

ORDINANCE SERIAL NO. 19-06

AN ORDINANCE OF THE ALEUTIANS EAST BOROUGH AMENDING TITLE 6, CHAPTER 6.04, SECTION 6.04.041, SUBSECTION (E) OF THE ALEUTIANS EAST BOROUGH CODE OF ORDINANCES

WHEREAS, the legislative power of the Aleutians East Borough (“Borough”) is vested in its Borough Assembly under Alaska State Statute Sec. 29.20.050; and

WHEREAS, the Borough’s Permanent Fund was created by the Borough Assembly in 1990; and

WHEREAS, Sec. 6.08.010 of the Code of the Aleutians East Borough of Alaska sets forth the investment policy and objectives for Borough monies; and

WHEREAS, under Sec. 6.08.010(C) of the Code, all Borough “investments shall be diversified to minimize the risk of loss”; and

WHEREAS, Sec. 6.04.041(E)(1) currently says fund assets may be invested in the instruments and securities set out in Code Section 6.08.030 and in the following securities:

- (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor’s 500 Index, including both mutual funds and exchange traded funds (ETF’s).
- (b) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantial similar Index, including both mutual fund and exchange traded funds (ETF’s).
- (c) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT Index or the Cohen & Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF’s).
- (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor’s 400 Mid Cap Index, including both mutual funds and exchange traded funds (ETF’s).
- (e) Emerging markets equity index funds, which taken as a whole, attempt to

replicate the Morgan Stanley Capital International Emerging Markets or a substantially similar Index, including both mutual funds and exchange traded funds (ETF's).

WHEREAS, Sec. 6.04.041(E)(2) currently says the asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
Domestic Equity	36	30-50
Mid Cap. Equity	5	0-10
International Equity	10	5-15
Real Estate Equity	10	5-15
Fixed Income	34	25-60
Emerging Markets	5	0-10

WHEREAS, Section 6.04.041(E)(3) currently says the Performance of investment advisors will be measured as follows:

- (a) Performance measurement for the Domestic Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 500 as the Benchmark.
- (b) Performance measurement for the Mid/Small Cap Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 400 Mid Cap Index as the Benchmark.
- (c) Performance measurement for the International Equity Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantially similar Index for the Benchmark.
- (d) Performance measurement for the Real Estate Allocation will be measured against the Target weighting using the Standard & Poor's REIT Index for the Benchmark.
- (e) Performance measurement for the Fixed Income Allocation will be measured against the Target weighing using the Lehman Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.
- (f) Performance measurement for the Emerging Market Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Emerging Market (MSCI Emerging) or a substantially similar Index for the Benchmark.

WHEREAS, pursuant to Sec. 6.04.041(E) “[n]otwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principle while maximizing total return”; and

WHEREAS, this amendment to Sec. 6.04.041(E) is consistent with Sec. 6.08.010(C) and Sec. 06.04.041(E) and is intended to ensure Borough permanent fund account investments be made to maintain safety of principle while maximizing total return.

NOW THEREFORE, BE IT ENACTED AS FOLLOWS:

Section 1. That Section 6.04.041 (E) of the Borough Municipal Code is hereby amended to read as follows:

E. **Investments – Purpose and Limitations.** A purpose of the permanent fund is growth through prudent investment of fund assets. Notwithstanding the objectives of the Borough policy for the investment of its operating and other funds set out in Code Section 6.08.010(C), the investment of permanent fund assets shall be made to maintain safety of principal while maximizing total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution or, with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in Code Section 6.08.030 and in the following securities:

- (1)
 - (a) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor’s 500 Index, including both mutual funds and exchange traded funds (ETF’s).
 - (b) International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantial similar Index, including both mutual fund and exchange traded funds (ETF’s).
 - (c) Equities, which taken as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT Index or the Cohen & Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF’s).
 - (d) Domestic Equities, which taken as a whole, attempt to replicate the Standard & Poor’s 400 Mid Cap Index, including both mutual funds and exchange traded funds (ETF’s).
 - (e) Emerging markets equity index funds, which taken as a whole,

attempt to replicate the Morgan Stanley Capital International Emerging Markets or a substantially similar Index, including both mutual funds and exchange traded funds (ETF's).

(f) Global infrastructure equities, which taken as a whole, attempt to replicate the STOXX Global Broad Infrastructure Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

(g) U.S. Treasury Inflation Protected Securities (TIPS), and/or mutual funds or ETFs which attempt to replicate the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities Index, or a substantially similar index.

(h) Domestic equities, which taken as a whole, attempt to replicate the Standard & Poor's SmallCap 600 Index, or a substantially similar index, including both mutual funds and exchange traded funds (ETFs).

(i) Commodities, which taken as a whole, attempt to replicate a broad based commodity index, such as the Bloomberg Commodity Index or a substantially similar index, including mutual funds, exchange traded funds (ETFs) and exchange traded notes (ETNs);

(2) Permanent Fund asset allocation plan and performance measurement targets.

The asset allocation targets and ranges are as follows:

Asset Class	Target % Weighting	Range %
Domestic Equity	24	18-30
Mid Cap. Equity	7	2-12
Small Cap Equity	3	0-6
International Equity	10	5-15
Emerging Markets	5	0-10
Real Estate Equity	5	0-10
Infrastructure	5	0-10
Commodities	5	0-10
US Fixed Income	19	10-30
TIPS	10	0-15
Cash	5	0-10

(3)
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Performance of the investment advisors will be measured as follows:

(a) Performance measurement for the Domestic Equity Allocation will

be measured against the Target Weighting, using the Standard & Poor's 500 as the Benchmark.

(b) Performance measurement for the Mid/Small Cap Equity Allocation will be measured against the Target Weighting, using the Standard & Poor's 400 Mid Cap Index as the Benchmark.

(c) Performance measurement for the International Equity Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Europe Australasia and Far East (MSCI EAFE) or a substantially similar Index for the Benchmark.

(d) Performance measurement for the Real Estate Allocation will be measured against the Target weighting using the Standard & Poor's REIT Index for the Benchmark.

(e) Performance measurement for the Fixed Income Allocation will be measured against the Target weighing using the Bloomberg Barclays Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

(f) Performance measurement for the Emerging Market Allocation will be measured against the Target weighting using the Morgan Stanley Capital International Emerging Market (MSCI Emerging) or a substantially similar Index for the Benchmark.

(h) Performance measurement for the infrastructure allocation will be measured against the target weighting, using the STOXX Global Broad Infrastructure Index or a substantially similar index as the benchmark.

(i) Performance measurement for the U.S. Treasury Inflation Protected Securities (TIPS) allocation will be measured against the target weighting using the Bloomberg Barclays Capital U.S. Treasury Inflation Protected Securities 0-5 Index or a substantially similar index.

(j) Performance measurement for the small cap equity allocation will be measured against the target weighting, using the Standard & Poor's SmallCap 600 Index or a substantially similar index as the benchmark.

(k) Performance measurement for the cash/1—3 month treasuries will be measured against the target weighting, using the Citigroup 3-Month Treasury Bill Index or a substantially similar index as the benchmark.

(l) Performance measurement of the commodity allocation will be measured against the target weighting, using a broad based index such as the Bloomberg Commodity Index or a substantially similar index.

Section 2. **Classification.** This ordinance is of a general and permanent nature and shall become part of the Borough Code.

Section 3. **Severability.** If any provision of this ordinance or any application thereof to any person or circumstance is held invalid the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

Section 4. **Effectiveness.** This ordinance shall become effective upon adoption.

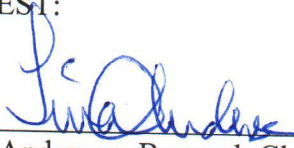
Section 5. **Adoption of Sections.** Code Section 6.04.041(E) is hereby repealed and Code Section 6.04.041(E) as annexed hereto as part of this ordinance is hereby adopted as Code Section 6.04.041(E) of the Code of Ordinances of the Aleutians East Borough

INTRODUCED: January 10, 2019

ADOPTED: February 14, 2019


Alvin D. Osterback, Mayor

ATTEST:


Tina Anderson, Borough Clerk

(SEAL)

