

Memo

To: Assembly, City and Borough of Sitka

From: Jay Sweeney, Chief Financial and Administrative Officer

Date: April 22, 2015

Re: Proposal to Engage a Professional Manager for the Sitka Permanent Fund

Deputy Mayor Hunter and Assembly Members,

The Investment Advisory Committee is recommending that the Assembly approve the transition of the management of the Sitka Permanent Fund to an external Investment Manager, Alaska Permanent Capital Management.

At its meeting on September 25, 2014 (minutes enclosed), the Investment Advisory Committee received a presentation from Alaska Permanent Capital Management on the potential advantages to be gained through external investment management. After the presentation, I informed Investment Advisory Committee members that Sitka was the largest Alaska municipality still managing its investments 100% internally. Every other larger municipality had engaged professional external investment managers.

After careful deliberation on the matter, the Investment Advisory Committee directed staff to proceed with the development of a request for proposals (RFP) for external investment management and the solicitation of proposals from qualified managers.

Staff prepared a detailed RFP, in a similar format to that prepared by other Alaska Municipalities for external investment management, and the Investment Advisory Committee met again on February 13, 2015 (minutes enclosed) to consider the RFP. The RFP form was approved at the February 13th meeting, and staff was directed to directly solicit a minimum of five firms for proposals.

The RFP was put out for proposals on February 19th, 2015, and staff directly solicited proposals from eleven separate investment management firms having basic qualifications and experience in managing endowment-type portfolios for municipal governments. The direct solicitation involved the mailing of the RFP to the eleven firms as well as posting on the Municipal website.

On the closing date for submissions, four proposals were received, from Vanguard Institutional Investor Group; Empirical Wealth Management; PFM Asset Management, LLC; and, Alaska Permanent Capital Management, LLC. The four proposals were considered by the Investment Advisory Committee at its April 6, 2015 meeting (minutes enclosed). The Investment Advisory Committee unanimously voted to recommend the engagement of Alaska Permanent Capital Management, LLC to the Assembly as the best qualified proposal.

I have enclosed key portions of the Alaska Permanent Capital Management Proposal. Key salient points are the cost proposal for annual management, \$48,067 (see enclosure), and, the investment performance Alaska Permanent Capital has achieved was comparable fixed income portfolios (see enclosure).

Staff estimates that the net increase in investment earnings (gross earnings less the management fee) to the Municipality through external management of just the fixed income portion of the portfolio alone will exceed \$100,000.

Given that the Permanent Fund now distributes more annually to the General Fund, by Charter mandate, than its return on investments, Staff believes that transition to external management of the Permanent Fund is both prudent and timely.

Alaska Permanent Capital, LLC is highly regarded within the State of Alaska. Alaska Permanent Capital manages a portion of the Alaska Permanent Fund and also manages investments for the City of Fairbanks and the City of Kenai.

Response to City and Borough of Sitka, Alaska RFP – PERMANENT FUND INVESTMENT MANAGER

Presented by
Alaska Permanent Capital Management Company
March 19, 2015

Evan Rose
Chief Executive Officer

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evan@apcm.net*



**ALASKA PERMANENT
CAPITAL MANAGEMENT**
— Registered Investment Adviser

4.3 LETTER OF TRANSMITTAL

March 13, 2015

City and Borough of Sitka
100 Lincoln Street
Sitka, AK 99835

Alaska Permanent Capital Management Company (APCM) is pleased to present our proposal to the City and Borough of Sitka, RFP- Permanent Fund Investment Manager. We have carefully reviewed the RFP, including all attachments and addendum as well as the referenced Charter and code of ordinances. APCM is an experienced, licensed, and insured investment advisory firm that meets the requirements of this RFP.

Specifically APCM has reviewed Section 4.4 A. Minimum Qualifications, and hereby certifies to the City and Borough of Sitka that the firm is registered with the Securities and Exchange Commission as an investment advisor as evidenced by the attached ADV to this proposal. The firm is licensed by the State of Alaska as illustrated by the attached copy of our business license. APCM exclusively provides fee based investment management services and is not a securities broker or dealer nor does it provide custodial services. As our ADV shows, the firm has in excess of five years' experience managing portfolios similar in structure to those of the City and Borough of Sitka. APCM manages well in excess of the five-hundred million in institutional funds threshold set forth in RFP-Permanent Fund Investment Manager as shown not only in the ADV but also Section 4.4 D. Assets Under Management. The firm certifies that Section 7.0 Insurance Requirements have been met and that no conflict of interest exists which would affect the objectivity, analysis and/or performance under this RFP and will furnish any necessary documentation the City requires.

The City and Borough of Sitka, through this solicitation, is seeking to hire an investment manager who will act as the City's fiduciary and manage a balanced portfolio of approximately twenty-three million dollars. The management of these funds is governed by specific City codes and ordinances which serve as the investment policy statement for the Fund and place limitations on those securities which a manager may utilize. The Fund can be considered bifurcated between equity and fixed-income components, with the manager responsible for managing the allocation within the parameters set forth by the City. The City takes an annual distribution of 6.0% which is used to defray costs of services for its residents.

The City has created an Investment Advisory Committee that meets at a minimum quarterly to review the Fund and the activities of the manager. The Committee additionally seeks input from the manager on recommendations to alter the structure of the Fund to better serve the needs of the City. Should the Committee elect to make a change, the recommendation is forwarded to the City and Borough of Sitka for consideration.

In order to effectively manage the total fund, the City needs to retain the services of a firm that is versed in the fixed-income environment, understands and can implement asset allocation strategies and understands portfolio risk. Alaska Permanent Capital Management Company has an audited, GIPS compliant, track record in managing balanced portfolios that spans over 10 years. Since the inception of the firm nearly two decades ago, APCM has been constructing broadly diversified, low cost, efficient portfolios for clients throughout Alaska.

City and Borough of Sitka
RFP – Permanent Fund Investment Manager

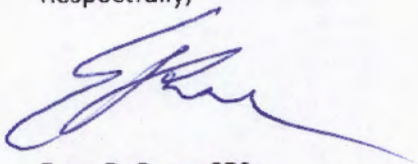
APCM is an Alaskan corporation headquartered in Anchorage. The firm is primarily an institutional money manager whose core business is providing investment management services to governmental units located in the State of Alaska. Ownership of the firm is held by current and former employees of the company, with a small portion held in a trust. The firm has 17 employees, four of whom are Chartered Financial Analyst (CFA's). Since 2005, Evan Rose has been the C.E.O. of the firm. Mr. Rose has an undergraduate degree from the University of Oregon and an MBA from the University of Washington. Both Jeff Pantages, Chief Investment Officer of the firm, and Brandy Niclai, VP and Portfolio Manager are CFA Institute Charter Holders. Ms. Niclai's principal area of concentration is in structuring efficient portfolios such as set forth in this RFP.

To properly manage an account such as the City and Borough of Sitka Permanent Fund, a firm must have the capability to select and optimize asset classes, execute investable vehicles of those respective classes and manage a fixed-income portfolio which includes credit risk. APCM has invested considerable resources in acquiring the necessary software and dedicating professional staff to the investment process. Brandy Niclai's primary function at APCM is asset allocation and construction of optimized portfolios. Ms. Niclai, a graduate of University of Alaska Anchorage, Washington State University and a Chartered Financial Analyst, will serve as co-portfolio manager on the City and Borough of Sitka account. As a considerable portion of the Fund will be invested in fixed-income securities, the ability to analyze and evaluate credit risk will play an important role in maximizing return and minimizing risk. Mr. Bill Lierman joined APCM in 2002 and specializes in analyzing credit exposure. His primary focus is in evaluating corporate securities and integrating them into a fixed-income portfolio. Mr. Lierman received his undergraduate degree from Western Washington University and he is a Chartered Financial Analyst. By actively constructing a fixed-income portfolio, as opposed to merely purchasing a mutual fund, APCM can specifically tailor the securities to meet the requirements of the City and Borough of Sitka and avoid the layering of fees that many managers utilize.

The accounting environment is staffed to produce accurate financial records including account performance and invoices as set forth in this RFP. The overall reporting system is under the control of Julee Durhsen, a certified public accountant. One of Ms. Durhsen's functions is to ensure that performance reporting is properly reported and in compliance with the GIPS standard as well as the integrity of the data system used to account for and track portfolio activities. She also coordinates the audit of our performance calculations with the Spalding Group. Attached is example of our monthly reporting which illustrates performance measurement against a benchmark, and an annual report on a similar portfolio which illustrates our completely transparent reporting. Ms. Durhsen is a graduate of the University of Houston and is an MBA, CPA and Chartered Financial Analyst as well as an Accredited Investment Fiduciary. She reports directly to the Chief Executive Officer.

Evan Rose is the Chief Executive Officer who is authorized to make representations for APCM. His address is 900 West 5th, Avenue, Suite 601, Anchorage, Alaska 99501. His telephone number is 907-272-7575 and e-mail address is Evan @apcm.net.

Respectfully,



Evan D. Rose, CEO
Alaska Permanent Capital Management Company

4.4 MINIMUM QUALIFICATIONS, PROFILE OF THE INVESTMENT ORGANIZATION, TECHNICAL QUALIFICATIONS, AND APPROACH

A. Minimum Qualifications

- 1. Proposer must be registered with the SEC as an investment adviser.**

Alaska Permanent Capital Management Company (APCM) is a registered investment advisor with the SEC. ADV Part I and II are attached in the appendix. The State of Alaska defers registration of Registered Investment Advisors who manage over \$100 million directly to the SEC.

- 2. Proposer must be licensed and properly registered to do business within the State of Alaska and, if required, within the City of Sitka.**

APCM holds a business license issued by the State of Alaska which is attached in the appendix. If selected APCM will obtain a business license from the City and Borough of Sitka.

- 3. Proposer (or affiliates) may not serve in multiple roles as investment manager and securities broker custodian.**

APCM would serve only as the City and Borough of Sitka's investment manager. APCM does not currently, nor has it ever, engaged in the role of custodian or broker/dealer.

- 4. Proposer must have five years experience as advisors with portfolios and municipalities of similar size to the City.**

APCM has been advising on municipal portfolios of similar size to the City and Borough of Sitka's since the inception of the company in 1992. APCM's specialty has always been understanding the unique investment needs of Alaskan governmental entities. As a result of its understanding of the intricacies of local and state government, APCM has been continually renewed as the investment advisor for the State of Alaska's Local Government Investment Pool (AMLIP) for the past two decades.

- 5. Proposer must have greater than \$500 million in institutional funds under management, including experience with governmental fund management.**

APCM manages approximately \$3 billion in institutional funds. Local and state governmental fund management has always been the core element of APCM's service to Alaska clients. APCM currently manages \$2.1 billion for 23 governmental clients.

- 6. Proposer must have no conflict of interest that would affect the objectivity, analysis, and/or performance as required by the scope of work within this RFP.**

APCM is unaware of any conflicts of interest that would affect the objectivity, analysis and/or performance as required by the scope of work within this RFP.

- 7. Proposer must carry insurance in the minimum amounts as set out in Section 7.0 Insurance Requirements.**

APCM's insurance coverage exceeds the minimum amounts as set out in Section 7.0 Insurance Requirements.

B. Organization

1. Describe your organization, date founded, ownership of your firm and any subsidiaries and affiliates relevant to the City.

Founded in 1992 by Dave Rose, Alaska Permanent Capital Management Company (APCM) is an Alaska corporation located in Anchorage. The firm is primarily an institutional asset manager whose core franchise is providing investment management services to governmental entities located in the state of Alaska.

The firm has earned a reputation as a conservative investment manager while providing exceptional client service. Clients have responded by increasing the amount of assets entrusted to the firm from \$250 million in 1992 to over three billion dollars in assets under management and advisement as of December 31, 2014.

The sole focus of APCM is on providing investment management services within the state of Alaska. In the spring of 2014, APCM formed the subsidiary APCM Wealth Management for Individuals (AWMI) which is tasked with meeting the specific financial planning and investment needs of private individuals. The APCM parent company remains focused on providing investment services to institutional clients. Ownership of the firm is held by current and former employees of the company, with a small portion held in a trust. All employees are located in Anchorage, Alaska.

APCM employs one of the most experienced investment teams in Alaska. Client assets are managed by financial professionals with a combined industry experience of more than 250 years. Additionally, three of APCM's portfolio managers each have over 30 years of experience in the financial industry. The table to the right summarizes the accreditation of APCM's investment staff.

Accreditation	Number of Employees
Chartered Financial Analyst (CFA®)	4
Certified Public Accountant (CPA)	2
Certified Financial Planners (CFP®)	3
Accredited Investment Fiduciaries (AIF)	2
Chartered Financial Consultant (ChFC®)	1

2. Have there been any significant changes in ownership within the past five years?

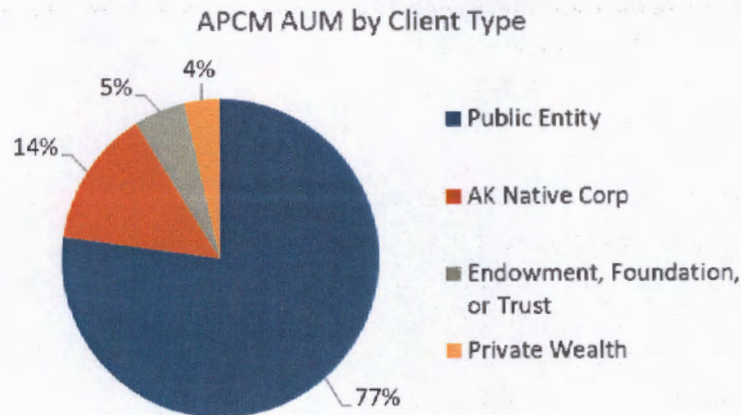
Ownership changed in 2006 with the death of the firm’s founder, Dave Rose. His shares transferred to existing shareholders and related trusts. Additionally, a portion of stock was transferred to the Chief Investment Officer, as is a regular practice for an investment firm to align its interests with the best interests of clients.

3. Are you affiliated with any other companies involved in some component of the financial services industry (e.g. brokerage, banking, insurance, mutual fund)?

APCM has no affiliation with any other financial services company.

4. Describe your firm’s primary sources of revenue, categorized if possible between retail and institutional accounts.

APCM receives 86% of its revenue from institutional accounts. The remaining 14% is from private wealth clients. Please see the chart below for a further breakdown of APCM’s assets under management grouped by client type.



5. Do you have any sources of compensation other than fees you receive from clients for investment management services? If yes, please describe.

No, 100% of APCM’s revenue comes from investment management fees paid by current clients.

6. Do you provide any additional services not covered by the fee quote you have provided herein? If so, please describe, including the percentage of revenue derived from non-investment management activities.

Although there is no additional charge, APCM considers itself a partner with its clients. As a partner with fiduciary interests aligned with the client, APCM regularly reviews the client’s

investment policies, distribution practices, and portfolio allocations. APCM will utilize the full slate of its investment professionals to make suggestions for improving performance and safety. APCM provides regular commentary both on the market and its clients' accounts and can present relevant changes in person if necessary. APCM appears at local chambers, rotaries and other civic organizations to help increase awareness of events in the investment markets. APCM provides all levels of its organization as a resource to its clients.

7. Does your firm solicit or accept any form of compensation from any service provider under contract with the clients to whom you provide investment management services?

No, APCM does not solicit or accept any form of compensation from any service provider.

8. Please describe the nature and extent of any "soft dollar" arrangements currently in place.

One of the ways APCM embraces its responsibility as a fiduciary is by not accepting any soft-dollar or outside arrangements. The firm's independence serves as an unbiased, conflict free foundation upon which its investment philosophy and security selection rests.

9. Identify and provide background information on the key person or personnel who take the most active role(s) in the administration and management of the firm.

Evan Rose, Chief Executive Officer

Mr. Rose has been the CEO of APCM and Chairman of the firm's Board of Directors since 2005. Mr. Rose has over 27 years of investment industry experience. He has extensive administrative experience through his former employment with Dain Rauscher and Pacific Securities where he served as Vice President, Corporate Finance. Mr. Rose serves on the Board of the Alaska Humanities Forum as its Treasurer and is the Chair of the Anchorage Museum Board. He is a shareholder in the firm.

Education: MBA University of Washington, BS University of Oregon
License: Series 65

Jeff Pantages, CFA®, Chief Investment Officer

Mr. Pantages oversees all portfolio managers and investment analysts at APCM. He will provide direct oversight of the account and will be available for client consultation upon request. His professional experience spans over 36 years and before joining APCM he worked as a portfolio manager for firms including Prudential, Mellon Bank, Alliance Capital Management, and Cuna Mutual Group. Mr. Pantages is a frequent contributor to such publications as Bloomberg, Fortune, The Wall Street Journal and Pension & Investments. He has extensive experience teaching at the university level on such topics as derivatives and the capital markets. Mr. Pantages is a shareholder in the firm.

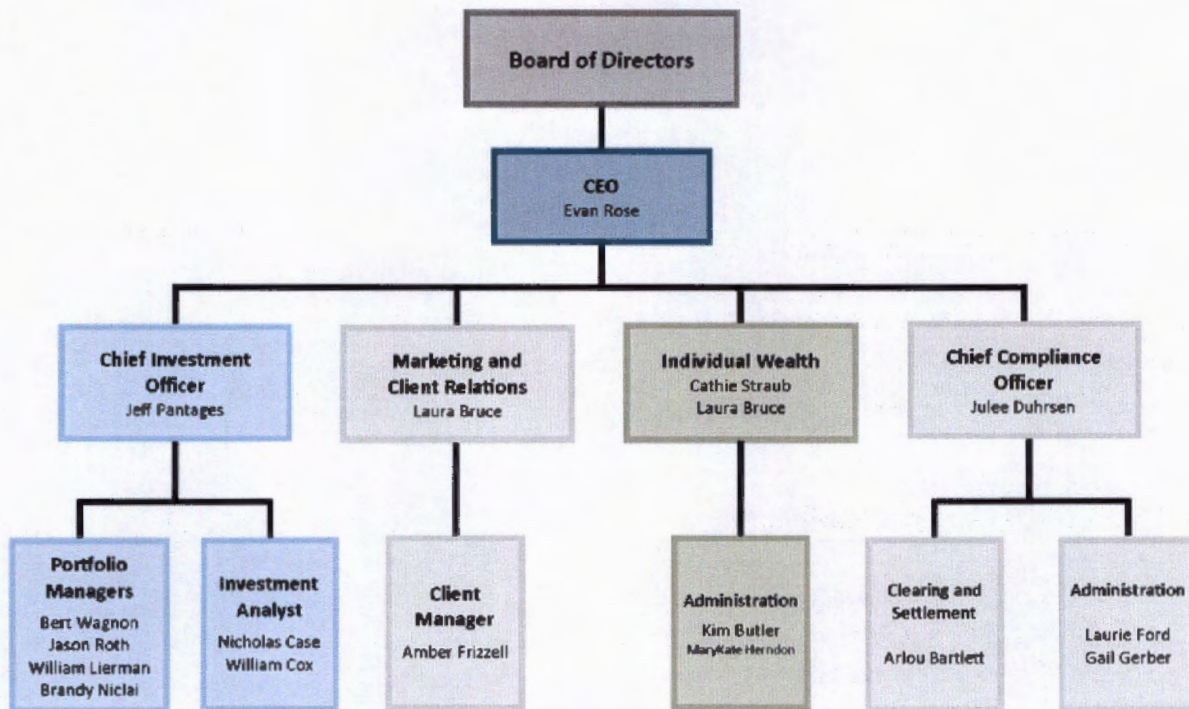
Education: MS Massachusetts Institute of Technology, MA University of Wisconsin,
BA Simon Fraser University
Accreditation: Chartered Financial Analyst

Julee Duhrsen, CPA, CFA®, Chief Compliance Officer

Ms. Duhrsen is the Chief Compliance Officer at APCM. She has more than 20 years of experience in the financial industry through work at a variety of Alaska based entities, including over 10 years at APCM. In her role at APCM she oversees the firm's trade settlement and operations department. She is also responsible for regulatory compliance and is the liaison for APCM's annual GIPS verification by external auditors.

Education: MBA University of Alaska Fairbanks, BS University of Houston
Accreditation: Chartered Financial Analyst, Certified Public Accountant, Accredited Investment
Fiduciary

10. Provide an organizational chart.



11. Provide a copy of the firm’s succession plan.

APCM Succession Plan: The purpose of the plan is to provide continuity for clients in the event key personnel are no longer employed by APCM.

CEO Changes: With respect to the CEO position and the overall leadership of the firm, Evan Rose (age 54) is not planning to retire for 10-15 years. Mr. Rose holds a significant equity interest in APCM currently. In the event he no longer can work for the firm, the board of directors has agreed to choose from either of APCM’s remaining senior executives: Jason Roth, SVP or Jeff Pantages, CIO, as the succeeding CEO. Both Mr. Roth and Mr. Pantages have over 30 years in the investment business and have held significant leadership roles at various organizations.

CIO Changes: In the event Jeff Pantages (age 60) is not able to work for the firm, Jason Roth, SVP and long-time senior officer is already prepared to fill this role. In addition, portfolio managers Brandy Niclai and Bill Lierman would be candidates in the pool of successors.

Portfolio Manager Changes: All portfolio managers are part of a team of investment professionals and members of the investment management committee. It has always been the policy of APCM to cross train multiple qualified individuals for each position to provide multilayer seamless management for the client. This manager redundancy is tested and honed naturally as primary portfolio managers have vacations, training and other time away from the office. All management is supervised by the CIO in a very hands-on manner.

From time to time, the board of directors will review this plan and possibly make changes.

12. Does the firm have a disaster recovery plan in place?

Yes, please see the full APCM Business Continuity Plan located in the appendix.

13. What do you consider your firm's strengths and limitations?

Strengths:

Size: APCM enjoys a competitive advantage due to the size of the firm. APCM is large enough to employ an experienced and diverse investment team and has economies of scale large enough to purchase the most sophisticated software in the industry. APCM is small enough to take advantage of collaboration and timely idea sharing that is more easily facilitated in a smaller firm. Investment philosophy and strategy are refined via a committee lead by Chief Investment Officer Jeff Pantages. Formal meetings to discuss current market conditions are conducted weekly and the tactical position of portfolios is reviewed at least monthly. Strategic allocations are reviewed and a multiday research meeting is conducted annually.

Regional Knowledge and Responsibility: APCM is an Alaska Corporation. 100% of its business model depends on its reputation in the Alaskan community. Senior members of APCM management have held Alaska government roles and know the challenges faced by local Alaskan government employees such as budgets, deadlines, ordinances and elections. APCM stands ready to contribute by sharing its experience whenever clients need.

Fiduciary – APCM stands in the client's shoes: APCM is a true fiduciary and by that standard is always required to act in the best interest of the client. Brokers are obligated to a suitability standard that only requires an investment be suitable (but not necessarily in the clients' best interest) in regard to price and other important factors.

Focus on after fee returns: APCM focuses on the returns that the client gets to keep (net of all fees). This philosophy which is shared with respected financial minds such as Warren Buffett has encouraged us to take a different approach to manager selection in the investment management process. The firm utilizes various index funds to gain market exposure which provides greater efficiencies and lower costs (without regard to the fund sponsor). In fiduciary

accounts the use of index funds virtually eliminates the manager risk associated with 'old-school' consultant approaches because APCM does not pick individual active managers.

Limitations:

Fiduciary and Conflict of Interest: APCM does not participate in any consultant network organizations as a matter of principle. The firm does not have soft-dollar arrangements and does not gain equipment or free research from such arrangements. This is a common practice in the industry and does contribute to the bottom line in terms of technology and profitability, but in order to guarantee to clients APCM's pure fiduciary management placing them first, the firm has not engaged in this type of activity.

C. Personnel

1. Identify the number of investment professionals (portfolio managers, analysts, and researchers) employed by your firm, by classification, and specify the average number of accounts handled by portfolio managers. Are there any established limits on accounts or assets under management?

Portfolio Managers	Analysts	Researchers	Avg. # of Accounts Managed by PM
4	4	3	10.5

Established limits on accounts or assets under management:

APCM has a long established belief that customer service is paramount, therefore APCM limits the number of clients served by each team. Every portfolio managed by APCM is unique in the research and analysis required and therefore the limit is not set by the dollar amount of any one portfolio manager's responsibility but rather as designated by the Chief Investment Officer. APCM portfolio managers have the capacity to add additional accounts currently, but the Chief Investment Officer has been given the authority to hire new portfolio managers should he and the CEO feel the client may be better served. Recently more research staff has been added to complement the portfolio management team.

2. Identify the size and key personnel of your staff committed to public sector accounts, along with their credentials.

As stated before, public sector portfolio management is APCM's primary business line and the majority of the assets managed by the firm come from the public sector. Therefore, the bulk of APCM's resources are dedicated to this end. Although all investments are vetted through the investment committee, three portfolio managers share the majority of this responsibility, along with two dedicated analysts and three researchers. Additionally, customer service is never overlooked at APCM. While any member of the team is able to answer questions, the Director of Client Relations takes responsibility for all client inquires and client requests. A clerical team supports all operations.

The public sector personnel are listed in the matrix below, full biographical information is included in the appendix:

Name	Function	Experience	Credentials	Education
Jeff Pantages	CIO/Sr. Portfolio Manager	36 years	CFA	MS - M.I.T, MA - U of Wisconsin, BA - Simon Fraser
Jason Roth	Portfolio Manager, Fixed	30 years		BS - U of Arizona
Laura Bruce	Director of Client Relations	22 years	CFP, ChFC	BBA - U of Wisconsin
Julee Duhrsen	Compliance & Operations	20 years	CFA, CPA, AIF	MBA - UAF, BS - U of Houston
Bill Lierman	Portfolio Manager, Fixed/Trader/Researcher	12 years	CFA	BBA - Western Washington University
Brandy Niclai	Portfolio Manager, Equity	15 years	CFA	MBA - U of Alaska, BA - Washington State University
Nicholas Case	Researcher	7 years		BBA - UAA

3. How many Investment Professionals has your firm gained or lost in the past three years?

APCM has added three full-time staff member to the team in the last three years. APCM does offer several temporary internship opportunities for Alaskan students.

	2013	2014	2015 YTD
Additions	1	2	0
Departures	0	0	0

D. Assets Under Management

1. Summarize your total assets under management over the past five years. Specify what portion of these assets consisted of governmental funds. Identify separately what portion was invested in equity versus fixed income assets.

APCM Total Assets Under Management <i>in millions of \$ as of year-end</i>			
	Government	Other	Total
2014	\$2,346	\$660	\$3,006
2013	\$2,146	\$634	\$2,780
2012	\$2,051	\$567	\$2,618
2011	\$2,023	\$440	\$2,463
2010	\$1,836	\$389	\$2,225

APCM Fixed Income vs. Equity Assets <i>in millions of \$ as of year-end</i>			
	Fixed Income	Equity	Total
2014	\$2,555	\$451	\$3,006
2013	\$2,366	\$414	\$2,780
2012	\$2,296	\$322	\$2,618
2011	\$2,204	\$259	\$2,463
2010	\$1,973	\$252	\$2,225

2. Identify the types of accounts primarily managed by your firm.

APCM primarily manages two different types of institutional accounts; these are actively managed fixed income portfolios and asset allocation accounts. Fixed income portfolios can span all areas of the U.S. investment grade market while asset allocation accounts consist of a blend of up to 11 different asset classes.

3. List your five largest clients or most representative governmental clients.

APCM's 5 Most Representative Clients by Assets <i>in millions of \$</i>	
Client 1	Municipality of Anchorage
Client 2	City & Borough of Juneau
Client 3	City of Valdez
Client 4	City of Fairbanks
Client 5	City of Kenai

4. Identify in the table below the number of clients gained and lost over the past five years.

APCM Clients Gained and Lost				
	Clients Lost		Clients Gained	
	Number	Assets (\$millions)	Number	Assets (\$millions)
2014	4	\$51	1	\$5
2013	3	\$13	7	\$54
2012	1	\$9	6	\$100
2011	0	\$0	7	\$136
2010	2	\$8	6	\$37

Please discuss the reasons for accounts indicated as lost in the table above.

All clients lost either decided to seek other management or brought the funds under internal control.

E. Investment Management Approach and Discipline

1. Briefly describe your firm’s investment philosophy. How has this philosophy changed over time?

APCM’s Investment Philosophy is a set of guiding principles that inform and shape the firm’s investment decision making process. This philosophy is based on the belief that markets are mainly efficient and that it is difficult to “time the market” by forecasting movement and direction.

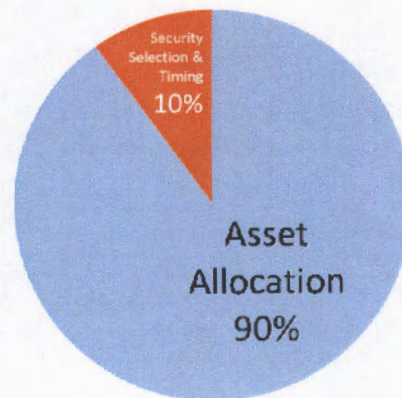
Research shows that security selection and market timing does not consistently beat the market.

Asset Allocation	<i>Focus on what you can control.</i>	Fees and Expenses
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The firm’s investment philosophy was derived from the following empirical research. Brinson, Hood, and Beebower (1986) and Brinson, Singer, and Beebower (1991), Ibbotson/Kaplan (2000) offer statistical evidence for the importance of asset allocation.

- Several studies report that asset allocation may account for more than 90% of the return of a portfolio compared to the policy portfolio.*
- The initial strategic allocation among asset classes is more important than choosing the actual stocks and bonds that you will own.
- In our role as fiduciary, we employ over 250 years of experience in helping our clients make this important decision.

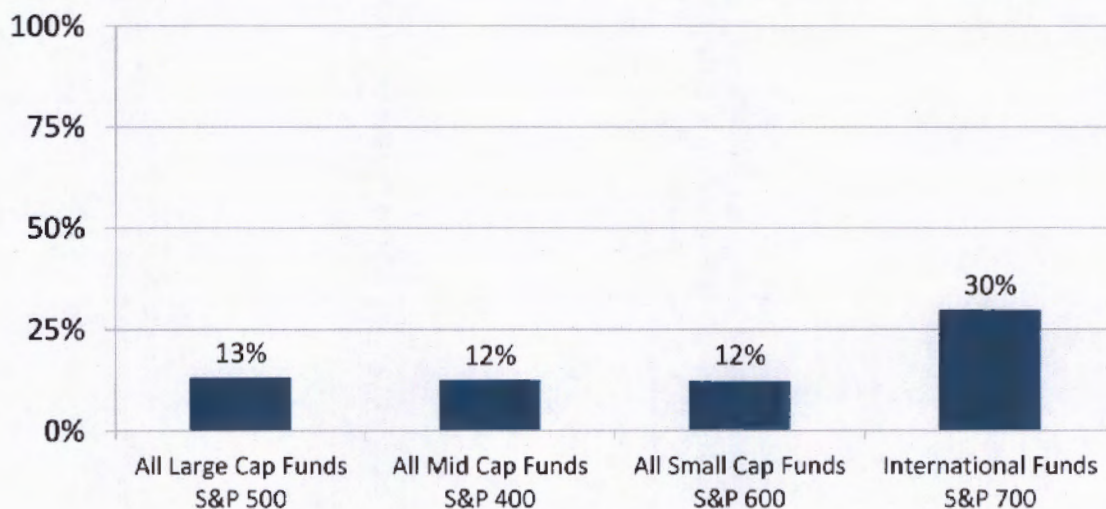
Importance of Asset Allocation



These studies have concluded that the most important decision is selecting the mix of assets to be held in a portfolio, not selecting the individual investments themselves.

Market efficiency suggests that at any given time, prices fully reflect all available information. Thus, overtime, it is difficult for active managers to outperform respective market indices. S&P Indices Versus Active (SPIVA) measures the performance of actively managed funds against relevant S&P index benchmarks. Below is a summary of the latest findings.

Percentage of Equity Mutual Funds that Outperformed the Index



Over a 5 year period ending June 30, 2014. Equal weighted. Net Returns. Data: Standard & Poor's

Thus, APCM recognizes that selecting an appropriate asset allocation and controlling expenses are two key pillars of a successful investment strategy. This philosophy has not changed over time.

2. Describe how your firm organizes its investment management process. What oversight is provided to portfolio managers?

Each portfolio has a primary portfolio manager and an assigned co-portfolio manager. While all the investment professionals at APCM are part of a team and act collaboratively, accountability is assigned to the particular manager of an account who is responsible for the results and relationship with that client. The Chief Investment Officer reviews each portfolio monthly to verify it is in compliance with the respective investment policy. Additionally, compliance reports are produced monthly to further ensure that the portfolio is in compliance with the respective investment policy. For the City of Sitka's account the portfolio manager will direct either the fixed-income desk or equity trader to execute trades in the portfolio. Each and every trade involves at least two investment professionals.

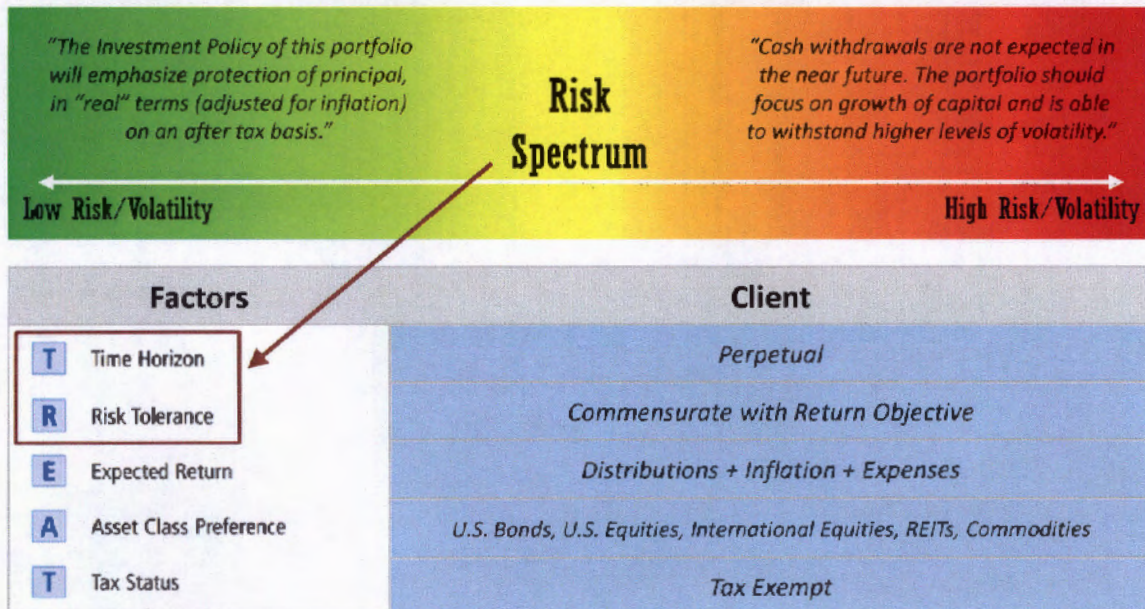
3. Does your firm have an Investment Committee? If so, how does it operate and what are its responsibilities?

The firm has an investment committee which meets monthly. However, during periods of heightened market volatility the committee meets more frequently. Meetings usually cover two sessions looking at equity and fixed-income respectively. Equity and allocation decisions are taken first followed by a detailed review of fixed-income. The Investment Committee is chaired by the Chief Investment Officer and includes portfolio managers and senior analysts.

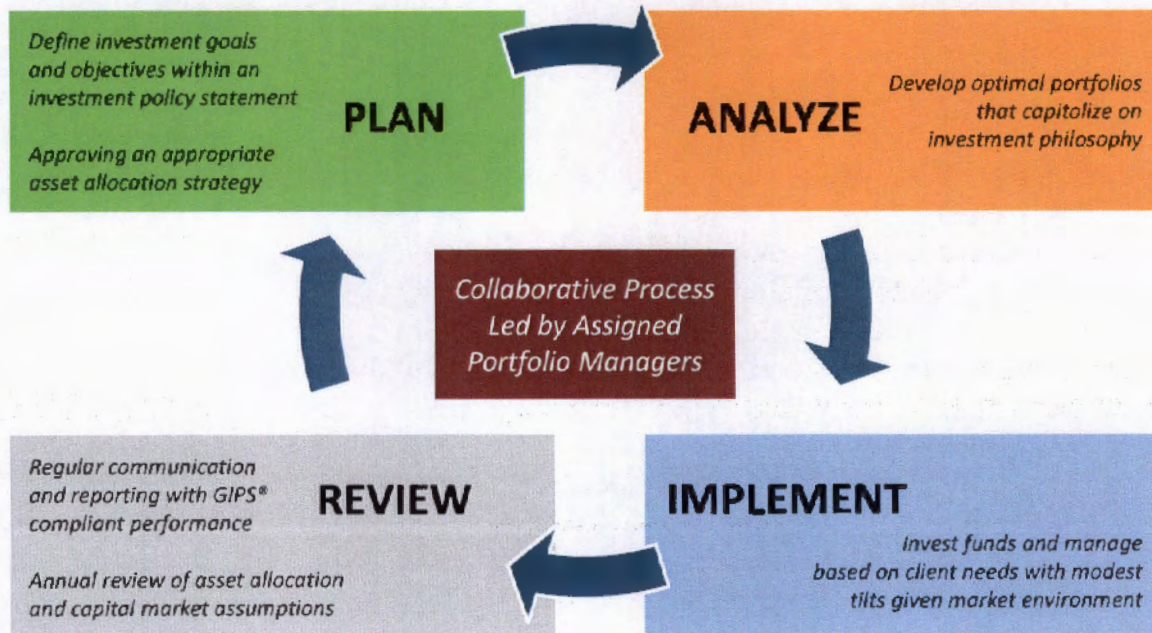
4. What factors would typically form the basis for a recommendation to change the Fund’s asset allocation Policy?

The long term strategic asset allocation decision incorporated into the investment policy statement will be the main driver of returns. Changes to asset allocation would be initiated by changing client circumstances and/or developments in the investment environment.

The key inputs for determining the correct asset allocation are summarized by the acronym TREAT.



TREAT factors are defined and monitored throughout APCM's four step portfolio management process.



APCM assists clients in determining the appropriate return and risk factors by providing annual capital market assumptions. Each year, APCM generates long term (7+ years) risk/return estimates for 11 asset classes through a combination of experience based and statistical methodologies. These projections connect the investment policy with real world views and serve as a cornerstone for strategic planning. The process allows client's to evaluate existing asset allocations and answer questions such as:

- Do expected returns meet required returns?
- Does the portfolio maximize return for a given level of risk?
- Is the client comfortable with the level of risk?

Because of the importance that asset allocation has in determining the success of an investment strategy, APCM spends considerable time to ensure the initial asset allocation is appropriate. Should there be changes to any key TREAT inputs, APCM would work with the City and Borough of Sitka to evaluate the implications and necessary asset allocation modifications.

5. Does your investment management process make use of market timing with regard to the allocation and movement of monies among the various asset classes employed?

Studies continually show that asset allocation is the primary driver of returns, and market timing and manager selection add very little value and/or detract from performance. Therefore, APCM does not try to time the markets. The firm's discipline allows it to tactically deviate from

strategic benchmarks when it has strong indications that the odds are heavily in our favor. A look at three, five and ten year track records of the universe of active managers reveals that the vast majority under-perform their benchmark. A market timing strategy requires that one make not a single correct decision but two. When to buy and when to sell.

6. What is your firm's experience in developing investment policies and portfolio management guidelines for governmental funds?

APCM has extensive hands on experience in developing investment policies for state and local entities in Alaska. APCM has presented "Investment Best Practices for State and Local Governments" for local audiences (AGFOA and AML) and national audiences (GFOA and the Northwest Regional Finance Directors Association). The firm is an acknowledged expert in the field.

APCM works closely with each and every client to develop a written investment policy statement that establishes the entity's particular level of risk tolerance and provides the investment manager with criteria that govern how the funds will be invested. APCM has helped draft investment policy statements across the risk spectrum from very conservative short-term fixed income mandates to asset allocation plans covering numerous asset classes. It is an interactive process.

When working with governmental units it is important to understand that the process is different than working with a private company. The consideration and adoption of an investment policy by a governmental unit will normally involve the finance department, a sub-committee of either the council or assembly and finally action by the respective governing body. Changes and explanations can be extensive and the ability to communicate and explain the impact of various changes is critical and is aided by in person presentations. APCM has done this dozens of times.

It is worth noting that an investment policy should not be considered a static document. At least once a year the policy should be reviewed by the client to make sure it is still providing the function as originally intended and is up to date with changes that may have occurred in the securities industry.

7. Within the City's current investment policy, what if any, changes would you recommend to exceed current benchmarked rate of returns?

After reviewing the Charter and Code, APCM has several recommendations regarding the current investment policy statement which we believe would enhance the risk adjusted return of the portfolio. As an example, for equity exposure the policy is restricted to mutual funds only and consideration should be given to utilizing exchange traded funds (ETF'S) for efficient exposure to the various asset classes. The goal is to obtain the asset class exposure at the least

internal expense, resulting in a more efficient portfolio. Additionally APCM recommends the portion of the policy dealing with fixed-income securities needs to be updated. With the primary goal of growth of the permanent fund over time, restricting fixed-income to AA- or better places a distinct constraint on realizing this objective. In addition 4.28.060(B) and 4.28.110 could be updated to reflect investment practices which have evolved in the decade since adoption of the current policy. As an aside, it appears there may be a cross-reference problem in that 4.28.060(B) does not include agency debt unless it is construed as a 4.28.060(B)(5) (Corporate Debt Securities) which is not the industry standard.

Additionally, APCM would like to open discussions with the City on the expected return under the Assets Mix Policy for the Permanent Fund (4.28.120) in relationship to the 6% distribution mandate set forth in the Charter. Given our reading of the Charter we would like to discuss with the City if the current allocation meets the mandate of growth of the Permanent Fund given the 6% distribution.

8. Provide the process you would follow for recommendations to change City investment policy.

APCM has reviewed the City and Borough of Sitka’s investment policy statement and referenced charter which applies to the investment of operating funds and longer term funds, including the Permanent Fund. Preliminary analysis indicates that some opportunities to improve benchmarked rates of returns may exist. To confirm this analysis, APCM would work with the City and Borough of Sitka through the investment process depicted below.



The process begins with either the initial creation or a review of an existing **investment policy statement (IPS)**. The IPS is a critically important document that outlines investment goals, objectives, and constraints, while serving as a risk control document during times of market volatility and stress. A complete IPS would typically include clear definitions for the following items:

Objectives	Constraints
Return objective	Liquidity
Risk objective	Time horizon of invested assets
	Tax status
	Relevant legal or regulatory circumstances
	Unique circumstances

APCM provides an initial review of the IPS and annual reviews thereafter to ensure the document is current and reflects any changes in client circumstances.

In the **analysis** phase of the portfolio management process, APCM's investment committee utilizes quantitative and qualitative methods to develop capital market assumptions on which a series of optimized portfolios are based. APCM maintains five model portfolios with equity exposures that range from 25% to 85%. Depending upon the specific needs of a client, those model portfolios can then be customized to fit given goals or constraints.

After the IPS has been developed and an appropriate asset allocation has been selected, the process moves through to **implementation**. APCM gains exposure to each underlying asset class through low cost mutual or exchange traded funds. APCM's goal is to identify low cost vehicles that provide systematic exposure to the appropriate asset class as modeled. This reduces the additional layer of active manager risk, which is generally not integrated into the asset allocation modeling.

APCM's fund selection and review process is a combination of in house research and analysis provided by an independent third party. A broad range of detailed and often difficult to obtain data points are aggregated into three scores.

1. **Efficiency** – Does the fund deliver on its core promise to investors without undue costs or risks?
2. **Tradability** – Can you get a fair deal buying or selling the fund in the open market?
3. **Fit** – How does the fund's portfolio compare with the core investment theme suggested by its stated objective?

Once the individual funds have been selected, client assets are invested given the parameters of the asset allocation previously selected. APCM seeks best price and execution in trading all securities within the portfolio. The firm has access to sophisticated electronic trading platforms, established relationships with liquidity providers and is versed in the best practices for executing ETF orders in the markets. These resources and experience help to make trading efficient and further reduce costs for clients.

The **review** phase of the process is not the final stage, but rather a critically import step that provides the opportunity to reflect on the outcomes of the prior three stages. The goal of the review phase is to clearly evaluate the effectiveness of these previous steps and then make any necessary changes for improvement.

There are several different aspects to the review process, the first of which is the reporting packets sent to clients every month. This provides clients with the ability to stay up to date with the developments of the portfolio and the level of return that is being realized. APCM provides performance that is measured relative to the appropriate customized benchmark and is compliant with the Global Investment Performance Standards (GIPS®). This standard in reporting assures the client of uniform practices and is mandated by most large investment funds around the nation including the Alaska Permanent Fund. APCM's performance methodology is verified annually by the Spaulding Group.

The review process is then further supplemented by regular in-person meetings with clients. A portfolio manager(s) assigned to Sitka's account would provide results and feedback throughout this process during in-person presentations.

On an annual basis APCM conducts a comprehensive asset allocation review. This is when the firm reviews its capital market assumptions, evaluates the current investment opportunity set to consider any changes to asset class exposure, and also compares its current ETF and mutual fund holdings to other available options. APCM then presents the findings of this review to clients and provides updated projections on the portfolio's expected return and risk. This allows clients the opportunity to reaffirm an existing allocation or make adjustments given a change in objectives or constraints.

- 9. How are portfolios managed (e.g., team, individual manager)? Provide biographical information on the investment professional(s) who will be directly responsible for managing the Fund. What is the back-up when the manager is away?**

Asset allocation accounts have two primary portfolio managers who are responsible for the day to day management of the investment portfolio.

The following two portfolio managers will have primary responsibility over Sitka's account:

Brandy Niclai, CFA®, Vice President and Portfolio Manager

Ms. Niclai has over 15 years of investment industry experience. She is part of the collaborative investment team that generates asset allocations, selects investment vehicles, and directs investment policy for the firm. Ms. Niclai's area of expertise is asset allocation and she brings to the team extensive knowledge on asset class movement and portfolio optimization. Before joining the firm in 2005, Ms. Niclai worked as a financial advisor at Wachovia Securities. She is a shareholder in the firm.

Education: MBA University of Alaska, BA Washington State University

Accreditation: Chartered Financial Analyst

License: Series 65

Bill Lierman, CFA®, Vice President and Portfolio Manager

Mr. Lierman's focus is on U.S. Treasury, agency, mortgage backed securities and structured products. He has over 12 years of investment experience. He specializes in the management of short to medium term portfolios with an emphasis on those requiring a high degree of unknown and varying cash flows. Mr. Lierman joined the firm in 2002 and is a shareholder in the firm.

Education: BA Western Washington University

Accreditation: Chartered Financial Analyst

The entire asset management process is formulated by APCM's Investment Committee, which is chaired by the firm's Chief Investment Officer. Information on the remaining investment committee members is listed below.

Jeff Pantages, CFA®, Chief Investment Officer

Mr. Pantages oversees all portfolio managers and investment analysts at APCM. He will provide direct oversight of the account and will be available for client consultation upon request. His professional experience spans over 36 years and before joining APCM he worked as a portfolio manager for firms including Prudential, Mellon Bank, Alliance Capital Management, and Cuna Mutual Group. Mr. Pantages is a frequent contributor to such publications as Bloomberg, Fortune, The Wall Street Journal, and Pension & Investments. He has extensive experience teaching at the university level on such topics as derivatives and capital markets. Mr. Pantages is a shareholder in the firm.

Education: MS Massachusetts Institute of Technology, MA University of Wisconsin, BA Simon Fraser University

Accreditation: Chartered Financial Analyst

Evan Rose, Chief Executive Officer

Mr. Rose has been the CEO of APCM and Chairman of the firm's Board of Directors since 2005. Mr. Rose has over 27 years of investment industry experience. He has extensive administrative experience through his former employment with Dain Rauscher and Pacific Securities, where he served as Vice President – Corporate Finance. Mr. Rose serves on the Board of the Alaska Humanities Forum as its Treasurer and is the Chair of the Anchorage Museum Board. He is a shareholder in the firm.

Education: MBA University of Washington, BS University of Oregon
License: Series 65

Jason Roth, Senior Vice President and Portfolio Manager

Mr. Roth has over 30 years of investment experience. He specializes in credit evaluation and risk exposure. His focus is on managing long duration portfolios and credit exposure. Before joining the firm in 2011, Mr. Roth was the Chief Financial Officer for First National Bank Alaska and was responsible for managing the bank's investments with an overall value of \$1.2 billion.

Education: BS University of Arizona

Nicholas Case, Senior Investment Analyst

Mr. Case provides research and analytical support to all portfolio managers. He has over 7 years of experience in the investment and financial industry. Prior to joining the firm in 2008, Mr. Case was a claims assistant at a third party insurance adjuster. He is a level III candidate in the CFA program.

Education: BBA University of Alaska Anchorage

10. Is there a firm-wide investment process or is the process dependent on the particular portfolio manager's style and outlook?

APCM has a firm-wide investment philosophy that is the foundation for the construction of all portfolios it manages. Additionally, the firm has developed policies and constraints that guide its risk-controlled framework. The investment committee sets tactical parameters based upon its evaluation of the marketplace. The portfolio management staff applies these guidelines within the framework of each individual portfolio.

11. Using the City Charter and SGC describe your understanding of the restrictions on the types of investments authorized in relation to the Managers' investment authority.

The following is a summary of the restrictions on the types of investments authorized in relation to the Managers' investment authority as outlined in the City Charter and SGC.

Investments of the pooled investments and the Permanent Fund of the city and borough have the following restrictions the Managers' must adhere to:

1. Investments in any security with a variable or floating interest rate are prohibited.
2. Investments may not be invested in securities which are termed "Private Placements."
3. Downgraded securities one grade below the minimum allowable credit rating, will be reviewed by the investment committee to determine the action needed to prevent further losses.
4. Leverage is prohibited
5. Pooled investments are further restricted as indicated below.
 - a. Weighted average maturity or life of 5 years

The investment manager must adhere to the following asset mix policy for the Permanent Fund.

Asset Category	Minimum %	Target %	Maximum %
Cash Equivalents*	0	5	25
Fixed Income	25	35	45
Equities:			
Growth	20	25	30
Value	20	25	30
Foreign	0	10	15

I. Performance and Reporting

1. For the time period 12/31/10 through 12/31/14, provide relevant performance data, on both a total portfolio and equity-only and fixed income-only basis for at least five clients compared to industry averages and the client benchmark(s). Please specify if the performance reported is gross or net of fees and, if net, specify the nature of the fees that have been taken out.

5 Year Annualized Returns Through December 31, 2014				
Client		Account Performance (%)	Benchmark (%)	Peer Return (%)
1	Total Portfolio	10.99	10.77	9.26**
	Fixed Income	3.67%	3.54%	
	Equity	14.23%	14.32%	
2	Total Portfolio	10.42	10.31	9.26**
	Fixed Income	3.62%	3.51%	
	Equity	13.32%	13.56%	
3	Total Portfolio	8.84	8.62	9.26**
	Fixed Income	4.59%	4.75%	
	Equity	11.58%	11.18%	
4	Total Portfolio	8.71	8.41	6.77*
	Fixed Income	4.31%	4.18%	
	Equity	11.76%	11.35%	
5	Total Portfolio	8.32	8.27	6.77*
	Fixed Income	4.81%	4.57%	
	Equity	11.92%	12.86%	

All Returns are Net of Internal Fund Fees. APCM Account Performance is Gross of Management Fees.
*Morningstar Conservative Allocation Category 20-50% Equity Allocations
**Morningstar Moderate Allocation Category 50-70% Equity Allocations

2. Does your firm track composite performance of accounts invested in the various strategies offered? If so, are such composites calculated in compliance with GIPS standards?

APCM complies with the Global Investment Performance Standards (GIPS). As such, composites that correspond with like-strategies are maintained. Composite performance and a list of composites are available upon request.

3. For the past five years, provide a review of your firm's performance relative to peer groups, specifically noting periods of substantial outperformance or underperformance and the reasons for such.

As indicated in Section I, question 1 of this RFP APCM outperformed the peer group in four out of the five specified accounts. This outperformance ranged from 1.16% to 1.94%. Below is a list of primary explanations for this outperformance.

- Peer groups can suffer from a variety of biases. This particular comparison could be impacted by composition bias. The APCM accounts have strategic target equity exposure of 55% or 70%. The Morningstar peer group definitions do not have the exact same composition of equities to fixed income. The Morningstar Conservative Allocation Category has equity allocations of 20-50% while the Morningstar Moderate Allocation Category has equity allocations of 50-70%. Identifying a precisely relevant peer group is a common issue associated with peer group performance comparisons.
- The equity exposures of all of the APCM accounts are index funds. Research indicates that overtime; it is difficult for active managers to outperform their respective indices. As indicated in Section E question 1 of this RFP over the previous five years, only 13% of active large cap managers outperformed the index. The Morningstar peer group includes active managers which have underperformed the index funds utilized by APCM.

Note that as indicated in Section I, question 1 of this RFP the account performance relative to the benchmark performance exhibits a much smaller dispersion than the peer group comparison. This occurs because APCM defines relevant account benchmarks in advance which follow the criteria listed below.

- Representative of the asset class or mandate
- Investible (e.g. a viable investment alternative)
- Constructed in a disciplined and objective manner
- Formulated from publicly available information
- Acceptable by the manager as a neutral position
- Consistent with underlying investor status (e.g. regarding tax, time horizon etc.)

The establishment of a proper benchmark provides APCM's clients with an important tool to aid in the planning, implementation and review of the investment policy. The benchmark also provides a tool for clients to assess and compare account performance and risk.

4.5 REFERENCES

Provide at least three current client and three former client references (comparable sized accounts); including length of time you have managed their assets, client name, contact person, address, and phone number. In addition, please indicate if your performance was measured against a benchmark.

APCM References				
Client Name	Contact	Length	Benchmark	Type
Aleutians East Borough	Rick Gifford Administrator 3380 C Street Ste 205 Anchorage, AK 99503 907-274-7566	Opened: 6/1993 21 yrs 9 months	Yes	Current Client
City of Fairbanks	James Soileau Chief Financial Officer 800 Cushman St Fairbanks, AK 99701 907-459-6715	Opened: 1/1998 17 yrs 1 month	Yes	Current Client
City of Kenai	Terry Eubank Finance Director 210 Fidalgo Ave Kenai, AK 99611 907-273-7535	Opened: 9/2008 6 yrs 6 months	Yes	Current Client
Alaska Housing Finance Corporation	Joe Dubler Chief Financial Officer PO Box 101020 Anchorage, AK 99510 907-330-8394	Opened: 6/1997 Closed: 5/2013 15 yrs 11 months	Yes	Former Client
Kenai Peninsula Borough	Craig Chapman Finance Director 144 N. Binkley Soldotna, AK 99669 907-714-2171	Opened: 7/2003 Closed: 12/2009 6 yrs 5 months	Yes	Former Client
Koniag Education Foundation	Tyan Hayes Executive Director 4241 B St. 303B Anchorage, AK 99503 907-562-9093	Opened: 6/1999 Closed: 1/2006 6 yrs 7 month	Yes	Former Client

City and Borough of Sitka, Alaska
ATTACHMENT "A"
RFP –PERMANENT FUND INVESTMENT MANAGER
COST PROPOSAL FORM

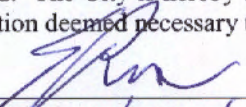
In submitting this proposal, we certify that we have examined the specifications documents, have received Addenda Nos. _____, and have included their provisions in our proposal. If awarded a contract under this proposal, we hereby agree to the terms set forth in the specifications documents and all addenda identified on this proposal. Annual fees will be billed and paid monthly based on month-end market value (determined by custodian).

Balanced Portfolio – Managing total portfolio

Portfolio Market Value (PMV)	Multiply	Basis Points	Equals	Management Fee
PMV up to \$ 10,000,000	X	25	=	\$25,000
PMV on the next \$ 10,000,000	X	20	=	\$20,000
PMV on the next \$ Thereafter	X	10	=	\$3.067
PMV on the next \$	X		=	
PMV on the next \$	X		=	
PMV on the next \$	X		=	
Total Management Fee				\$48,067

ACKNOWLEDGE

I certify that I am a duly authorized representative of the firm listed below and that information and materials enclosed with this proposal accurately represent the capabilities of the office listed below for providing the services indicated. The City is hereby authorized to request any owner identified in this proposal to furnish any pertinent information deemed necessary to verify information provided or regarding reputation and capabilities of the firm.

Signature: 
Date: 3/12/2015
Name: Evan D. Rose
Title: Chief Executive Officer
Firm: Alaska Permanent Capital Management
Type of Firm (check one)
 Individual
 Partnership
 Corporation in the State of: Alaska
 Other (Specific)

Office Address for which this submittal is made:
Street: 900 W 5th Ave Suite 601
P. O. Box: _____
City, State, and Zip: Anchorage, AK 99501
Telephone: 907-272-7575
Alaska Business License No.:
144201

Investment Committee Minutes

Friday, February 13, 2015 3:30 PM
City Hall

Goal: To make recommendations for and oversee the Investment Policy of the City and Borough of Sitka enacted as Chapter 4.28.

Investment Committee Members: Bert Stedman, Jere Christner
Michael Reif and Michelle Putz (Assembly Liaison)

Meeting began at 3:30 PM.

Present: Michael Reif, Jere Christner
Secretary: Melissa Henshaw, Assistant Clerk
Staff: Municipal Administrator Mark Gorman, CFAO Jay Sweeney
Assembly Liaison: Michelle Putz
Members of the Public: None

1. Approval of the minutes from September 25, 2014

M - Reif/S - Christner moved to approve the minutes from September 25, 2014. Motion carried unanimously.

2. Election of Officers

**M - Christner/S - Reif moved to nominate Reif as Chair. Motion carried unanimously.
M - Reif/S - Christner moved to nominate Christner as Vice Chair. Seeing no opposition the motion passed.**

3. Review of portfolio composition and performance (Jay)

Sweeney stated that the portfolio has very much remained the same since the last meeting in September. He went over each line. It included the excess capital that the Assembly voted on and rise in equity portion. There may be a need to rebalance again like in June of last year. Permanent Fund must remit back to the General Fund 6%. General Fund is prohibited from owning equities. He explained the mechanics of allocating money and purchasing. Permanent Fund remains healthy. Sweeney showed a fixed income investment ladder and average fixed income portfolio yield from October to December.

4. Review of current treasury yield curve (Jay)

Sweeney showed the current treasury yield curve and correlated our eight year investment with about 2%.

5. Review of purchases made since last meeting (Jay)

Sweeney showed the investments made since the last meeting of September 25, 2014.

6. Discussion of Permanent Fund external management

Sweeney told the committee that the Permanent Fund is designed to be managed. It has met the Charter requirement of 6% to the General Fund, however it has not kept its value on growth or terms of inflation over time. It is suitable to have an external management.

a. Executive summary of status of RFP (ready to be issued)

Draft RFP's were distributed. The Committee will look it over and comment back to Sweeney.

i. Discussion of investment style desired in Permanent Fund management

Sweeney talked of strategic asset allocation and the investment advisor must be registered with the Securities and Exchange Commission.

ii. Discussion of manner in which proposers are to present

Discussion occurred on an in person presentation vs. video conferencing. Gorman suggested valuating that after the proposals come in.

b. Discussion of Committee review and evaluation of RFP proposals

The Committee will work with Sweeney on recommending to the Assembly a selection.

7. Discussion of Charter change language for fall election

The general consensus was to remove the mandate based on a range from the Administrator. Sweeney will craft language for this and to move forward to the Assembly.

a. Timeline for approval and submission to Assembly

It will need to be introduced no later than the second Assembly meeting in July.

8. Discussion/Action on revising they yearly take out percentage and transfer from the Sitka Permanent Fund to the General Fund

Sweeney will send out language.

9. Discussion of preliminary infusion of land sales from the Gary Paxton Industrial Park into the Sitka Permanent Fund

Sweeney mentioned that the General Fund put out the Benchlands cost and that the sale must yield a profit for money to go into the Permanent Fund.

10. Adjourn

The meeting ended at approximately 5:12 PM.

Attest:

Melissa Henshaw, Assistant Clerk
Secretary

Investment Committee Minutes

Monday, April 06, 2015 3:00 PM
3rd Floor Conference Room of City Hall

Goal: To make recommendations for and oversee the Investment Policy of the City and Borough of Sitka enacted as Chapter 4.28.

Investment Committee Members: Bert Stedman, Jere Christner
Michael Reif and Michelle Putz (Assembly Liaison)

Meeting began at 3:03 PM.

Present: Michael Reif, Jere Christner
Secretary: Melissa Henshaw, Assistant Clerk
Staff: Municipal Administrator Mark Gorman, CFAO Jay Sweeney
Assembly Liaison: Michelle Putz
Members of the Public: None

1. Approval of the minutes from February 13, 2015

M – Christner/S – Reif moved to approve the minutes from February 13, 2015. Motion carried unanimously.

2. Evaluation of RFP proposals for the Permanent Fund external management

Chair Reif started by asking for general comments from any member including staff. Discussion occurred on the four investment firms. Sweeney read from the RFP to answer a question on the scoring, "The City reserves the right to accept or reject proposals on each item separately or as a whole, to reject any or all proposals without penalty..." and went over the five evaluation factors of experience, technical qualifications, responsiveness, references and cost.

M – Christner/S – Reif moved to recommend to the Assembly selection of Alaska Permanent Capital as the permanent fund investment manager and to authorize the Administrator to enter into a contract with them. Motion carried unanimously.

This recommendation will go to the Assembly meeting of April 28, 2015. Chair Reif thanked Sweeney for putting together the RFP.

3. Discussion of Charter change language for fall election

Reif began by stating that our current take out of the permanent fund at 6% is too high for current market conditions and thus has not caused the permanent fund to inflation proof itself. Discussion occurred with regards to the new investment manager having advisement of the wording of the Charter. Sweeney introduced recommending language and discussion occurred of lowering the take out from the permanent fund from 6% to 4.5% with a .5% reduction by measuring on December 31st the growth in terms of inflation per the Anchorage CPI.

4. Further discussion

Reif brought up the subject of obtaining an alternate fourth member for this commission to fill in for absences or vacancies for voting purposes. Gorman stated that Sara Peterson, Deputy Clerk is drafting an Ordinance.

Discussion of the next meeting date took place with his recommendation of a May or June meeting. Sweeney will arrange the next meeting date.

5. Adjourn

The meeting ended at approximately 3:55PM.

Attest:

Melissa Henshaw, Assistant Clerk
Secretary

Investment Committee Minutes

Thursday, September 25, 2014 3:00 PM
City Hall

Goal: To make recommendations for and oversee the Investment Policy of the City and Borough of Sitka enacted as Chapter 4.28.

Investment Committee Members: Bert Stedman, Jere Christner
Mike Reif (Assembly Liaison) and Pete Esquiro (Alternate Assembly Liaison)

Meeting began at 3:10 PM.

Present: Bert Stedman, Jere Christner
Secretary: Melissa Henshaw, Assistant Clerk
Staff: Mark Gorman (Municipal Administrator), Jay Sweeney (CFAO)
Assembly Liaison: Mike Reif, Pete Esquiro
Members of the Public: Laura Bruce, Jeff Pantages

I. Discussion of endowment/permanent fund investment strategies, Alaska Permanent Capital

Jay Sweeney introduced Alaska Permanent Capital Management and outlined the agenda for the meeting.

Ms. Bruce started the presentation by stating three items for discussion, first the payout amount, secondly to reduce cost and third to put more money in. She talked that the investment portfolio is managed by their firm not by brokers and stated that there are no commissions or kickbacks. She told of the history of the company and that they manage 3.5 billion in funds for several entities including the City of Fairbanks permanent fund.

CFO Mr. Pantages stated that the fund can grow in three ways and that they would focus on distributions firstly stating that Sitka has the same situation for about 15 years with distributions at 6% currently and suggested possibly lowering that amount going forward. He stated that bonds only yield 2% as opposed to 6 or 7% before. He also added inflation proofing options. He went over some of his statistical information on 5 different portfolios with a 7 year outlook based on the index with 11 asset classes used. Inflation was not included but that it is expected to be 2.5%.

Jay Sweeney told that he rebalanced recently and we are currently at 55% mutual funds and 45% bonds.

Ms. Bruce told of their software that gives a view to a wide-range of what if scenarios. She talked about treasury bonds as a bit of insurance and that they are expensive

with low returns; index funds with regards to historically strong returns and their consistent and transparency; their investment philosophy; initial asset allocation process and that it is a collaborative process to drive returns going forward; the right mix by developing the right portfolio; keeping fees and expenses low; their annual review; reports that are given every month and quarter; the annual audit done by an outside source; and their costs.

Mr. Stedman offered the idea of a 10 year ladder.

Mr. Sweeney stated that there is 3.5 million in corporate bonds as of June 30. He also informed the committee that prior to him being with the City, the City used one broker. Mr. Sweeney stated that he now uses two to make it a little more competitive however, there is still more of a cost than having a firm like this take it over.

Mr. Gorman asked if the portfolio could move over transparently to which Alaska Permanent Capital stated that they could. That they work with First National Bank of Alaska and there is the possibility of using Charles Schwab.

Mr. Sweeney recommended that the City move to have someone manage this fund as they can earn a superior return since he ends up paying retail price.

Mr. Gorman thought that this is a huge burden to place on one employee.

Alaska Permanent Capital left the meeting.

II. Discussion of institutional investment services, Alaska Permanent Capital

Mr. Stedman stated with staff risk he thinks going outside we should ask for proposals. Work on the payout rate issue as an impact of future results.

Mr. Gorman mentioned that the Assembly is looking forward to feedback on the Perm Fund

Mr. Reif has concerns of the payout. He thinks an outside source is a good idea.

Mr. Esquiro mentioned that this company has better tools. Like the straightforwardness of their presentation.

Gorman brought up that to reduce the take out amount it needs to be done as a ballot measure next year.

Sweeney thought that the amount should be a flexible amount that somehow moves in coordination with the yield portfolio and link them with regards to movement market value on rate of return.

Christner stated that an RFP solicitation would be needed with Gorman suggesting a selected company for solicitation out three.

Sweeney stated that Sitka is the largest municipality in Alaska still managing their own investments all others have gone to external management.

Discussion took place of scheduling the next meeting. Mr. Christner mentioned that he is out of town with the exception of the week of October 13th and on October 20th.

III. Adjourn

The meeting ended at approximately 5:12 PM.

Attest:
Melissa Henshaw, Assistant Clerk
Secretary