

# Potential Options To Enhance Existing Fund Balances

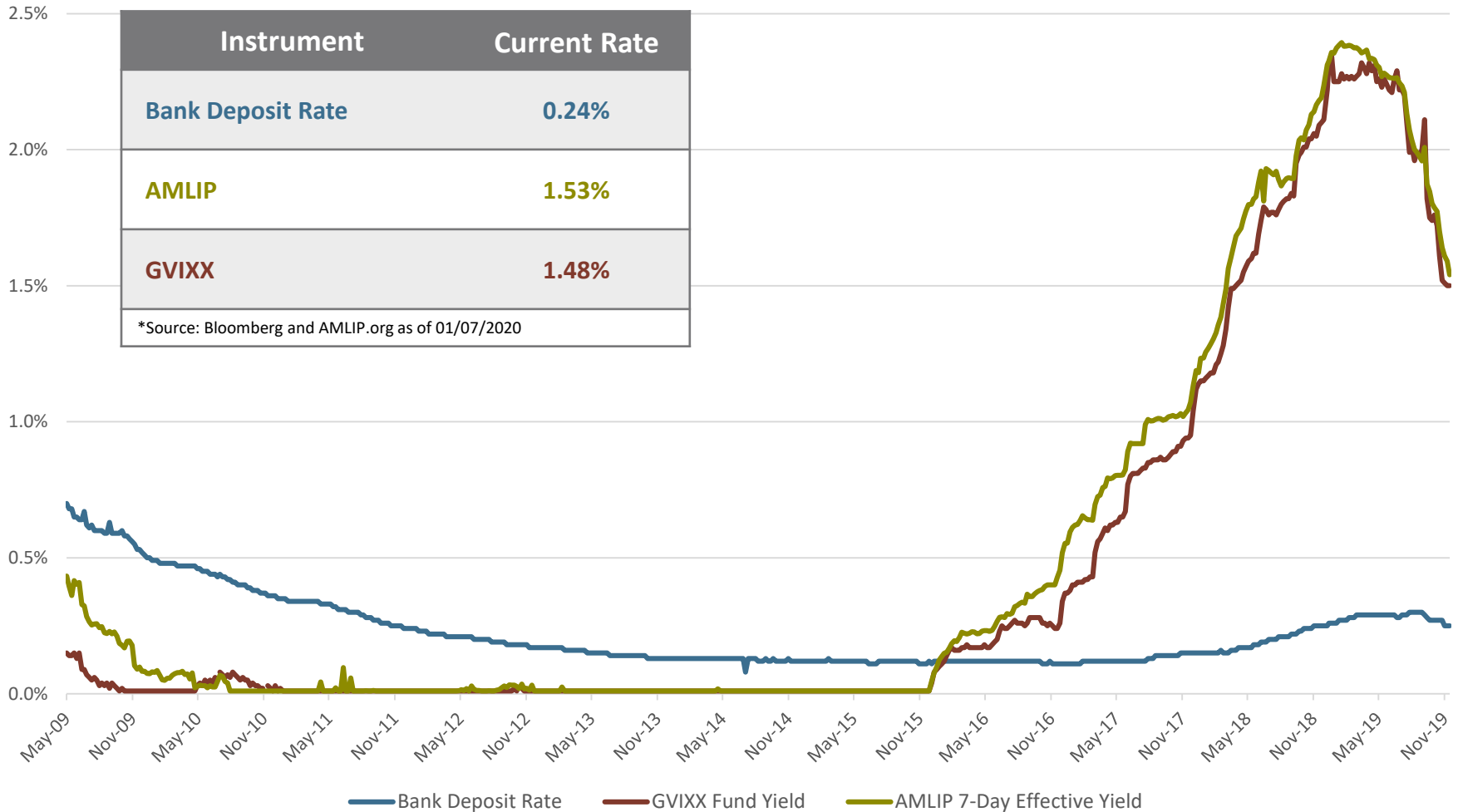
*Prepared at the request of Fadil Limani*

**North Slope Borough School District**

*February 11, 2020*



# Liquid Cash Alternatives and Current Rates



Source: Bloomberg, Federal Reserve of St. Louis

Bank Deposit Rate: National Rate on Jumbo Deposits (MMNRJD)

# Opportunity Cost

## Annual Earnings on \$10,000,000 Invested Today

Investment	Rate*	Earnings
Bank Deposit	0.25%	\$25,000
AMLIP	1.53%	\$153,000
90D T-Bill	1.51%	\$151,000

For every \$1 million invested at current risk-free rates, T-bills, are expected to generate more than \$12,000 over bank deposits annually.

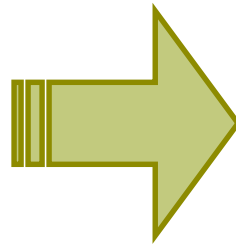
*\*This assumes AMLIP and Bank Deposit Rates remain constant over the period.  
T-bill is assumed to be reinvested with the same rate at maturity.*

# Alaska Municipal League Investment Pool (AMLIP)

A Secure, short-term investment vehicle for Alaska Public Entities currently used by over 70 public entities across the State of Alaska

## An Investment Vehicle for:

- Reserve Accounts
- Operating Cash



## In Return:

- Preservation of Capital
- Liquidity
- Competitive Rate of Return
- Reporting Audit Trails

The Alaska Municipal League Investment Pool (AMLIP) is a non-profit corporation formed by the Alaska Municipal League to provide investment services under the Alaska Investment Pool Act of 1992. The purpose of AMLIP is to provide a safe, high-yield, short-term investment option to maximize revenue for boroughs, cities, school districts and other state government entities.

# Customized Option

Professional money manager with cash management expertise

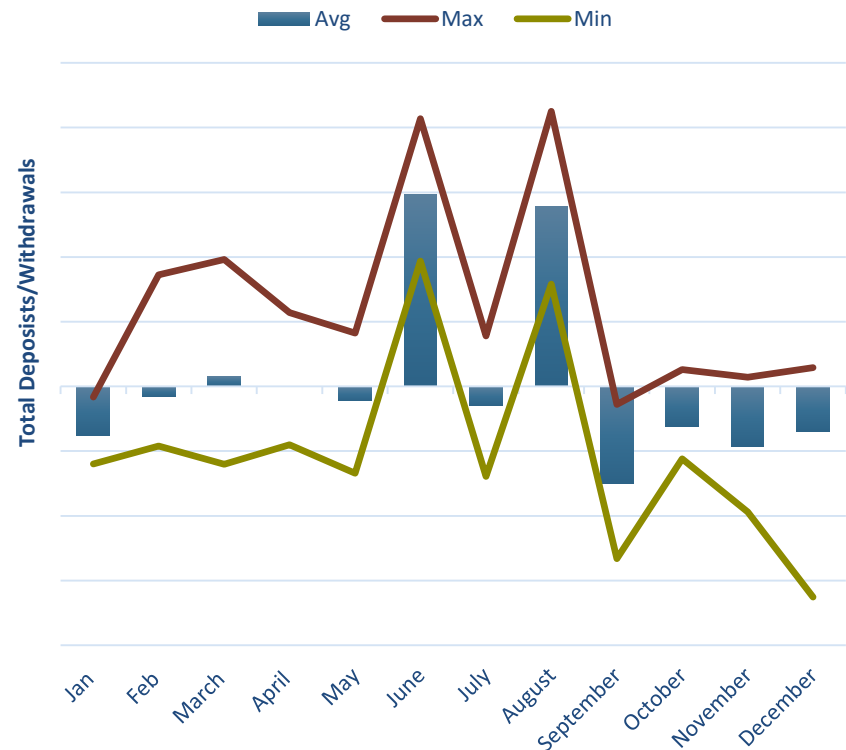
## Cash Flow Analysis

- Timing and Magnitude
- All funds not needed for current cash requirements remain fully invested

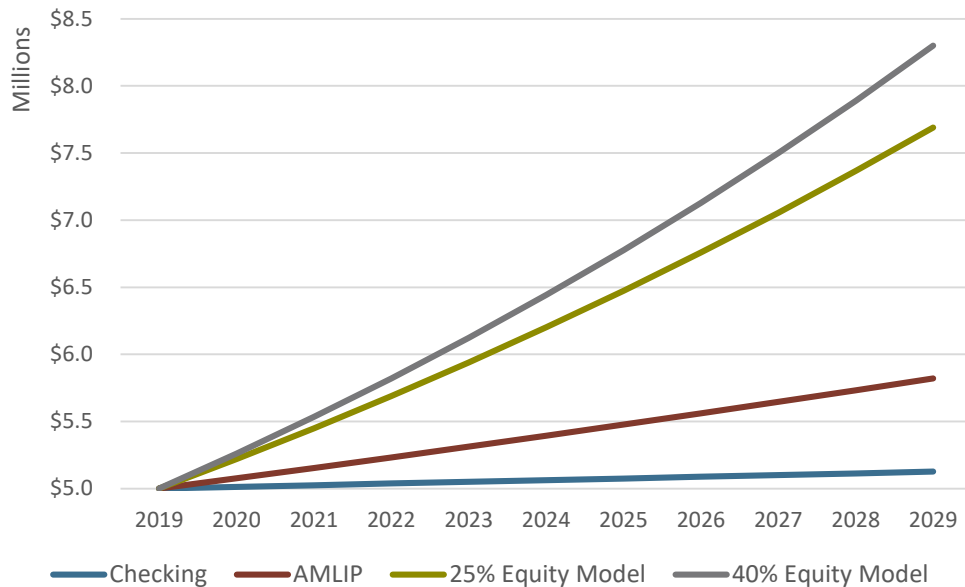
## Customized portfolio

- Tailored to client specific needs throughout an investment cycle
  - Time horizon
  - Liquidity
  - Risk tolerance

## Example Cash Flows



# 10 Year Ending Wealth Analysis



	Annualized Return	Ending Value
Checking	0.3%	\$5.1MM
AMLIP	1.5%	\$5.8MM
25% Equity Model	4.4%	\$7.7MM
40% Equity Model	5.2%	\$8.3MM

## Key Points:

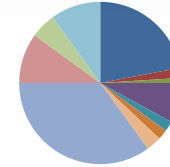
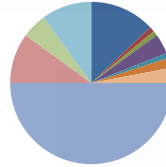
*Return assumptions use a constant rate. AMLIP and Checking Account use current rates held constant over the next ten years. Actual rates would vary with yields on money market securities. Equity Model returns are based upon long-term annualized return expectations under APCM's 2019 Capital Market Assumptions.*

*This is a very simplistic analysis using smoothed portfolio returns. This does not constitute actual portfolio returns or the expected path of returns. Portfolio return paths can be significantly different from the smoothed paths displayed above. Increased equity exposure is associated with increased risk and expected path dispersion.*

*Returns displayed are not guaranteed. All investing is subject to risk, including possible loss of the money invested.*

# Portfolio Returns and Risk

*Strategic asset allocation projected return and risk characteristics.*



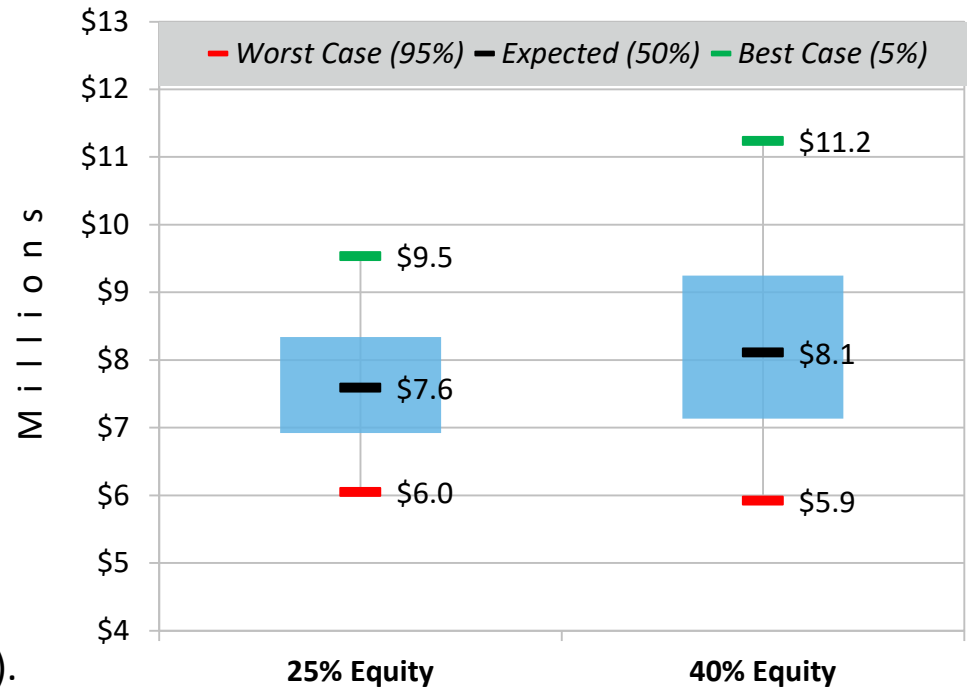
Asset Class		25% Equity	40% Equity
	Large Cap Equity	13.0%	22.0%
	Mid Cap Equity	1.0%	2.0%
	Small Cap Equity	1.0%	1.0%
	International Equity	4.0%	8.0%
	Emerging Markets Equity	1.0%	2.0%
	REITs	2.0%	2.0%
	Infrastructure	3.0%	3.0%
	U.S. Fixed Income	50.0%	35.0%
	TIPS	10.0%	10.0%
	International Fixed Income	5.0%	5.0%
	Commodities	0.0%	0.0%
	Cash	10.0%	10.0%
<b>Annual Return</b>	<b>Average Return</b>	4.4%	5.2%
	<b>Average Risk</b>	4.7%	6.6%
	<b>Range of Return</b>	-4.9% to +13.7%	-8.0% to +18.4%
<b>Long Term Annualized Return</b>		4.3%	5.0%

Risk and return data from Windham Portfolio Advisor.

# Wealth Simulation - 10 Year Horizon

- Both strategic asset allocations are on or **very close to the efficient frontier.**
- The portfolios are **well diversified** across the asset classes that are typically used by institutional investors and have **ample liquidity.**
- APCM expects more modest returns** relative to history in recognition of long-term global growth headwinds (elevated debt, poor demographics) and current valuations (low interest rate environments).

## Monte Carlo Simulation



- Each year, the portfolios are expected to experience a **range of returns** from **-4.9% to +13.7%** (25% Equity) and **-8.0% to 18.4%** (40% Equity), respectively to arrive at the **long-term expected returns of 4.3%** (25% Equity) and **5.0%** (40% Equity).



# North Slope Borough School District

## Advisory Fees and Services

### Proposed Fee Schedule

Account Balance	Annual Advisory Fee (% AUM)
Up to \$10 million	0.50%
Thereafter	0.25%

APCM has **no conflicts of interest** and independently selects all investments.

- No soft dollar purchases
- No APCM branded products
- No 12b-1 fees
- No commission recapture programs

### Services Provided by APCM

- Review of Investment Policy Statement and other control documents
- Coordinate objectives of investment, spending, and contribution policies
- Create optimal portfolio based on the School District's objectives and constraints
- Risk management tools to quantify and evaluate potential exposure to loss
- Cash flow simulations to review potential wealth distributions
- Board updates and education
- Annual strategic asset allocation review
- Evaluation of new asset classes and investment strategies

# 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 10 years, but is unlikely to reflect actual investment returns worldwide over this period.