

# KENAI PENINSULA BOROUGH LAND TRUST INVESTMENT FUND

## STRATEGIC REVIEW

*for the period ending July 31, 2022*

## *Agenda*

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



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Account Summary

as of July 31, 2022

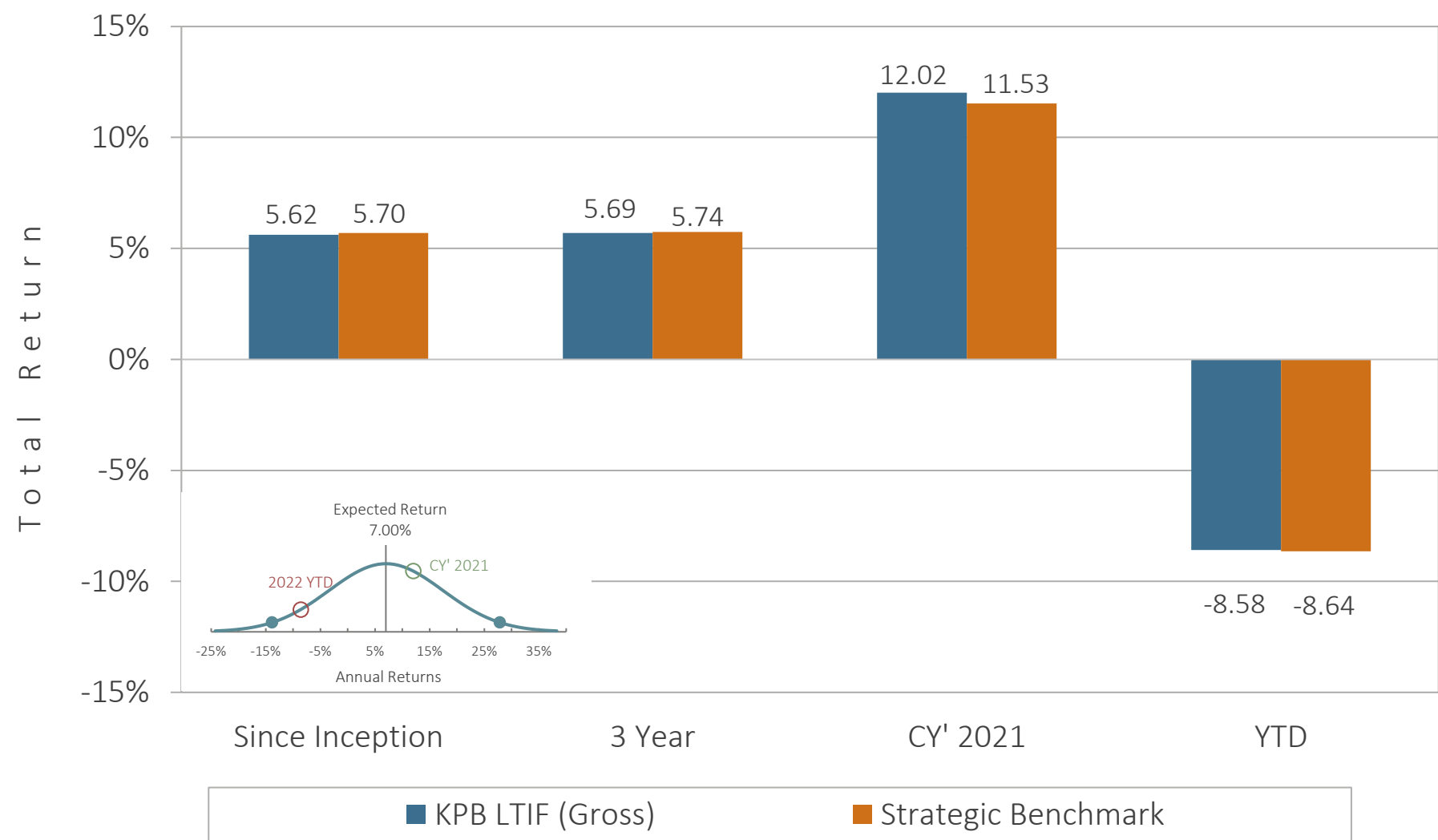
Kenai Peninsula Borough Land Trust Investment Fund

Account Inception		June 2019
Contributions		\$ 7,429,187
Withdrawals		\$0
Does not include custodial or management fees		
Current Market Value		\$ 8,490,377
Annualized Account Return		+5.62%
Since Inception		
Strategic Asset Allocation	Risk Assets	52%
	Risk Control	27%
	Alternatives	21%

Performance is gross of management fees, net of internal fund fees, and annualized for periods greater than one year.

# Account Performance as of July 31, 2022

## Kenai Peninsula Borough Land Trust Investment Fund



Expected risk and return data from Windham Portfolio Advisor. Performance is gross of management fees, net of internal fund fees, and annualized for periods greater than one year. Inception performance begins on June 30, 2019

# Added Value from New Strategic Asset Classes

## Kenai Peninsula Borough Land Trust Investment Fund

- In 2021, Kenai Peninsula Borough's Assembly reviewed APCM's analysis and voted to adopt the recommendation to increase the number of tools available to address multiple market environments.
- **The Assembly's foresight in adopting the new asset allocation has proven beneficial.** The addition of new asset classes has allowed APCM the tools necessary to control volatility despite a challenging start for both stocks and bonds.
- Most significantly were the **addition of the alternative beta** asset class and additional **tools for managing portfolio duration.**

### YTD Performance (%)

As Of July 31, 2022



Source: Bloomberg. Traditional portfolio comprised of 60% MSCI ACWI IMI and 40% Bloomberg U.S. Aggregate Index.

# Strategic Review

Strategic Review

Market Review

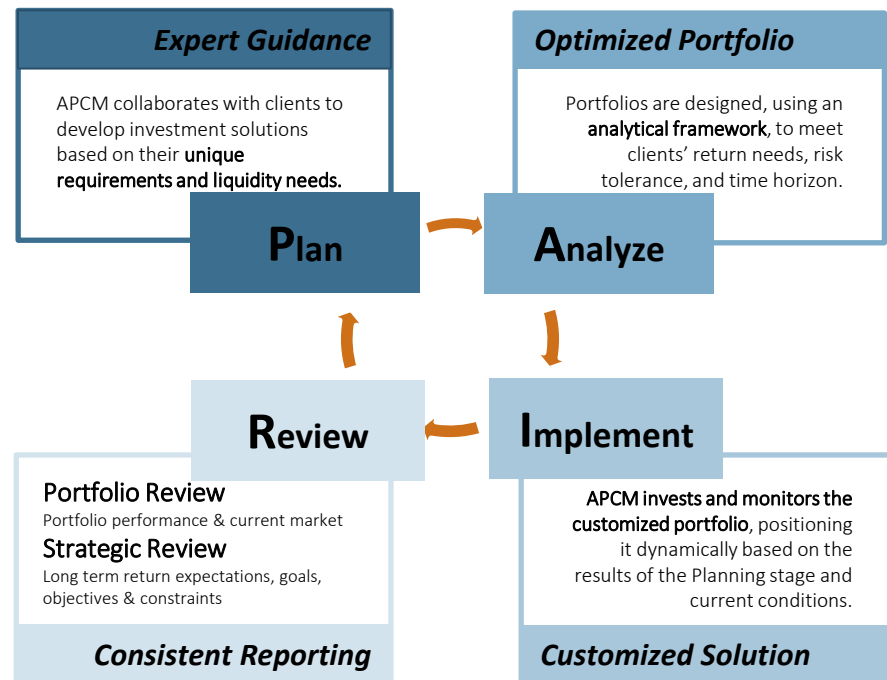
Appendix

# Prudent Investment Management Process

*A framework for sound decision making*

- APCM'S prudent investment process is an integrated set of steps undertaken consistently to **create and maintain an optimal portfolio**.
- APCM designed this process to **promote and protect the Borough's Interests** and continuously confirm that **each client's customized strategy achieves the highest return possible given a specified level of risk**.
- This process is perpetual and formal reviews conducted each year maintain a customized investment strategy.

- APCM has increased its expectation for inflation over the next 10 years from 2.00% to 2.25%, while our view that long-term economic growth will be subdued given high debt levels and challenging demographics remains unchanged.
- **The Borough's current allocation is still expected to meet the LTIF's goals given modestly higher expected returns for some asset classes.** APCM has no recommended changes to the portfolio's strategic asset allocation at this time.



# Building Forward Inflation Expectations

## Capital Market Assumptions

### Don't Fight the Fed

A well-known investment adage, but one that still rings true. It is usually unwise to bet against monetary policy.

### Effective Policy Tools

They have the tools necessary to target inflation, and the Fed has proven it has the will to use them.

### Use the Same Target

Since the Fed gauges inflation and policy based on Core PCE, APCM utilizes the same measure for forward estimates.

### Fed Estimates

APCM begins with the Fed's estimates for Core PCE available in the projections section after the Fed's March meeting each year.

### APCM Adjustments

From the Fed's baseline, APCM makes minor adjustments based upon our views for the U.S. economy over the next 10 years.

The average of  
the annual  
expectations is  
APCM's  
inflation  
expectation

The 10 annual inflation  
expectations are  
averaged to arrive at 2.25%

2022: 4.1%

2023: 2.6%

2024: 2.0%

2025: 1.8%

2026: 2.0%

2027: 2.0%

2028: 2.0%

2029: 2.0%

2030: 2.0%

2031: 2.0%

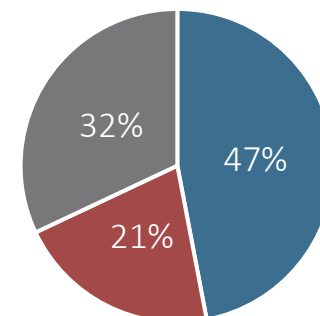


## Projected Risk and Return Characteristics

*Kenai Peninsula Borough Land Trust Investment Fund*

APCM expects the current asset allocation to support a 3.75% distribution and provide inflation protection.

Current Strategic Allocation



■ Risk Assets ■ Alternatives ■ Risk Control Assets

Characteristics	2022 Expectations		As Presented Q4 2021	
	Expected	Range*	Expected	Range*
Annual Return (Gross)	7.0%	-13.8% to 27.8%	6.6%	-13.7% to 26.8%
Long-Term Return (Gross)	6.5%	6.2% to 6.8%	6.1%	5.8% to 6.4%
Expected Inflation	2.25%		2.00%	
Net Earnings <small>Long-Term Return Less Expected Inflation</small>	4.2%	<b>3.9% to 4.6%</b>	4.1%	3.8% to 4.4%
Avg. Loss in Extreme Conditions (Gross) <small>Within a 1-Year Horizon</small>	-25.1%		-24.3%	

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



# Overview of Current Investment Goals and Policies

## *Kenai Peninsula Borough Land Trust Investment Fund*

### 2.25% Inflation

Preserve the value of the land assets that have been sold. APCM expects inflation of 2.25% on average over the next 10 years.

### 3.75% Real Return

Support and supplement the operating revenue of the Land Trust Fund (LTF) or General Fund: up to 3.75% of the 5-year rolling average market value per the Memorandum dated May 21, 2019.

### 6.00% Required Return

Based upon current Policy, the portfolio requires a long-term expected return of **at least six percent (6.00%)**. The current allocation is **expected to return 6.50%** over the next 10 years.

### Contribution Policy

The **net proceeds of land sales** will be transferred to the Land Trust Investment Fund (LTIF), provided the fund balance minimum requirements of the Land Trust Fund (LTF) are met.

### Non-Financial Asset Investment

Transfers to the LTF to invest in non-financial assets such as land or income producing investments: **maximum of 10%** of the market value of the LTIF in any year **or 25% in any five year period.**

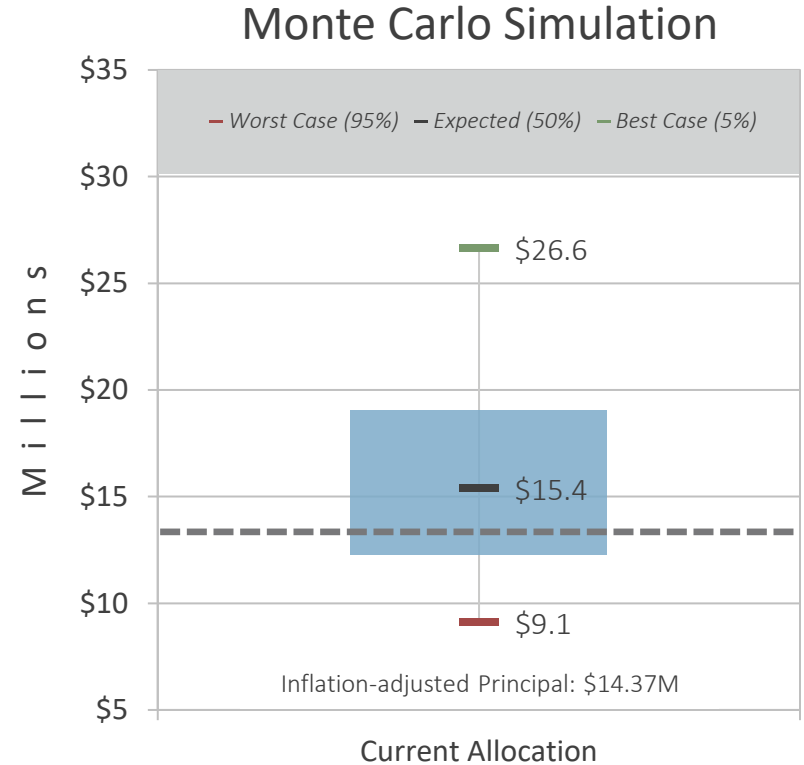
### Interfund Loan

An **interfund loan from the LTIF** if the fund balance in the LTF falls below the minimums set by the fund balance policy. **Any such interfund loan must be repaid within five years.**

# Wealth Simulations 10-Year Horizon

## Kenai Peninsula Borough Land Trust Investment Fund

- The simulations assumed a starting market value of \$7.43M, a deposit of \$3.0M at the end of September 2022, and withdrawals at the 3.75% rate based upon a percent of 5-year average market value. Withdrawals were modeled as of the first day of each fiscal year.
- Inflation-adjusted principal of \$14.37M was calculated based upon deposits to the portfolio since inception adjusted at realized inflation rates to current. APCM's expected inflation of 2.25% thereafter and the anticipated \$3.0M contribution was included as of Sept. 30, 2022.



Distributions (\$ thousands)	FY'24	FY'25	FY'26	FY'27	FY'28	FY'29	FY'30	FY'31	FY'32	FY'33
Current	291	342	393	432	471	485	499	512	526	541

# Market Review

Strategic Review

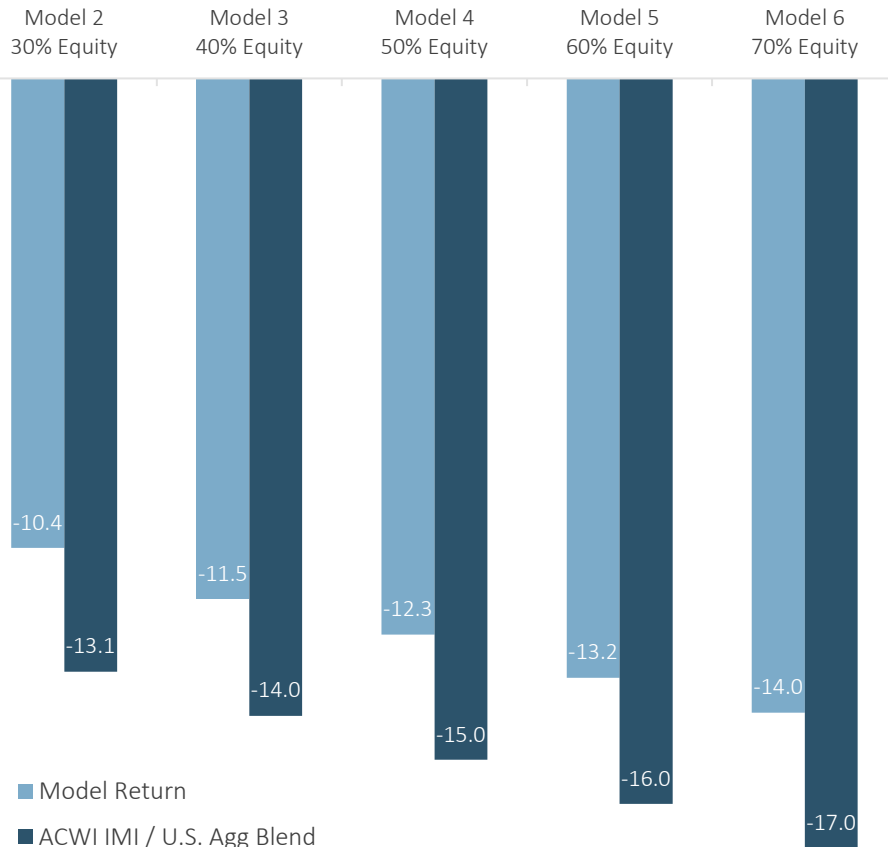
Market Review

Appendix

# APCM's Investment Process Prepares Clients for the Future

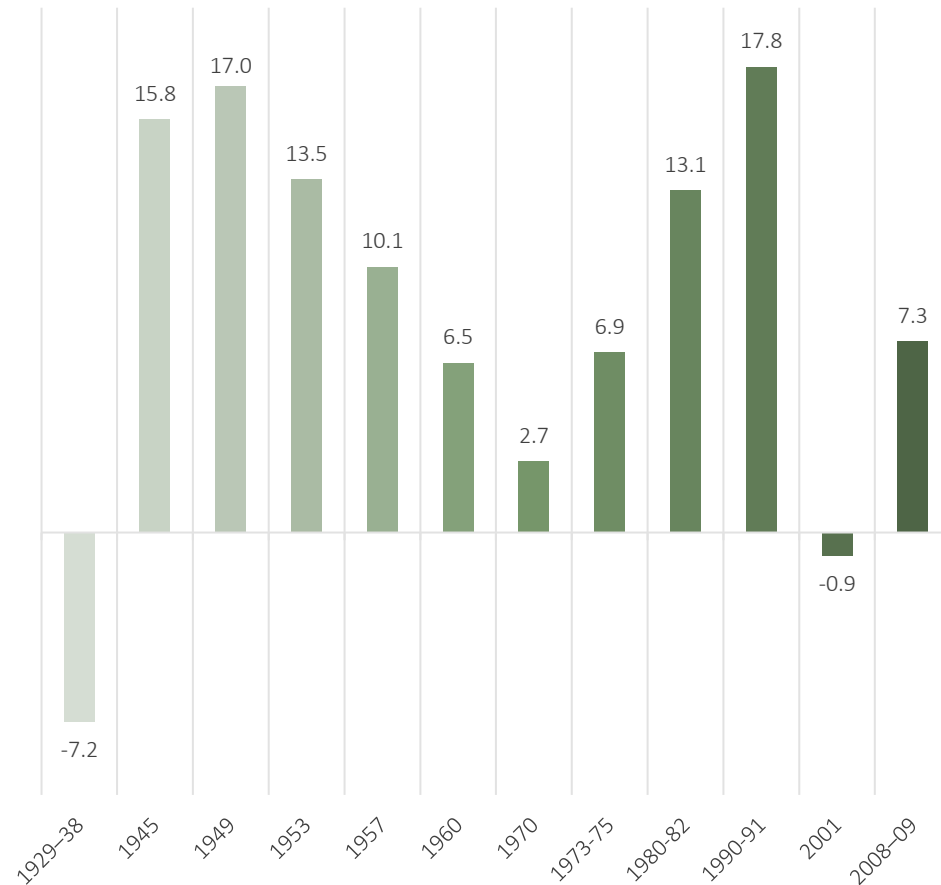
RECENT STRATEGIC ALLOCATION CHANGES INSTITUTED TO ADDRESS  
APCM'S EXPECTED MARKET ENVIRONMENT HAVE PROVEN  
BENEFICIAL THROUGH JUNE 2022

YTD Performance (%)  
As Of June 30, 2022



HISTORY HAS SHOWN THAT EVEN WHEN BUYING EQUITY NEAR PRE-  
RECESSION HIGHS AND EXPERIENCING THE MAXIMUM  
DRAWDOWN, LONG RUN RETURNS AVERAGE 8.5%

Pre-Recession Peak – Subsequent 10 Year Total Return  
S&P 500 Annualized (%)



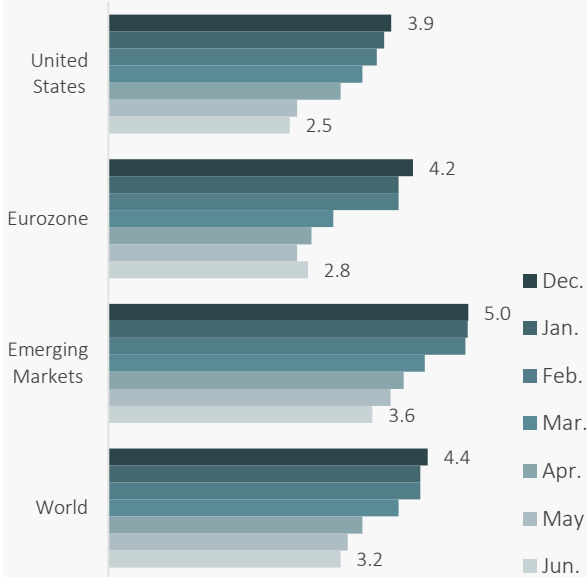
Data: Bloomberg, Model Return data utilizing representative accounts.

# 2022 Developments and Risks Ahead

## GROWTH SLOWING

- Real GDP growth expectations have fallen over the year across the globe as inflation and COVID lock downs affected supply and demand
- Robust labor markets are keeping 2022 recession risks low, but monetary policy intervention increases recession risks in 2023

### 2022 Growth Estimates



## CONDITIONS RESTRICTIVE

- Policy changes are already influencing economic growth as financial conditions, which describe whether economic conditions encourage (accommodative) or discourage (restrictive) growth, have moved into restrictive territory
- Leading data indicates that demand is already cooling, which is what the Fed needs to meet its inflation goals

## TAME INFLATION EXPECTATIONS

- Longer term inflation expectations remain well anchored
- Inflation pressures should rollover given slower GDP growth, improving supply chain dynamics, and tight financial conditions
- Continued Fed hikes may accelerate the slowdown as would further supply chain improvements

## GEOPOLITICAL RISKS

- Russia's invasion has exacerbated inflation for food and energy, particularly for Europe
- An escalation or continuation of hostilities could negatively impact Europe's outlook from here, especially if sanctions are expanded
- China's zero-COVID policy remains a significant risk to supply chain speed as an additional outbreak would curtail production

## INFLATION DRIVEN RISKS

- Inflation remains persistent and doesn't follow the expected trajectory due to sustained supply chain pressures and steady consumer demand given low unemployment levels
- Central banks would then be forced to an even more restrictive policy path extending volatile market conditions and increasing recession risks

Data: Bloomberg Composite Estimates 2022 GDP Growth Expectations

# Appendix

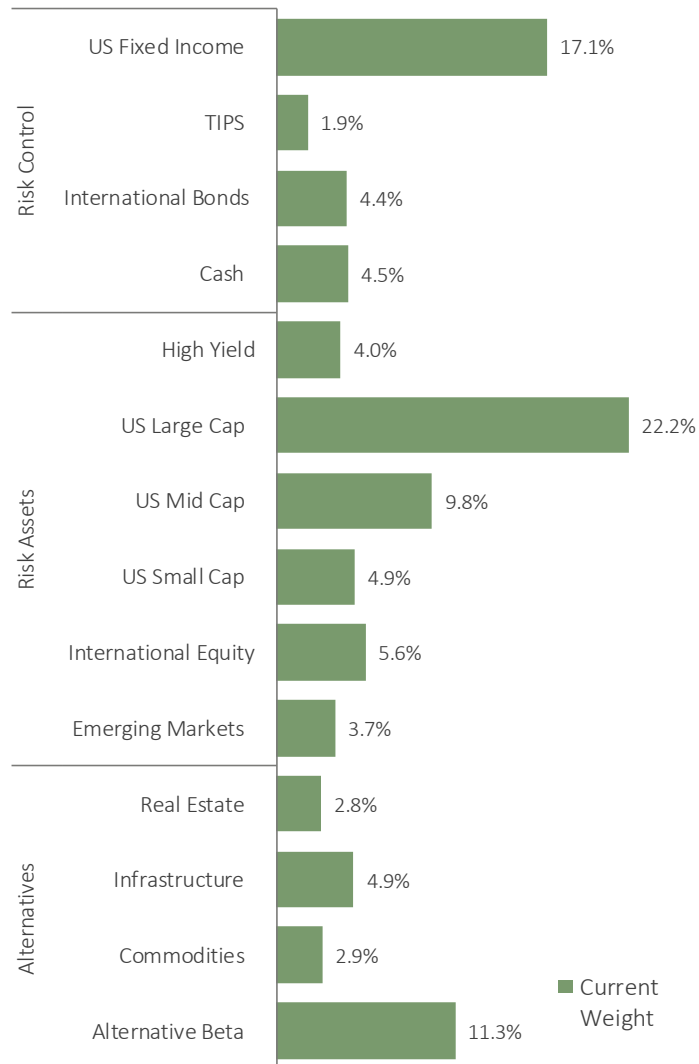
Strategic Review

Market Review

Appendix

# Asset Allocation as of July 31, 2022

## Kenai Peninsula Borough Land Trust Investment Fund

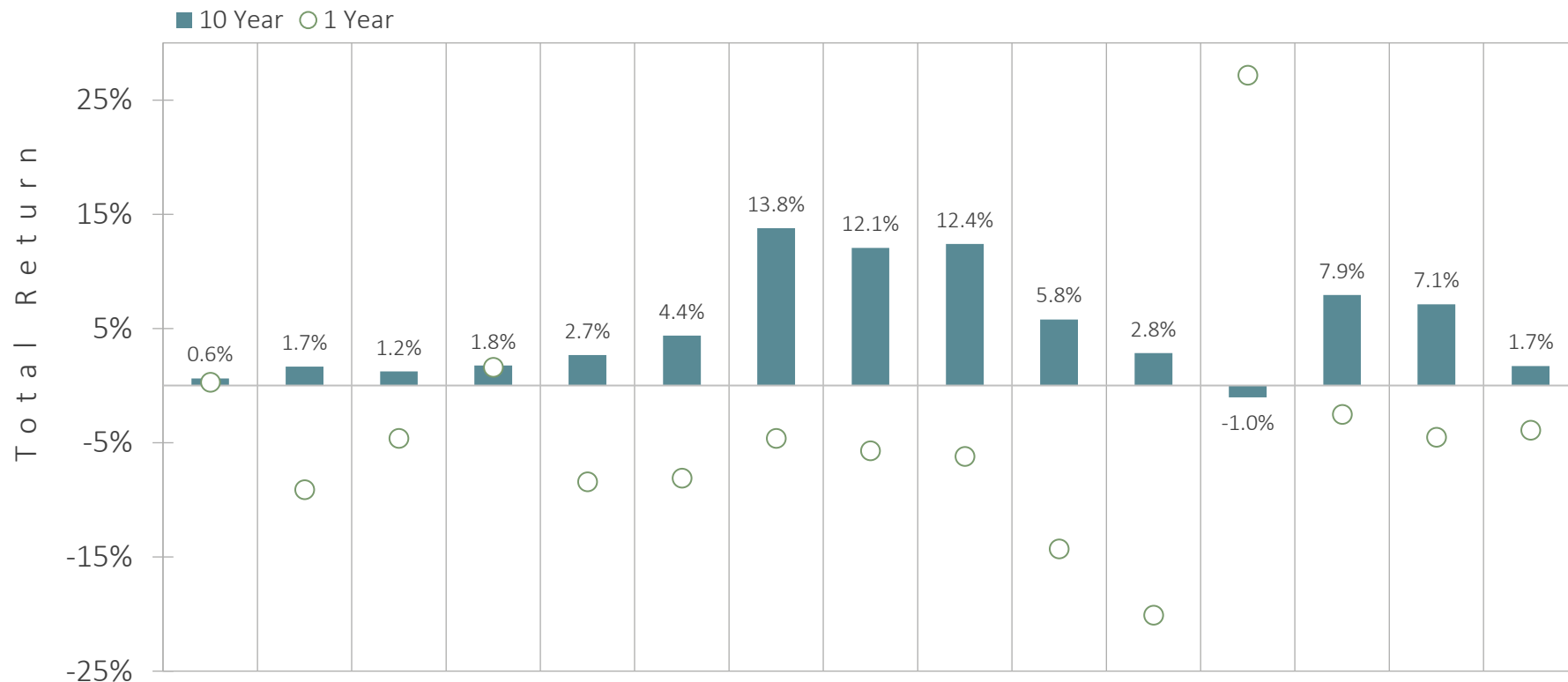


Asset Class	Strategic Weight	Overweight / Underweight	Range
<b>Risk Control</b>	<b>27%</b>	<b>0.9%</b>	
US Fixed Income	18%	-0.9%	8 - 28%
TIPS	2%	-0.1%	0 - 10%
International Bonds	5%	-0.6%	0 - 10%
Cash	2%	2.5%	0 - 10%
<b>Risk Assets</b>	<b>52%</b>	<b>-1.7%</b>	
High Yield	5%	-1.0%	0 - 10%
US Large Cap	22%	0.2%	12 - 32%
US Mid Cap	10%	-0.2%	5 - 15%
US Small Cap	5%	-0.1%	0 - 10%
International Equity	6%	-0.4%	0 - 12%
Emerging Markets	4%	-0.3%	0 - 8%
<b>Alternatives</b>	<b>21%</b>	<b>0.8%</b>	
Real Estate	3%	-0.2%	0 - 6%
Infrastructure	5%	-0.1%	0 - 10%
Commodities	3%	-0.1%	0 - 6%
Alternative Beta	10%	1.3%	0 - 15%



# Asset Class Returns

as of July 31, 2022



	RISK CONTROL						RISK ASSETS					ALTERNATIVES			
	FIXED INCOME						EQUITIES					ALTERNATIVES			
	Cash	U.S. Fixed Income	1-5 Gov. Credit	TIPS	Intl. Fixed Income	HY Fixed Income	U.S. Large Cap	U.S. Mid Cap	U.S. Small Cap	Dev. Ex-U.S.	Emerging Markets	Comm.	Real Estate	Infra.	Alt. Beta
	YTD	1 Year	3 Year	5 Year	10 Year	YTD	1 Year	3 Year	5 Year	10 Year	YTD	1 Year	3 Year	5 Year	10 Year
YTD	0.3	-8.2	-3.6	0.4	-7.0	-9.2	-12.6	-10.8	-10.8	-15.6	-17.8	23.5	-13.0	-5.5	-4.1
1 Year	0.3	-9.1	-4.6	1.6	-8.4	-8.1	-4.6	-5.7	-6.2	-14.3	-20.1	27.2	-2.5	-4.5	-3.9
3 Year	0.6	-0.2	0.5	4.1	-1.4	1.3	13.3	10.2	10.3	3.2	0.9	16.2	6.6	4.4	1.7
5 Year	1.1	1.3	1.2	3.3	1.6	2.6	12.8	9.1	9.1	2.6	1.0	8.8	6.8	4.9	1.6
10 Year	0.6	1.6	1.2	1.8	2.7	4.4	13.8	12.0	12.4	5.8	2.8	-1.0	7.9	7.1	1.7

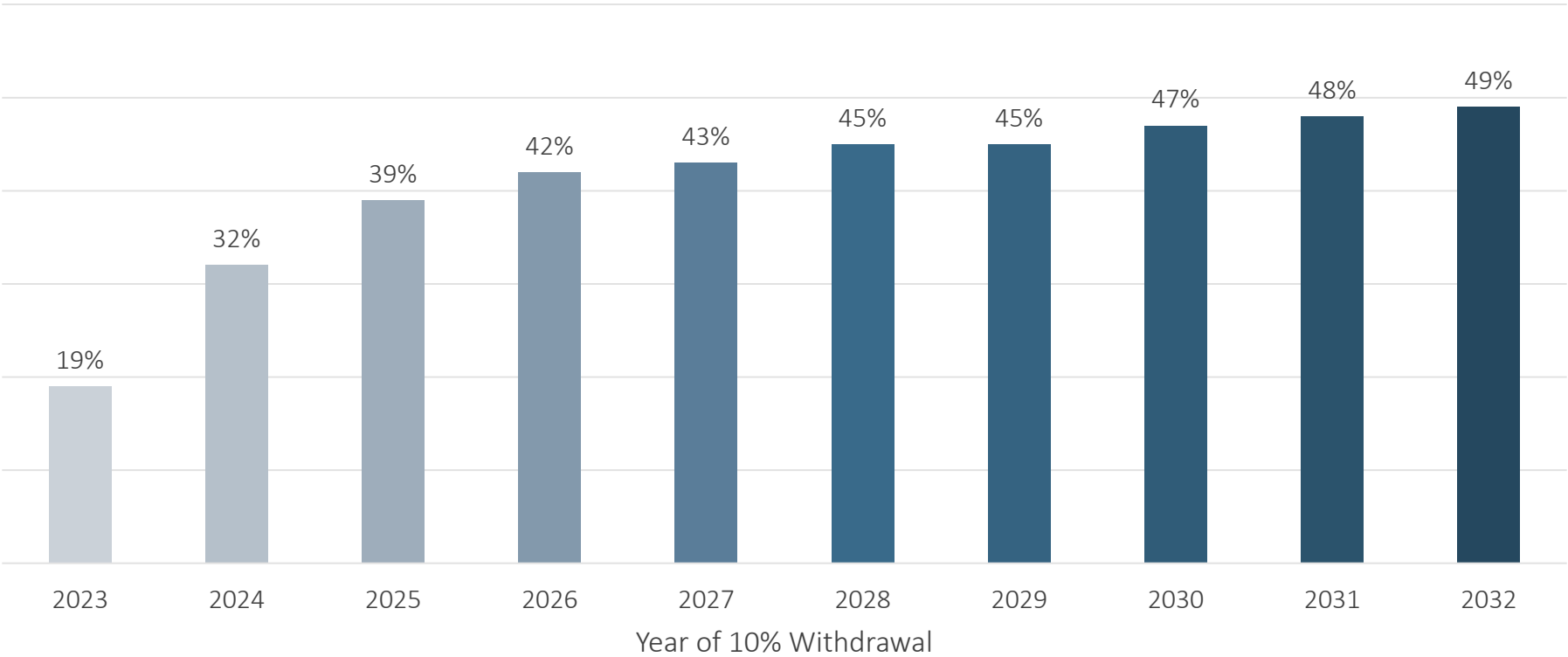
Data: Bloomberg. Asset class performance is represented by the stated index return. Returns annualized for periods greater than one year.

# What If Analysis...10% of LTIF Market Value Transferred to LTF

*Kenai Peninsula Borough Land Trust Investment Fund*

Per Kenai Peninsula Borough Code of Ordinances 5.20.20 (B), the fund may transfer 10% of the market value of the LTIF in any year to the Land Trust Fund to invest in non-financial assets such as land or income producing investments. The below simulation assumes that the withdrawals of 3.75% of the 5-year average market value were taken for all years prior to the year in which the 10% withdrawal is taken.

Probability a 10% Withdrawal Would Not Draw from Inflation Adjusted Principal by Year



Risk and return data from Windham Portfolio Advisor.

# Disclosures

## **Important Assumptions**

IMPORTANT: The projections or other information generated by Alaska Permanent Capital Management Company (APCM) regarding the likelihood of various outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. There can be no assurance that the projected or simulated results will be achieved or sustained. The charts and data only present a range of possible outcomes. Actual results will vary over time, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than that demonstrated in the simulations. Please note that the analysis does not take into consideration all asset classes, and other asset classes not considered may have characteristics similar or superior to those being analyzed.

## **Important Legal Information**

These calculations are designed to be informational and educational only, and when used alone, do not constitute investment advice. APCM encourages investors to review their investment strategy periodically as financial circumstances do change.

Model results are provided as a rough approximation of future financial performance. Actual results could produce different outcomes (either better or worse) than those illustrated by the model, since it is not possible to anticipate every possible combination of financial market returns. APCM is not responsible for the consequences of any decisions or actions taken in reliance upon or as a result of the information provided by the results of the model.

## **Other Influences on Rates of Return**

Investment management fees: Returns are presented gross of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary.

Taxes: Unless noted otherwise, model results have not been adjusted for any state or federal taxes or penalties.

Inflation: Unless noted otherwise, model results do not adjust any inputs or outcomes for inflation. Inflation is assumed to be constant over the investment horizon.

## **Limitations Inherent in Model Results**

Limitations include but are not restricted to the following:

Model results do not represent actual trading and may not reflect the impact that material economic and market factors might have had on APCM's decision making if the actual client money were being managed.

Extreme market movements may occur more frequently than represented in the model.

Some asset classes have relatively limited histories. While future results for all asset classes in the model may materially differ from those assumed in APCM's calculations, the future results for asset classes with limited histories may diverge to a greater extent than the future results of asset classes with longer track records.

Market crises can cause asset classes to perform similarly over time; reducing the accuracy of the projected portfolio volatility and returns. The model is based on the long-term behavior of the asset classes and therefore is less reliable for short-term periods. This means that the model does not reflect the average periods of "bull" and "bear" markets, which can be longer than those modeled.

The model represent APCM's best view of the next 7-10 years, but is unlikely to reflect actual investment returns worldwide over this period.

# Portfolio Appraisal

## KENAI PENINSULA BOROUGH - LAND TRUST INVESTMENT FUND

July 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
<b>ALTERNATIVE BETA</b>									
46,668	BLCKRCK SYST MULTI-STR-INST	10.60	494,887	10.17	474,613	5.59	NA		
15,309	CORE ALTERNATIVE ETF	30.33	464,261	31.48	481,927	5.68	NA		
			959,148		956,540	11.27			
<b>COMMODITIES</b>									
1,537	FLEXSHARES GLOBAL UPSTREAM N	41.86	64,332	41.19	63,309	0.75	NA		
6,609	INVESCO OPTIMUM YIELD DIVERSIFIED COMMODIT	17.06	112,764	17.62	116,451	1.37	NA		
1,092	ISHARES BB ROLL SELECT COMMODITY ETF	41.91	45,766	59.19	64,635	0.76	NA		
			222,862		244,395	2.88			
<b>DOMESTIC MID CAP EQUITY FUNDS/ETF</b>									
3,319	ISHARES CORE S&P MIDCAP 400 ETF	223.57	742,034	250.93	832,837	9.81	NA		
<b>EMERGING MARKET FUNDS/ETF</b>									
6,349	ISHARES ETF CORE MSCI EMERGING MKTS	54.23	344,335	49.06	311,482	3.67	NA		
<b>DOMESTIC FIXED INCOME FUNDS/ETF</b>									
3,253	VANGUARD SHORT-TERM TIPS ETF	50.17	163,191	50.34	163,756	1.93			
18,886	VANGUARD TOTAL BOND MARKET ETF	83.09	1,569,308	76.90	1,452,333	17.11	NA		
			1,732,499		1,616,089	19.03			
<b>INTERNATIONAL FIXED INCOME FUNDS/ETF</b>									
7,323	VANGUARD TOTAL INTL BOND ETF	57.16	418,561	51.09	374,132	4.41	NA		
<b>HIGH YIELD FIXED INCOME</b>									
497	SPDR PORTFOLIO HIGH YIELD BO	25.19	12,517	23.77	11,814	0.14			
61,325	VANGUARD HI YLD CORP-ADM	5.91	362,651	5.39	330,544	3.89	0		
			375,169		342,358	4.03			
<b>INTERNATIONAL EQUITY FUNDS/ETF</b>									
1,275	ISHARES EDGE MSCI MIN VOL EAFE ETF	67.50	86,064	65.68	83,742	0.99	NA		
5,600	ISHARES ETF CORE MSCI EAFE	66.37	371,658	62.05	347,480	4.09	NA		
1,311	ISHARES MSCI INTERNATIONAL QUALITY	37.34	48,946	32.93	43,171	0.51	NA		
			506,669		474,393	5.59			
<b>DOMESTIC LARGE CAP EQUITY FUNDS/ETF</b>									
1,402	INVESCO S&P 500 LOW VOLATILITY	65.74	92,169	64.51	90,443	1.07	NA		
3,958	SPDR S&P 500 ETF	321.78	1,273,605	411.99	1,630,656	19.21	NA		

# Portfolio Appraisal

## KENAI PENINSULA BOROUGH - LAND TRUST INVESTMENT FUND

July 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
2,386	VANECK MORNINGSTAR WIDE MOAT	75.71	180,634	70.11	167,282	1.97	NA		
			1,546,408		1,888,382	22.24			
<b>REAL ESTATE &amp; INFRASTRUCTURE</b>									
7,673	FLEXSHAR STX GLOBAL BROAD INF ETF	53.87	413,310	53.81	412,884	4.86	NA		
2,481	JPMORGAN BETABUILDERS MSCI US REIT ETF	95.28	236,398	95.67	237,357	2.80	NA		
			649,709		650,241	7.66			
<b>DOMESTIC SMALL CAP EQUITY FUNDS/ETF</b>									
4,111	ISHARES S&P SMALLCAP 600 INDEX ETF	95.60	393,026	101.59	417,636	4.92	NA		
<b>CASH AND CASH EQUIVALENTS</b>									
	DIVIDEND ACCRUAL		1,473		1,473	0.02			
	WFB PUBLIC INST BANK DEPOSIT ACCOUNT		380,418		380,418	4.48			
			381,891		381,891	4.50			
<b>TOTAL PORTFOLIO</b>			<b>8,272,309</b>		<b>8,490,377</b>	<b>100</b>	<b>0</b>	<b>0</b>	

**PERFORMANCE HISTORY  
GROSS OF FEES  
KENAI PENINSULA BOROUGH - LAND TRUST**



**ALASKA PERMANENT  
CAPITAL MANAGEMENT**  
Registered Investment Adviser

**Percent Return**

**Per Period**

Time Period	Total Account	BLEND	Fixed Income	BLOOMBERG AGG BENCH	Domestic Large Cap Equity	S&P 500 LARGE CAPS BENCH	Domestic Mid Cap Equity	S&P 400 MIDCAP BENCH	Domestic Small Cap Equity	S & P 600 SMALL CAPS BENCH	Int'l Equity	MSCI EAFE Index	Emerging Market Equity	MSCI EMERGING MARKET BENCH	Real Estate	S&P US REIT BENCH	Diversified Alternatives	BB COMMODITY
07-31-21 to 08-31-21	1.16	1.20	-0.15	-0.19	2.93	3.04	1.99	1.95	1.91	2.02	1.62	1.76	1.38	2.62	1.81	1.87	0.97	-0.30
08-31-21 to 09-30-21	-2.37	-2.24	-0.65	-0.87	-4.66	-4.65	-4.01	-3.97	-2.38	-2.43	-3.26	-2.90	-3.64	-3.97	-4.96	-5.48	3.99	4.98
09-30-21 to 10-31-21	2.85	2.71	0.14	-0.03	6.91	7.01	5.97	5.89	3.60	3.43	2.99	2.46	1.14	0.99	5.03	7.74	2.73	2.58
10-31-21 to 11-30-21	-1.38	-1.31	0.24	0.30	-0.81	-0.69	-3.02	-2.94	-2.43	-2.29	-4.61	-4.65	-3.70	-4.08	-2.78	-0.67	-6.81	-7.31
11-30-21 to 12-31-21	2.61	2.61	-0.14	-0.26	3.78	4.48	4.41	5.08	3.44	4.53	5.11	5.12	2.35	1.88	5.61	8.77	3.08	3.53
12-31-21 to 01-31-22	-3.44	-3.39	-1.97	-2.15	-3.95	-5.17	-7.26	-7.21	-7.33	-7.27	-4.25	-4.83	-0.35	-1.89	-3.90	-6.92	5.53	8.78
01-31-22 to 02-28-22	-1.14	-1.03	-0.94	-1.12	-2.39	-2.99	1.21	1.11	1.37	1.40	-3.08	-1.77	-3.94	-2.99	-1.69	-3.18	6.55	6.23
02-28-22 to 03-31-22	0.86	0.91	-2.17	-2.78	2.29	3.71	1.30	1.38	0.32	0.37	0.04	0.64	-2.94	-2.26	4.55	6.54	7.90	8.65
03-31-22 to 04-30-22	-5.15	-5.01	-3.41	-3.79	-6.18	-8.72	-7.11	-7.11	-7.66	-7.81	-6.67	-6.47	-6.82	-5.56	-5.00	-4.43	0.32	4.14
04-30-22 to 05-31-22	0.69	0.32	0.59	0.64	0.58	0.18	0.77	0.75	1.87	1.86	1.12	0.75	0.61	0.44	-0.64	-6.15	4.31	1.52
05-31-22 to 06-30-22	-5.61	-5.93	-2.54	-1.57	-5.95	-8.25	-9.63	-9.62	-8.47	-8.55	-8.17	-9.28	-5.56	-6.65	-6.75	-7.33	-11.48	-10.77
06-30-22 to 07-31-22	5.32	5.63	3.03	2.44	6.78	9.22	10.92	10.85	9.93	10.01	5.00	4.98	0.00	-0.25	5.83	8.97	0.36	4.26
<b>Date to Date</b>																		
07-31-21 to 07-31-22	-6.04	-5.98	-7.83	-9.12	-1.83	-4.64	-6.27	-5.70	-7.22	-6.24	-14.24	-14.32	-19.89	-20.09	-4.00	-2.53	16.85	27.23