



CITY OF UNALASKA

INVESTMENT REVIEW AND PERMANENT FUND DISCUSSION
for the period ending January 31, 2024

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Portfolio Objectives

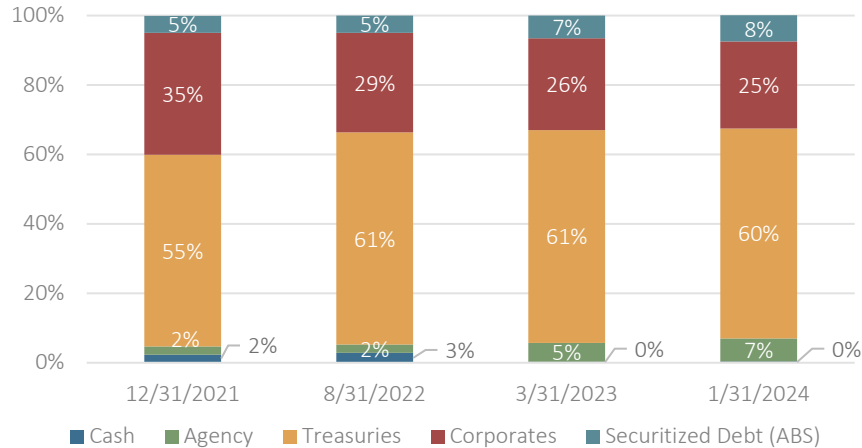
Preservation of capital is the foremost objective of the investment program. Liquidity of the portfolio will remain sufficiently liquid to enable the City to meet all operating requirements. Portfolio shall be designed to attain a market rate of return.

	Portfolio	Bench*
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Market Value:	\$114,487,445	
Avg. Maturity:	1.98 years	1.95 years
Yield to Maturity:	4.55%	4.29%
Duration:	1.83	1.86
Avg. Quality:	AA	AA+

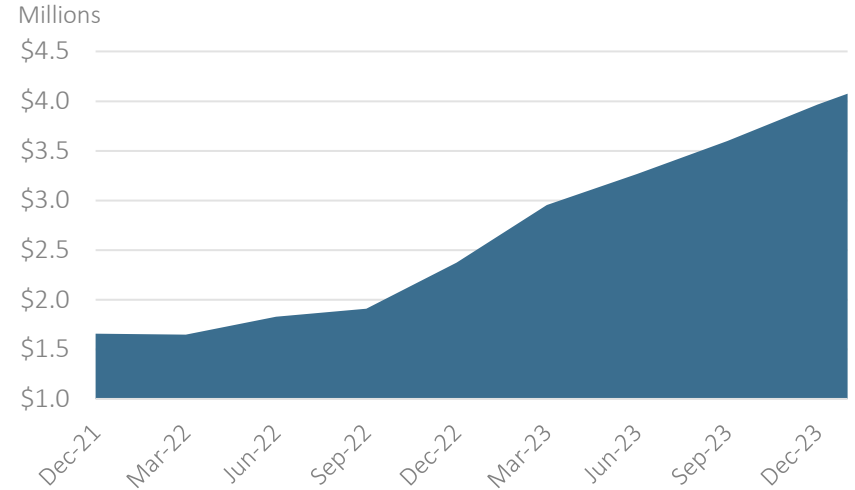
*Bench: Bloomberg 1-3 Government

Portfolio Composition

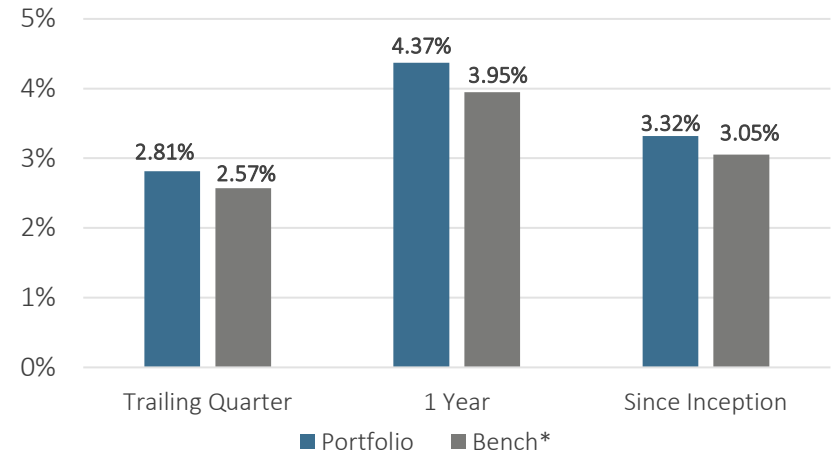


May not add to 100% due to rounding

Annual Coupon Income



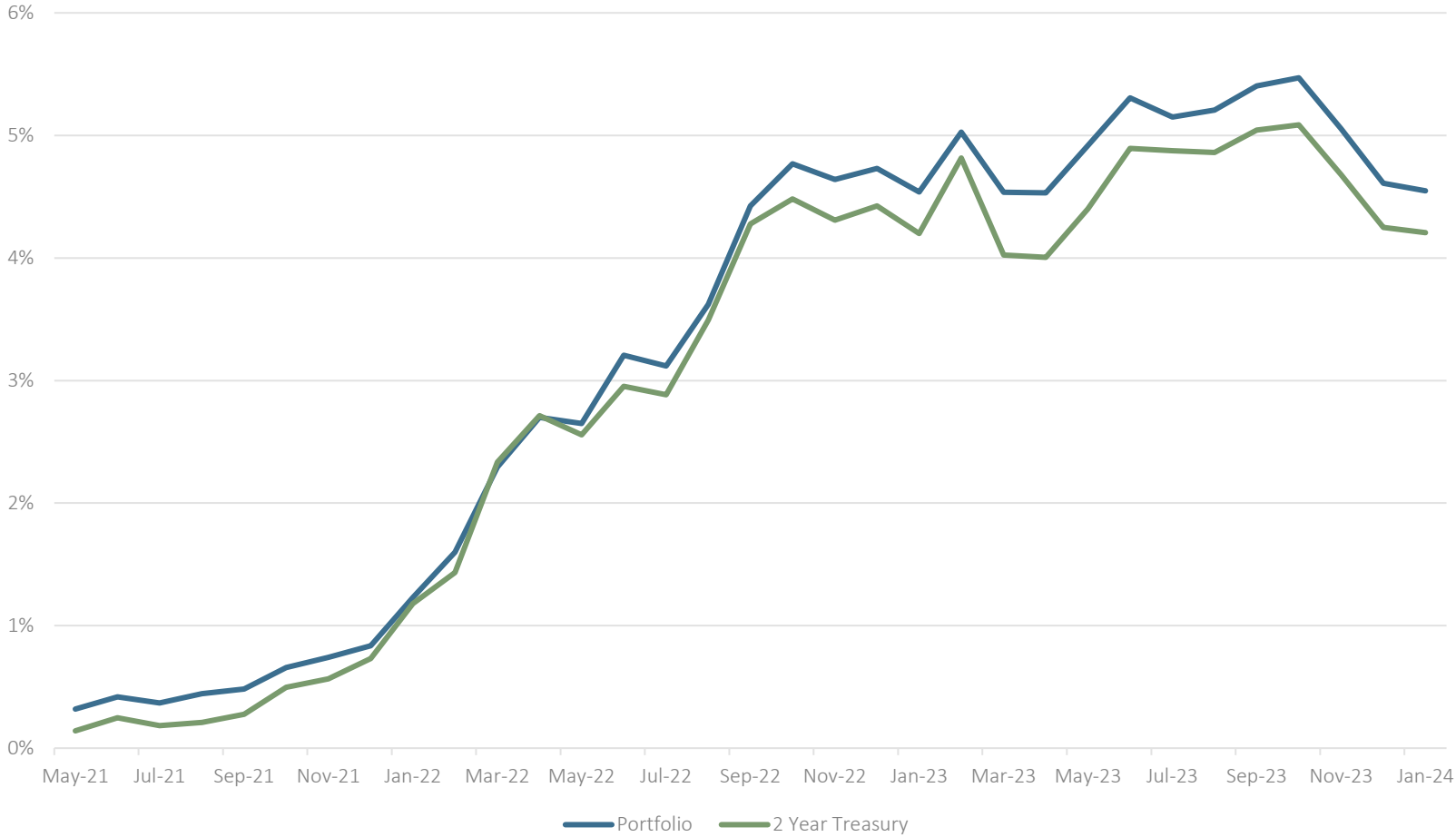
Performance



Performance is gross of Fees
Portfolio inception is June 30th, 1995

Unalaska Portfolio vs 2 Year Treasury

Yield Comparison



Historical Market Value as of January 31, 2024

City of Unalaska

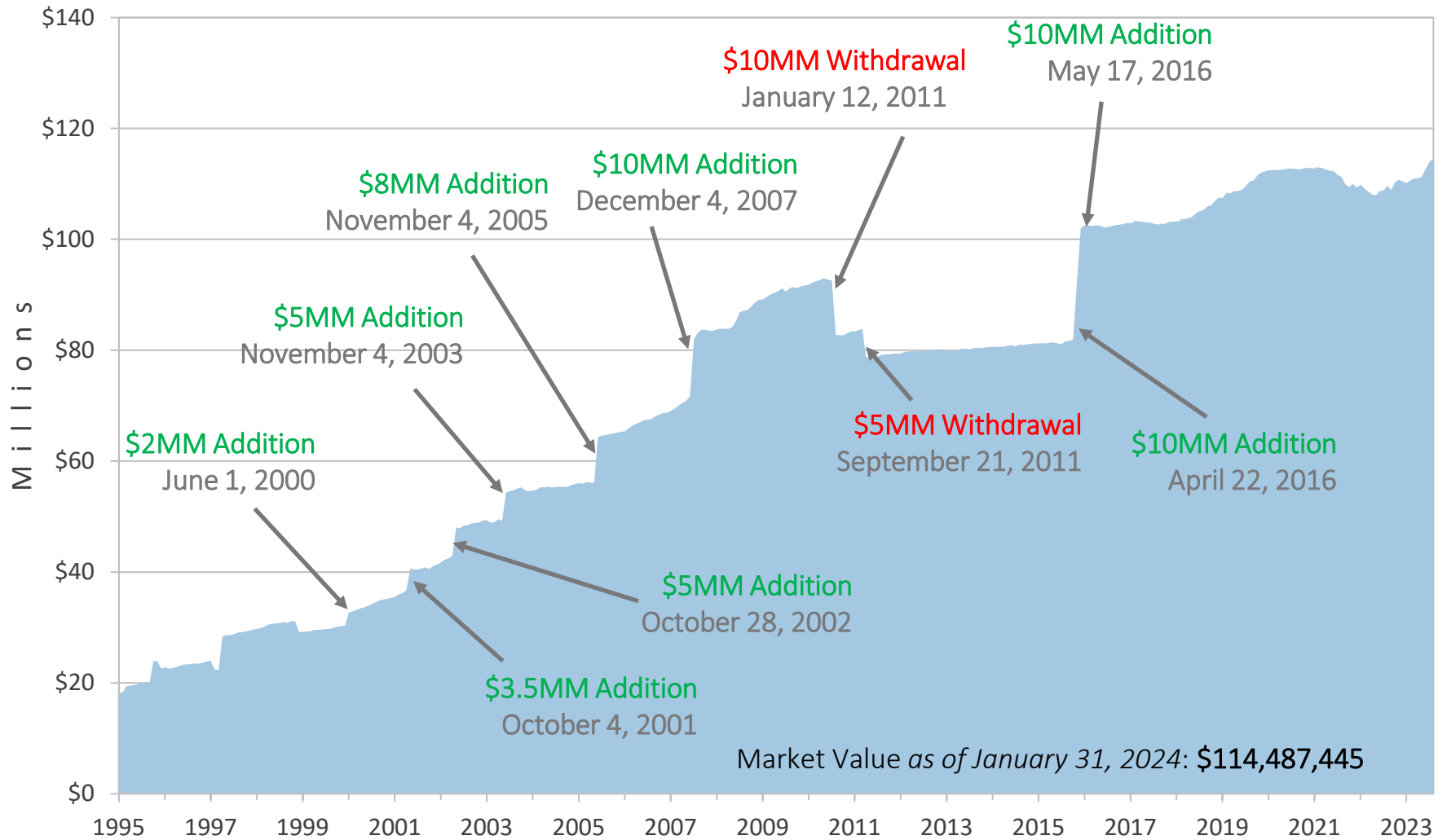


Chart shows month-end portfolio market value from June 30, 1995 to January 31, 2024.

Resolutions That Have Passed

On March 22, 2011, City Council passed Resolution 2011-19 reclassifying \$13,000,000 of General Fund unassigned fund balance to General Fund committed fund balance for emergency operations.

On January 26, 2021, City Council passed Resolution 2021-06 reclassifying \$12,000,000 of General Fund unassigned fund balance to General Fund committed fund balance for emergency operations.

\$25,000,000 total committed to emergency operations.

Timeline with the Council

9/3/21: Two presentations over Two Days

Day one was to Staff “Strategies to Increase Return on Excess Reserves Day One”

Day two was Assemble “Strategies to Increase Return on Excess Reserves Day Two”

Content: Current Strategy, Bucketing Strategies, including others in the State, Strategy Benefits, Recommendations, Permanent Fund Mechanisms and Sustainability

10/4/21: Final Aggregate Allocation Strategy

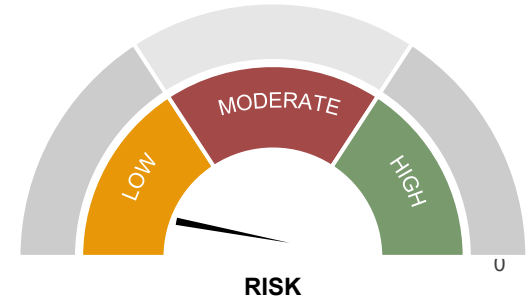
Content: Medium Term and Permanent Fund Recommendations

10/26/21: Permanent Fund Options



Summary of Current Strategy as Presented September 2021

- The City currently invests excess Reserves in cash, cash equivalents, and short-term bonds.
- The risk levels for these investments are low, which also means that the return potential is low. Particularly in today's low interest rate environment.
- The City can utilize the strong Reserve levels (approximately \$160M) the Council built over time to improve long-term fiscal sustainability by diversifying revenue sources.



Operating Cash (<1 Year)

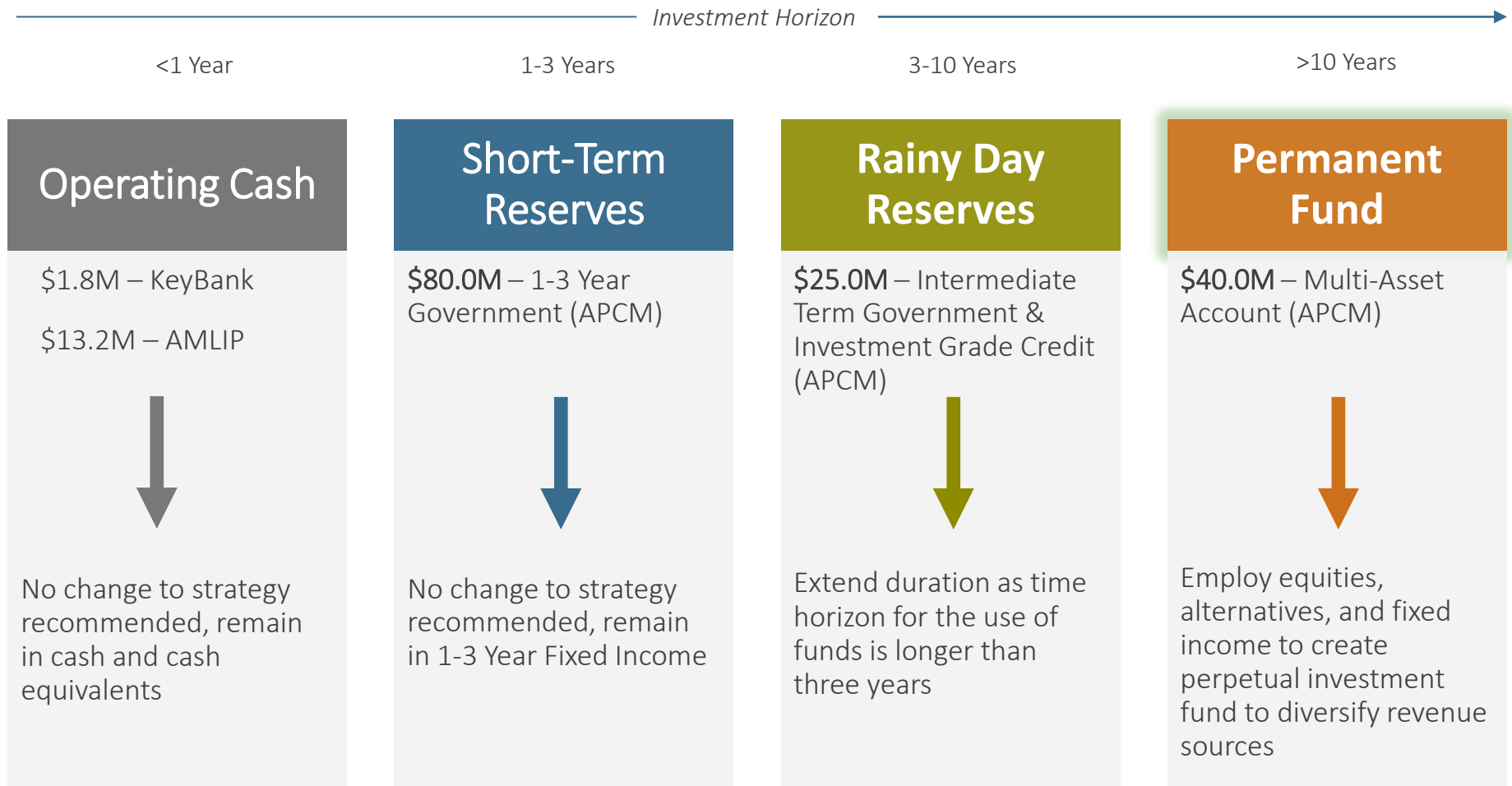
- \$1.8M – KeyBank
- \$47.2M – AMLIP

Short-Term Reserves (1-3 Years)

- \$112.3M – 1-3 Year Government (APCM)

*Account values based upon June 30, 2021 market values as detailed in a Memorandum to Council provided to APCM by the City.

Bucketing Strategy Recommendations as Presented October 2021



Match Reserves to Time Horizon

- Many clients utilize a holistic portfolio approach for cash assets when funds will be withdrawn over time to enhance earnings potential without sacrificing budgetary stability.
- **If cash needs can be predicted fairly well**, pools of assets can be identified to meet budgetary needs over time.
 - Assets needed soon are invested in safer, more liquid assets with lower earnings potential.
 - Assets not needed until later are invested in longer-term assets with higher earnings potential and higher risk.
- As shorter-term assets are utilized, longer-term assets can be sold to replenish short and rainy day reserves, and vice versa.
- **This strategy improves fiscal sustainability through maximization of the City's revenue from investments without jeopardizing budgetary stability.**

Operating Cash

Operating cash is placed in either demand deposits or cash equivalents. These are Reserves that will be needed within a one-year time horizon and should be invested to maximize availability and minimize risk rather than improve yield.

Short-Term Reserves

Short-Term Reserves are meant for budgetary needs that are 1-3 years out. These Reserves would be invested in short-term Government securities that provide slightly higher yield while maintaining strong liquidity and a low risk profile.

Rainy Day Reserves

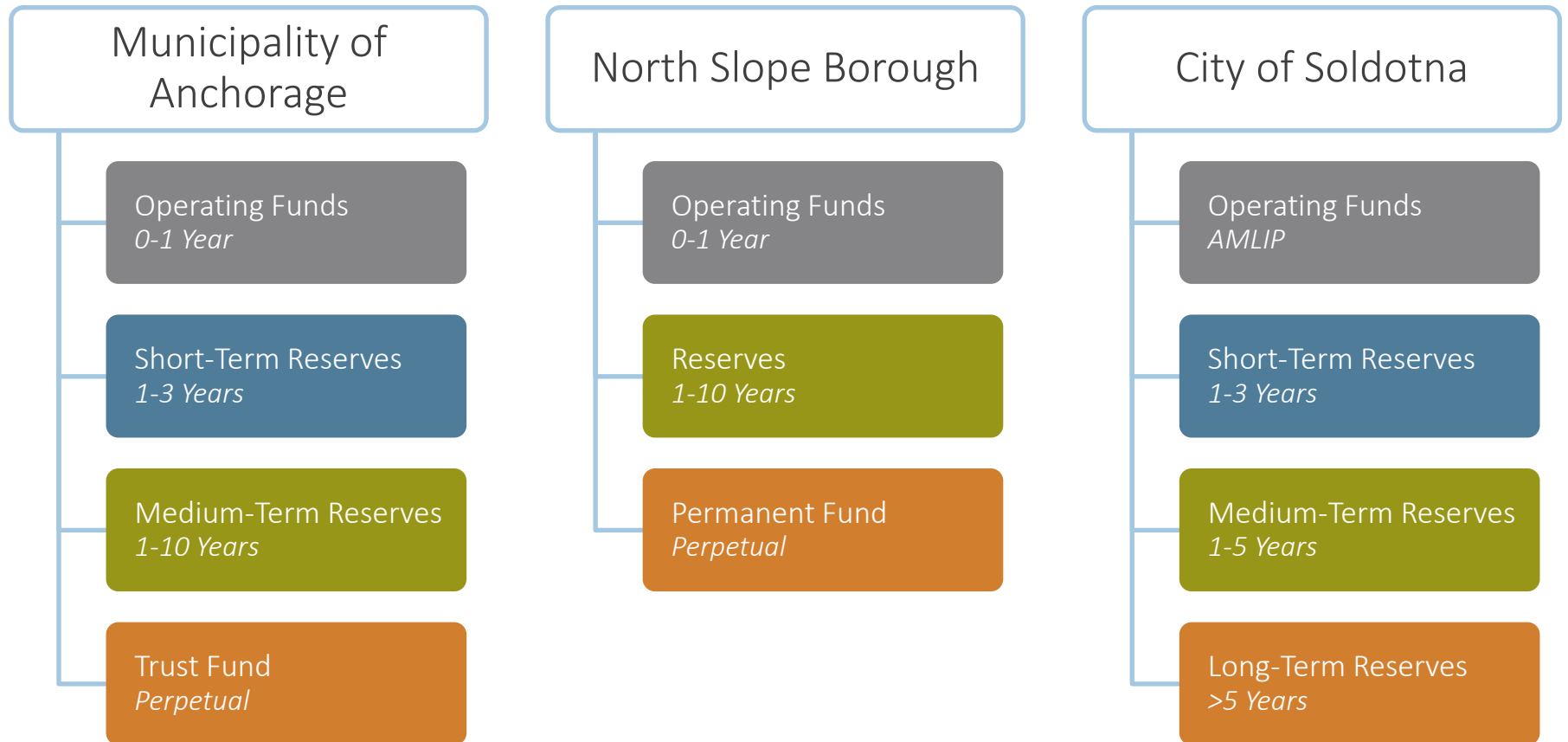
Rainy Day Reserves are meant to provide a source of funds in emergency or crisis situations. These reserves must be available when needed with no specific time horizon. Best invested in longer dated fixed income assets to improve yield and provide capital appreciation in economic downturns.

Permanent Fund

Permanent Funds can be utilized to improve fiscal sustainability by providing an additional source of revenue. Permanent Funds generally take advantage of higher risk capacity to improve earnings via additional asset classes that improve return expectations.

Bucketing Strategies in the State

Many public entities match investments to time horizon to prudently maximize revenue without assuming excess risk.



Permanent Fund: Improve Fiscal Sustainability

Permanent Fund: \$40MM

Permanent Funds are generally long-term accounts that the City utilizes to generate earnings to supplement revenue.

These Funds can be designed to **provide perpetual investment revenue** to enhance fiscal sustainability or for reinvestment.

Permanent Funds focus on **long-term goals** and represent an excellent vehicle with which to invest in the City's future.

A Permanent Fund can be a **source of funding for unforeseen shortfalls** or **stabilizing budgets** in the face of uncertainty around traditional sources of revenue.

Investments to Supplement Revenue

• City of Fairbanks

Purpose: To maximize income for capital and operating expenses of the city and preserve in trust assets of the city for future generations of city residents.

Risk Profile: 60% Equities

• City of Sitka

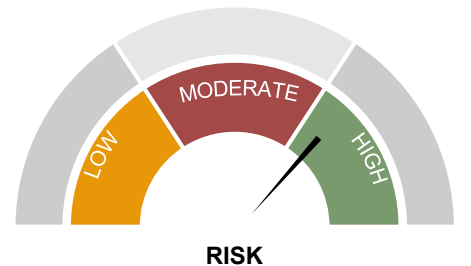
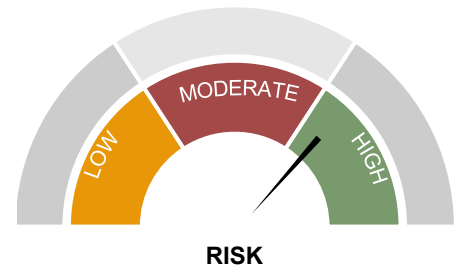
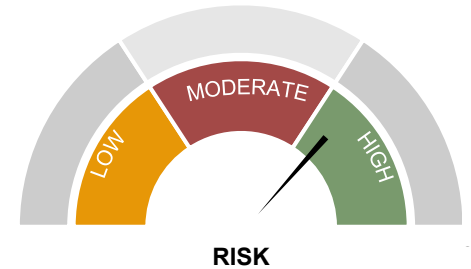
Purpose: To grow the principal of the permanent fund to provide an ever-increasing income stream to the Sitka General Fund in perpetuity. The intent of the income stream is to reduce the tax burden on the citizens of Sitka.

Risk Profile: 65% Equities

• City of Kenai

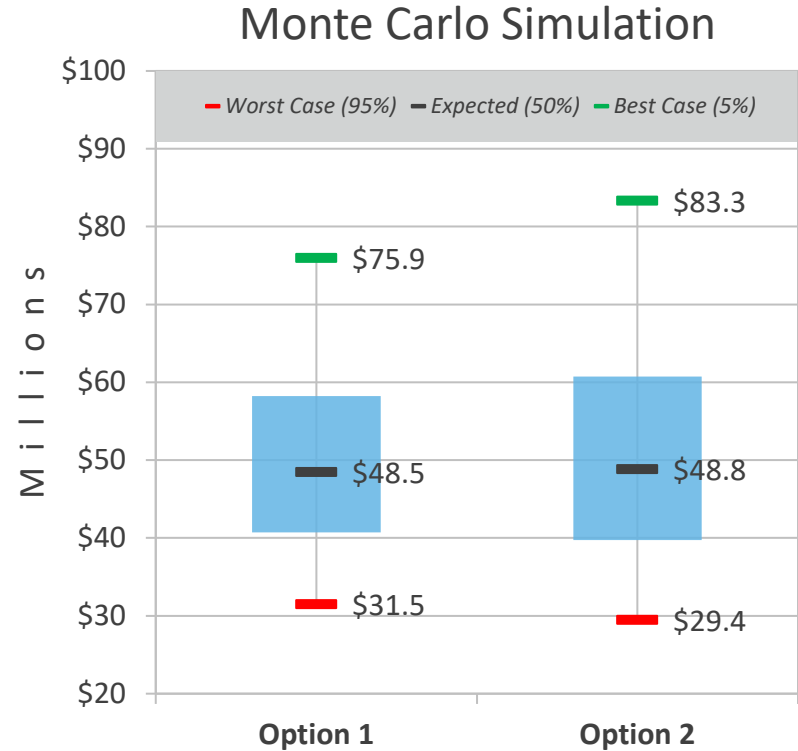
Purpose: To account for principal proceeds of the sale of city land with the intent to supplement the General Fund or increase reserve holdings.

Risk Profile: 65% Equities



Sustainable Distributions 10-Year Horizon as presented in October 2021

- The simulations depicted on the right were based upon a starting value of \$40M and no contributions.
- Annual withdrawals begin starting with the next fiscal year (July 1, 2022).
- Withdrawals are based upon the sustainable rate for each option:
 - Option 1: 3.5%
 - Option 2: 4.0%

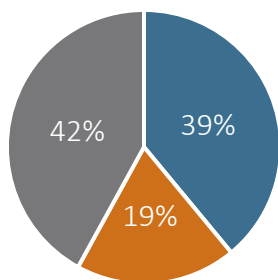


Distributions (\$ thousands)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Option 1	1,434	1,454	1,475	1,490	1,529	1,561	1,591	1,627	1,660	1,694
Option 2	1,643	1,669	1,694	1,713	1,761	1,799	1,837	1,878	1,919	1,960

Risk and return data from Windham Portfolio Advisor.

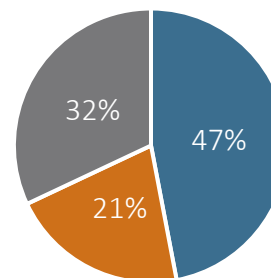
Permanent Fund Characteristics as Presented in October 2021

Moderate Allocation



■ Equity ■ Alternatives ■ Fixed Income

Moderate Growth Allocation



■ Equity ■ Alternatives ■ Fixed Income

Characteristics	Moderate Allocation		Moderate Growth Allocation	
	Expected	Range*	Expected	Range*
Annual Return	5.8%	-11.3% to 22.9%	6.6%	-13.7% to 26.8%
Long-Term Return	5.5%	5.2% to 5.7%	6.1%	5.8% to 6.4%
Net Earnings <i>Long-Term Return Less 2% Expected Inflation</i>	3.5%	3.2% to 3.7%	4.1%	3.8% to 4.4%
Average Loss in Extreme Conditions <i>Within a 1-Year Horizon</i>	-21.0%	—	-24.3%	—

* Range denotes the 95% confidence interval. Risk and return data from Windham Portfolio Advisor.
Graphic is for illustrative purposes only.

Starting Value and Distribution Options 10-Year Horizon in October 2021

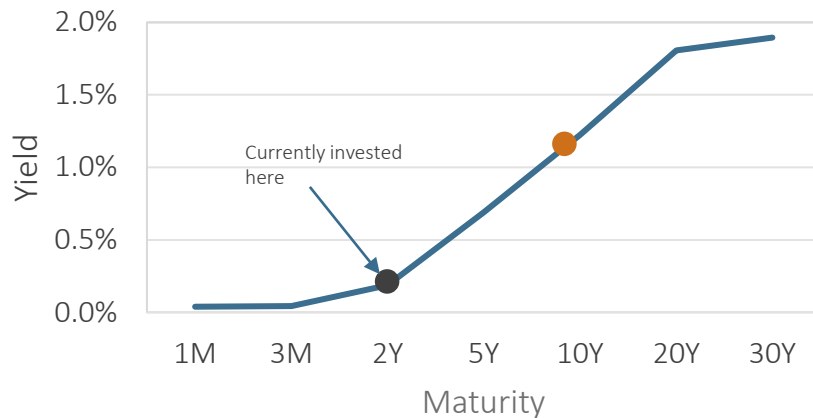
Options (\$ millions)		Distribution Starting July 2022 (Next Fiscal Year)			Distribution Starting July 2024 (in 3 Years)			Distribution Starting July 2026 (in 5 Years)		
Starting Value	Portfolio	Expected Ending Value	Avg. Distributions	Cumulative Distributions	Expected Ending Value	Avg. Distributions	Cumulative Distributions	Expected Ending Value	Avg. Distributions	Cumulative Distributions
\$25M	Moderate	30.28	0.97	9.70	32.59	1.05	8.37	34.96	1.13	6.80
	Moderate Growth	30.52	1.12	11.17	33.20	1.22	9.74	35.96	1.33	7.99
\$30M	Moderate	36.34	1.16	11.64	39.10	1.26	10.05	41.95	1.36	8.16
	Moderate Growth	36.62	1.34	13.40	39.84	1.46	11.69	43.15	1.60	9.59
\$35M	Moderate	42.39	1.36	13.58	45.62	1.47	11.72	48.94	1.59	9.52
	Moderate Growth	42.73	1.56	15.64	46.48	1.70	13.64	50.34	1.86	11.18
\$40M	Moderate	48.45	1.55	15.51	52.14	1.67	13.40	55.93	1.81	10.88
	Moderate Growth	48.83	1.79	17.87	53.11	1.95	15.59	57.53	2.13	12.78

Simulation data from Windham Portfolio Advisor. All data items reported at the 50% confidence level.

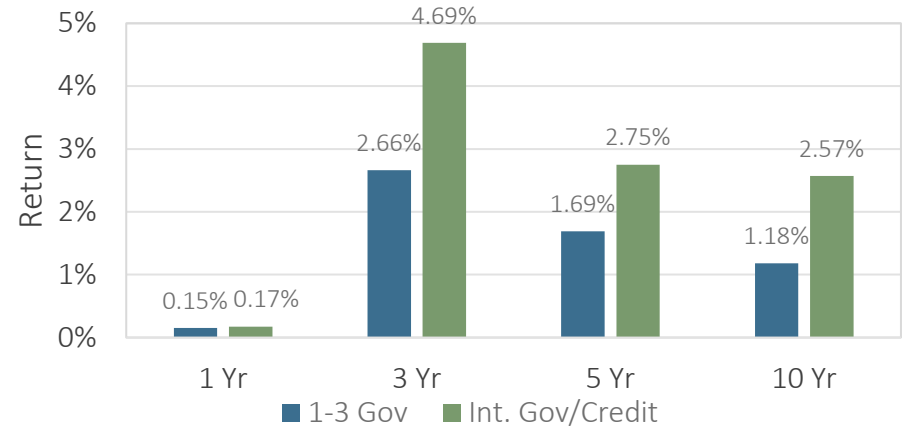
Appendix

Rainy Day Reserve Recommendation as Presented September 2021

US Treasury Curve



Return Comparison

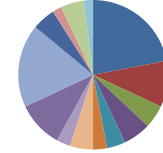
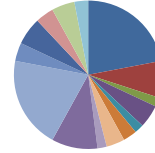
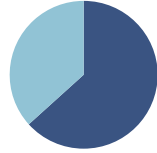


Bloomberg Data as of 8/31/2021

Medium-Term Reserve: \$25MM

This account would have a longer time horizon than short-term Reserves and hold securities with maturities between 1 and 10 years, including investment grade corporate bonds. While maturities would be different, the majority of holdings would remain in Treasury securities. Investment grade corporate bonds would add incremental yield to the portfolio. Should the City have a greater cash need than anticipated, funds would be taken from here and moved to the short-term reserves.

Permanent Fund Portfolio Options as Presented September 2021



Asset Class	Current Total Portfolio	Option 1	Option 2
Total Equity	0.0%	39.0%	47.0%
Large Cap Equity	0.0%	22.0%	22.0%
Mid Cap Equity	0.0%	8.0%	10.0%
Small Cap Equity	0.0%	2.0%	5.0%
International Equity	0.0%	5.0%	6.0%
Emerging Markets Equity	0.0%	2.0%	4.0%
Total Alternatives	0.0%	19.0%	21.0%
REITs	0.0%	3.0%	3.0%
Infrastructure	0.0%	4.0%	5.0%
Commodities	0.0%	2.0%	3.0%
Alternative Beta	0.0%	10.0%	10.0%
Total Fixed Income	100.0%	42.0%	32.0%
U.S. Fixed Income	0.0%	20.0%	18.0%
U.S. 1-5 Year Gov/Credit	0.0%	4.0%	0.0%
U.S. Corporate High Yield	0.0%	6.0%	5.0%
U.S. 1-3 Year Government	63.3%	0.0%	0.0%
TIPS	0.0%	4.0%	2.0%
International Fixed Income	0.0%	5.0%	5.0%
Cash	36.7%	3.0%	2.0%
Expected Annual Return	1.5%	5.8%	6.6%
Long Term Expected Return	1.5%	5.5%	6.1%
Net Earnings (less inflation)	-0.5%	3.5%	4.1%

* Range denotes the 95% confidence interval. Risk and return data from Windham Portfolio Advisor. Inflation expectation 2%.

2024 Investment Outlook

Key Themes

Market Impacts

1. Slowing growth throughout the year

A pivotal year for rates and securitized products. Pockets of economic durability should limit a U.S. slowdown.

2. Inflation past the peak – Getting to 2.5% may take longer than normal

Improvements in inflation will be seen throughout 2024, but a sticky underlying core trend suggests a possible longer tail to the inflationary environment.

3. Interest rate volatility to fall

Historically high level of rates volatility will continue to ease, increasing attractiveness of the asset class, on an outright and risk-adjusted basis.

4. Quantitative tightening (QT) decision in 2H2024

Market stability remains a priority, but Fed will need to adjust their policy as economy slows.

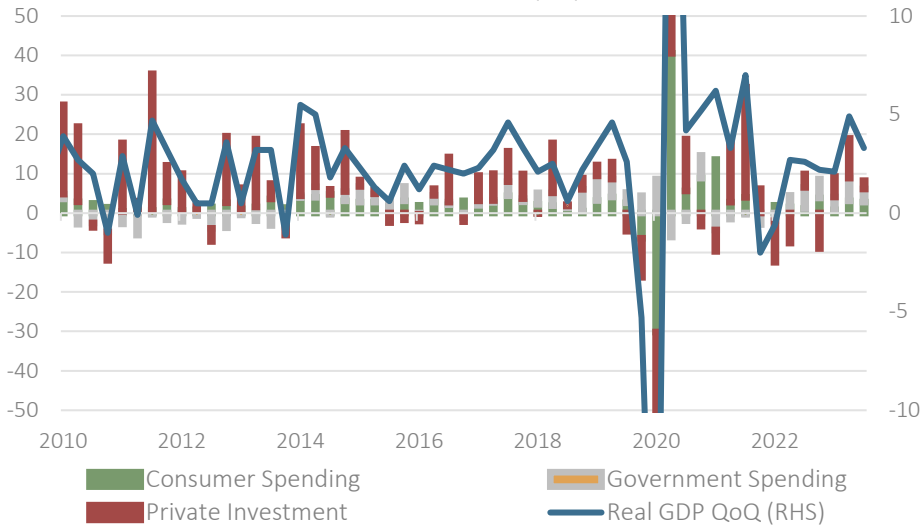
5. Risk skew remains

Unprecedented, synchronized monetary policy tightening increases the risks of a global recession. Caution remains the prudent path. US outlook is less vulnerable than most.

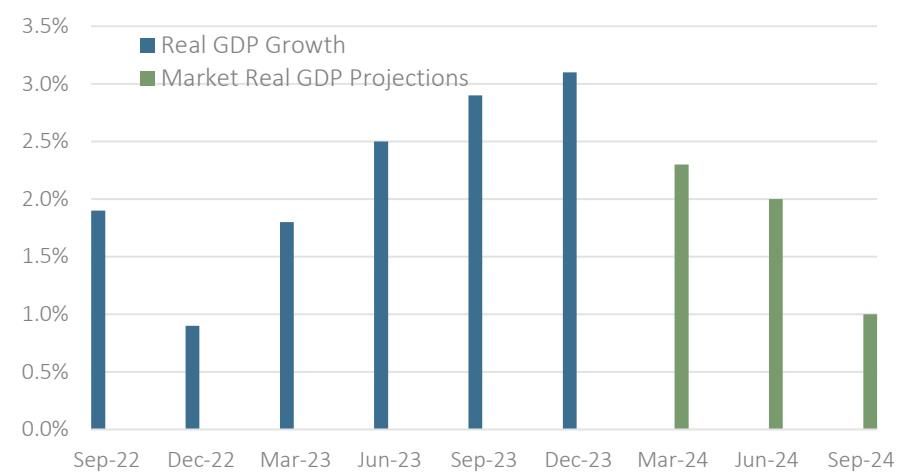
Economic Growth Still Strong, To Slow, US an Outlier

FOMC decreased 2024 Real GDP estimates by 0.1%, growth will slow as we enter 2024, US data has been surprisingly strong but an outlier.

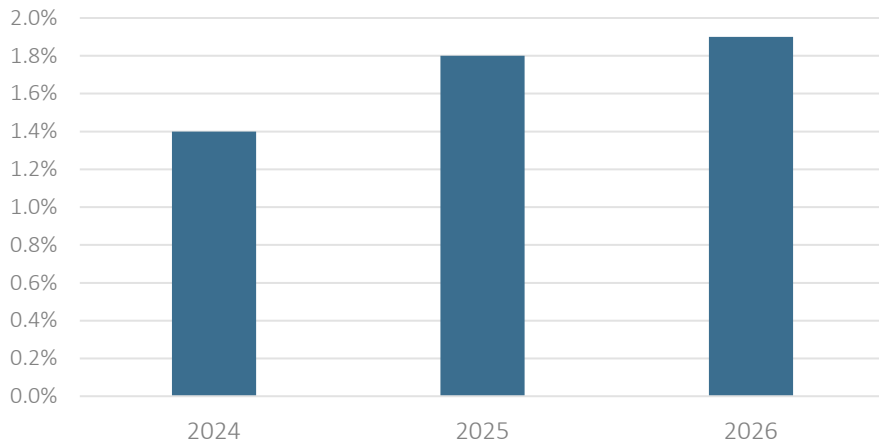
US Real GDP QoQ



Real GDP Growth



FOMC Real GDP Growth Projections



Economic Surprise

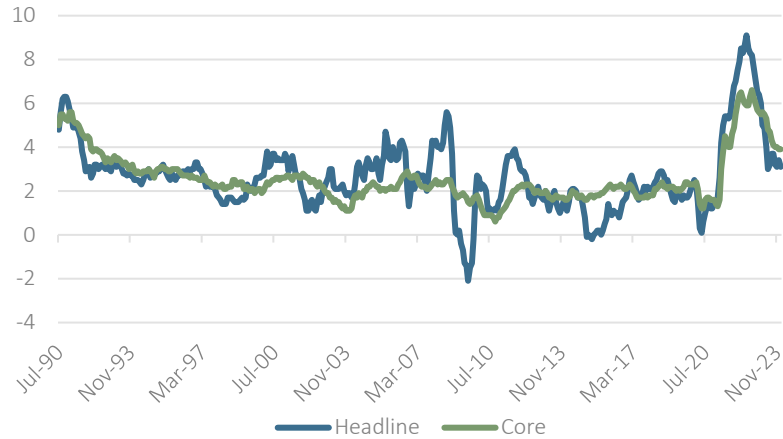


Sources: Bloomberg, US Census Bureau, Atlanta Federal Reserve, Citigroup, APCM

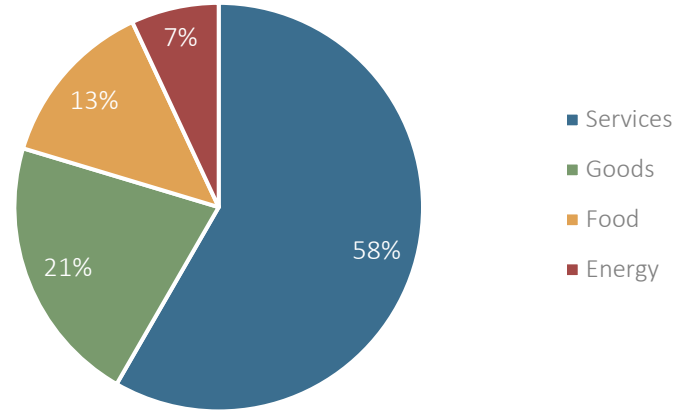
Inflation Past Peak – Path to 2.5% May Take Longer

Core inflation has proved to be **sticky on the way down**. Inflation expectations have **moved up** over the past few months.

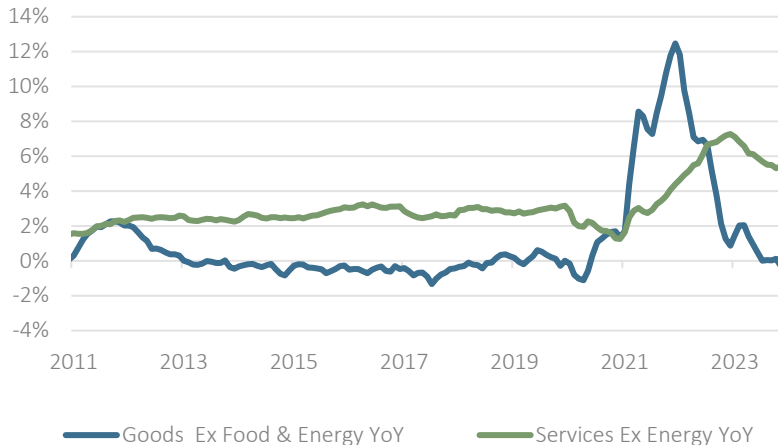
Headline vs. Core CPI in %



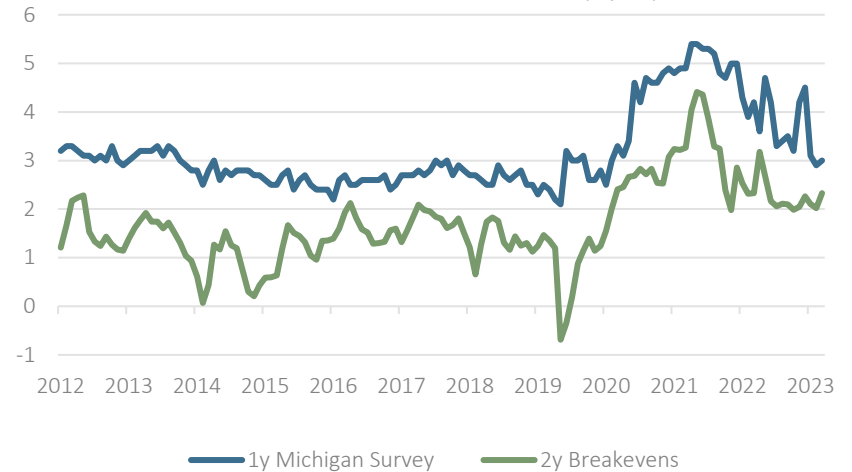
Breakdown of US Inflation



Inflation Goods vs Services

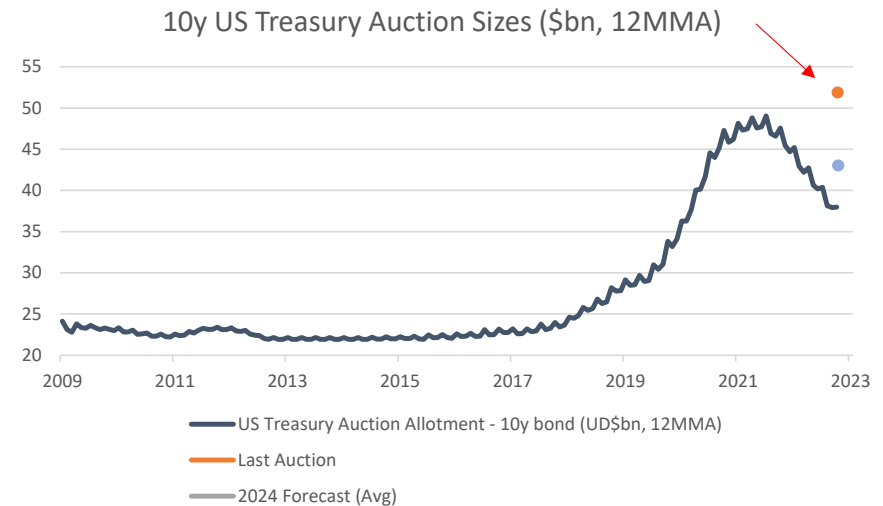
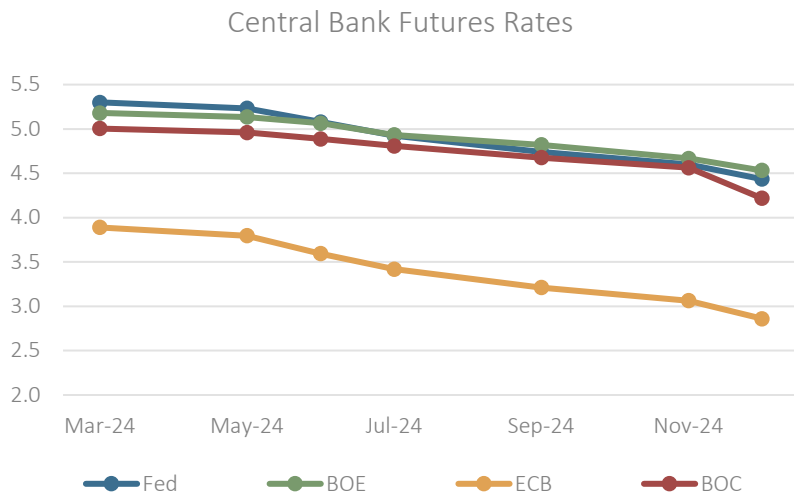
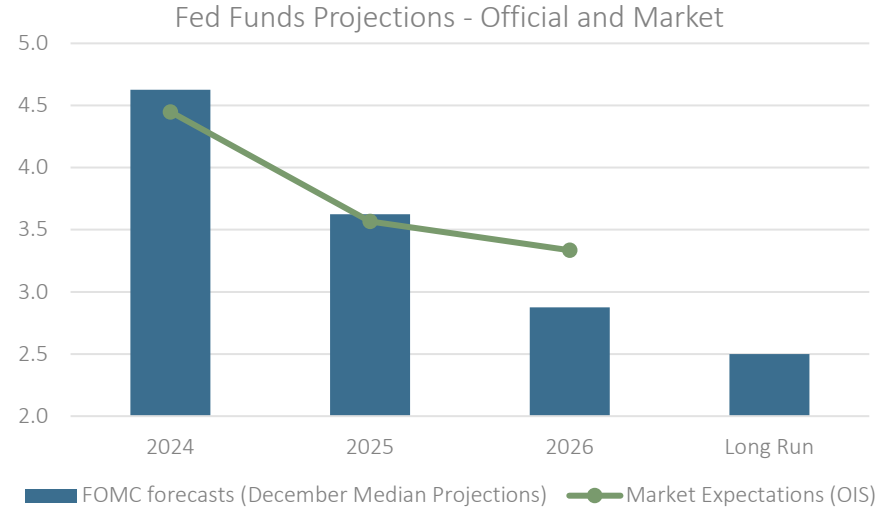
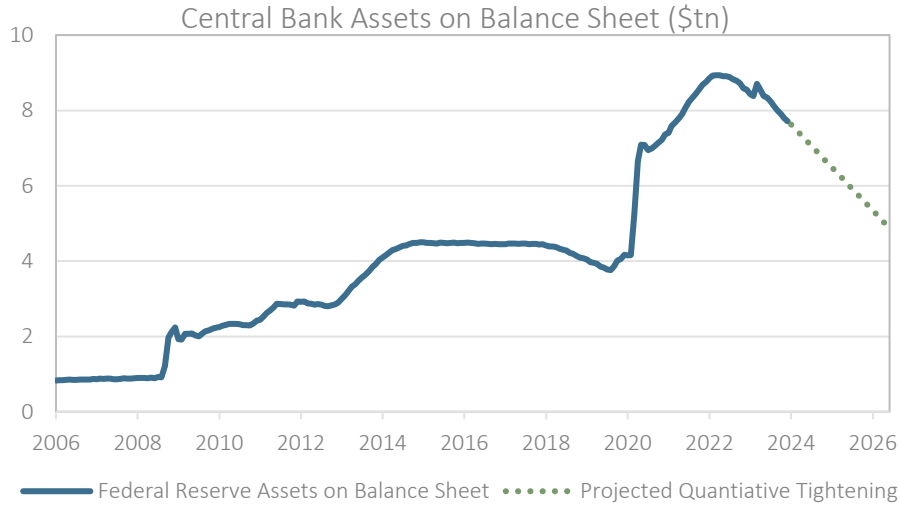


Consumer vs Market Inflation (1y %)



Policy Outlook Continues to be Restrictive

Roughly \$1.2tn has rolled off the SOMA. Interest rate markets are implying 3-4 interest rate cuts this year.



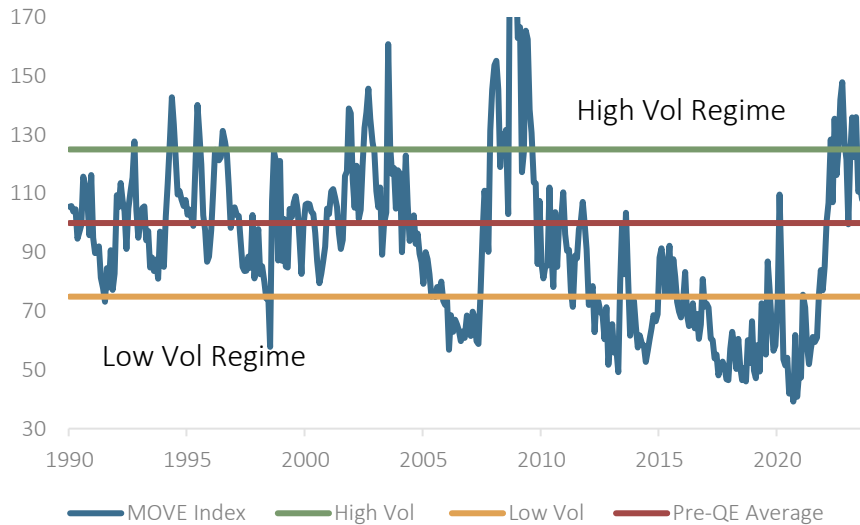
Sources: Bloomberg

Interest Rate Volatility to Fall, Don't Expect QE Levels of Risk

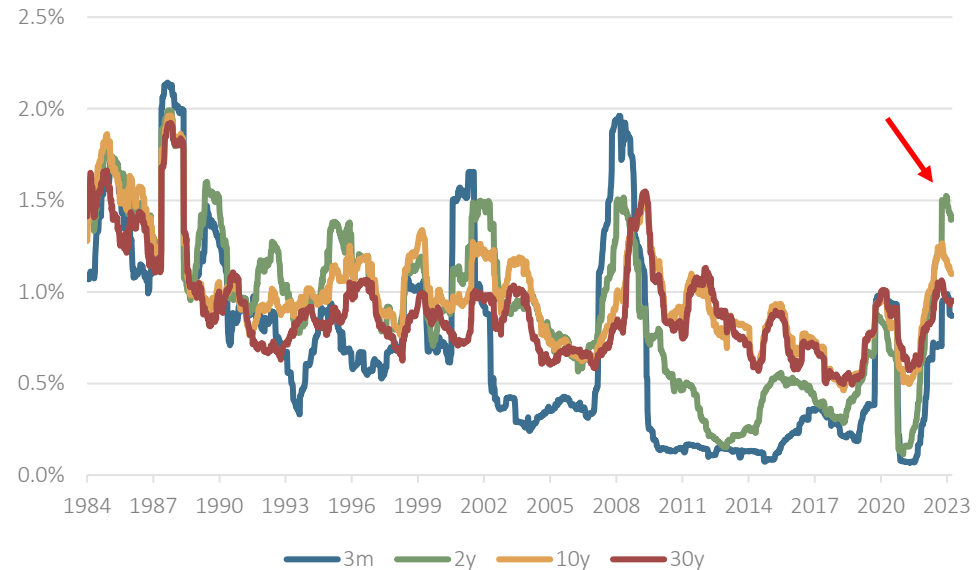
Volatility has decreased, but remains above its Pre-QE average. This should continue to fall throughout 2024 – but we do not expect rates to trade in a Low Vol range given Central Banks commitment to higher for longer.

Front end volatility (2y) has reached previous peaks of 1990, 2001 and 2009 – emphasizing rate surprises have likely peaked.

US Treasury Volatility (Move)

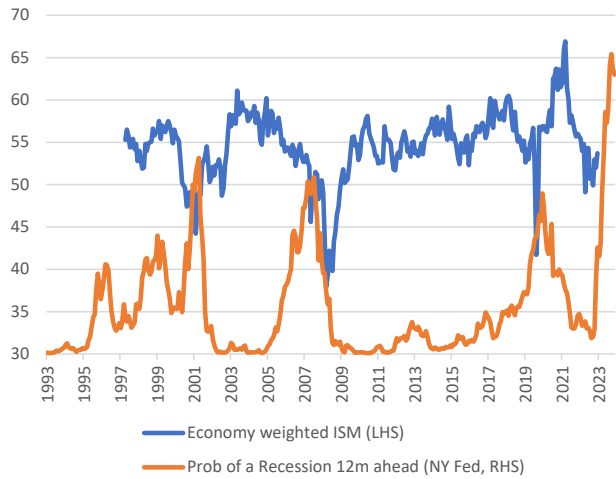


1-year Rolling Historical Volatility by Tenure

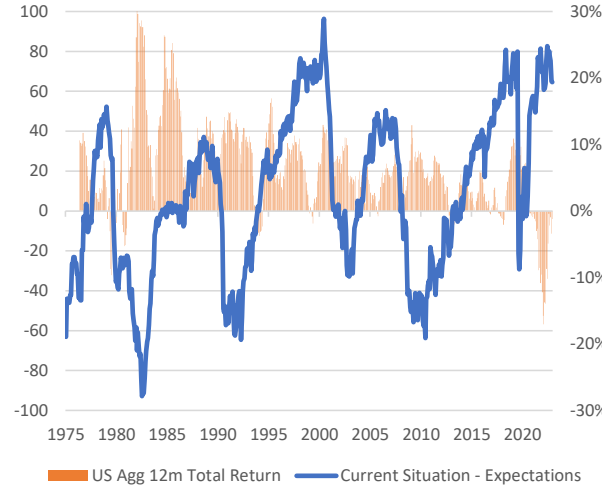


Late Cycle Investing – Business and Household Indicators

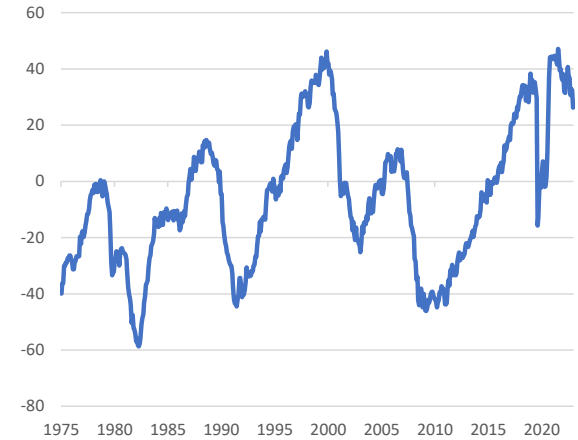
ISM vs NY Fed Recession Prob



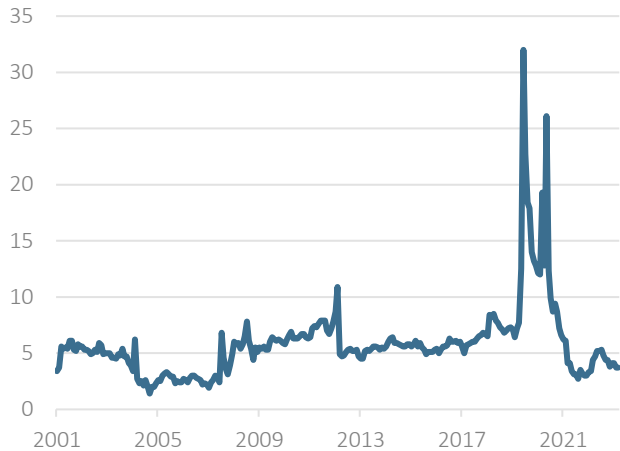
Consumer Confidence



Consumer Confidence: Jobs Plentiful - Hard To Get



US Personal Savings as % of DPI



House Payments as a % of Income



30 YR Mortgage Contract Rate - 30y UST



Sources: Bloomberg, APCM, NY Federal Reserve, Confidence Board, National Association of Realtors, Inst. For Supply Management