



City and Borough of Wrangell  
08-26-2019 - Work Session (Borough Assembly)  
AGENDA

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Monday, August 26, 2019  
5:30 PM

Location: Borough Assembly Chambers  
City Hall

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[Work Session - Investment Firm](#)



ALASKA PERMANENT  
CAPITAL MANAGEMENT

Registered Investment Adviser

# CITY AND BOROUGH OF WRANGELL

Investment Management Proposal

*August 26, 2019*



# Introduction to APCM

**\$3.1 Billion**

*In assets under management  
and advisement*

**200+**

*Years of collective industry experience*

**7**

*Chartered Financial Analysts<sup>®</sup>, and many  
other advanced degrees and designations*

**1**

*Team dedicated to helping Alaskans achieve  
their financial objectives*

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## **25 Years of Alaska Experience**

APCM is an SEC Registered Investment Advisor serving Alaska institutions. The Firm was founded in 1992 by Dave Rose, the first executive director of the Alaska Permanent Fund. It is owned and operated by Alaskans, headquartered out of Anchorage.



## **Trusted Fiduciary, No Conflicts of Interest**

As a fiduciary, APCM is legally obligated to ensure all decisions are made in the client's best interest. As a fee-only independent Registered Investment Advisor, APCM does not have any conflicts of interest and does not use any APCM branded products or soft dollar arrangements.

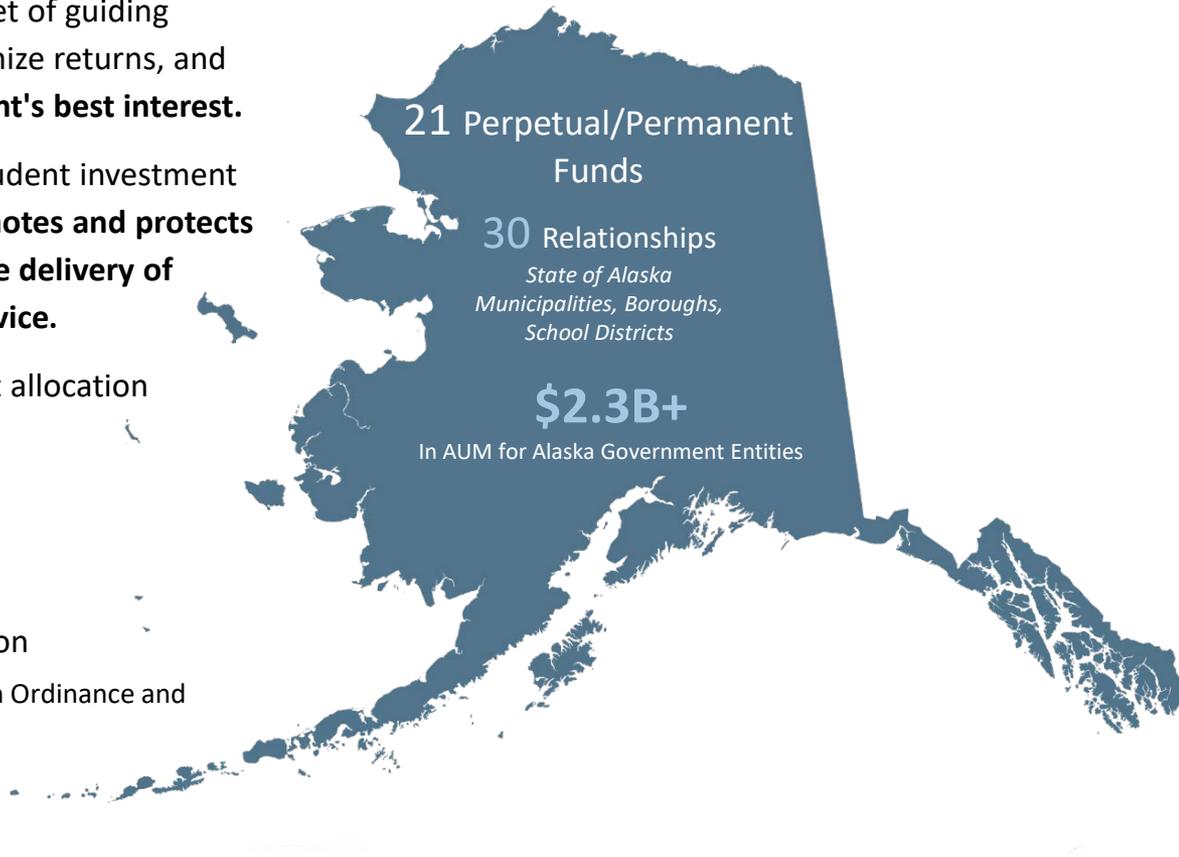


## **Shared Values for Mutual Success**

APCM prides itself on the ability to attract and retain highly qualified investment professionals who are as passionate about what they do, as they are about where they live. When CBW and its residents thrive, it contributes to the overall economic health and general wellbeing of the State and communities that our Firm and employees call home.

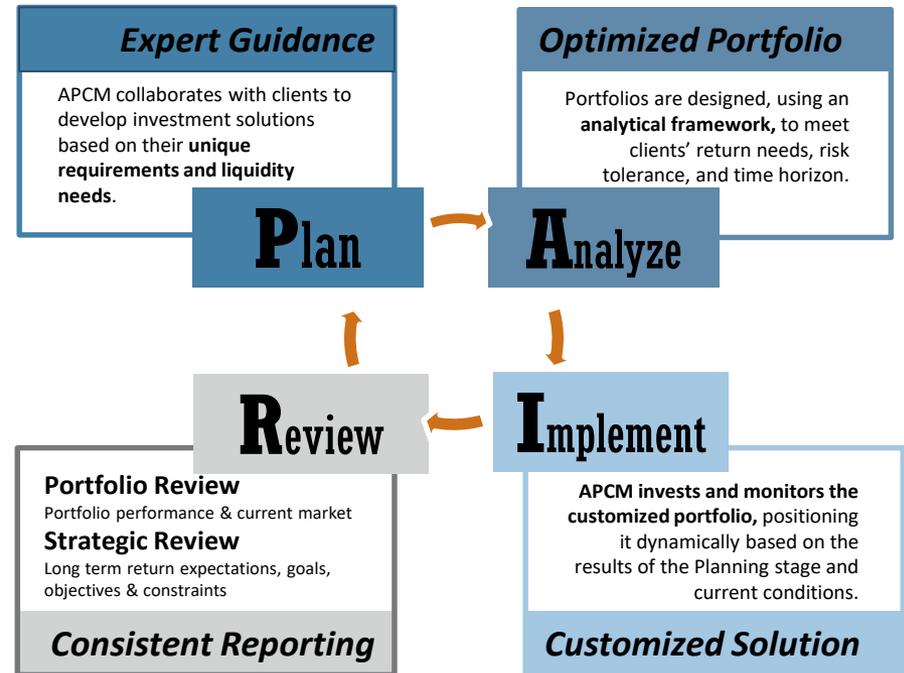
# APCM's Institutional Partnership

- Investment decisions are based upon a set of guiding principles designed to control risk, maximize returns, and **ensure all decisions are made in the client's best interest.**
- APCM partners with clients through a prudent investment management process. This practice **promotes and protects the clients' interests and perpetuates the delivery of competent and objective investment advice.**
- Comprehensive suite of customized asset allocation services
  - Operating Cash
  - Short Term and Medium Term Reserves
  - Permanent Funds
- Experts in Permanent Fund asset allocation
  - Policy development and compliance with Ordinance and Resolution
  - Optimal funding and transfer analysis
  - Determining sustainable distributions
  - Target distribution levels



# Prudent Investment Management Process

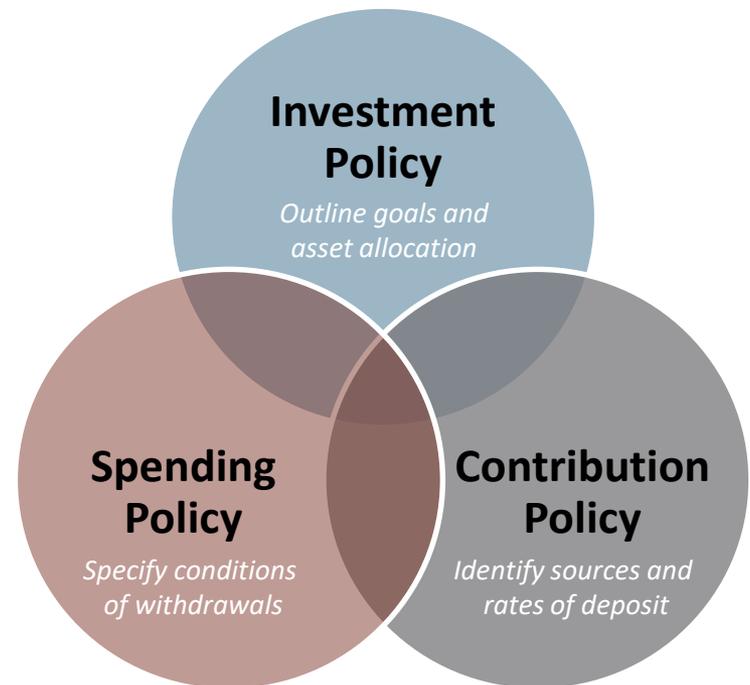
- APCM'S prudent investment process, is an integrated set of steps undertaken consistently to **create and maintain an optimal portfolio**.
- APCM designed this process to **promote and protect the interests of residents** and continuously confirm that **each client's customized strategy achieves the highest return possible given a specified level of risk**.
- This process is perpetual and formal reviews conducted each year maintain a customized investment strategy that:
  - Prudently **evaluates new investment opportunities**.
  - Confirms the **ability of the strategic allocation(s) to meet the stated long term investment objectives**.



# Aligning Investments with CBW Goals

- **Holistic Approach:** APCM assists in evaluating and creating a plan for the entirety of investment needs including but not limited to:
  - Operating
  - Reserves
  - Permanent Funds
- **Comprehensive Set of Policies:** APCM will assist in developing and/or confirming a comprehensive and cohesive set of policies that ensure each account is in line with the long term goals.

Likelihood of Meeting Goals Increases  
When Policies are in Alignment



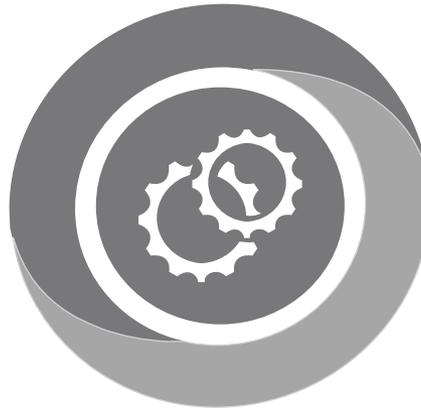
# APCM's Investment Philosophy

Key Pillars of Investment Success: **customized asset allocation** and **controlling expenses**.



## Efficient to Optimal

Each portfolio should be optimal, not just efficient or acceptable.



## Asset Allocation

Studies have shown that asset allocation is the primary driver of return and risk\*.



## Control Expenses

Controlling expenses is critical to optimal portfolio implementation

# Advisory Fees and Services

## Proposed Fee Schedule

| Account Balance                   | Annual Advisory Fee (% AUM) |
|-----------------------------------|-----------------------------|
| Up to \$5 million                 | 0.50%                       |
| Thereafter                        | 0.30%                       |
| <b>Effective Rate on \$8.7 MM</b> | <b>0.41%</b>                |

APCM has **no conflicts of interest** and independently selects all investments.

- No soft dollar purchases
- No APCM branded products
- No 12b-1 fees
- No commission recapture programs

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## Services Provided by APCM

- Investment policy creation and review
- Portfolio/asset allocation construction
- Selection of funds and investment vehicles
- Portfolio trading and rebalancing
- Performance monitoring and reporting
- Assembly updates and education
- Annual strategic asset allocation review
- Evaluation of new asset classes and investment strategies

# Appendix

# Core Portfolios

| Asset Class   | 25% Equity    | 40% Equity    | 55% Equity   | 70% Equity    | 85% Equity    |               |
|---|---------------|---------------|--------------|---------------|---------------|---------------|
| U.S. Equity   |               |               |              |               |               |               |
| International Equity                                  |               |               |              |               |               |               |
| REITs / Infrastructure                                |               |               |              |               |               |               |
| Commodities   |               |               |              |               |               |               |
| Fixed Income  |               |               |              |               |               |               |
| <b>APCM's Forward Looking Assumptions</b>             | <b>Return</b> | <b>4.4%</b>   | <b>5.2%</b>  | <b>6.0%</b>   | <b>6.8%</b>   | <b>7.8%</b>   |
|   | <b>Risk</b>   | 4.7%          | 6.6%         | 9.0%          | 11.2%         | 14.0%         |
|   | <b>Range*</b> | -5.0 to 13.8% | -8.0 - 18.4% | -12.0 - 24.0% | -15.6 - 29.2% | -20.2 - 35.8% |
| <b>Annualized Historical Returns 1/1999 - 12/2018</b> | <b>Return</b> | <b>4.9%</b>   | <b>5.2%</b>  | <b>5.7%</b>   | <b>5.9%</b>   | <b>6.4%</b>   |
|   | <b>Risk</b>   | 4.1%          | 6.0%         | 8.3%          | 10.5%         | 13.2%         |
|   | <b>Ratio</b>  | 1.20          | 0.87         | 0.69          | 0.56          | 0.48          |
| <b>Best 12 Month Period</b>                           |               | 18.4%         | 25.2%        | 33.7%         | 41.2%         | 51.3%         |
| <b>Worst 12 Month Period</b>                          |               | -12.0%        | -21.0%       | -29.7%        | -38.2%        | -46.1%        |

Risk and return data from Windham Portfolio Advisor. U.S. Equity includes a blend of large, mid, and small cap stocks. International Equity includes developed and emerging markets. Fixed Income can include U.S. aggregate bonds, U.S. TIPS, international bonds, and cash.

\*Range denotes the possible return range at the 95% confidence level.

# Disclosures

## **Important Assumptions**

IMPORTANT: The projections or other information generated by Alaska Permanent Capital Management Company (APCM) regarding the likelihood of various outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. There can be no assurance that the projected or simulated results will be achieved or sustained. The charts and data only present a range of possible outcomes. Actual results will vary over time, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than that demonstrated in the simulations. Please note that the analysis does not take into consideration all asset classes, and other asset classes not considered may have characteristics similar or superior to those being analyzed.

## **Important Legal Information**

These calculations are designed to be informational and educational only, and when used alone, do not constitute investment advice. APCM encourages investors to review their investment strategy periodically as financial circumstances do change.

Model results are provided as a rough approximation of future financial performance. Actual results could produce different outcomes (either better or worse) than those illustrated by the model, since it is not possible to anticipate every possible combination of financial market returns. APCM is not responsible for the consequences of any decisions or actions taken in reliance upon or as a result of the information provided by the results of the model.

## **Other Influences on Rates of Return**

Investment management fees: Returns are presented gross of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary.

Taxes: Unless noted otherwise, model results have not been adjusted for any state or federal taxes or penalties.

Inflation: Unless noted otherwise, model results do not adjust any inputs or outcomes for inflation. Inflation is assumed to be constant over the investment horizon.

## **Limitations Inherent in Model Results**

Limitations include but are not restricted to the following:

Model results do not represent actual trading and may not reflect the impact that material economic and market factors might have had on APCM's decision making if the actual client money were being managed.

Extreme market movements may occur more frequently than represented in the model.

Some asset classes have relatively limited histories. While future results for all asset classes in the model may materially differ from those assumed in APCM's calculations, the future results for asset classes with limited histories may diverge to a greater extent than the future results of asset classes with longer track records.

Market crises can cause asset classes to perform similarly over time; reducing the accuracy of the projected portfolio volatility and returns. The model is based on the long-term behavior of the asset classes and therefore is less reliable for short-term periods. This means that the model does not reflect the average periods of "bull" and "bear" markets, which can be long or short than those modeled.

The model represent APCM's best view of the next 10 years, but is unlikely to reflect actual investment returns worldwide over this period.

# Sources of Return: The Beta to Alpha Spectrum

| Beta ( $\beta$ )   |  |   | Alpha ( $\alpha$ )  |
|--|--|---|---|
| Traditional $\beta$  | Smart $\beta$  | Alternative $\beta$   | Manager Skill   |
| <p>Broad market exposure</p> <ul style="list-style-type: none"> <li>• Equity premium</li> <li>• Credit premium</li> <li>• Term premium</li> <li>• Commodities</li> </ul> | <p>Exposure to segments of the market</p> <ul style="list-style-type: none"> <li>• Value premium</li> <li>• Size premium</li> <li>• Quality premium</li> <li>• Momentum premium</li> <li>• Commodities roll yield</li> </ul> | <p>Exposure to emphasize compensated risk premia</p> <ul style="list-style-type: none"> <li>• Merger arbitrage</li> <li>• Equity index arbitrage</li> <li>• Statistical arbitrage</li> <li>• Momentum premium</li> <li>• Bond and currency carry</li> </ul> | <p>Manager driven non-systematic risk</p> <ul style="list-style-type: none"> <li>• Superior security selection</li> <li>• Investment in niche markets</li> <li>• Market timing</li> </ul> |



$\beta$

**Beta** denotes the underlying systematic sources of risk that are driven by economic or behavioral forces. Also known as undiversifiable or market risk, **investors are generally compensated for taking on these risks**. The compensation for these risks can be expected over long time horizons.

**Alpha** denotes investment-specific sources of risk. Also known as diversifiable or idiosyncratic risk, **investors are not compensated for taking this risk through any natural market mechanism**. Persistent value-added from alpha is only possible if a manager's qualitative judgements are correct over time.

$\alpha$

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