



August 6, 2024

## **City of Valdez Permanent Fund**

City Council Presentation

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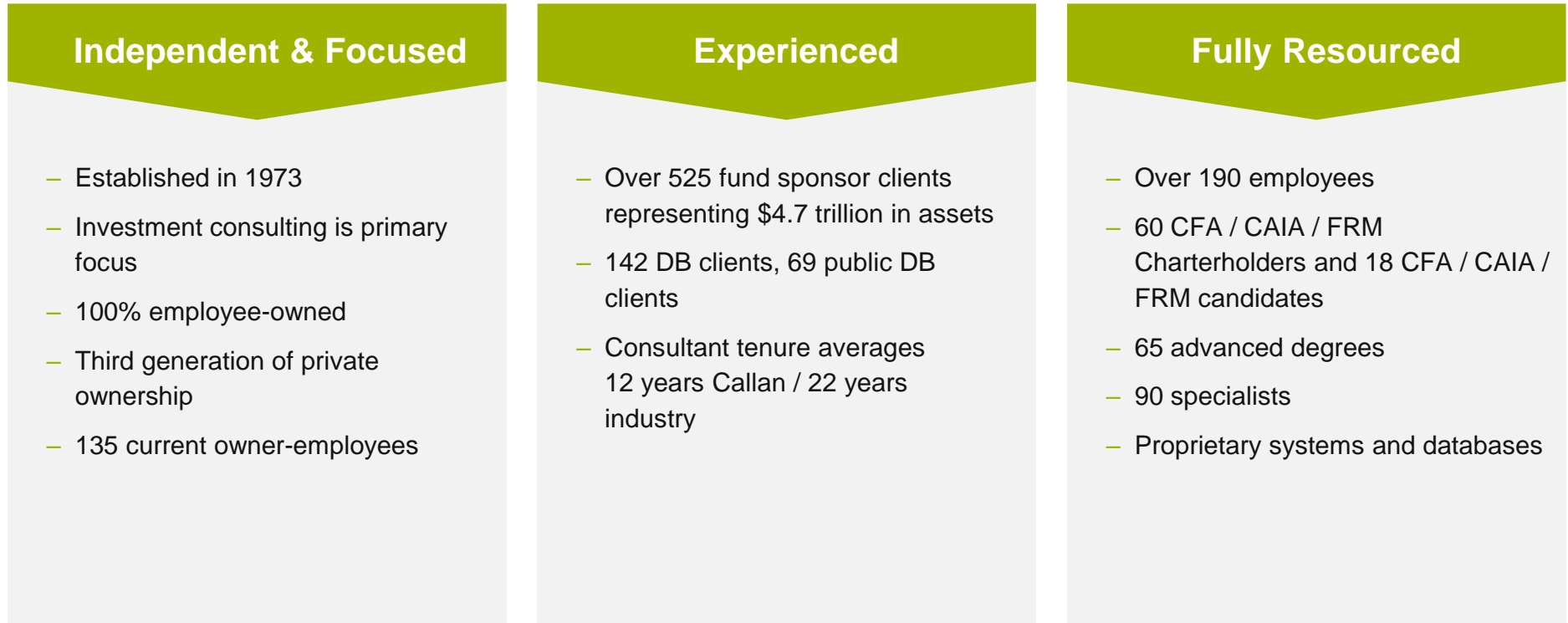
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Capital Markets Research

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# Callan Firm Overview

Focus, experience, resources

► Callan began advising the Valdez Permanent fund in 1997



# Callan's Key Differentiators

What makes Callan different?

*We combine the best attributes of both large and small firms—an uncommon blend that results in the highest level of service for our clients.*

## Like large firms, Callan has:

Broad and deep  
institutional knowledge

+

A wide variety  
of client types

+

Depth and breadth of  
specialist resources

## Like smaller firms, we feature:

Independent  
ownership

+

Personalized  
service

+

Customized  
recommendations

## Attributes that are uniquely “Callan”

We own our data &  
performance  
measurement systems

+

Education and research  
are cornerstones of the  
Callan Institute

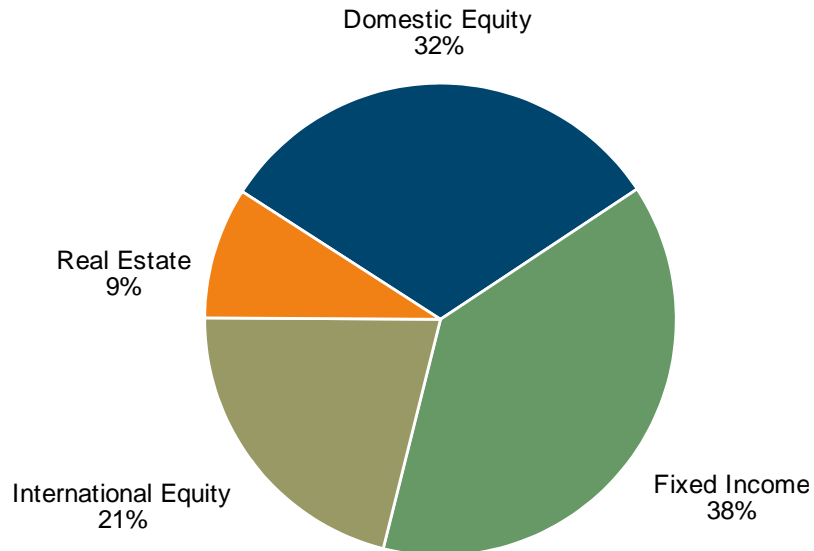
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Peer review committees  
ensure our best thinking is  
delivered to our clients

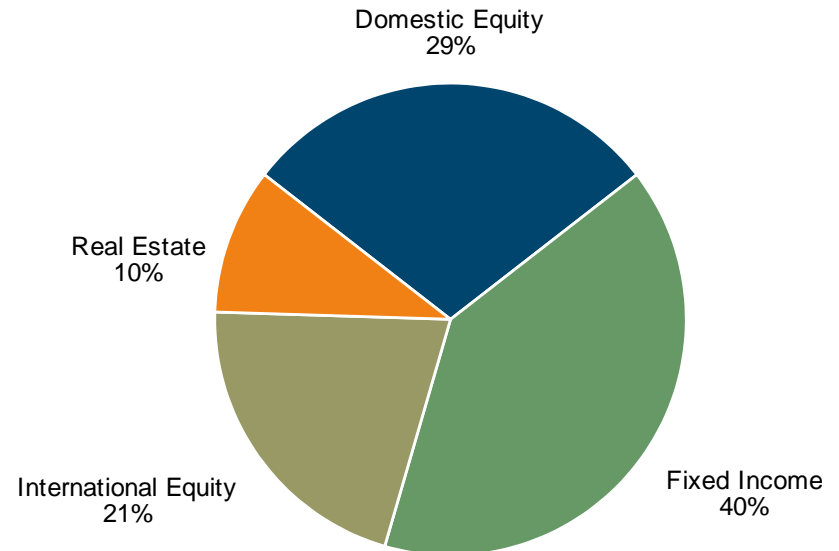
# City of Valdez Permanent Fund – Asset Allocation

As of June 30, 2024

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	88,285	31.6%	29.0%	2.6%	7,308
Fixed Income	106,732	38.2%	40.0%	(1.8%)	(4,961)
International Equity	59,191	21.2%	21.0%	0.2%	552
Real Estate	25,024	9.0%	10.0%	(1.0%)	(2,899)
Total	279,232	100.0%	100.0%		

- Staff has effectively managed the strategic asset allocation by regularly rebalancing
- The current allocations to the primary asset classes were all within target ranges at the end of the period

# City of Valdez Permanent Fund Investment Returns (\$)

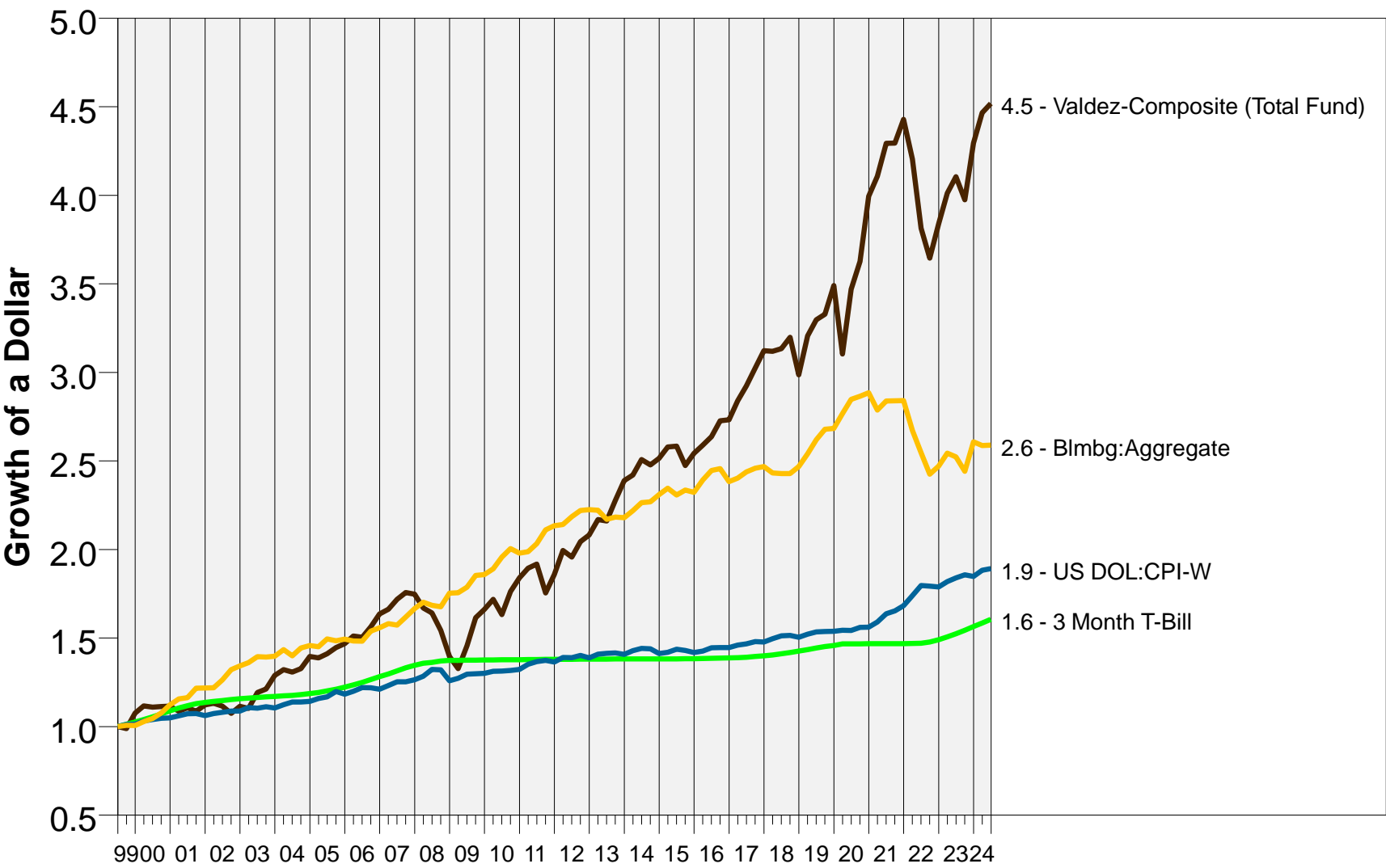
Trailing one-year period as of June 30, 2024

	Third Quarter 2023	Fourth Quarter 2023	First Quarter 2024	Second Quarter 2024	Last Year
<b>U.S. Equity</b>	<b>\$ (2,464,694)</b>	<b>\$ 8,612,312</b>	<b>\$ 7,898,714</b>	<b>\$ 1,468,514</b>	<b>\$ 15,514,846</b>
Vanguard Institutional Index	\$ (1,708,308)	\$ 5,903,811	\$ 5,724,886	\$ 2,342,038	\$ 12,262,427
Vanguard Mid Cap 400 Index	\$ (608,620)	\$ 1,729,905	\$ 1,547,099	\$ (661,473)	\$ 2,006,911
PGIM U.S. Small Cap	\$ (147,766)	\$ 978,596	\$ 626,729	\$ (212,051)	\$ 1,245,508
<b>Non-U.S. Equity</b>	<b>\$ (2,542,722)</b>	<b>\$ 5,483,506</b>	<b>\$ 3,095,994</b>	<b>\$ 1,105,747</b>	<b>\$ 7,142,525</b>
Vanguard International Growth	\$ (1,898,769)	\$ 2,151,360	\$ 1,143,833	\$ 534,779	\$ 1,931,203
Vanguard International Value	\$ (1,083,683)	\$ 1,808,750	\$ 865,234	\$ (288,411)	\$ 1,301,890
Brandes International Small Cap	\$ 439,730	\$ 1,523,396	\$ 1,086,927	\$ 859,379	\$ 3,909,432
<b>Fixed Income</b>	<b>\$ (2,594,434)</b>	<b>\$ 6,892,351</b>	<b>\$ (104,875)</b>	<b>\$ 267,708</b>	<b>\$ 4,460,750</b>
Alaska Permanent Capital	\$ (879,299)	\$ 2,314,409	\$ (250,676)	\$ 93,495	\$ 1,277,929
Baird Aggregate Bond	\$ (1,109,401)	\$ 2,552,778	\$ (171,977)	\$ 90,724	\$ 1,362,124
Insight Global Fixed Income	\$ (605,734)	\$ 2,025,164	\$ 317,778	\$ 83,489	\$ 1,820,697
<b>Real Estate</b>	<b>\$ (194,195)</b>	<b>\$ (816,906)</b>	<b>\$ (366,241)</b>	<b>\$ (238,331)</b>	<b>\$ (1,615,673)</b>
UBS Trumbull Property	\$ (192,899)	\$ (521,411)	\$ (205,903)	\$ (109,589)	\$ (1,029,802)
Morgan Stanley Prime Property Fund	\$ (1,296)	\$ (295,495)	\$ (160,338)	\$ (128,742)	\$ (585,871)
<b>Total Valdez Permanent Fund</b>	<b>\$ (7,796,045)</b>	<b>\$ 20,171,263</b>	<b>\$ 10,523,592</b>	<b>\$ 2,603,638</b>	<b>\$ 25,502,448</b>

Note: Last Year column represents period from 7/1/2023 to 6/30/2024

# City of Valdez Permanent Fund – Long-Term Growth

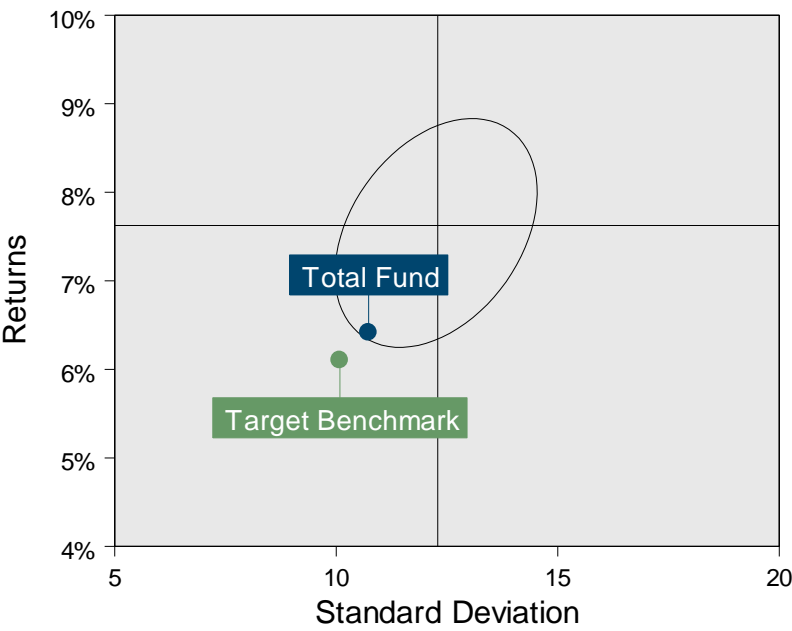
Growth of a Dollar  
For 25 Years Ended June 30, 2024



# City of Valdez Permanent Fund Returns

Cumulative annualized performance as of June 30, 2024

Callan Public Fund Spons- Mid (100M-1B) (Gross)  
Annualized Seven Year Risk vs Return



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years
10th Percentile	2.13	14.30	4.62	8.89	8.68	7.96	9.76
25th Percentile	1.92	12.92	3.93	8.30	8.10	7.41	9.34
Median	1.34	11.70	3.03	7.71	7.63	6.90	8.87
75th Percentile	0.98	10.29	2.11	6.80	6.99	6.50	8.41
90th Percentile	0.43	9.09	1.43	6.24	6.30	5.93	7.98
<b>Total Fund</b> ●	1.16	10.05	1.72	6.50	6.42	6.07	7.84
Target Benchmark ▲	1.07	8.88	1.53	5.89	6.10	5.69	7.49

Callan

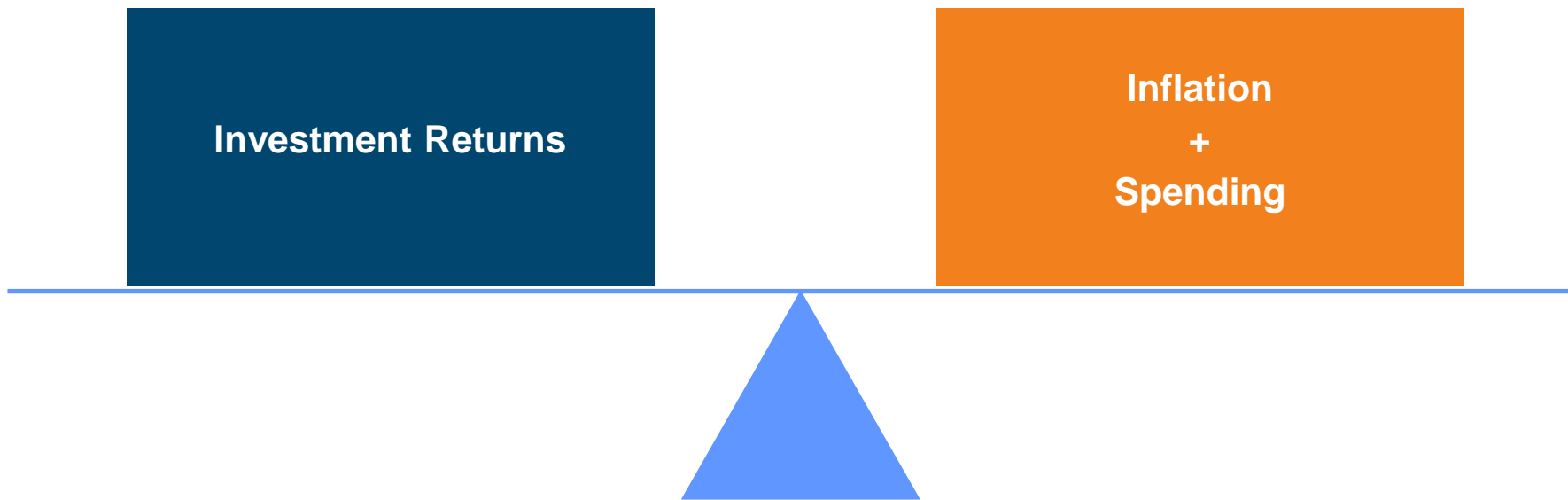
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## **2024 Asset-Spending Study**



## Permanent Fund “Equation of Balance”

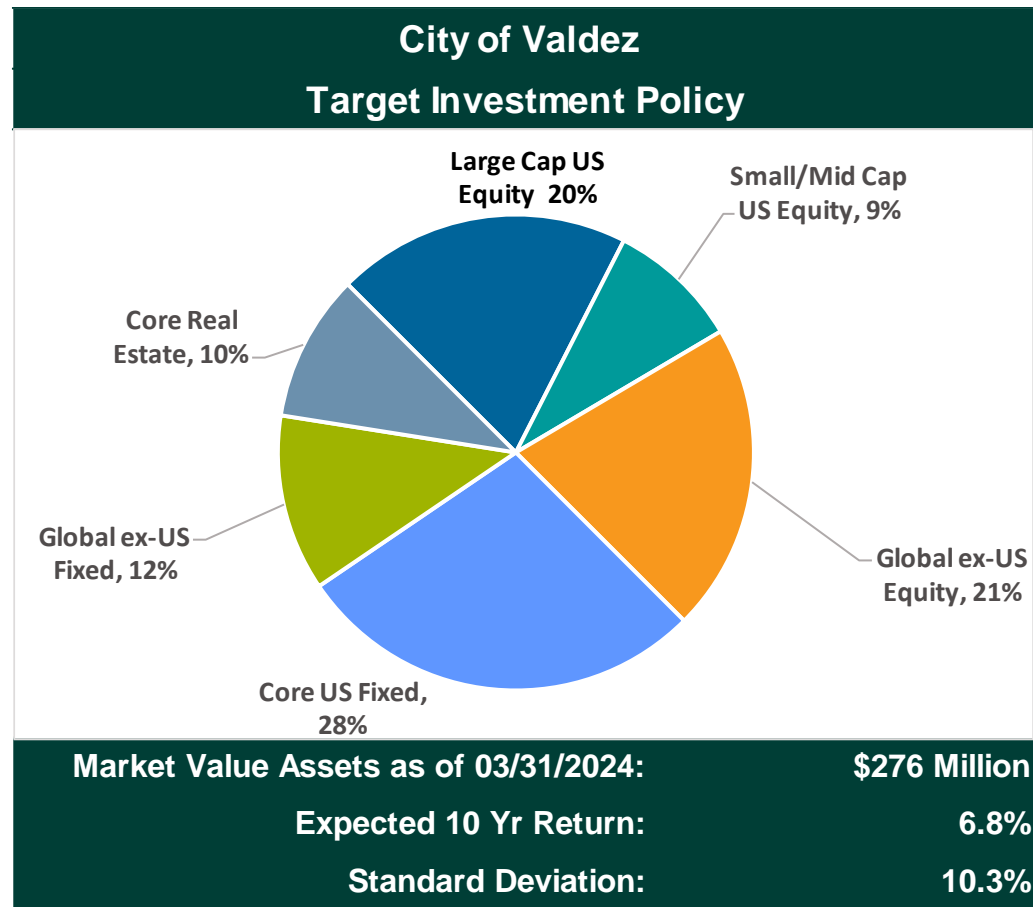
Required to preserve the real spending power of the corpus



**Investment returns grow the fund, while inflation and spending erode the corpus**

- ▶ When “Investment Returns” are greater than “Inflation + Spending” => The corpus grows in real terms
- ▶ When “Investment Returns” are less than “Inflation + Spending” => The corpus shrinks in real terms
- ▶ Thus, if intergenerational wealth is the objective, the target return must equal or exceed “Inflation + Spending”

# Target Policy Metrics



Asset Class	Policy
Large Cap US Equity	20.0%
Small/Mid Cap US Equity	9.0%
Global ex-US Equity	21.0%
Core US Fixed	28.0%
Global ex-US Fixed	12.0%
Core Real Estate	10.0%
<b>Total</b>	<b>100%</b>

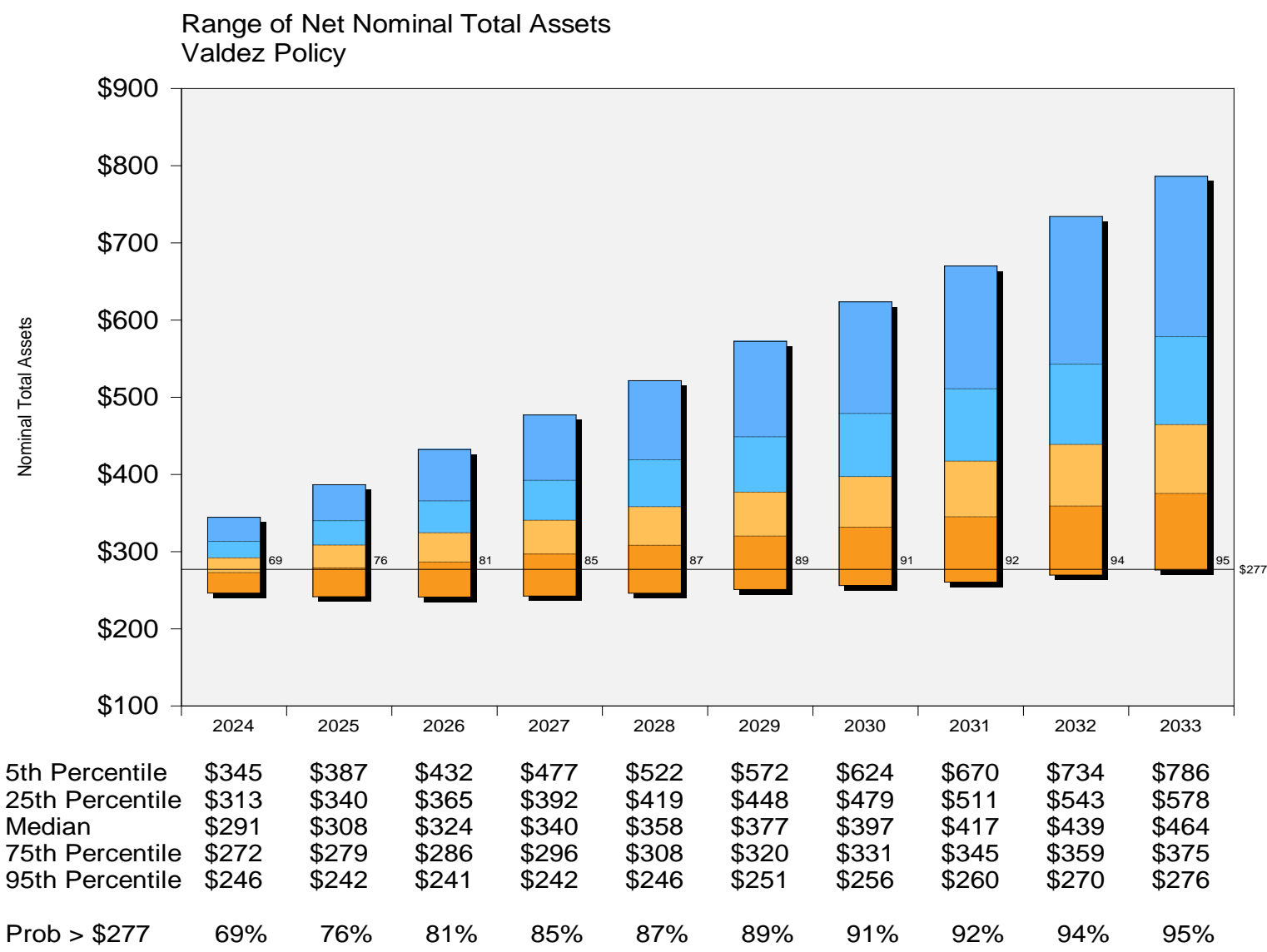
Asset Only Metrics	
Expected 10-Year Return	6.8%
Expected Real Return	4.3%
Standard Deviation	10.3%
Sharpe Ratio	0.369
Equity Beta	0.54
Bear Equity Shock -30%	-16%
Projected Yield	3.4%

Broad Allocation	
Public Equity	50%
Fixed Income	40%
Below Investment Grade	0%
Alternatives	10%

Liquid	90%
Illiquid	10%

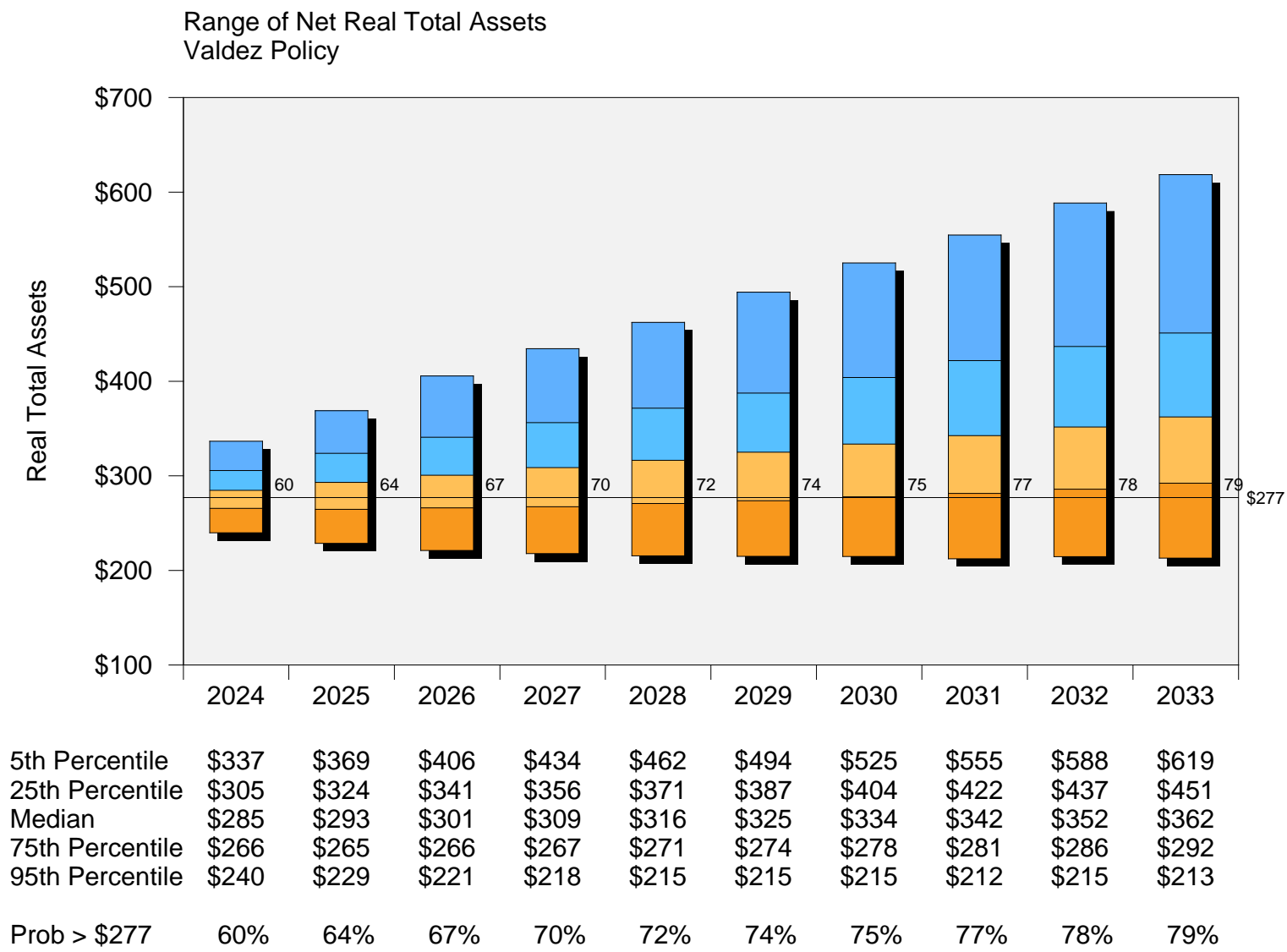
**The target policy is 50% equity, 40% fixed income, and 10% core real estate**

# Net Nominal Asset Value Projections (year end values)



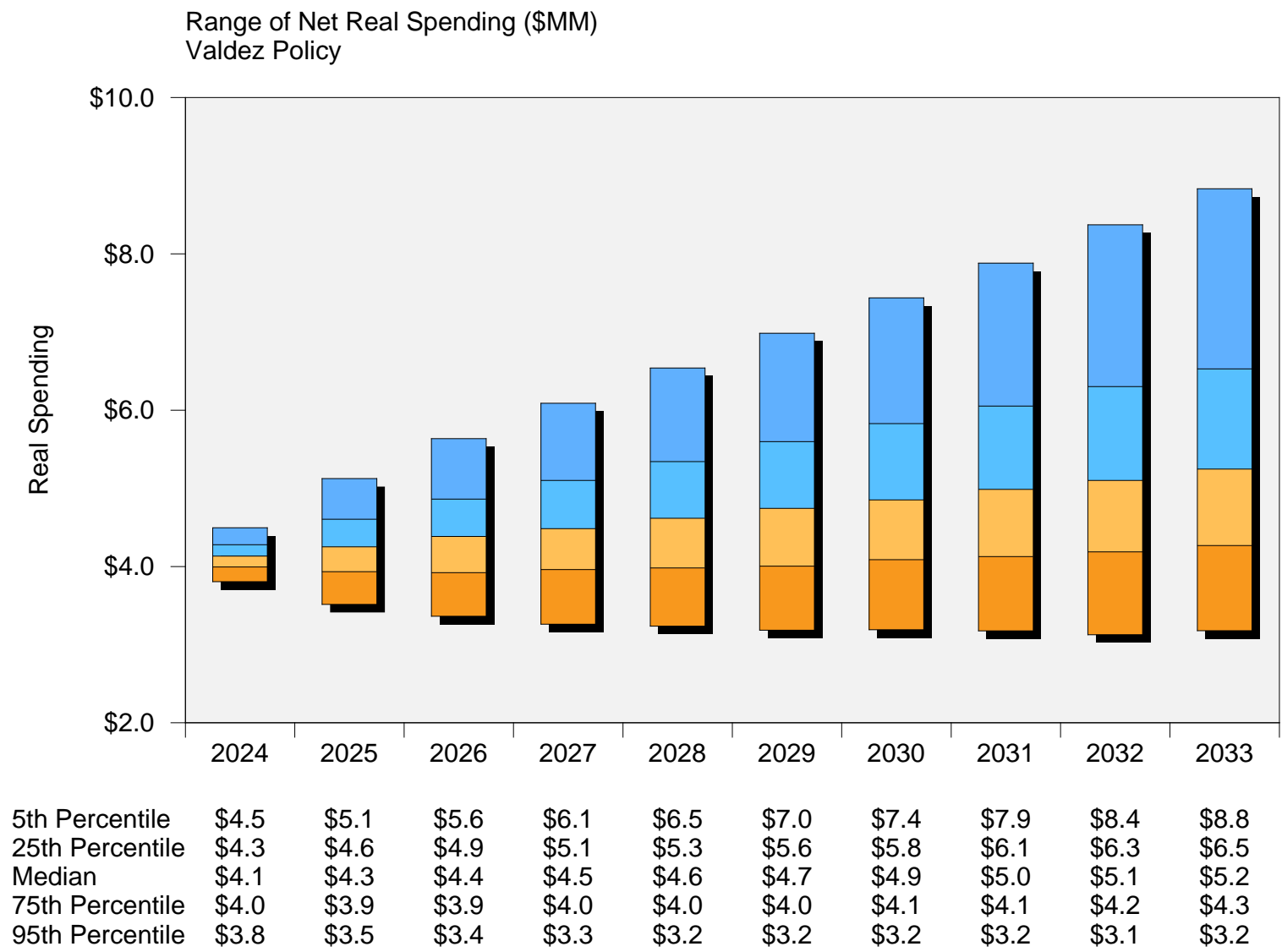
Assuming a 1.5% spend, there is a 95% chance the nominal asset value will increase over the forecast period

# Net Real Asset Value Projections (year end values)



Assuming a 1.5% spend, there is an 80% chance the real asset value will increase over the forecast period

# Net Real Spending Projections (year end values)



Assuming a 1.5% spend, the median spend amount will increase from \$4.1 to \$5.2 million, a 25% increase

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## Summary Observations

- Using the current asset allocation over the ten-year projection horizon, the Permanent Fund is expected to grow from \$276MM to \$362MM after accounting for the effects of expected inflation and the 1.50% annual distribution
- Annual fund distributions are expected to grow by approximately 2.40% per year after accounting for inflation in the expected case; growing from \$4.1MM to \$5.2MM
- The Investment Committee continues to review potential alternative asset allocations and their impacts on total fund and annual distribution growth

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## Appendix

# Asset Distribution and Cash Flow Across Investment Managers

As of June 30, 2024

	June 30, 2024				March 31, 2024	
	Market Value	Weight	Net New Inv.	Inv. Return	Market Value	Weight
<b>Domestic Equity</b>	<b>\$88,285,233</b>	<b>31.62%</b>	<b>\$281,987</b>	<b>\$1,468,514</b>	<b>\$86,534,733</b>	<b>31.26%</b>
<b>Large Cap Equity</b>	<b>\$62,553,045</b>	<b>22.40%</b>	<b>\$218,855</b>	<b>\$2,342,038</b>	<b>\$59,992,152</b>	<b>21.67%</b>
Vanguard Institutional Index	62,553,045	22.40%	218,855	2,342,038	59,992,152	21.67%
<b>Mid Cap Equity</b>	<b>\$16,685,318</b>	<b>5.98%</b>	<b>\$63,132</b>	<b>\$(661,473)</b>	<b>\$17,283,659</b>	<b>6.24%</b>
Vanguard S&P Mid Cap 400 Index	16,685,318	5.98%	63,132	(661,473)	17,283,659	6.24%
<b>Small Cap Equity</b>	<b>\$9,046,870</b>	<b>3.24%</b>	<b>\$0</b>	<b>\$(212,051)</b>	<b>\$9,258,921</b>	<b>3.34%</b>
PGIM Small Cap Core Equity Fund	9,046,870	3.24%	0	(212,051)	9,258,921	3.34%
<b>International Equity</b>	<b>\$59,191,262</b>	<b>21.20%</b>	<b>\$(25,875)</b>	<b>\$1,105,747</b>	<b>\$58,111,391</b>	<b>20.99%</b>
Vanguard Intl Growth	23,284,109	8.34%	0	534,779	22,749,330	8.22%
Vanguard Intl Value	22,132,888	7.93%	0	(288,411)	22,421,299	8.10%
Brandes International Small Cap	13,774,266	4.93%	(25,875)	859,379	12,940,762	4.67%
<b>Fixed Income</b>	<b>\$106,732,017</b>	<b>38.22%</b>	<b>\$(1,415)</b>	<b>\$267,708</b>	<b>\$106,465,725</b>	<b>38.46%</b>
Alaska Permanent Cap Mgmt	37,654,185	13.48%	(1,415)	93,495	37,562,105	13.57%
Insight Global Fixed	31,683,128	11.35%	0	83,489	31,599,640	11.42%
Baird Aggregate Bond	37,394,704	13.39%	0	90,724	37,303,980	13.48%
<b>Real Estate</b>	<b>\$25,023,837</b>	<b>8.96%</b>	<b>\$(436,701)</b>	<b>\$(238,331)</b>	<b>\$25,698,869</b>	<b>9.28%</b>
UBS Trumbull Property *	11,891,149	4.26%	(199,623)	(109,589)	12,200,362	4.41%
Morgan Stanley Prime Property Fund	13,132,688	4.70%	(237,077)	(128,742)	13,498,508	4.88%
<b>Total Fund</b>	<b>\$279,232,350</b>	<b>100.00%</b>	<b>\$(182,004)</b>	<b>\$2,603,637</b>	<b>\$276,810,718</b>	<b>100.00%</b>



# Callan Periodic Table of Investment Returns

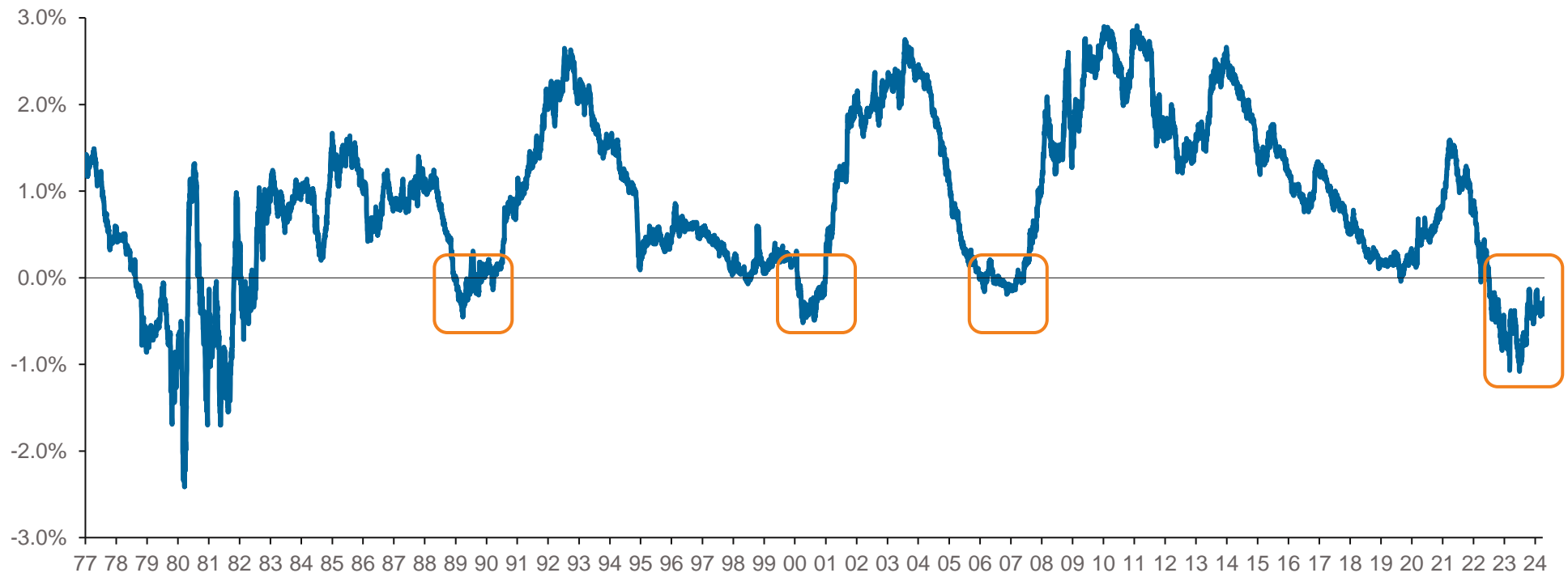
Cumulative Returns as of June 30, 2024  
Periods greater than one year are annualized

Annual Returns						Cumulative Returns						
2018	2019	2020	2021	2022	2023	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	Last Qtr.
U.S. Fixed Income	Large Cap Equity	Small Cap Equity	Large Cap Equity	High Yield	Large Cap Equity	Large Cap Equity	Large Cap Equity	Large Cap Equity	Large Cap Equity	Large Cap Equity	Large Cap Equity	Emerging Market Equity
0.01%	31.49%	19.96%	28.71%	-11.19%	26.29%	14.82%	12.86%	15.05%	10.01%	24.56%	15.29%	5.00%
High Yield	Small Cap Equity	Large Cap Equity	Real Estate	U.S. Fixed Income	Dev ex-U.S. Equity	Small Cap Equity	Small Cap Equity	Small Cap Equity	Dev ex-U.S. Equity	Emerging Market Equity	Emerging Market Equity	Large Cap Equity
-2.08%	25.52%	18.40%	27.21%	-13.01%	17.94%	11.24%	7.00%	6.94%	2.82%	12.55%	7.49%	4.28%
Global ex-U.S. Fixed Income	Real Estate	Emerging Market Equity	Small Cap Equity	Dev ex-U.S. Equity	Small Cap Equity	Real Estate	High Yield	Dev ex-U.S. Equity	High Yield	Dev ex-U.S. Equity	Dev ex-U.S. Equity	High Yield
-2.15%	23.06%	18.31%	14.82%	-14.29%	16.93%	7.59%	4.31%	6.55%	1.64%	11.22%	4.96%	1.09%
Large Cap Equity	Dev ex-U.S. Equity	Global ex-U.S. Fixed Income	Dev ex-U.S. Equity	Large Cap Equity	High Yield	High Yield	Dev ex-U.S. Equity	High Yield	Small Cap Equity	High Yield	High Yield	U.S. Fixed Income
-4.38%	22.49%	10.11%	12.62%	-18.11%	13.44%	7.44%	4.27%	3.92%	-2.58%	10.44%	2.58%	0.07%
Real Estate	Emerging Market Equity	Dev ex-U.S. Equity	High Yield	Global ex-U.S. Fixed Income	Real Estate	Dev ex-U.S. Equity	Real Estate	Emerging Market Equity	U.S. Fixed Income	Small Cap Equity	Small Cap Equity	Dev ex-U.S. Equity
-4.74%	18.44%	7.59%	5.28%	-18.70%	10.85%	6.68%	2.99%	3.10%	-3.02%	10.06%	1.73%	-0.60%
Small Cap Equity	High Yield	U.S. Fixed Income	U.S. Fixed Income	Emerging Market Equity	Emerging Market Equity	Emerging Market Equity	Emerging Market Equity	Real Estate	Real Estate	Real Estate	U.S. Fixed Income	Global ex-U.S. Fixed Income
-11.01%	14.32%	7.51%	-1.54%	-20.09%	9.83%	4.90%	2.79%	0.26%	-3.85%	5.66%	-0.71%	-2.11%
Dev ex-U.S. Equity	U.S. Fixed Income	High Yield	Emerging Market Equity	Small Cap Equity	Global ex-U.S. Fixed Income	U.S. Fixed Income	U.S. Fixed Income	U.S. Fixed Income	Emerging Market Equity	U.S. Fixed Income	Real Estate	Real Estate
-14.09%	8.72%	7.11%	-2.54%	-20.44%	5.72%	2.50%	1.35%	-0.23%	-5.07%	2.63%	-3.17%	-2.15%
Emerging Market Equity	Global ex-U.S. Fixed Income	Real Estate	Global ex-U.S. Fixed Income	Real Estate	U.S. Fixed Income	Global ex-U.S. Fixed Income	Global ex-U.S. Fixed Income	Global ex-U.S. Fixed Income	Global ex-U.S. Fixed Income	Global ex-U.S. Fixed Income	Global ex-U.S. Fixed Income	Small Cap Equity
-14.57%	5.09%	-8.18%	-7.05%	-24.42%	5.53%	0.18%	-1.86%	-3.56%	-7.48%	-0.66%	-5.26%	-3.28%

**Sources:** ● S&P 500 Index ● Russell 2000 Index ● MSCI World ex-U.S. Index ● MSCI Emerging Markets Index ● Bloomberg Aggregate U.S. Bond Index  
● Bloomberg Corp. High Yield Index ● Bloomberg Global Aggregate ex-U.S. Index ● FTSE EPRA Nareit Developed Index

# The Yield Curve Remains Inverted

## 10-Year Treasury vs. 2-Year Treasury Spread



- Inversion in the 10-year to 2-year Treasury yields does not always forecast a recession, but most recessions are preceded by a yield curve inversion.
- Inversion started in July 2022, bottomed at -1.08% in July 2023, and ended June 2024 at -0.35%.
- Rate cut expectations from the Fed ratcheted down to one rate cut this year, and three more cuts in 2025.

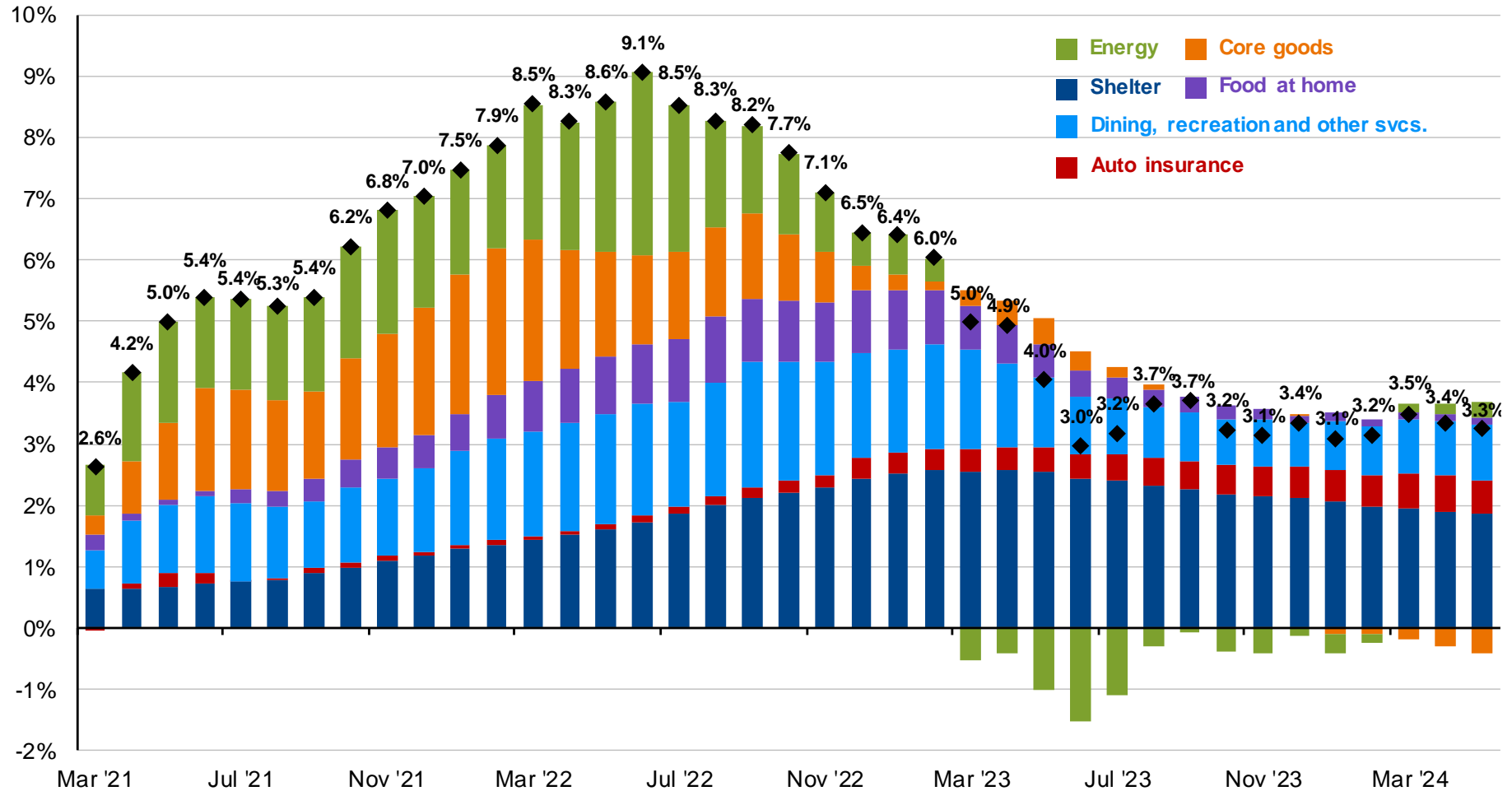
Source: Federal Reserve Bank of St. Louis

# Inflation Still Driven by Shelter and Services

Goods and grocery prices have fallen

## Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted



Source: J.P. Morgan *Guide to the Markets* – U.S. Data are as of June 30, 2024.

# The Fed's 'Dot Plot'

June 12, 2024

## Federal Open Market Committee (FOMC) participants' assessments of appropriate monetary policy

- Median year-end in 2024 = 5.1% (up from 4.6% projection at March meeting)
- “Longer run” up 20 basis points to 2.8%
- Dispersion of views widens in 2025 and 2026 but narrows over longer run.
- Market expects more cuts next year based on CME FedWatch as of July. Fed Funds expectations for end of 2024:
  - 48% expect 4.50% to 4.75%
  - 42% expect 4.75% to 5.00%
  - 7% expect 5.00% to 5.25%



Source: Federal Reserve. FOMC participants do not always submit projections for all time periods.

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