

Kenai Peninsula Borough

Finance Department

MEMORANDUM

TO: Brent Johnson, Assembly President
Members, Kenai Peninsula Borough Assembly

THRU: Peter A. Micciche, Mayor *PM*

FROM: Brandi Harbaugh, Finance Director *BH*

DATE: September 28, 2023

RE: Resolution 2023-*062*, Designating the Investment and Allocation Plan for the Borough's Land Trust Investment Fund and Establishing Appropriate Benchmarks to Measure Performance as of November 1, 2023 and for Calendar Year 2024 (Mayor)

Pursuant to KPB 5.10.200(A)(2) the financial asset investments of the Land Trust Investment Fund (LTIF) are approved annually by resolution. The asset allocation plan must specify categories of investments for the fund with percentage targets that allow for reasonable fluctuations above and below the target performance. Alaska Permanent Capital Management (APCM), the Borough's Land Trust Fund Investment Manager, is not recommending changes to the current asset allocation for calendar year 2024. The current allocation is as follows:

Asset Class	Strategic Weight	Range
Risk Control	27.00%	
US Fixed Income	18.00%	8 - 28%
TIPS	2.00%	0 - 10%
International Bonds	5.00%	0 - 10%
Cash	2.00%	0 - 10%
Risk Assets	52.00%	
High Yield	5.00%	0 - 10%
US Large Cap	22.00%	12 - 32%
US Mid Cap	10.00%	5 - 15%
US Small Cap	5.00%	0 - 10%
International Equity	6.00%	0 - 12%
Emerging Markets	4.00%	0 - 8%
Alternatives	21.00%	

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Real Estate	3.00%	0 - 6%
Infrastructure	5.00%	0 - 10%
Commodities	3.00%	0 - 6%
Alternative Beta	10.00%	0 - 15%

The portfolio is projected to return 7.1% annualized for the next ten years, a larger than normal increase from 2022 capital market expectations. Principally driven by an increase in fixed-income return projections due to the Federal Reserve's monetary policy changes since the start of 2022.

The risk of the portfolio is measured in standard deviation from the expected rate of return. One standard deviation is equal to approximately 68% of all possible outcomes and two standard deviations is equal to approximately 95% of all possible outcomes. In any given one-year period, the strategic asset allocation adopted is expected to return between negative -2.8% and 18.1%, with an average one-year return of 7.6%. 95% (two standard deviations) of the time, the portfolio is expected to return between -11.5% and 29.6% in any given one-year period.

APCM notes that the strategic asset allocation adopted by the Assembly is a more conservative allocation compared to most perpetual time-horizon, permanent fund-type investments while maintaining strong exposure to growth. Given the allowable appropriations levels of the Borough's Land Trust Investment Fund, APCM further notes that remaining as conservative as possible while still exposed to growth sufficient to meet a 3.75% to 4.25% annual sustainable spending rate is the most prudent path forward for the Borough.

Your consideration is appreciated.