

CITY OF UNALASKA

INVESTMENT REVIEW

for the period ending August 31, 2022

Agenda

- 1. Portfolio Review*
- 2. Market Review*
- 3. Appendix*

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Account Summary as of August 31, 2022

City of Unalaska

Account Inception	June 1995
Current Market Value <i>August 31, 2022</i>	\$109,120,730
Annualized Account Return <i>June 30, 1995 – August 31, 2022; Gross of Fees</i>	+3.31%
Annualized Benchmark Return <i>June 30, 1995 – August 31, 2022</i>	+3.06%
Current Benchmark	Bloomberg 1-3 Year Government Index

Historical Market Value as of August 31, 2022

City of Unalaska

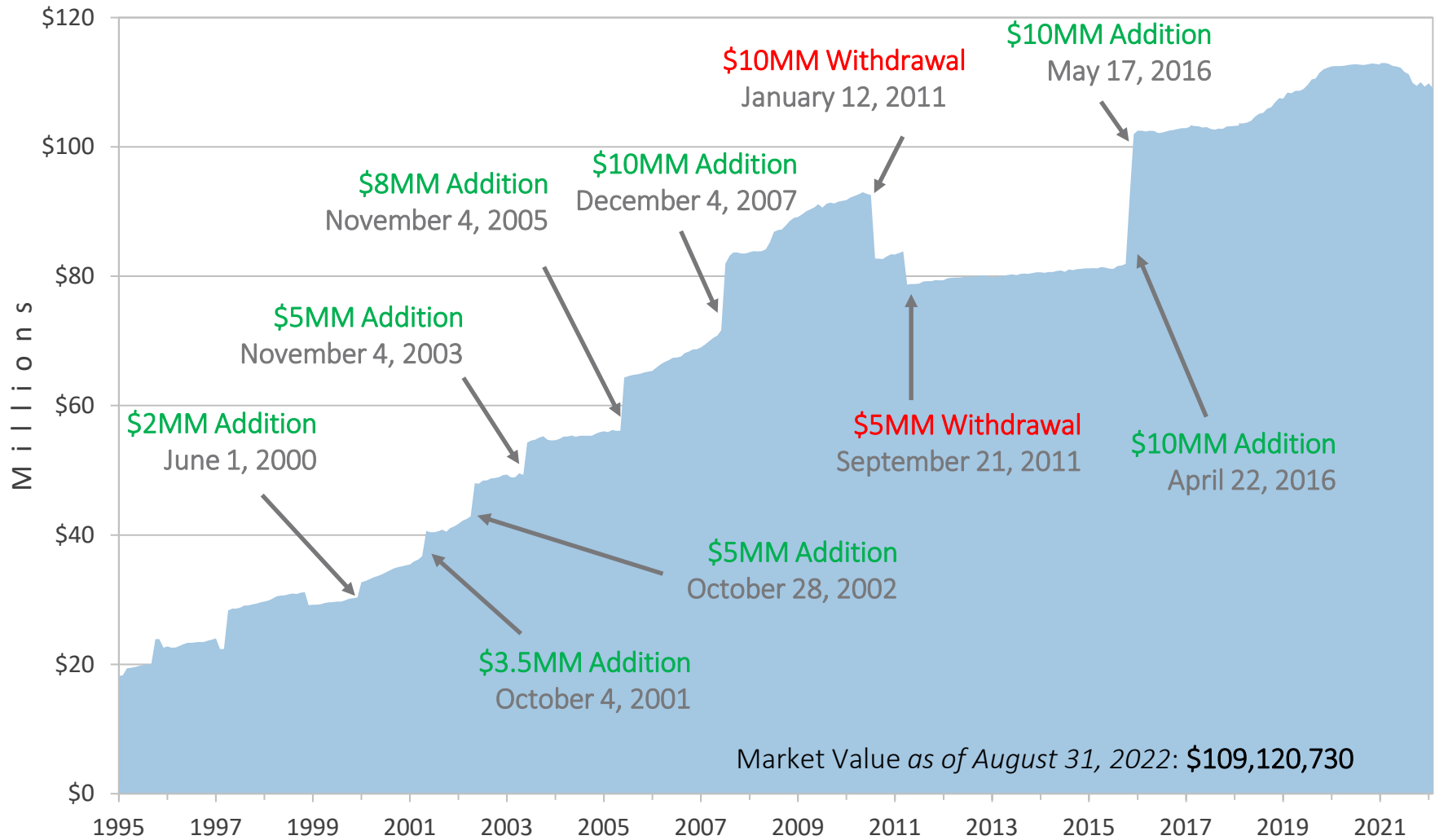


Chart shows month-end portfolio market value from June 30, 1995 to August 31, 2022.

Portfolio Review

For Period Ending August 31, 2022

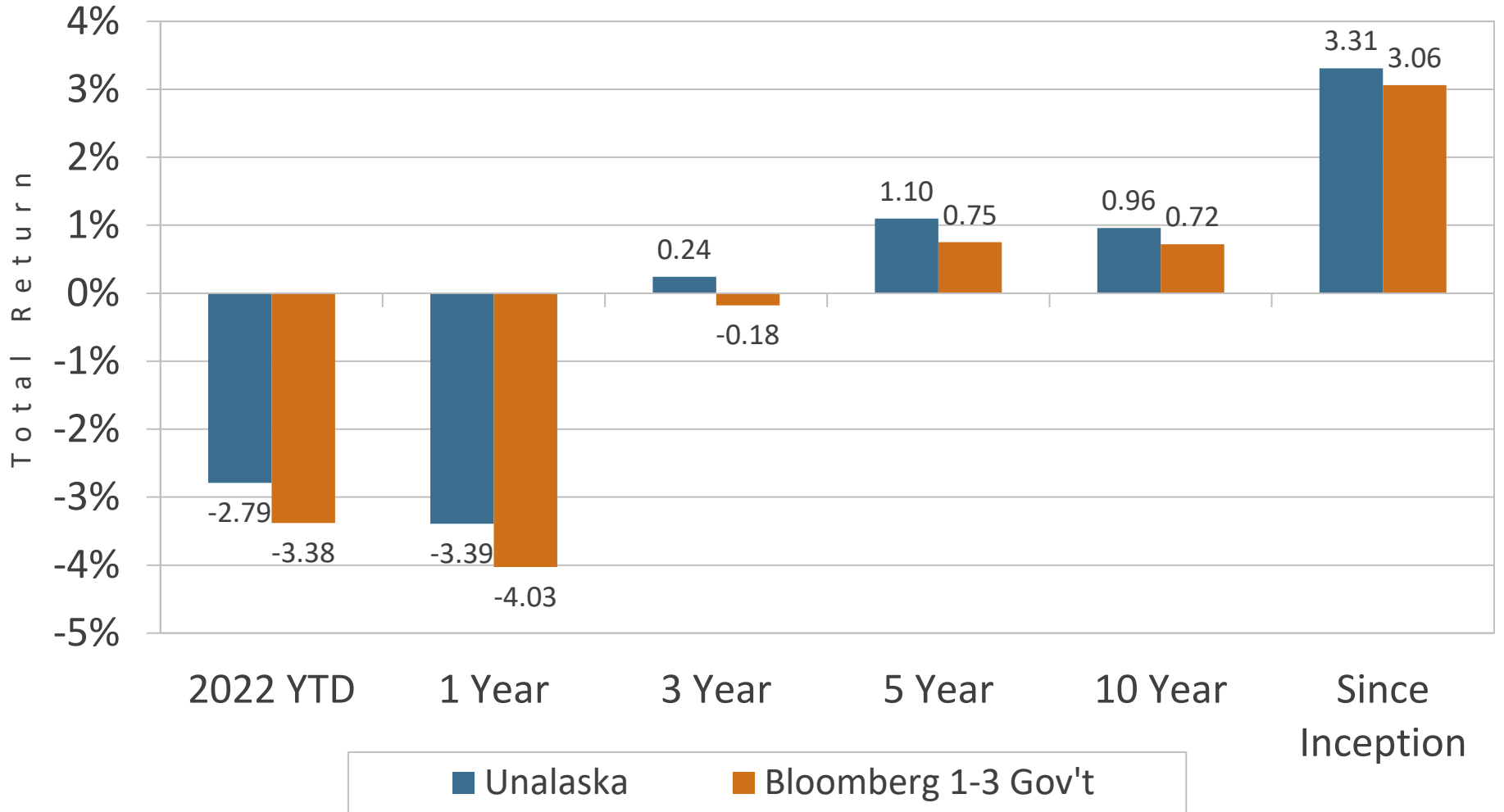
Portfolio Review

Market Review

Appendix

Account Performance as of August 31, 2022

City of Unalaska



Performance is gross of fees and annualized for periods greater than one year. Inception performance begins on June 30, 1995. Benchmark is the Bloomberg 1-3 Year Government Index.

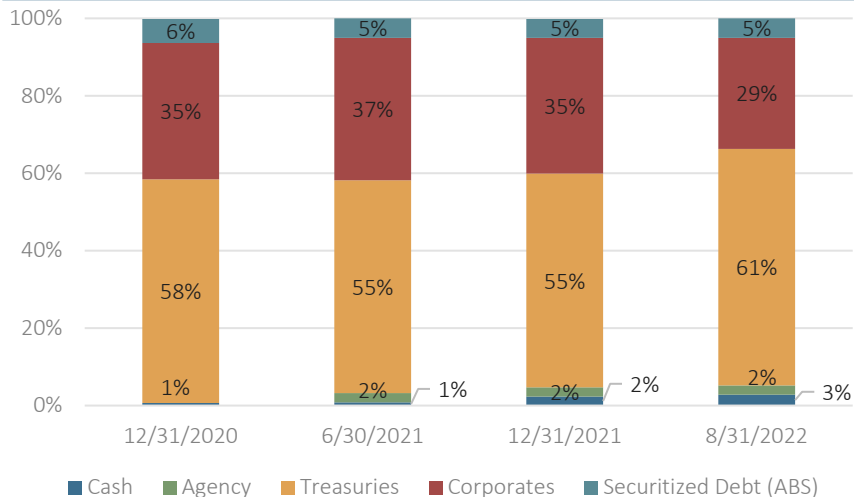
Portfolio Objectives

Preservation of capital is the foremost objective of the investment program. Liquidity of the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements. Portfolio shall be designed to attain a market rate of return.

	Portfolio	Bench*
Avg. Maturity:	1.71 years	1.96 years
Yield to Maturity:	3.62%	3.50%
Duration:	1.62	1.89
Avg. Quality:	AA-	AAA

*Bench: Bloomberg 1-3 Government

Portfolio Composition



May not add to 100% due to rounding

Portfolio Review

What has happened:

- The portfolio duration (sensitivity to interest rates) now stands at 1.62 years vs the bench at 1.89 years.
- The portfolio is less sensitive to interest rates.

Going forward:

- Maintain an underweight to duration as the Fed Funds rate is anticipated to rise 50-75 basis points on September 21st. The current effective Fed funds rate is 2.33%.
- Cautious on corporate exposure, looking for issuers that have positive free cash flow and have positive debt profiles.

Quality

	Unalaska	Bench
AAA	71.1%	100%
AA	-	-
A	11.4%	-
BBB	17.5%	-
Total	100%	100%

Data from Bloomberg

Market Review

Portfolio Review

Market Review

Appendix

Key Themes

1.

Peak inflation – Not necessarily peak rates

2.

Fed to engineer growth below potential, curve inversion

3.

Quantitative tightening (QT) has started, it will accelerate in September

4.

Recession (or not) not “known” for 12-18 months

5.

Investing in late cycle markets

Market Impacts

Improvements in inflation will be seen throughout 2022, but a sticky underlying core trend suggest a longer tail to the inflationary environment. We project higher yields still possible, but the bulk of the adjustment is behind us.

For the inflation regime to change, US growth needs to run below potential growth (a negative output gap). An inverted yield curve and weaker household demand will help.

QT is a global phenomena, with no real historical precedence. This remains one of the greatest risks to all markets.

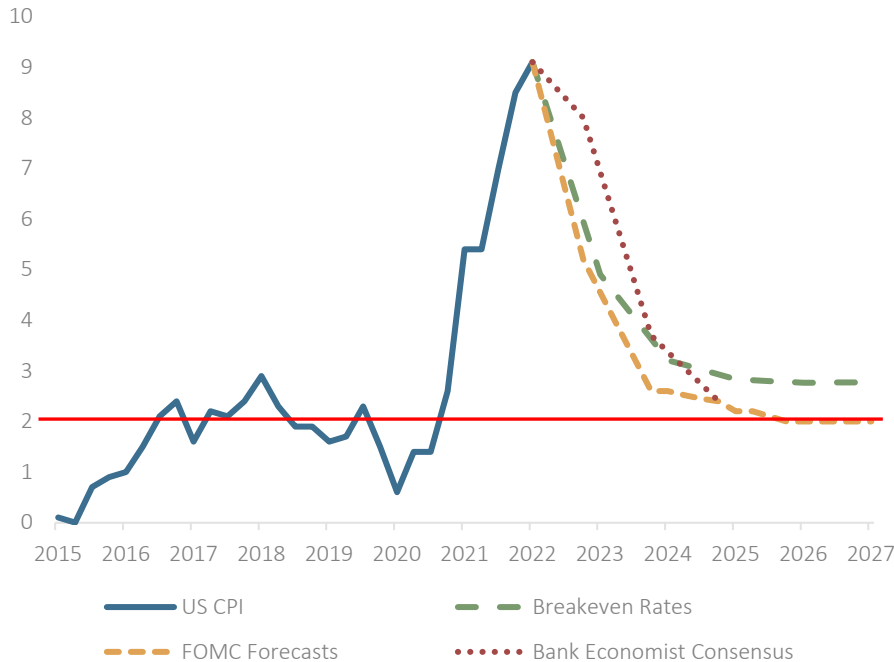
Policy uncertainty remains for 6 months as economies adjust to higher rates. Recession conclusion not known for 12-18 months after 1st hike.

Caution still prudent. We are biased to higher quality and sector selectivity.

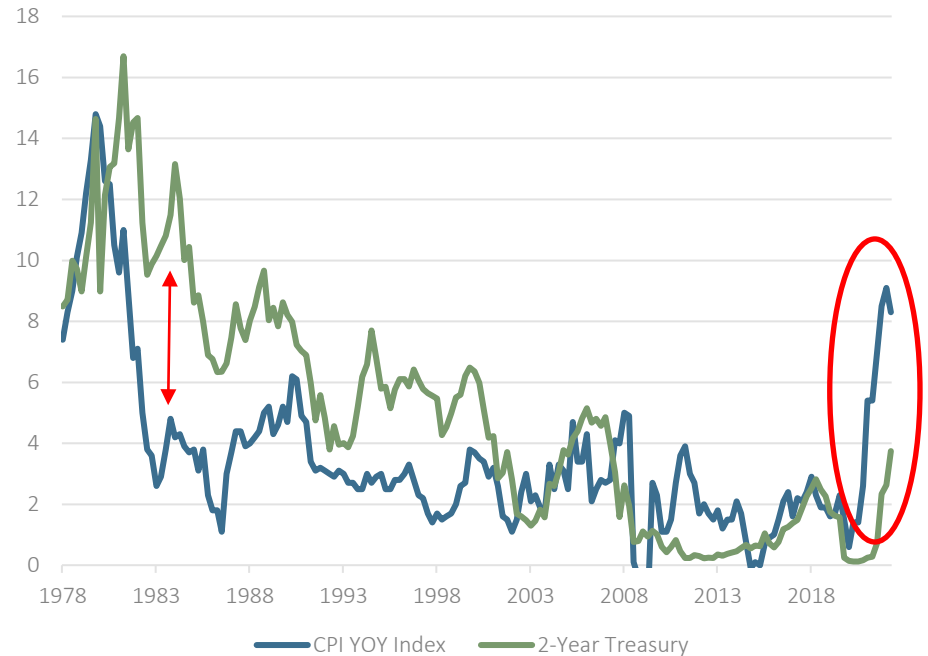
Peak Inflation – Not Necessarily Peak Rates

- **Inflation will fall – but 2.0% (the Fed’s forecast) is more optimistic than most.** Interest rates are still WELL below previous levels given inflation...

Forecasted Inflation (%)



US Consumer Price Index vs. 2-Year Rates

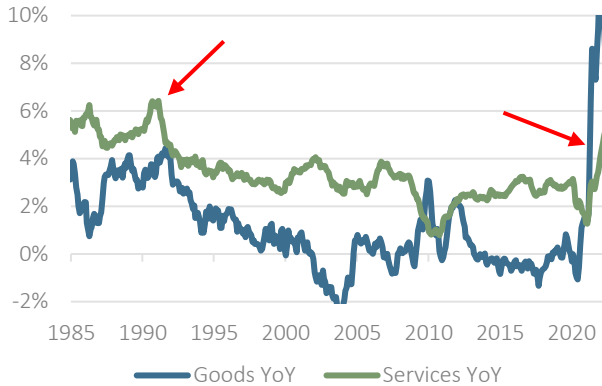


- FOMC forecasts are the most optimistic when it comes to inflation projections.
- It will take some time for inflation to approach 2%.

- It’s been since 1984 since the gap between rates and inflation has been this large.
- Yields historically trade at a premium over inflation – with inflation above 8.5%, suggests this can still move higher.

Inflation Components Suggest Underlying Trends To Remain Well Above 2% for Years

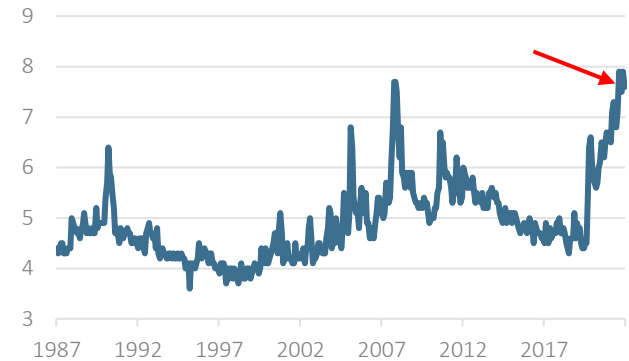
Services Inflation Matters Most



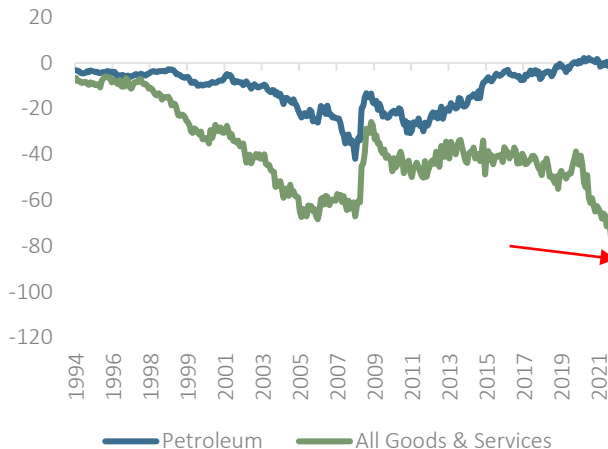
Services Inflation is 57% of CPI, currently 5.6% and rising. Services matters more than Goods (22% of CPI), Food (13%) and Energy (7%) combined.

Expectations on Prices aren't falling much, despite the Fed's aggressive approach. Households expect 7.6%

Conference Board 12m Fwd Inflation Expectation



US Trade Balance (Oil vs All Goods & Services, \$bn)



The impact of oil cannot be overstated. The US imports more goods & services than it ever has (Red Line). Even if supply picks up – underlying energy price filters into everything given US imports.

Wage increases for ALL workers in ALL industries are rising faster than any point in the past 30 years. Currently 5.1% and rising.

Wages (% YoY)



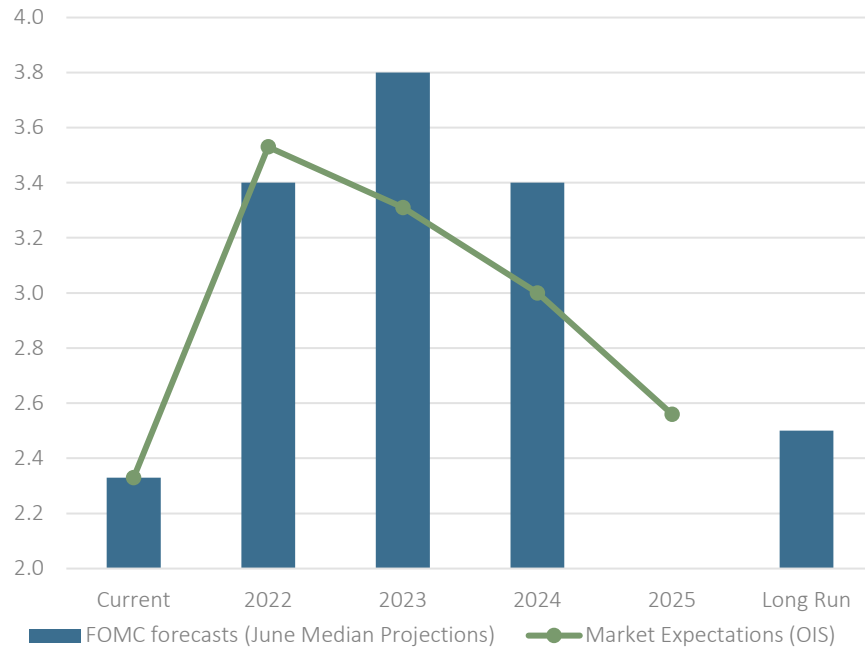
Monetary Policy Expectations – Far From Done

The Inflation outlook suggests it will take (1) Time and (2) Significant Effort to avert the underlying trends – regardless of oil/food prices

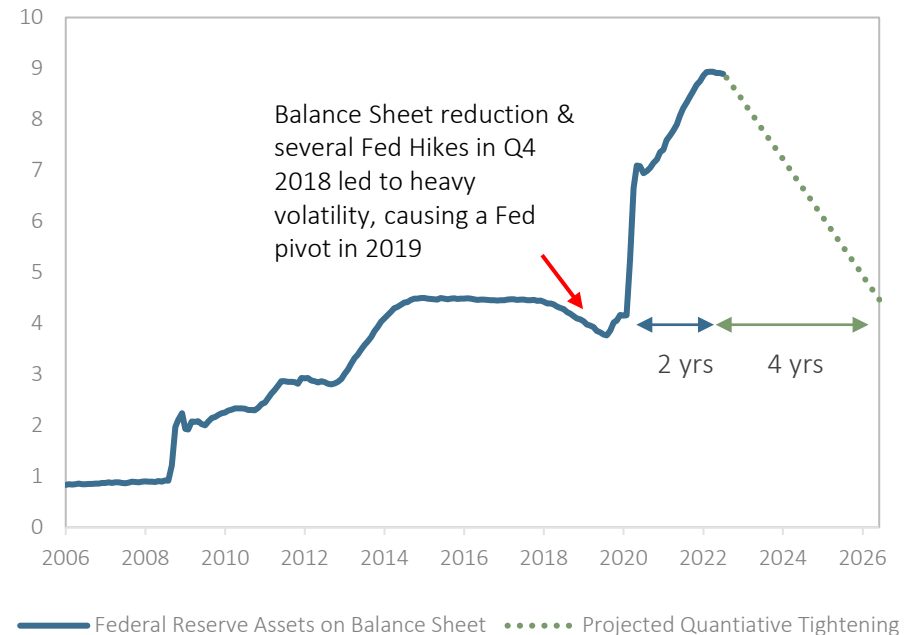
What's priced in? +160bps through March 2023 (i.e. 6 more 25bp hikes), then -40bps by December 2023 (2 cuts).

- FOMC members are already pushing back on the cuts expected in 2023, making them a source of front-end and US Dollar support
- APCM baseline: Front-end rates still to move higher, driving curve inversion and helping slow the US economy.

Fed Funds Projections - Official and Market



Central Bank Assets on Balance Sheet (\$tn)

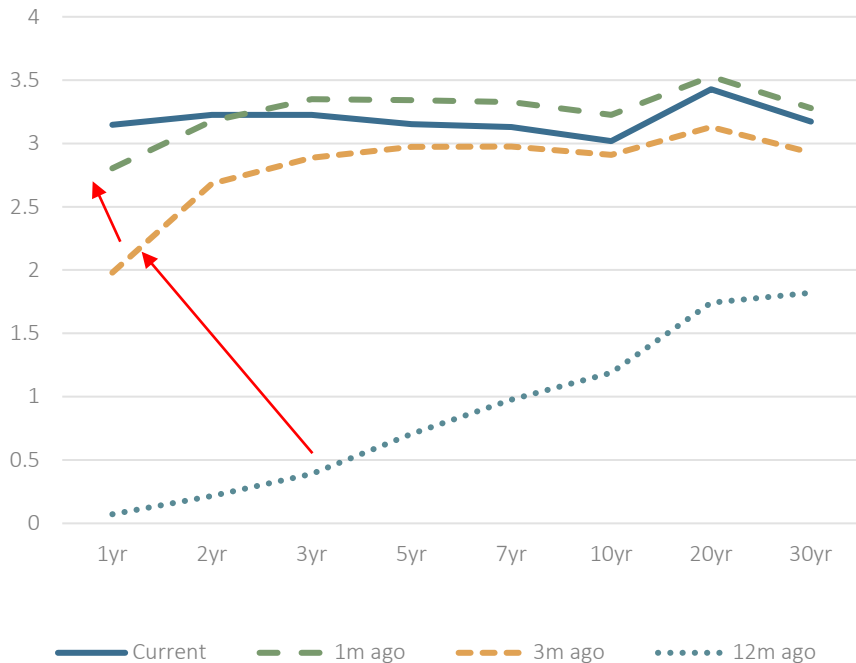


- QT has so far been mild since starting in June (\$35bn to date), this has accelerated to \$95bn / month.
- QT's effect on the curve level and volatility are unknown. Q4 2018 – this generated enough disruption to cause a FOMC pivot. The BOE, BOC and ECB will also employ QT in 2023 and beyond, so disruption in rates may well come from outside the US.

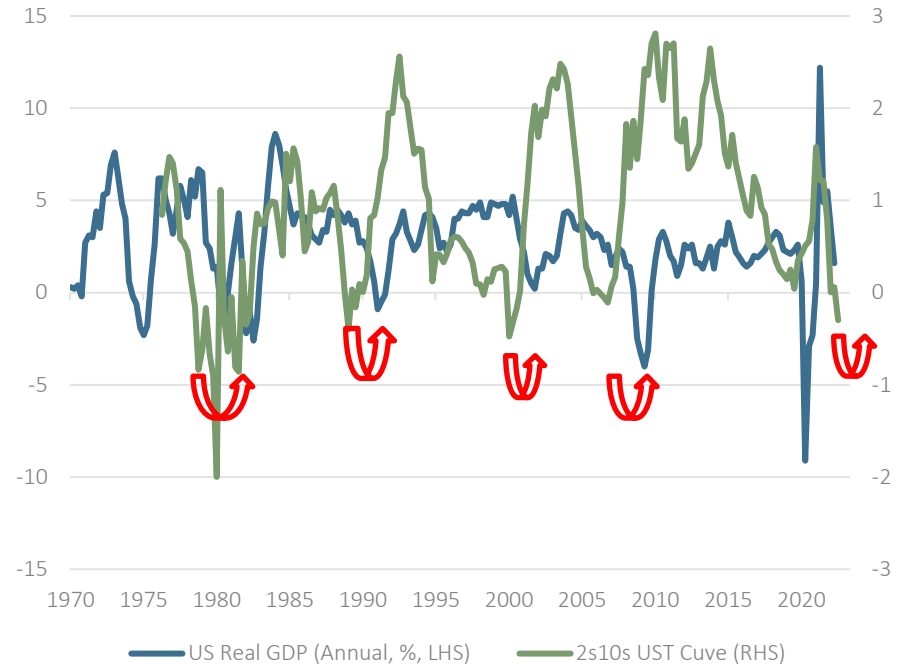
US Treasury Curve and the US Growth Outlook

The US Curve has stabilized after its largest sell-off in 40 years. A move higher is possible still as policy tightens and QT accelerates, but we believe the bulk is behind us. **Curve inversion highlights a US growth slowdown to come.** This also caps yields moving a lot higher.

United States Treasury Curve



2s10s Curve & US GDP



- The 1-2 year sector of the curve has moved 300 bp in under 12 months. We expect greater stability moving forward, but yields can still rise to 3.5-4.0%, if the Fed raises rates to 3.8%.

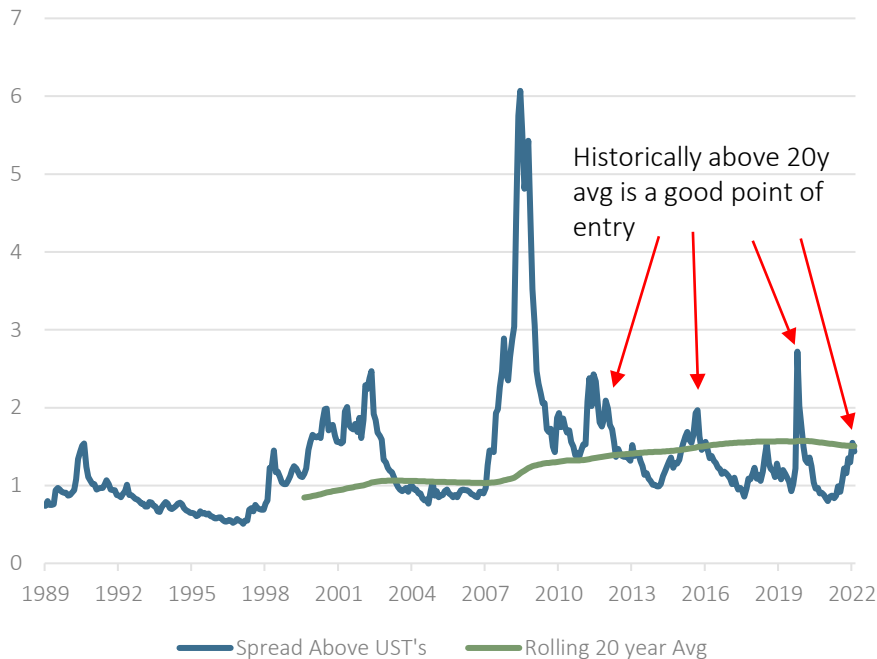
- The US bill curve has reached levels where a growth slowdown must occur – the impact takes quarters to fully appear.
- Think of brakes on a car. How negative and how long it remains inverted is the same as how hard and how long you step on the brakes.

We see select opportunities in credit markets given elevated rates and historical levels of valuation, and we are focused on companies that should benefit from strong balance sheets and healthy liquidity.

- We are taking a selective approach, preferring strong cash-flow-generating corporate bonds where spreads remain wide to pre-COVID-19 levels and sectors we believe are default remote such as finance

- Upgrades have outpaced downgrades YTD as corporate balance sheets have generally continued to strengthen.

Bloomberg US Agg Corporate Avg OAS



Long Term Rating changes on Bloomberg U.S. Corporate Bond Index

	S&P		Moody's	
	<i>Upgrade</i>	<i>Downgrade</i>	<i>Upgrade</i>	<i>Downgrade</i>
2Q 2022	12	6	2	5
1Q 2022	31	7	10	4
4Q 2021	5	11	9	4
3Q 2021	4	10	15	4
2Q 2021	40	11	6	8
1Q 2021	7	23	7	8
4Q 2020	22	62	15	8
3Q 2020	16	27	13	7
2Q 2020	9	11	25	9
1Q 2020	5	35	11	33
4Q 2019	6	18	13	10
3Q 2019	6	11	1	11
2Q 2019	12	14	6	4

Sources: Bloomberg

Appendix

Market Review

Portfolio Review

Appendix

Portfolio Appraisal

CITY OF UNALASKA

August 31, 2022



ALASKA PERMANENT
CAPITAL MANAGEMENT

Registered Investment Adviser

Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
ASSET-BACKED SECURITIES									
672,431	USAA AUTO OWNER TRUST 2.140% Due 11-15-24	101.04	679,418	99.95	672,128	0.62	14,390	640	2.21
750,000	CITIBANK CREDIT CARD ISSUANCE TRUST 3.210% Due 12-07-24	104.60	784,512	99.95	749,655	0.69	24,075	5,617	3.16
1,000,000	DISCOVER CARD EXOCUTION NOTE TRUST 2.721% Due 08-15-25	100.12	1,001,250	100.04	1,000,360	0.92	27,210	1,209	2.82
1,264,000	CAPITAL ONE MULTI ASSET EXECUTION TRUST 2.741% Due 03-16-26	100.25	1,267,160	100.00	1,264,000	1.16	34,646	1,540	2.83
251,000	Bank of America Credit Card Trust 0.340% Due 05-15-26	99.79	250,461	95.68	240,164	0.22	853	38	4.09
1,600,000	World OMNI Select Auto Trust 0.530% Due 03-15-27 Accrued Interest	97.06	1,553,000	96.63	1,546,048	1.42	8,480	377	2.75
					9,421	0.01			
			5,535,800		5,481,776	5.02		9,421	
AGENCIES									
2,740,000	FEDERAL HOME LOAN BANK 0.500% Due 07-29-24 Accrued Interest	100.00	2,740,000	94.01	2,575,819	2.36	13,700	4,643	3.77
					4,643	0.00			
			2,740,000		2,580,462	2.36		4,643	
CORPORATE BONDS									
985,000	MARSH & MCLENNAN COS INC 3.300% Due 03-14-23	105.38	1,037,973	99.68	981,868	0.90	32,505	15,079	3.88
1,150,000	BONY MELLON CORP 3.500% Due 04-28-23	104.76	1,204,694	100.05	1,150,575	1.05	40,250	13,752	3.40
1,000,000	BANK OF NOVA SCOTIA 1.625% Due 05-01-23	102.85	1,028,550	98.62	986,250	0.90	16,250	5,417	3.71
800,000	OMEGA HLTHCARE INVESTORS 4.375% Due 08-01-23	108.27	866,128	99.35	794,808	0.73	35,000	2,917	5.09
1,000,000	MCCORMICK & CO 3.500% Due 09-01-23	107.14	1,071,420	99.57	995,750	0.91	35,000	17,500	3.93
1,000,000	TORONTO-DOMINION BANK 0.450% Due 09-11-23	99.89	998,910	96.57	965,660	0.88	4,500	2,125	3.88
1,000,000	ROYAL BANK OF CANADA 0.425% Due 01-19-24	99.65	996,490	95.43	954,290	0.87	4,250	496	3.84

*CALLABLE SECURITY

Portfolio Appraisal

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893,000	FIFTH THIRD BANCORP 3.650% Due 01-25-24	108.45	968,490	99.36	887,276	0.81	32,594	3,259	4.12
1,000,000	CAPITAL ONE FINANCIAL CO 3.900% Due 01-29-24	108.80	1,088,042	99.64	996,430	0.91	39,000	3,467	4.15
1,000,000	BANK OF MONTREAL 3.300% Due 02-05-24	108.53	1,085,310	99.04	990,450	0.91	33,000	2,383	3.99
1,000,000	ENTERPRISE PRODUCTS OPER 3.900% Due 02-15-24	109.65	1,096,530	99.69	996,950	0.91	39,000	1,733	4.11
605,000	PHILLIPS 66 0.900% Due 02-15-24	100.16	605,986	95.58	578,253	0.53	5,445	242	4.05
1,000,000	KIMCO REALTY CORP 2.700% Due 03-01-24	105.25	1,052,510	97.91	979,120	0.90	27,000	13,500	4.14
1,000,000	GOLDMAN SACHS GROUP INC 4.000% Due 03-03-24	108.12	1,081,210	99.97	999,670	0.92	40,000	19,778	4.01
1,000,000	WEC ENERGY GROUP INC 0.800% Due 03-15-24	100.07	1,000,730	95.22	952,200	0.87	8,000	3,689	4.03
1,000,000	CANADIAN NATIONAL RESOURCES 3.800% Due 04-15-24	106.87	1,068,710	99.08	990,770	0.91	38,000	14,356	4.39
1,000,000	MORGAN STANLEY 3.737% Due 04-24-24	107.55	1,075,550	99.56	995,600	0.91	37,370	13,183	4.01
1,000,000	SCHLUMBERGER HLDGS CORP 3.750% Due 05-01-24	107.24	1,072,430	99.28	992,830	0.91	37,500	12,500	4.19
1,000,000	AON PLC 3.500% Due 06-14-24	107.85	1,078,500	99.01	990,060	0.91	35,000	7,486	4.07
1,000,000	CARDINAL HEALTH INC 3.079% Due 06-15-24	106.40	1,064,010	98.05	980,520	0.90	30,790	6,500	4.21
1,000,000	JOHNSON CONTROLS INTL PL 3.625% Due 07-02-24	108.82	1,088,160	99.06	990,580	0.91	36,250	5,941	4.15
1,000,000	DAIMLER FINANCE NA LLC 3.250% Due 08-01-24	106.89	1,068,890	98.24	982,420	0.90	32,500	2,708	4.21
1,000,000	TYCO ELECTRONICS GROUP S 3.450% Due 08-01-24	107.95	1,079,520	99.31	993,140	0.91	34,500	2,875	3.82
1,000,000	CVS HEALTH CORP 3.375% Due 08-12-24	106.89	1,068,940	98.93	989,330	0.91	33,750	1,781	3.94
1,000,000	RYDER CORP 2.500% Due 09-01-24	104.61	1,046,090	96.71	967,090	0.89	25,000	12,500	4.23
1,100,000	SIMON PROPERTY GROUP LP 2.000% Due 09-13-24	103.61	1,139,754	96.41	1,060,466	0.97	22,000	10,267	3.85

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Portfolio Appraisal

CITY OF UNALASKA

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1,000,000	SKY LTD 3.750% Due 09-16-24	108.79	1,087,930	99.37	993,700	0.91	37,500	17,187	4.07
1,000,000	ALLEGION US HOLDING CO 3.200% Due 10-01-24	106.22	1,062,160	97.38	973,800	0.89	32,000	13,333	4.52
1,000,000	KEYSIGHT TECHNOLOGIES 4.550% Due 10-30-24	111.73	1,117,330	100.57	1,005,730	0.92	45,500	15,293	4.27
290,000	KLA CORP 4.650% Due 11-01-24	111.52	323,407	101.60	294,652	0.27	13,485	4,495	3.86
1,000,000	ABBVIE INC 2.600% Due 11-21-24	105.38	1,053,840	96.64	966,420	0.89	26,000	7,222	4.19
1,000,000	BECTON DICKINSON AND CO 3.734% Due 12-15-24	108.49	1,084,920	99.11	991,070	0.91	37,340	7,883	4.14
1,000,000	ORACLE CORP 2.500% Due 04-01-25 Accrued Interest	107.70	1,077,030	94.93	949,290	0.87	25,000	10,417	4.60
					271,264	0.25			
			33,840,145		31,588,282	28.95		271,264	
U.S. TREASURY									
2,500,000	US TREASURY NOTES 0.125% Due 05-31-23	99.75	2,493,652	97.62	2,440,525	2.24	3,125	798	3.36
4,000,000	US TREASURY NOTES 0.250% Due 06-15-23	100.06	4,002,344	97.55	3,901,880	3.58	10,000	2,131	3.42
125,000	US TREASURY NOTES 0.125% Due 07-15-23	99.88	124,854	97.12	121,401	0.11	156	20	3.50
2,700,000	US TREASURY NOTES 0.125% Due 08-15-23	99.85	2,695,910	96.86	2,615,301	2.40	3,375	156	3.49
2,700,000	US TREASURY NOTES 0.125% Due 09-15-23	99.93	2,698,207	96.61	2,608,443	2.39	3,375	1,559	3.47
3,000,000	US TREASURY NOTES 0.250% Due 11-15-23	100.06	3,001,875	96.26	2,887,740	2.65	7,500	2,221	3.44
3,600,000	US TREASURY NOTES 0.125% Due 12-15-23	99.88	3,595,641	95.84	3,450,096	3.16	4,500	959	3.45
6,700,000	US TREASURY NOTES 0.125% Due 01-15-24	99.77	6,684,598	95.52	6,400,041	5.87	8,375	1,092	3.49
4,750,000	US TREASURY NOTES 0.250% Due 06-15-24	99.46	4,724,209	94.44	4,485,947	4.11	11,875	2,531	3.48
3,500,000	US TREASURY NOTE 3.000% Due 06-30-24	100.19	3,506,699	99.13	3,469,655	3.18	105,000	17,976	3.49

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4,000,000	US TREASURY NOTES 0.375% Due 07-15-24	96.43	3,857,266	94.45	3,778,120	3.46	15,000	1,957	3.46
2,600,000	US TREASURY NOTES 0.375% Due 08-15-24	99.79	2,594,617	94.19	2,448,966	2.24	9,750	450	3.47
4,000,000	US TREASURY NOTES 1.750% Due 12-31-24	100.03	4,001,094	96.18	3,847,040	3.53	70,000	11,984	3.47
5,000,000	US TREASURY NOTES 1.375% Due 01-31-25	98.94	4,946,875	95.14	4,757,250	4.36	68,750	5,978	3.49
5,000,000	US TREASURY NOTE 1.500% Due 02-15-25	99.25	4,962,695	95.33	4,766,600	4.37	75,000	3,465	3.50
5,980,000	US TREASURY NOTES 2.875% Due 05-31-25	100.30	5,997,753	98.36	5,881,689	5.39	171,925	43,916	3.51
3,500,000	US TREASURY NOTES 2.750% Due 06-30-25	99.93	3,497,539	98.03	3,430,945	3.14	96,250	16,478	3.49
5,475,000	US TREASURY NOTES 2.875% Due 07-31-25	100.14	5,482,699	98.31	5,382,418	4.93	157,406	13,687	3.49
	Accrued Interest				127,358	0.12			
			68,868,527		66,801,415	61.22		127,358	
CASH AND CASH EQUIVALENTS									
	WF ADV GOVT MM FD-INSTL #1751		2,668,795		2,668,795	2.45			
TOTAL PORTFOLIO			113,653,267		109,120,730	100	1,915,997	412,686	

*CALLABLE SECURITY



PERFORMANCE HISTORY GROSS OF FEES

CITY OF UNALASKA
Gross of Fees

Time Period	Percent Return Per Period		
	Total	Blend	BLOOMBERG
	Account		1-3 YR GOV
08-31-21 to 09-30-21	-0.07	-0.10	-0.10
09-30-21 to 10-31-21	-0.31	-0.33	-0.33
10-31-21 to 11-30-21	-0.10	-0.04	-0.04
11-30-21 to 12-31-21	-0.12	-0.21	-0.21
12-31-21 to 01-31-22	-0.61	-0.70	-0.70
01-31-22 to 02-28-22	-0.34	-0.41	-0.41
02-28-22 to 03-31-22	-1.15	-1.41	-1.41
03-31-22 to 04-30-22	-0.46	-0.47	-0.47
04-30-22 to 05-31-22	0.52	0.59	0.59
05-31-22 to 06-30-22	-0.60	-0.63	-0.63
06-30-22 to 07-31-22	0.47	0.42	0.42
07-31-22 to 08-31-22	-0.65	-0.80	-0.80
Date to Date			
08-31-21 to 08-31-22	-3.39	-4.03	-4.03