

Museum Endowment Performance Calculation  
Fourth (Final) quarter (Q4) ending December 31, 2014

APCM BALANCE 12-31-2014	\$ 30,753,750.38
PRELIMINARY Q4 2014 Net Percentage Increase	0.93%
Museum Endowment Balance 9-30-14	\$ 769,410.18
Net Gain (Loss) to Museum Endowment	\$ 7,127.99
<b>ESTIMATED Museum Endowment as of 12-31-2014</b>	<b>\$ 776,538.16</b>

Prepared by:  
Brian Carlson, Finance Director  
907.834.3461  
[Bcarlson@ci.valdez.ak.us](mailto:Bcarlson@ci.valdez.ak.us)



January 7, 2015

Memo From: Brian Carlson, City of Valdez Finance Director  
To: Valdez Museum Board of Directors  
Re: **Valdez Permanent Fund; Museum Endowment**

### **I. Background**

The Valdez Museum has its endowment funds invested with one fund manager (Alaska Permanent Capital Management / Domestic Fixed-Income portfolio) within the City's Permanent Fund Portfolio. The Museum endowment totals approximately \$776,538 as of December 31, 2014.

The City's Permanent Fund is comprised of nine funds spanning several asset classes. By the end of first quarter, 2015, the City will replace a redundant fund with a new manager and new asset class (Global Fixed Income), thereby keeping the number of funds at nine, but increasing the asset classes by one. Additional asset class and fund manager changes may be implemented later in 2015.

### **II. Analysis**

The Museum Endowment holdings raise a number of issues with respect to future policy. These issues fall within the topic categories of **Investment Objectives, Legal Compliance, and Accounting.**

#### **Investment Objectives**

The Permanent Fund's objective, as articulated in the Investment Policy statement is:

**Total Return Objective:** The long-term (greater than 10 years) total return objective of the Fund's investable assets net of investment management fees and prior to distributions is a 4.5% real return (CPI + 4.5%).

The Permanent Fund is structured so as to achieve this return objective with the lowest possible risk of principal loss, typically expressed as "standard deviation". This is primarily achieved by diversification among numerous asset classes, i.e. equity (stocks), fixed-income (bonds), real estate, inflation-protected securities, and others. Each of these asset classes can be further subdivided, i.e. by geography

Brian Carlson, Finance Director  
212 Chenega Ave, PO Box 307  
Valdez, AK 99686  
[BCarlson@ci.valdez.ak.us](mailto:BCarlson@ci.valdez.ak.us)  
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(domestic (U.S.) vs. International equity), by market capitalization (small-cap equity vs. large-cap equity), by sector (government bond vs. corporate bond), etc. As various asset classes do not necessarily rise and fall in unison, a portfolio's risk, or standard deviation, can be lowered via diversification among asset classes.

The Museum may currently lack an investment objective for its endowment. Its objective should first contemplate liquidity needs, and then return objectives, which is primarily a function of liquidity needs and risk tolerance. Regardless of the Museum's objective or lack thereof, by investing in only a portion of the broader Permanent Fund, the Museum does not avail itself of the full risk-adjusted return potential of the Permanent Fund.

### Legal Compliance

The Operations of the Permanent Fund are governed by both the Municipal Charter and by Municipal Code. The pertinent excerpt from the City Charter appears below (emphasis mine):

#### Section 6.7. Permanent Fund.

(a) There is established as a separate account, the Valdez permanent fund. All amounts received by the city from the sale of Marine Terminal Revenue Bonds for its own use and expenditure, **as well as any other funds that may subsequently be so designated by the city council, shall be placed in the fund. Each year on the first business day of the city's fiscal year, one and one-half percent (1.5%) of the permanent fund's market value, as determined on the last day of the last accounting year that has been certified by an annual audit, shall be transferred into the general fund for appropriation for operational and capital expenses of the city. The remaining funds and any other funds appropriated for deposit in the permanent fund shall not be spent, but shall be held perpetually in trust** for the benefit of the present and future generations of Valdez residents. The fund shall be administered in accordance with the provisions of this section.

The Charter allows for "other funds" to be placed in the permanent fund by action of City Council. It also appears to allow for withdrawal of Museum Funds as part of the 1.5% annual General Fund appropriation. However, it is necessary for the museum and city to communicate during each budget cycle so as to properly encumber that annual permanent fund appropriation. Liquidation of any portion of the Museum Endowment would ideally be planned during the budget preparation, and effected mid-year as part of the City's Community Service Organization appropriations. I will discuss this topic further with the City Manager, City Clerk, and City Attorney so as to ensure there are no other legal issues.

### Accounting

Accounting for the Museum Endowment value is informal, but seems to be adequate as far as it goes. The current method is dollar- rather than percentage-based. Any method can be established, and with a high level of accuracy, provided it is documented. The method of accounting should ultimately be a function of the Museum's objectives, which may impact how it allocates its Endowment within the

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Permanent Fund, and which may even result in full withdrawal of Endowment funds in favor of some other investment vehicle(s).

### **III. Conclusion**

There is no immediate urgency to change any aspect of this arrangement. However, I would recommend articulating the Museum's objectives, as these would inform the other topics and would possibly compel some revision to the Museum's holdings. At that point, I would be able to provide more precise input with respect to legal, budgetary, and accounting matters. I would also be happy to help facilitate this discussion with the Museum Board or related sub-committee.

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## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of September 30, 2014, with the distribution as of June 30, 2014. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	September 30, 2014		Net New Inv.	Inv. Return	June 30, 2014	
	Market Value	Weight			Market Value	Weight
<b>Domestic Equity</b>	<b>\$57,133,467</b>	<b>33.25%</b>	<b>\$(178)</b>	<b>\$(3,871)</b>	<b>\$57,137,516</b>	<b>32.84%</b>
<b>Large Cap Equity</b>	<b>\$46,324,326</b>	<b>26.96%</b>	<b>\$0</b>	<b>\$513,917</b>	<b>\$45,810,409</b>	<b>26.33%</b>
Vanguard Institutional Index	46,324,326	26.96%	0	513,917	45,810,409	26.33%
<b>Mid Cap Equity</b>	<b>\$7,396,365</b>	<b>4.30%</b>	<b>\$0</b>	<b>\$(306,917)</b>	<b>\$7,703,282</b>	<b>4.43%</b>
Vanguard S&P Mid Cap 400 Index	7,396,365	4.30%	0	(306,917)	7,703,282	4.43%
<b>Small Cap Equity</b>	<b>\$3,412,776</b>	<b>1.99%</b>	<b>\$(178)</b>	<b>\$(210,870)</b>	<b>\$3,623,825</b>	<b>2.08%</b>
RBC Small Cap Core	3,412,776	1.99%	(178)	(210,870)	3,623,825	2.08%
<b>International Equity</b>	<b>\$41,839,571</b>	<b>24.35%</b>	<b>\$0</b>	<b>\$(2,353,368)</b>	<b>\$44,192,939</b>	<b>25.40%</b>
Vanguard Intl Growth	20,863,553	12.14%	0	(1,077,109)	21,940,662	12.61%
Vanguard Intl Value	20,976,018	12.21%	0	(1,276,259)	22,252,277	12.79%
<b>Domestic Fixed-Income</b>	<b>\$50,376,463</b>	<b>29.32%</b>	<b>\$(4,429)</b>	<b>\$81,865</b>	<b>\$50,299,027</b>	<b>28.91%</b>
Alaska Permanent Cap Mgmt	30,471,456	17.73%	(1,547)	50,299	30,422,704	17.49%
SSgA US Agg. Bond	19,905,007	11.58%	(2,882)	31,566	19,876,322	11.42%
<b>TIPS</b>	<b>\$10,308,243</b>	<b>6.00%</b>	<b>\$0</b>	<b>\$(202,880)</b>	<b>\$10,511,124</b>	<b>6.04%</b>
Vanguard Inflation-Protected	10,308,243	6.00%	0	(202,880)	10,511,124	6.04%
<b>Real Estate</b>	<b>\$12,185,825</b>	<b>7.09%</b>	<b>\$(34,642)</b>	<b>\$377,119</b>	<b>\$11,843,349</b>	<b>6.81%</b>
UBS Trumbull Property	12,185,825	7.09%	(34,642)	377,119	11,843,349	6.81%
<b>Total Fund</b>	<b>\$171,843,570</b>	<b>100.0%</b>	<b>\$(39,249)</b>	<b>\$(2,101,135)</b>	<b>\$173,983,954</b>	<b>100.0%</b>

# Total Fund Period Ended September 30, 2014

## Quarterly Summary and Highlights

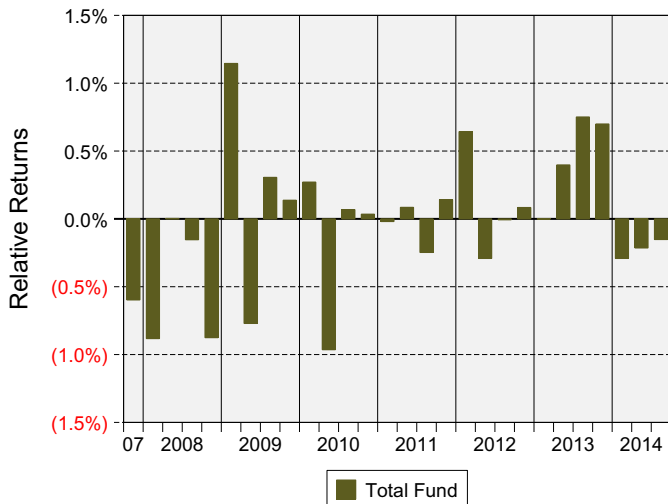
- Total Fund's portfolio posted a (1.21)% return for the quarter placing it in the 58 percentile of the Public Fund - Mid (100mm-1B) group for the quarter and in the 68 percentile for the last year.
- Total Fund's portfolio underperformed the Target Benchmark by 0.15% for the quarter and outperformed the Target Benchmark for the year by 0.02%.

## Performance vs Public Fund - Mid (100mm-1B) (Gross)

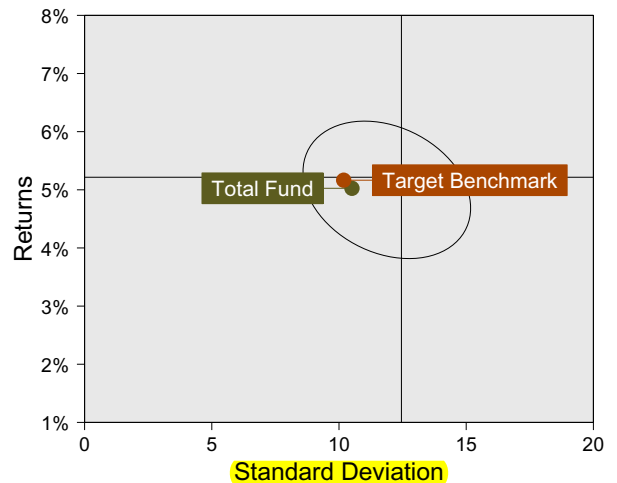


10th Percentile	(0.69)	11.38	15.23	11.34	5.96	7.85	7.11
25th Percentile	(0.86)	10.43	14.47	10.67	5.56	7.44	6.65
Median	(1.13)	9.62	13.00	9.94	5.22	7.13	6.30
75th Percentile	(1.43)	8.52	10.96	8.78	4.55	6.51	6.01
90th Percentile	(1.81)	7.14	10.35	8.06	3.65	6.16	5.73
<b>Total Fund</b> ●	<b>(1.21)</b>	<b>8.78</b>	<b>12.18</b>	<b>8.94</b>	<b>5.03</b>	<b>6.44</b>	<b>6.31</b>
Target Benchmark ▲	(1.06)	8.75	11.56	8.73	5.17	6.36	5.94

## Relative Return vs Target Benchmark



## Public Fund - Mid (100mm-1B) (Gross) Annualized Seven Year Risk vs Return



## Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended September 30, 2014. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended September 30, 2014

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
<b>Domestic Equity</b>	<b>(0.01%)</b>	<b>17.53%</b>	<b>22.81%</b>	<b>15.46%</b>	<b>5.97%</b>
Russell 3000 Index	0.01%	17.76%	23.08%	15.78%	6.24%
<b>Large Cap Equity</b>	<b>1.12%</b>	<b>19.69%</b>	<b>22.96%</b>	<b>15.67%</b>	<b>6.03%</b>
Vanguard Institutional Index	1.12%	19.69%	22.96%	15.67%	6.03%
S&P 500 Index	1.13%	19.73%	22.99%	15.70%	6.02%
<b>Mid Cap Equity</b>	<b>(3.98%)</b>	-	-	-	-
Vanguard S&P Mid Cap 400 Index	<b>(3.98%)</b>	-	-	-	-
S&P Mid Cap 400 Index	<b>(3.98%)</b>	11.82%	22.43%	16.37%	8.08%
<b>Small Cap Equity</b>	<b>(5.82%)</b>	-	-	-	-
RBC Small Cap Core	<b>(5.82%)</b>	-	-	-	-
Russell 2000 Index	<b>(7.36%)</b>	3.93%	21.26%	14.29%	6.04%
<b>International Equities</b>	<b>(5.33%)</b>	<b>5.16%</b>	<b>15.13%</b>	<b>7.40%</b>	<b>0.98%</b>
Vanguard Intl Growth	<b>(4.91%)</b>	4.49%	15.14%	8.49%	1.69%
Vanguard Intl Value	<b>(5.74%)</b>	5.84%	15.12%	6.26%	0.25%
MSCI EAFE	<b>(5.88%)</b>	4.25%	13.65%	6.56%	<b>(0.20%)</b>
MSCI ACWI ex-US Index	<b>(5.19%)</b>	5.22%	12.29%	6.50%	0.30%
<b>Domestic Fixed Income</b>	<b>0.16%</b>	<b>3.91%</b>	<b>2.63%</b>	<b>4.32%</b>	<b>4.44%</b>
Alaska Permanent Cap Mgmt	0.17%	<b>3.91%</b>	<b>2.79%</b>	<b>4.34%</b>	<b>5.36%</b>
SSgA US Agg. Bond	0.16%	3.92%	2.40%	-	-
Barclays Aggregate Index	0.17%	3.96%	2.43%	4.12%	4.95%
<b>TIPS</b>	<b>(1.93%)</b>	<b>1.54%</b>	<b>1.27%</b>	-	-
Vanguard Inflation-Protected	<b>(1.93%)</b>	1.54%	1.27%	-	-
Barclays US TIPS Index	<b>(2.04%)</b>	1.59%	1.34%	4.48%	4.90%
<b>Real Estate</b>	<b>2.89%</b>	<b>9.58%</b>	-	-	-
UBS Trumbull Property - Net	2.89%	9.58%	-	-	-
NFI-ODCE Equal Weight Net**	2.54%	10.68%	10.94%	10.96%	1.32%
<b>Total Fund</b>	<b>(1.21%)</b>	<b>8.78%</b>	<b>12.18%</b>	<b>8.94%</b>	<b>5.03%</b>
Target Benchmark*	<b>(1.06%)</b>	8.75%	11.56%	8.73%	5.17%
CPI + 4.5%	0.89%	6.08%	6.04%	6.58%	6.50%

\* Current Quarter Target = 33.0% Barclays Aggregate Index, 30.0% Russell 3000 Index, 23.0% MSCI ACWI ex US Index, 8.0% NFI-ODCE Equal Weight Net and 6.0% Barclays US TIPS Index.

## Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended September 30, 2014. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended September 30, 2014

	Last 10 Years	Last 15 Years	Last 17 Years
<b>Domestic Equity</b>	<b>8.10%</b>	<b>5.59%</b>	-
Russell 3000 Index	8.44%	5.51%	6.58%
<b>Large Cap Equity</b>	<b>8.11%</b>	<b>4.90%</b>	-
Vanguard Institutional Index	8.11%	4.89%	-
S&P 500 Index	8.11%	4.87%	6.34%
<b>International Equities</b>	<b>7.63%</b>	<b>6.12%</b>	-
Vanguard Intl Growth	8.11%	-	-
Vanguard Intl Value	7.11%	-	-
MSCI EAFE	6.32%	3.87%	4.53%
MSCI ACWI ex-US Index	7.54%	5.14%	5.43%
<b>Domestic Fixed Income</b>	<b>4.29%</b>	<b>5.53%</b>	<b>5.50%</b>
Alaska Permanent Cap Mgmt	4.96%	5.95%	5.89%
Barclays Aggregate Index	4.62%	5.57%	5.55%
<b>Total Fund</b>	<b>6.44%</b>	<b>6.31%</b>	<b>6.47%</b>
Target Benchmark*	6.36%	5.94%	6.17%
CPI + 4.5%	6.87%	6.88%	6.83%

\* Current Quarter Target = 33.0% Barclays Aggregate Index, 30.0% Russell 3000 Index, 23.0% MSCI ACWI ex US Index, 8.0% NFI-ODCE Equal Weight Net and 6.0% Barclays US TIPS Index.



# Alaska Permanent Capital Management Period Ended September 30, 2014

## Investment Philosophy

APCM actively manages accounts within a risk-controlled framework. The firm's investment 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. Instead, APCM focuses on security selection and sector analysis, and adheres to the principle that long-term perspectives and conservative approaches are the best way to add value to a portfolio, through a series of smaller, incremental decisions. The result is a diversified and resilient portfolio.

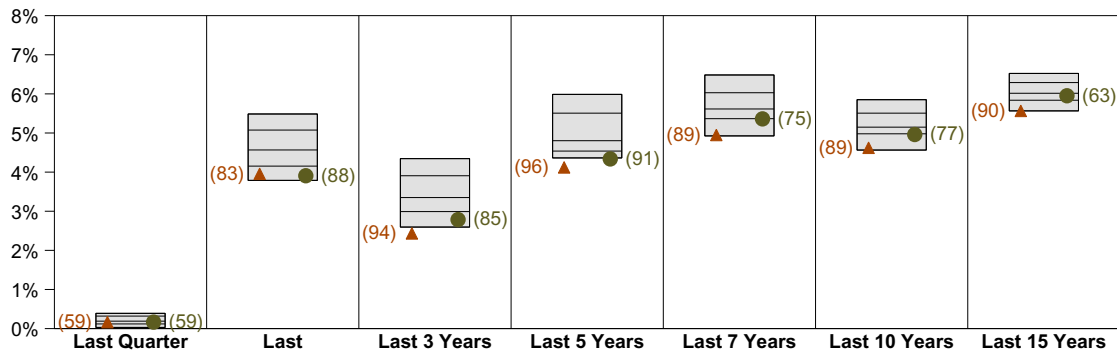
## Quarterly Summary and Highlights

- Alaska Permanent Capital Management's portfolio posted a 0.17% return for the quarter placing it in the 59 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 88 percentile for the last year.
- Alaska Permanent Capital Management's portfolio underperformed the Barclays Aggregate Index by 0.00% for the quarter and underperformed the Barclays Aggregate Index for the year by 0.05%.

## Quarterly Asset Growth

Beginning Market Value	\$30,422,704
Net New Investment	\$-1,547
Investment Gains/(Losses)	\$50,299
Ending Market Value	\$30,471,456

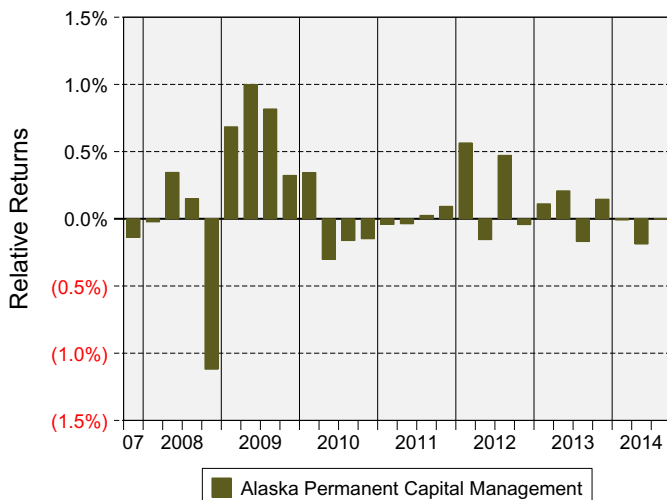
## Performance vs CAI Core Bond Fixed-Inc Style (Gross)



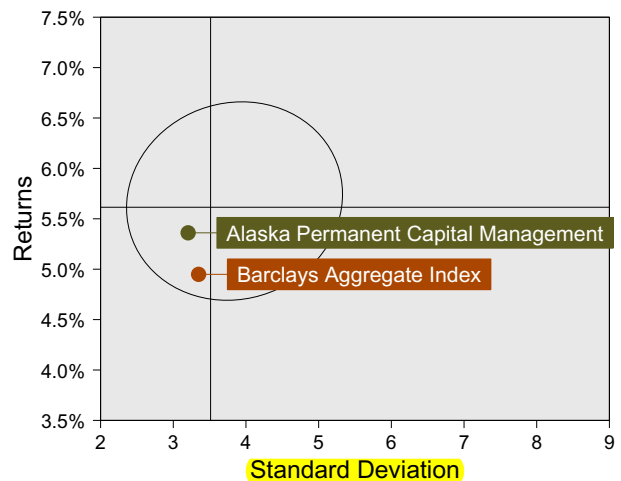
10th Percentile	0.39	5.49	4.35	5.99	6.48	5.85	6.52
25th Percentile	0.32	5.07	3.91	5.51	6.03	5.51	6.29
Median	0.19	4.57	3.35	4.80	5.61	5.15	6.02
75th Percentile	0.12	4.15	2.99	4.54	5.37	4.98	5.84
90th Percentile	0.03	3.79	2.59	4.36	4.93	4.56	5.57

<b>Alaska Permanent Capital Management</b>	●	0.17	<b>3.91</b>	<b>2.79</b>	<b>4.34</b>	<b>5.36</b>	<b>4.96</b>	<b>5.95</b>
Barclays Aggregate Index	▲	0.17	3.96	2.43	4.12	4.95	4.62	5.57

## Relative Return vs Barclays Aggregate Index



## CAI Core Bond Fixed-Inc Style (Gross) Annualized Seven Year Risk vs Return

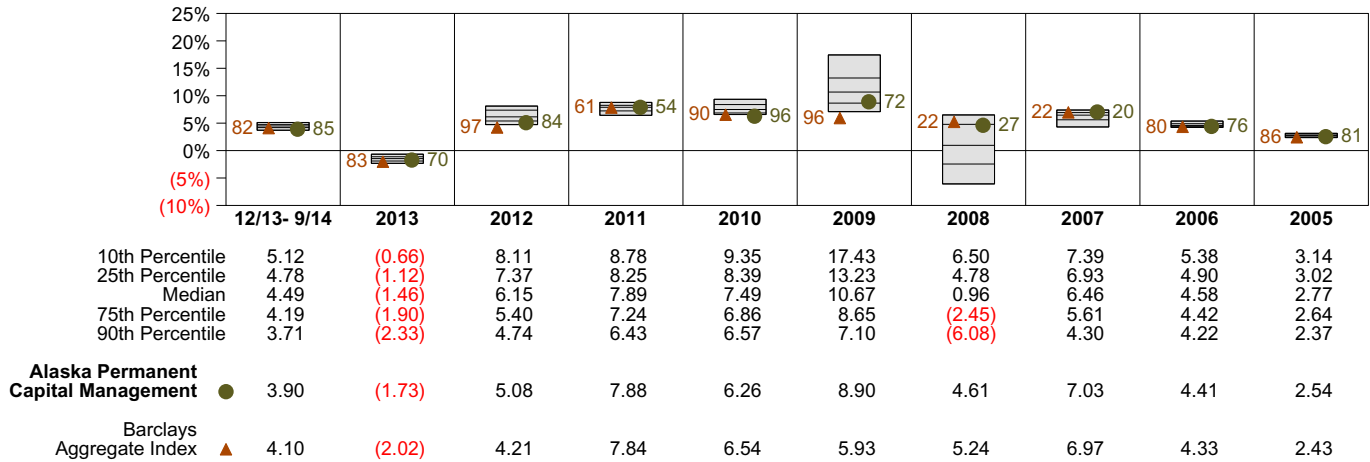


# Alaska Permanent Capital Management Return Analysis Summary

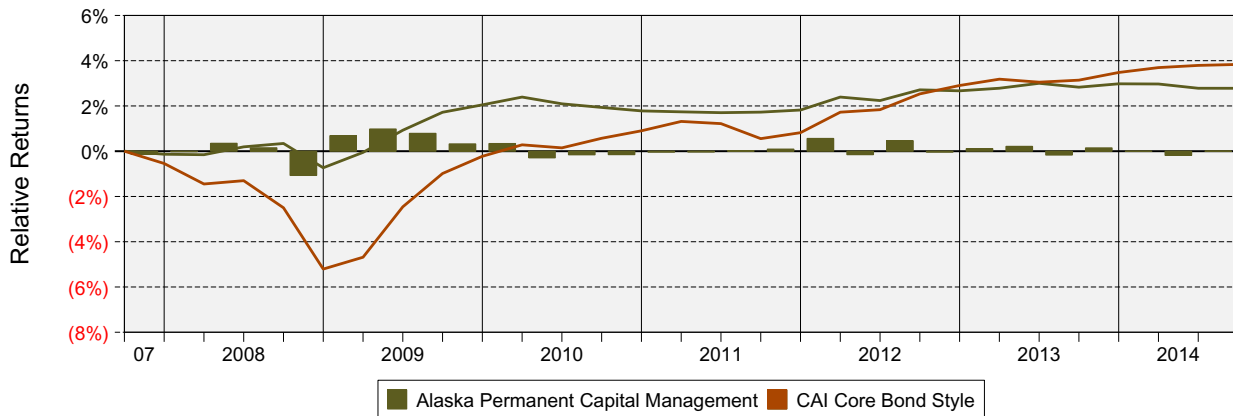
## Return Analysis

The graphs below analyze the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the appropriate style group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

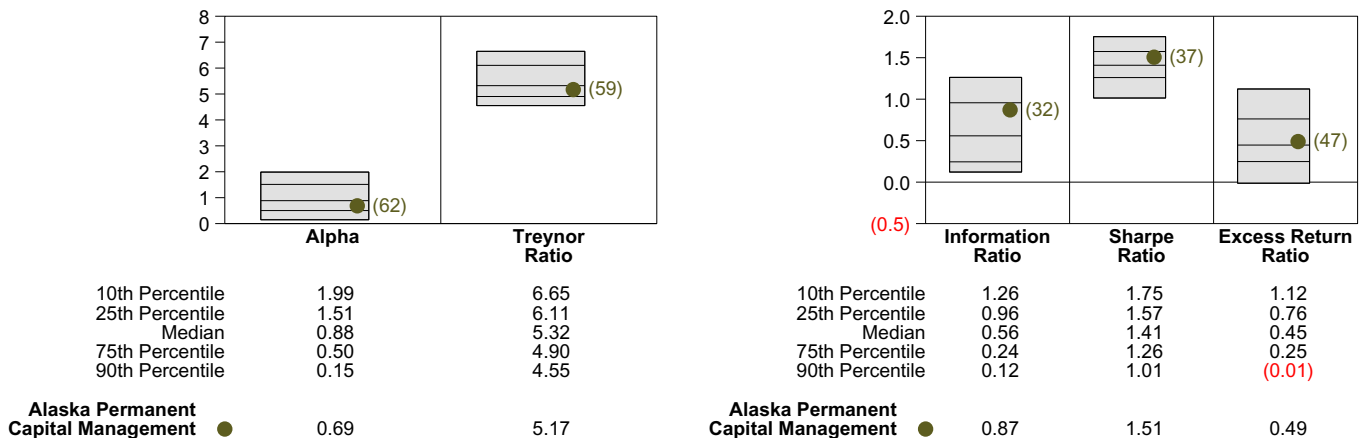
### Performance vs CAI Core Bond Fixed-Inc Style (Gross)



### Cumulative and Quarterly Relative Return vs Barclays Aggregate Index



### Risk Adjusted Return Measures vs Barclays Aggregate Index Rankings Against CAI Core Bond Fixed-Inc Style (Gross) Seven Years Ended September 30, 2014



2015 Adopted Budget  
 Department: Community Service Organizations

Account Number	Account Description	2011	2012	2013	2014	2014	2014	2015
		Actual	Actual	Actual	Adopted	Amended	Estimated	Council
001-0500-48600	Contributions-PWSCC	700,000	700,000	700,000	770,000	770,000	770,000	743,273
001-0500-48610	PWSCC - Nursing Program	175,000	-	43,273	50,000	50,000	50,000	-
001-0700-48600	Contributions-Vdz Arts Council	10,000	10,000	10,000	10,000	10,000	10,000	15,000
001-0710-48600	Contribution - One Voice	-	10,000	-	-	-	-	-
001-0810-48600	Contributions-VCVB	551,000	245,000	397,997	440,000	440,000	440,000	488,782
001-0820-48600	Contributions-VSC	150,000	125,000	150,000	150,000	240,000	240,000	250,000
001-0830-48600	Contributions-AVV	40,000	40,000	40,000	40,000	40,000	40,000	40,000
001-0840-48600	Contributions - Big Bro Sister	7,500	-	-	-	-	-	-
001-0860-48600	Contributions-Food Bank	15,000	30,000	55,000	55,000	55,000	55,000	49,500
001-0880-48600	Avalanche Center Contribution	-	-	5,000	10,000	10,000	10,000	20,000
001-0890-48600	Valdez Imagination Library	-	-	-	1,500	1,500	1,500	1,500
001-6800-48600	Contributions-Vdz Museum	319,000	359,000	359,000	425,000	440,000	440,000	425,000
001-0850-48600	Connecting Ties	-	10,000	10,000	-	-	10,000	7,000
	<b>Total</b>	<b>1,967,500</b>	<b>1,529,000</b>	<b>1,770,270</b>	<b>1,951,500</b>	<b>2,056,500</b>	<b>2,066,500.00</b>	<b>2,040,055</b>