

# INVESTMENT REVIEW

*for period ending October 31, 2017*

## Aleutians East Borough

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ALASKA PERMANENT  
CAPITAL MANAGEMENT

Registered Investment Adviser

# Account Summary as of October 31, 2017

## *Aleutians East Borough Permanent Fund*

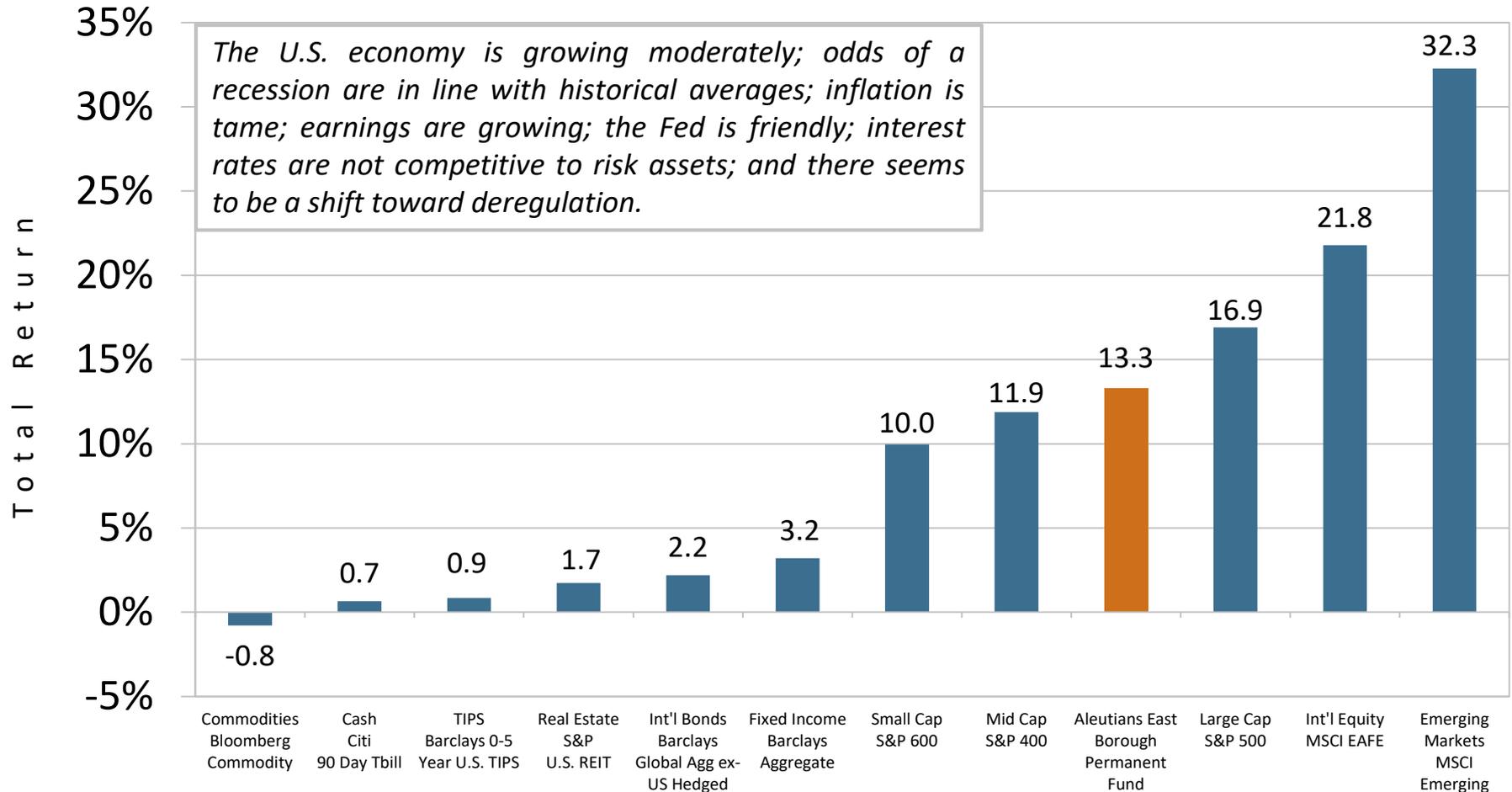
Account Inception	<b>July 1993</b>
Total Contributions	<b>\$19,386,422</b>
Cumulative Withdrawals <i>Includes management fees</i>	<b>\$11,092,294</b>
Current Market Value <i>October 31, 2017</i>	<b>\$45,153,540</b>
Account Return Since Inception <i>July 31, 1993 – October 31, 2017; Gross of Fees</i>	<b>+6.50%</b>
Current Allocation	<b>66% Equity / 34% Bonds</b>

# Portfolio Review

*as of October 31, 2017*

# Asset Class Performance as of October 31, 2017

*International markets have led equities higher in 2017.*



Asset class performance is represented by the stated index return.

# Historical Market Value as of October 31, 2017

*Aleutians East Borough Permanent Fund*

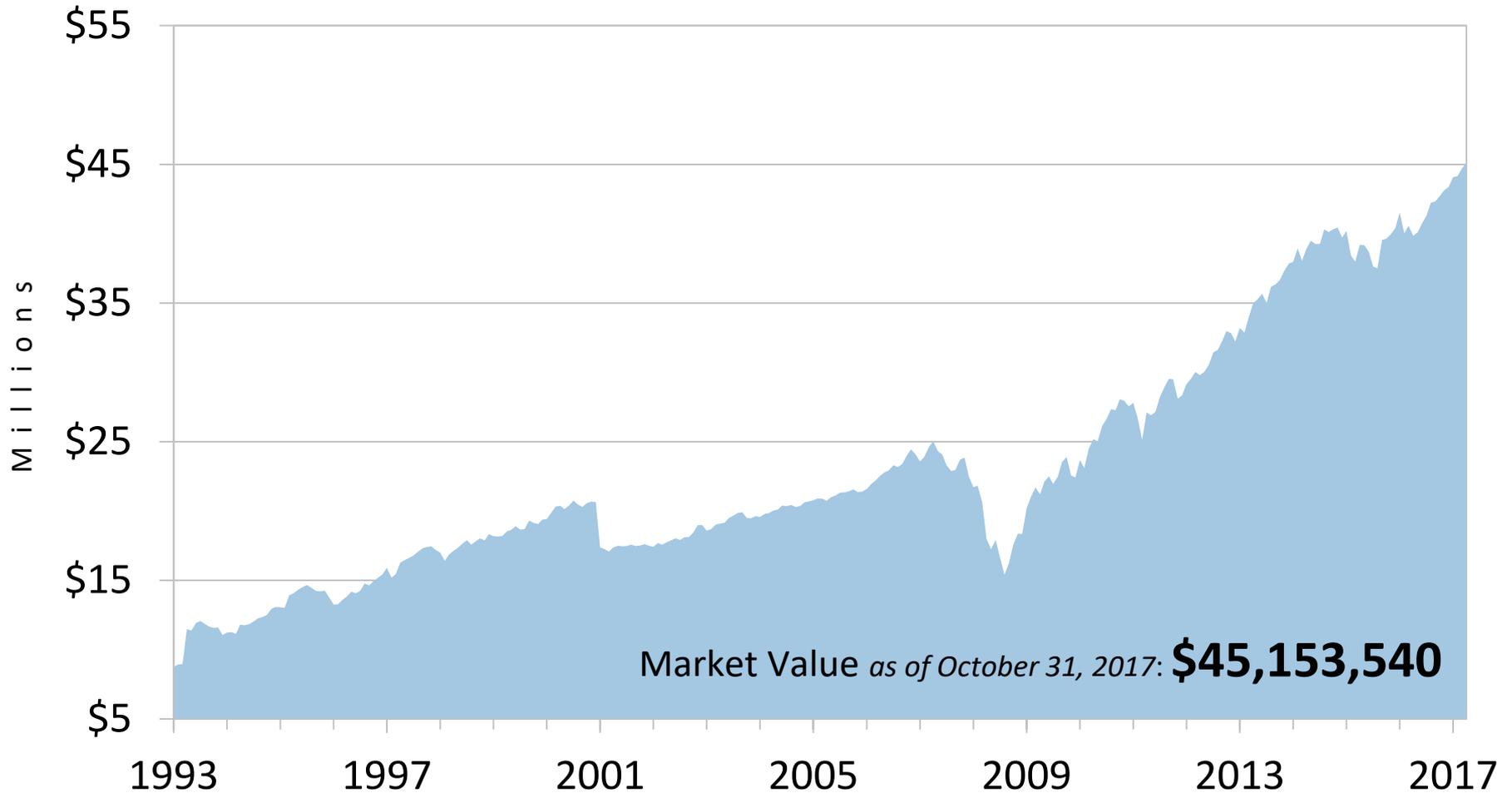


Chart shows month-end portfolio market value from July 1993 to October 2017.

# Historical Asset Allocation Since Inception

*Aleutians East Borough Permanent Fund*

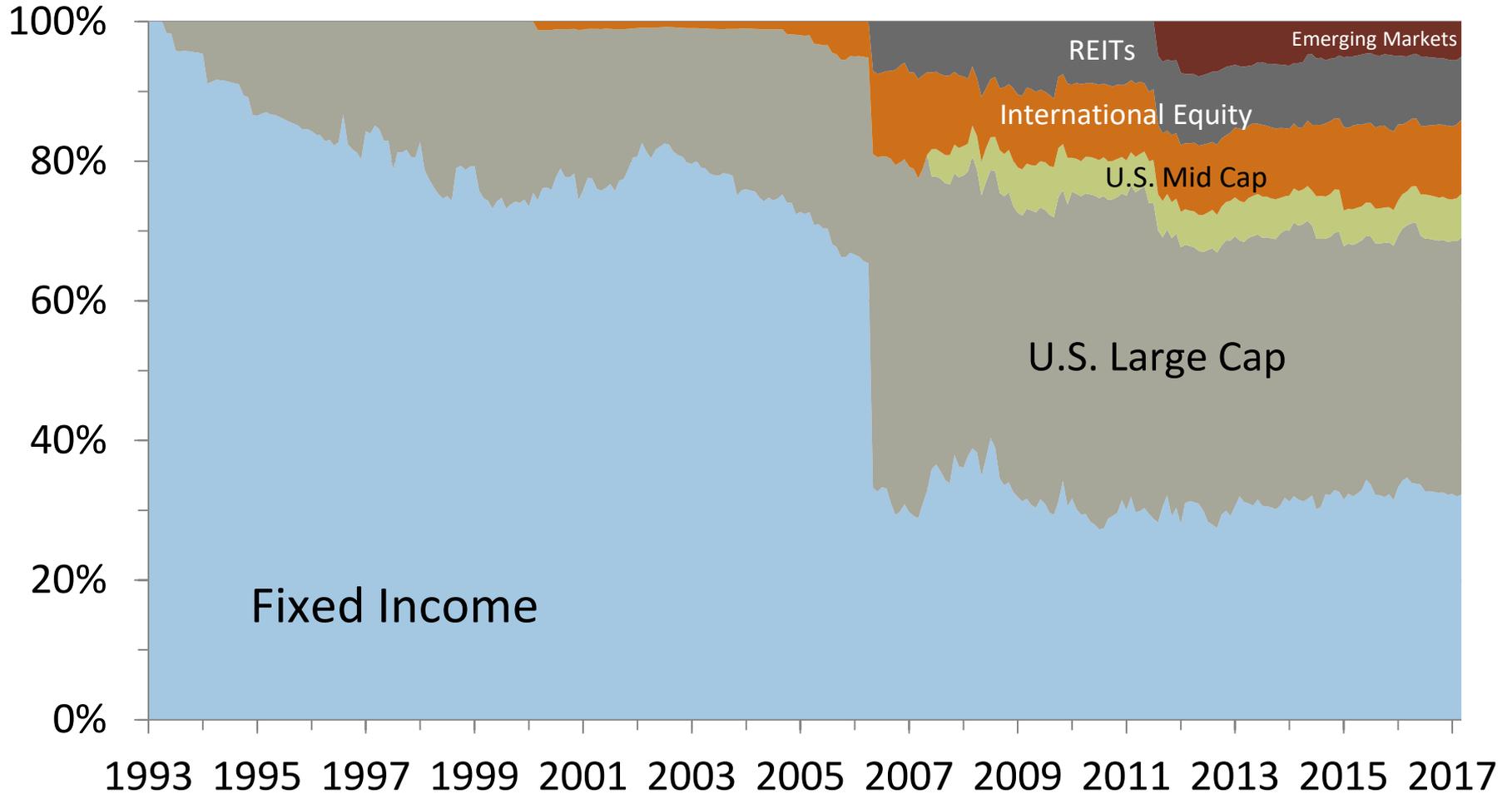
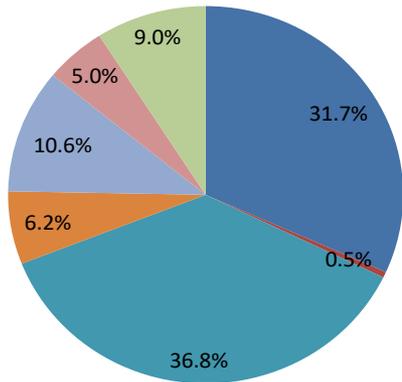


Chart shows actual month end portfolio allocation from August 31, 1993 to October 31, 2017.

**PORTFOLIO  
REVIEW**

# Asset Allocation as of October 31, 2017

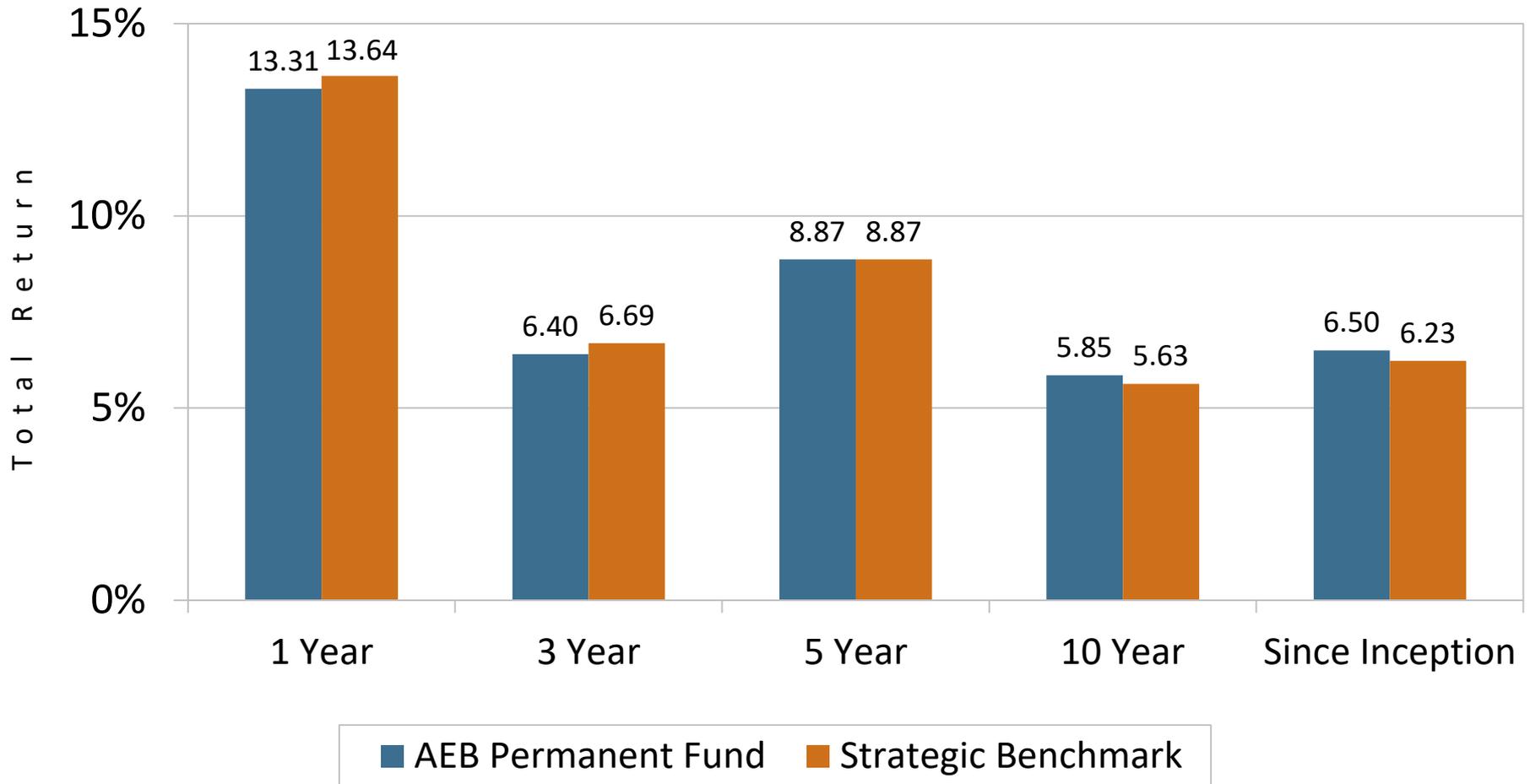
## *Aleutians East Borough Permanent Fund*



Asset Class	% Assets	Strategic Benchmark	Range	Market Value
<b>Fixed Income</b>	<b>32.2%</b>	<b>34%</b>	<b>25-60%</b>	<b>\$14,545,312</b>
U.S. Fixed Income	31.7%			\$14,321,790
Cash	0.5%			\$223,522
<b>Equities</b>	<b>67.8%</b>	<b>66%</b>		<b>\$30,608,228</b>
Large Cap	36.8%	36	30-50%	\$16,635,187
Mid Cap	6.2%	5	0-10	\$2,817,584
International	10.6%	10	5-15	\$4,799,138
Emerging Markets	5.0%	5	0-10	\$2,273,035
Real Estate	9.0%	10	5-15	\$4,083,285
<b>Total</b>				<b>\$45,153,540</b>

# Account Performance as of October 31, 2017

## *Aleutians East Borough Permanent Fund*



Performance is gross of fees and annualized for periods greater than one year. Inception performance begins on July 31, 1993. Strategic benchmark is a blended return of the account's target allocation.

# AEB Summary of Accounts

<b>Account Name</b> <i>Benchmark</i>	<b>Market Value</b> <i>as of October 31, 2017</i>	<b>2017 Performance</b> <i>as of October 31, 2017</i>	<b>Since Inception</b> <i>as of October 31, 2017</i>
<b>AEB Permanent Fund</b> <i>Balanced Account – Blended Benchmark</i>	\$45,153,540	10.92 11.16	6.50 6.23
<b>AEB 2010 Series A</b> <i>50% Barclays 1-3 Gov / 50% 90 Day T-Bill</i>	\$1,025,607	0.63 0.65	0.37 0.39
<b>AEB 2010 Series B</b> <i>50% Barclays 1-3 Gov / 50% 90 Day T-Bill</i>	\$2,041,001	0.62 0.65	0.35 0.39
<b>AEB-Akutan Harbor 2006</b> <i>90 Day T-Bill</i>	\$1,522,957	0.67 0.65	1.53 1.02
<b>AEB Series E</b> <i>90 Day T-Bill</i>	\$2,484,565	0.66 0.65	1.49 1.21
<b>AEB Operating Fund</b> <i>90 Day T-Bill</i>	\$2,545,734	0.66 0.65	1.52 1.28

Performance is gross of fees and annualized for periods greater than one year. Inception performance begins on the first full month after the inception of each portfolio.

# Long-Term Planning

# Observations on Asset Allocation as of October 31, 2017

## *Aleutians East Borough Permanent Fund*

- APCM began managing The **Permanent Fund in 1993**. The portfolio allocation is constructed based upon the goals and constraints outlined in Ordinance 89-1, Section 6.08.010 and the Investment Policy Statement.
- The current allocation is **designed to support reasonable distribution levels**.
- Over an approximate ten-year time horizon, the portfolio is **expected to earn an average of 6.8% per year**.
- Current policy allows for annual distributions of **up to 8%**, however given the 6.8% expected return over the long-term, **a maximum distribution would erode principal**.
- To ensure continued success of the Fund's goals and guard against excess risk, **APCM recommends a formal strategic allocation review based upon current investment goals**.

Asset Class	66% Equity / Current	
Large Cap Equity		36.0%
Mid Cap Equity		5.0%
Small Cap Equity		0.0%
International Equity		10.0%
Emerging Markets Equity		5.0%
REITs		10.0%
U.S. Fixed Income		34.0%
TIPS		0.0%
Int'l Fixed Income		0.0%
Commodities		0.0%
APCM's Forward Looking Assumptions	Return	6.8%
	Risk	11.5%
	Ratio	0.59

# Model Portfolios

Asset Class	25% Equity	40% Equity	55% Equity	70% Equity	85% Equity	
U.S. Equity						
International Equity						
REITs						
Commodities						
Fixed Income						
<b>APCM's Forward Looking Assumptions</b>	<b>Return</b>	<b>4.3%</b>	<b>5.1%</b>	<b>6.0%</b>	<b>6.9%</b>	<b>7.9%</b>
	<b>Risk</b>	5.2%	7.2%	9.7%	12.1%	14.9%
	<b>Range*</b>	-6.1 to 14.7%	-9.3 to 19.5%	-13.4 to 25.4%	-17.3 to 31.1%	-21.9 to 37.7%
<b>Annualized Historical Returns 9/1997 - 12/2016</b>	<b>Return</b>	<b>5.6%</b>	<b>5.9%</b>	<b>6.2%</b>	<b>6.5%</b>	<b>6.8%</b>
	<b>Risk</b>	4.4%	6.4%	8.8%	11.2%	14.1%
	<b>Ratio</b>	1.27	0.91	0.71	0.58	0.48
<b>Best 12 Month Period</b>		16.8%	22.4%	30.0%	38.7%	50.0%
<b>Worst 12 Month Period</b>		-11.3%	-18.7%	-26.5%	-34.2%	-41.4%

Risk and return data from Windham Portfolio Advisor. U.S. Equity includes a blend of large, mid, and small cap stocks. International Equity includes developed and emerging markets. Fixed Income can include U.S. aggregate bonds, U.S. TIPS, international bonds, and cash.

\*Range denotes the possible return range at the 95% confidence level.

# Asset Allocation Considerations

## Factors

## AEB Permanent Fund

<b>T</b>	Time Horizon	Perpetual
<b>R</b>	Risk Tolerance	Commensurate with Return Objective
<b>E</b>	Expected Return	Commensurate with Distribution Rate <i>Maximum of 8% Per Year</i>
<b>A</b>	Asset Class Preference	Domestic Equity (large/mid), International Equity (developed/emerging), REITs, U.S. Fixed Income
<b>T</b>	Tax Status	Tax Exempt

# Appendix

# Late-Cycle for Longer....

*Lack of excesses in the U.S. economy suggests the expansion can continue.*

## What's going on:

- **The synchronized global expansion continues to broaden**, but most advanced economies are still operating below potential.

## APCM's view:

- As expected, the post crisis recovery has been long but weak. **Fundamental risks, such as corporate re-leveraging, do not appear likely to derail the recovery in the near-to-medium term.**
- Inflation expectations are anchored suggesting the Fed can continue on the current path of interest rate normalization.
- The output gap, which measures current growth output versus potential, is usually above zero and declining before a recession. Today in the U.S., it is just above zero and rising. **Subdued inflation and wage pressures indicates there is still room for improvement.**

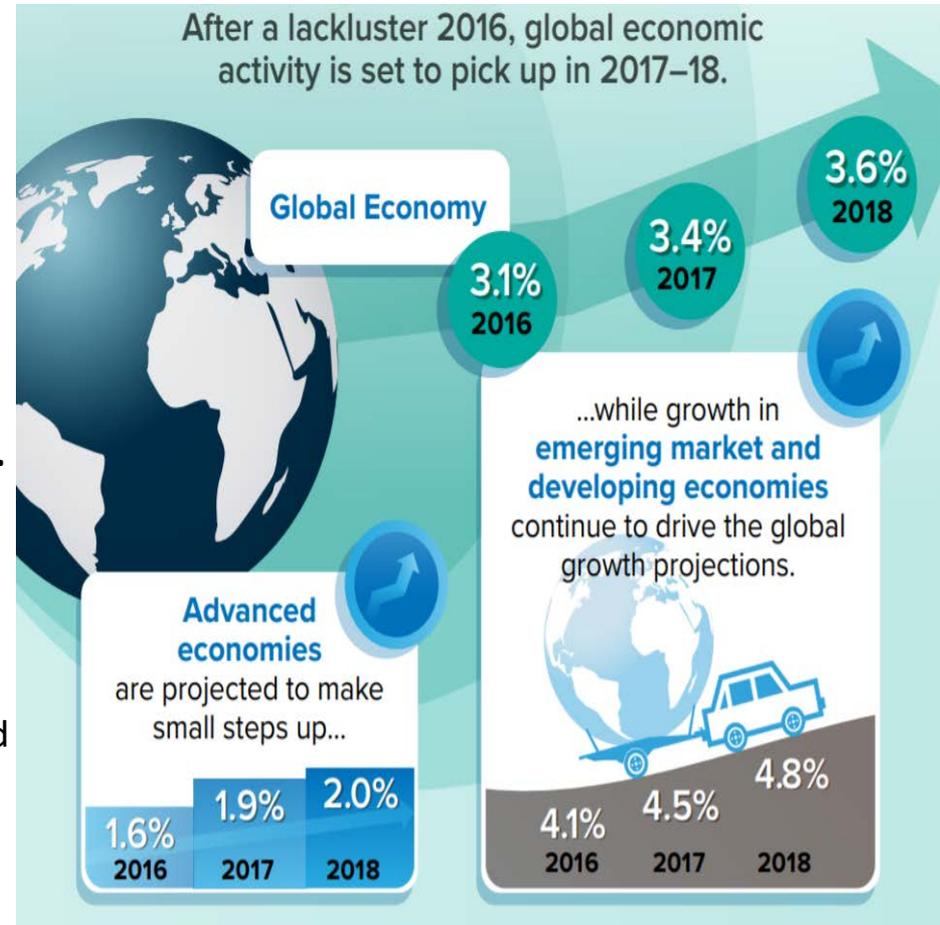


Chart: IMF

# Earnings Growth Supporting Markets

*The pick-up in global economic activity has helped company profits.*

## What's going on:

- Post crisis returns have primarily been derived from multiple expansion (stock prices rise faster than earnings) leaving today's elevated valuations.
- Recently, **earnings growth has been the primary driver of returns and is supporting current stock market levels.**

## APCM's view:

- The S&P 500 earnings yield is 4.6%, while the 10 year Treasury yield is 2.4%. This is a wide spread relative to history indicating **relative valuations still favor stocks.**
- Historically, the effects of high valuations on tactical (1-2 years) returns is low, but they do point to **lower long term returns as indicated in APCM's return expectations.**
- The outlook for economic growth remains positive, but valuations leave us cautious. In this environment, **APCM is maintaining a modest preference for stocks with anticipation of a gradual movement towards a neutral position as the cycle matures.**

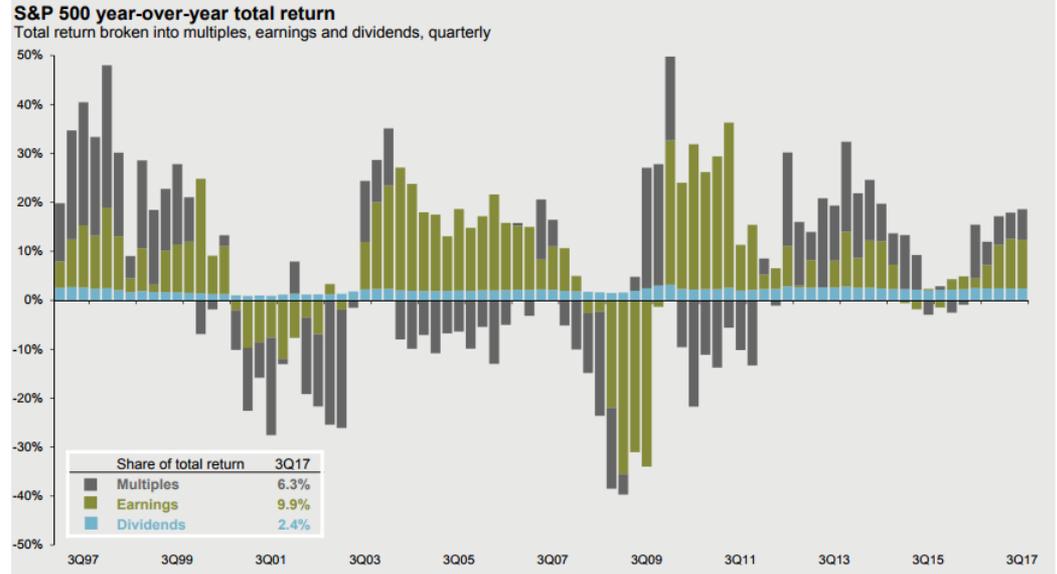


Chart: J.P. Morgan Asset Management

# Low Volatility Continues to Persist

*Markets have been calmed by positive economic data and easy financial conditions.*

## What's going on:

- Despite late cycle fears and elevated valuations, **markets remain stuck in the low volatility regime that began in mid-2016.**

## APCM's view:

- Volatility is often low for good reasons that are typically tied to the business cycle. **Positive growth limited upward pressure on rates and inflation tend to coincide with low volatility.**
- Today's high valuations provide less of a cushion to absorb shocks leaving the markets vulnerable to unpredictable geopolitical events, adverse economic or financial shocks, as well as other "unknowns". Unless recession risk picks up, such drawdowns should be less severe.
- The eventual transition out of this low volatility regime should not derail a sound investment strategy.** APCM integrates reasonable future volatility projections for portfolio construction and strategic planning purposes.



Source: Bloomberg.

# Portfolio Appraisal

## ALEUTIANS EAST BOROUGH

October 31, 2017



Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
<b>FNMA &amp; FHLMC</b>									
24,764	FHLMC POOL G14203 4.000% Due 04-01-26	104.56	25,894	104.72	25,933	0.06	991	83	1.43
235,698	FNCI POOL AS6305 3.000% Due 12-01-30	103.77	244,574	102.52	241,650	0.54	7,071	589	NA
264,667	FNCI POOL BC2737 2.500% Due 05-01-31 Accrued Interest	103.04	272,700	100.52	266,032	0.59	6,617	551	NA
					1,223	0.00			
			543,167		534,839	1.18		1,223	
<b>CASH AND EQUIVALENTS</b>									
	FEDERATED GOVERNMENT OBLIGATIONS INSTITUTI		223,522		223,522	0.50			
<b>CORPORATE BONDS</b>									
150,000	COMMONWEALTH EDISON 6.950% Due 07-15-18	123.20	184,800	103.72	155,586	0.34	10,425	3,070	1.61
150,000	TOYOTA MOTOR CREDIT CORP 2.100% Due 01-17-19	100.48	150,718	100.43	150,652	0.33	3,150	910	1.73
150,000	MICROSOFT CORP 4.200% Due 06-01-19	117.24	175,854	103.90	155,851	0.35	6,300	2,625	1.69
200,000	TORONTO-DOMINION BANK 2.250% Due 09-25-19	101.89	203,782	100.54	201,088	0.45	4,500	450	1.95
150,000	HSBC USA INC 2.375% Due 11-13-19	99.61	149,412	100.75	151,119	0.33	3,562	1,662	2.00
200,000	ENTERPRISE PRODUCTS OPER 5.200% Due 09-01-20	112.75	225,494	108.10	216,202	0.48	10,400	1,733	2.23
250,000	PNC BANK NA 2.450% Due 11-05-20	99.72	249,300	100.80	252,002	0.56	6,125	2,994	2.17
150,000	NBC UNIVERSAL MEDIA LLC 4.375% Due 04-01-21	109.20	163,806	107.03	160,539	0.36	6,562	547	2.23
150,000	AMERICAN EXPRESS CREDIT 2.250% Due 05-05-21	99.92	149,887	100.08	150,124	0.33	3,375	1,650	2.22
100,000	MORGAN STANLEY 5.500% Due 07-28-21	114.98	114,982	110.49	110,486	0.24	5,500	1,421	2.54
150,000	GILEAD SCIENCES INC 1.950% Due 03-01-22	96.28	144,423	98.43	147,640	0.33	2,925	487	2.33
120,092	SOUTHWEST AIRLS 2007-1 PASS 6.150% Due 08-01-22	102.36	122,929	110.00	132,102	0.29	7,386	1,846	3.82

\* Callable security

# Portfolio Appraisal

## ALEUTIANS EAST BOROUGH

October 31, 2017



Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
150,000	BANK AMER CORP 3.300% Due 01-11-23	99.34	149,014	102.44	153,658	0.34	4,950	1,512	2.79
150,000	COMCAST CORP 2.850% Due 01-15-23	101.83	152,752	101.44	152,158	0.34	4,275	1,259	2.55
150,000	AVALONBAY COMMUNITIES 2.850% Due 03-15-23	100.82	151,224	100.73	151,090	0.33	4,275	546	2.70
150,000	DISCOVERY COMMUNICATIONS 3.250% Due 04-01-23	98.88	148,320	100.99	151,483	0.34	4,875	406	3.05
150,000	NEWELL BRANDS INC 3.850% Due 04-01-23	106.01	159,022	104.91	157,369	0.35	5,775	481	2.86
150,000	Waste Management Inc 2.400% Due 05-15-23	100.24	150,358	98.28	147,420	0.33	3,600	1,660	2.74
150,000	AFLAC INC 3.625% Due 06-15-23	106.03	159,048	104.93	157,399	0.35	5,437	2,054	2.67
150,000	BANK OF NEW YORK MELLON 2.200% Due 08-16-23	97.83	146,749	97.45	146,182	0.32	3,300	687	2.68
150,000	JPMORGAN CHASE & CO 3.875% Due 02-01-24	105.18	157,771	105.67	158,502	0.35	5,812	1,453	2.88
150,000	METLIFE INC 3.600% Due 04-10-24	105.46	158,197	105.08	157,623	0.35	5,400	315	2.73
150,000	PRUDENTIAL FINANCIAL INC 3.500% Due 05-15-24	103.15	154,719	104.21	156,312	0.35	5,250	2,421	2.79
150,000	WELLS FARGO & COMPANY 3.300% Due 09-09-24	99.88	149,823	101.68	152,520	0.34	4,950	715	3.03
150,000	REYNOLDS AMERICAN INC 4.450% Due 06-12-25	108.47	162,700	107.64	161,455	0.36	6,675	2,577	3.31
150,000	APPLIED MATERIALS INC 3.900% Due 10-01-25	107.96	161,934	107.25	160,872	0.36	5,850	487	2.87
150,000	ANHEUSER-BUSCH INBEV FIN 3.650% Due 02-01-26	103.01	154,519	103.19	154,782	0.34	5,475	1,369	3.21
150,000	TARGET CORP 2.500% Due 04-15-26	96.45	144,670	96.10	144,156	0.32	3,750	167	3.02
150,000	LOWE'S COS INC 3.100% Due 05-03-27	100.05	150,073	100.21	150,318	0.33	4,650	2,299	3.07
	Accrued Interest				39,806	0.09			
			4,646,286		4,636,503	10.27		39,806	

\* Callable security

# Portfolio Appraisal

## ALEUTIANS EAST BOROUGH

October 31, 2017



Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
<b>DOMESTIC LARGE CAP EQUITY FUNDS/ETF</b>									
93,000	FLEXSHARES QUAL DIV ETF	39.75	3,696,629	42.56	3,958,080	8.77	NA		
53,991	VANGUARD INST'L S&P500 INDEX FUND	109.95	5,936,210	234.80	12,677,107	28.08	NA		
			9,632,839		16,635,187	36.84			
<b>DOMESTIC MID CAP EQUITY FUNDS/ETF</b>									
15,400	ISHARES CORE S&P MIDCAP 400 ETF	98.53	1,517,430	182.96	2,817,584	6.24	NA		
<b>INTERNATIONAL EQUITY FUNDS/ETF</b>									
73,550	ISHARES ETF CORE MSCI EAFE	49.31	3,626,882	65.25	4,799,137	10.63	NA		
<b>EMERGING MARKET FUNDS/ETF</b>									
40,750	ISHARES ETF CORE MSCI EMERGING MKTS	35.30	1,438,617	55.78	2,273,035	5.03	NA		
<b>REAL ESTATE</b>									
49,675	VANGUARD REIT ETF	58.73	2,917,458	82.20	4,083,285	9.04	NA		
<b>U.S. TREASURY</b>									
750,000	US TREASURY NOTES 1.125% Due 06-15-18	100.01	750,084	99.86	748,942	1.66	8,437	3,204	1.35
700,000	US TREASURY NOTES 0.875% Due 10-15-18	100.06	700,437	99.42	695,954	1.54	6,125	286	1.49
400,000	US TREASURY NOTES 1.500% Due 10-31-19	99.81	399,234	99.81	399,236	0.88	6,000	17	1.60
525,000	US TREASURY NOTES 3.500% Due 05-15-20	108.96	572,046	104.54	548,851	1.22	18,375	8,488	1.67
500,000	US TREASURY NOTES 1.375% Due 05-31-20	98.87	494,348	99.22	496,095	1.10	6,875	2,896	1.68
700,000	US TREASURY NOTES 1.625% Due 06-30-20	101.20	708,434	99.80	698,607	1.55	11,375	3,833	1.70
700,000	US TREASURY NOTES 2.125% Due 08-15-21	99.75	698,259	100.95	706,671	1.57	14,875	3,153	1.86
625,000	US TREASURY NOTES 2.000% Due 10-31-21	101.35	633,457	100.39	627,469	1.39	12,500	69	1.90
700,000	US TREASURY NOTES 1.750% Due 03-31-22	100.32	702,242	99.12	693,875	1.54	12,250	1,077	1.96
400,000	US TREASURY NOTES 2.500% Due 08-15-23	99.00	395,982	102.14	408,564	0.90	10,000	2,120	2.11

\* Callable security

# Portfolio Appraisal

## ALEUTIANS EAST BOROUGH

October 31, 2017



Quantity	Security	Average Cost	Total Average Cost	Price	Market Value	Pct. Assets	Annual Income	Accrued Interest	Yield to Maturity
250,000	US TREASURY NOTES 2.125% Due 11-30-23	98.54	246,357	99.92	249,805	0.55	5,312	2,238	2.14
450,000	US TREASURY NOTES 2.375% Due 08-15-24	100.23	451,020	101.00	454,518	1.01	10,687	2,265	2.21
650,000	US TREASURY NOTES 2.000% Due 08-15-25	97.16	631,537	97.93	636,571	1.41	13,000	2,755	2.29
500,000	US TREASURY NOTES 1.625% Due 02-15-26	102.28	511,387	94.76	473,810	1.05	8,125	1,722	2.32
250,000	US TREASURY NOTES 1.500% Due 08-15-26	99.48	248,691	93.34	233,340	0.52	3,750	795	2.34
250,000	US TREASURY NOTES 2.000% Due 11-15-26	97.14	242,861	97.12	242,792	0.54	5,000	2,310	2.36
100,000	US TREASURY NOTES 2.250% Due 02-15-27	100.24	100,242	99.03	99,035	0.22	2,250	477	2.37
	Accrued Interest				37,704	0.08			
			8,486,620		8,451,840	18.72		37,704	
<b>AGENCIES</b>									
200,000	FHLMC 1.700% Due 09-29-20	99.73	199,460	99.58	199,160	0.44	3,400	302	1.85
500,000	FEDERAL FARM CREDIT BANK 2.850% Due 04-24-25	100.00	500,000	99.77	498,870	1.10	14,250	277	2.88
	Accrued Interest				579	0.00			
			699,460		698,609	1.55		579	
<b>TOTAL PORTFOLIO</b>			<b>33,732,281</b>		<b>45,153,540</b>	<b>100</b>	<b>341,776</b>	<b>79,313</b>	

\* Callable security

# PERFORMANCE HISTORY

## GROSS OF FEES

### ALEUTIANS EAST BOROUGH

#### Gross of Fees

Time Period	Percent Return Per Period														
	Total Account	BLEND	Fixed Income	BARC INT G/C BENCH	Domestic Large Cap Equity	S&P 500 LARGE CAPS BENCH	Domestic Mid Cap Equity	S&P 400 MIDCAP BENCH	Int'l Equity	MSCI EAFE Index	Real Estate	S&P US REIT BENCH	Emerging Market Equity	MSCI EMERGING MARKET BENCH	
12-31-16 to 01-31-17	1.43	1.39	0.20	0.27	1.80	1.90	1.55	1.68	3.37	2.90	-0.27	-0.34	6.52	5.47	
01-31-17 to 02-28-17	2.25	2.39	0.35	0.46	3.95	3.97	2.48	2.62	1.30	1.43	3.51	3.73	2.03	3.06	
02-28-17 to 03-31-17	0.25	0.17	0.07	0.04	0.03	0.12	-0.40	-0.39	3.19	2.75	-2.44	-2.70	3.53	2.52	
03-31-17 to 04-30-17	0.94	0.99	0.56	0.62	0.87	1.03	0.80	0.84	2.71	2.54	0.24	0.01	1.90	2.19	
04-30-17 to 05-31-17	0.90	1.08	0.45	0.50	1.03	1.41	-0.44	-0.49	3.53	3.67	-0.72	-0.85	2.34	2.96	
05-31-17 to 06-30-17	0.60	0.51	-0.23	-0.18	0.73	0.62	1.58	1.62	0.38	-0.18	2.24	2.34	1.13	1.01	
06-30-17 to 07-31-17	1.58	1.64	0.42	0.46	1.91	2.06	0.89	0.88	2.81	2.88	1.24	1.12	5.50	5.96	
07-31-17 to 08-31-17	0.23	0.30	0.63	0.59	0.03	0.31	-1.53	-1.53	0.11	-0.04	-0.26	-0.38	2.31	2.23	
08-31-17 to 09-30-17	1.19	1.02	-0.46	-0.45	2.38	2.06	3.89	3.92	2.39	2.49	-0.11	0.11	0.02	-0.40	
09-30-17 to 10-31-17	1.06	1.16	-0.01	-0.01	1.84	2.33	2.27	2.26	1.68	1.52	-1.07	-1.17	3.17	3.51	
<b>Date to Date</b>															
12-31-16 to 10-31-17	10.92	11.16	1.99	2.33	15.49	16.91	11.53	11.88	23.60	21.78	2.25	1.73	32.16	32.26	