, by formal resolution, re-adopt or modify said policies;

3. The city council shall establish, by formal resolution, a plan for the allocation of investment assets each year that provides for the following:

(a) That earnings available for annual appropriation and distribution shall be confined to the interest, dividends or coupon discounts derived from the investments of the fund. Realized or unrealized gains to the portfolio value are not considered earnings,

(b) The portfolio of growth sub-fund will be invested primarily in equities, and is exempt from HCC 3.10.040.

(c) The portfolio of the income sub-fund will be invested primarily in bonds and the other fixed rate securities authorized by HCC 3.10.040.

(d) The income sub-fund may be used as a revolving loan for various city capital projects as provided in HCC Chapter 3.12.

(e) Sets forth portfolio duration, and which establishes performance benchmarks, and which estimates the percentage or amount of that year's annual earnings that would be necessary to retain to inflation-proof the fund principal;

4. The city council shall establish a permanent fund investment committee consisting of the finance director, the city clerk, two members of the city council, and two members of the community at-large. The term of each appointment shall be two years, with initial terms of the city council members and members at-large staggered so that half of the terms will expire each year. The committee shall be appointed by the mayor and confirmed by the city council. The appointment of any city official will automatically terminate on the date when the person no longer holds such city office. Any city council member or member at-large may be removed from the committee at any time by the City Council.

5. The committee shall meet at least quarterly to provide direction as required for maintenance of the fund. The committee shall provide regular reports of its activity to the city council.

6. The city administration shall maintain on file within the offices of the Finance Department monthly reports which indicate transactions affecting the investment account, to include, at a minimum, transfers of cash into and out of the account, and interest or dividends received by the account;

7. The city administration shall order an objective performance evaluation of the investment program every year;

8. The city administration shall retain one or more bank custodians to hold all investment cash and fixed income securities of the permanent fund and require that the custodians shall render monthly reports to the administration regarding assets held at both book and market values, and individual transactions which have taken place; that the banks shall have adequate fidelity insurance, and that written contracts be entered into between the city and the custodian banks.

c. The city, with the approval of the city council, shall retain one or more professional investment managers to design portfolios and invest funds in accordance with the written investment policies adopted by the city council. The investment managers shall be registered financial advisers with both the United States Securities and Exchange Commission and the state of Alaska, unless otherwise exempt from registration, and the investment managers shall agree to serve as a fiduciary to the city. Each investment manager shall carry professional liability insurance in an amount satisfactory to the city, and the terms of the investment relationship shall be memorialized in a written contract entered into between the city and the respective investment advisers.(Ord. 05-14(S) §2), 2006)

Chapter 3.12 Permanent Fund

Sections:

3.12.010 Homer Permanent Fund Established.

3.12.020 Contributions.

3.12.030 Allocation to sub-funds.

3.12.040 Additions to fund.

3.12.050 Investment of fund.

3.12.060 Expenditures of income.

3.12.070 Loans from income sub-fund.

3.12.080 Expenditure of principal.

3.12.010 Homer Permanent Fund Established. There is hereby established the Homer Permanent Fund. The Permanent Fund

shall be governed by this chapter. (Ord. 05-14(S) §2), 2006)

3.12.020 Contributions. a. If monies from the distribution of the Exxon Valdez settlement or other forms of wind-fall monies become available to the City, 95% of such funds shall be placed in the Homer Permanent Fund.

b. Wind-fall monies shall be defined as any new monies received by the City from any source other than standard budgeted operating revenues and not allocated to any specific purpose. Wind-fall monies do not include bond proceeds, grant funds allocated to a specified purpose, or the proceeds of non-Exxon Valdez litigation when such proceeds are recovered as damages to compensate or reimburse the city for expenditures previously made by the city. In all cases, the City Council's determination of whether monies are wind-fall is final and conclusive.

c. The remaining five percent of Exxon Valdez settlement funds and other wind-fall monies are available to be appropriated by the City Council for grants to the Homer Foundation or other local non-profit organizations for the benefit of the community. (Ord. 05-14(S) §2), 2006)

3.12.030 Allocation to sub-funds. When a contribution is made to the Permanent Fund pursuant to HCC 3.12.020, the money received shall be allocated to two sub-funds as follows:

a. Sixty percent of each contribution shall be allocated to an income sub-fund.

b. Forty percent of each contribution shall be allocated to a growth sub-fund. (Ord. 05-14(S) §2), 2006)

3.12.040 Additions to fund. a. The City Council may elect to contribute monies to the Permanent Fund. Unless otherwise allocated by the council, such contributions shall be allocated to sub-funds pursuant to HCC 3.12.030. (Ord. 05-14(S) §2), 2006)

3.12.050 Investment of fund. The sub-funds of Permanent Fund

shall be invested and managed in accordance with HCC 3.10.130. (Ord. 05-14(S) §2), 2006)

3.12.060 Expenditures of income. a. Expenditures of Permanent Fund income may be made only as authorized in this chapter.

b. The income from the income sub-fund may be appropriated by the City Council and be expended for general governmental purposes, including but not limited to ordinary operating expenses.

c. The income from the growth sub-fund shall not be expended. It shall be added to the principal of the growth sub-fund and reinvested. (Ord. 05-14(S) §2), 2006)

3.12.070 Loans from income sub-fund. The principal of the income sub-fund may be used as a source of loan funds for city capital projects, and not as a grant. To be eligible for such a loan the project must receive a majority of its funding from other sources. Such loans shall be on terms approved by resolution of the City Council, which must provide for the repayment of the loan over a reasonable period of time. (Ord. 05-14(S) §2), 2006)

3.12.080 Expenditure of principal. a. Expenditures of Permanent Fund principal may be made only as authorized in this section.

b. Except as a source of loan funds as provided in subsection 3.12.070, the principal of both the income sub-fund and the growth sub-fund shall neither be distributed nor spent without the authorization of sixty percent of city voters at a regular or special election.

c. Prior to submitting to the voters the question of whether to distribute or spend funds from the principal of the Permanent Fund, the City Council shall find that all reasonable options for borrowing have been exhausted, including the option of borrowing from the Homer Permanent Fund pursuant to section 3.12.070. (Ord. 05-14(S) §2), 2006)

