

2016



Trust
Land Office

ANNUAL REPORT
DIVERSIFY DEVELOP DEFEND

A MESSAGE FROM THE EXECUTIVE DIRECTOR



As the Trust's non-cash asset manager, the TLO is charged with husbandry of the non-cash corpus of the Trust. This portfolio, with a value in the billions, spans one million acres of raw land in Alaska, as well as commercial real estate holdings in Washington, Utah, and Texas. Although homogenous with regards to raw land, the TLO cultivates portfolio diversity through a myriad of land uses, geographic locations, and markets. Through the management of this portfolio, the TLO is actively involved in several diverse industries and has a meaningful impact on the state economy as a whole. The gross value of the products and services on Trust land account for roughly 1-2% of Alaska's \$50 billion economy. There are currently over 800 full time jobs paying above average wages located on Trust land in Alaska. In FY16, \$9.1 million of cash revenue was produced. In addition to the cash revenue, the Real Estate Investments produced \$2.0 million of additional accrual income for a total value generation of \$11.1 million.

Although the commodity markets have continued to decline during the last year, the Trust can, and must, take advantage of the natural swings in markets and look beyond the present to make strategic investments. Having initiated a plan to diversify the portfolio several years ago, we are well positioned to weather the economic turmoil facing the state as a whole. We are not, however, satisfied with simply weathering the storm; our mission is explicit that we must both protect trust assets and maximize revenue. The TLO has been directed by the Trustees to develop and implement a plan to quintuple the income revenue generated by the TLO within 20 years. In order to achieve this goal, the TLO is aggressively pursuing opportunities to produce revenue wherever they present themselves. Developing new streams of revenue is essential as all Principal producing activities have a finite lifespan. The Principal produced must then be reinvested or reallocated in assets that can more reliably move value through the income statement in the form of spendable Income revenue.

Reinvestment of Principal revenue back into the portfolio, through resource exploration, development of existing assets, and the pursuit of acquisitions are key elements of the TLO strategy to continue to shift the portfolio away from captured equity in the form of idle assets to one that produces stable, spendable income. The unlocking of captured equity and subsequent Principal reinvestment are the future of the TLO.

A handwritten signature in black ink that reads "John S. Morrison". The signature is fluid and cursive, with a long horizontal line extending from the end.

John Morrison
Executive Director



BACKGROUND

In 1956, the Territory of Alaska was granted an entitlement of one million acres of vacant, unappropriated and unreserved federal public lands for the purpose of providing income for mental health programs. Under the 1956 Alaska Mental Health Enabling Act, all lands and related income were to be “administered by the Territory of Alaska as a public trust and such proceeds and income shall first be applied to meet the necessary expenses of the mental health program of Alaska.” A public trust, called the Alaska Mental Health Trust Authority (the Trust), was subsequently established to provide Alaska with the resources to provide comprehensive, integrated mental health services. Prior to the establishment of this trust, there were few mental health services available to individuals who experienced mental illness or developmental disabilities.

The Alaska State Legislature was charged with the fiduciary responsibility to manage Trust lands, but gross mismanagement resulted in a class action lawsuit, filed in 1982. At that time, 65 percent of the Trust’s real property portfolio had been disposed of by the state. The Alaska Supreme Court ordered the restoration of the original land in 1984. Not all original lands were available and in 1994 a final settlement reconstructed the Trust with 500,000 acres of original Trust land, 500,000 acres of replacement land and \$200 million in cash. Together, these assets formed the original corpus (Principal) of the newly reconstituted Trust.

The settlement segregated management of Trust assets across multiple state agencies. The Alaska Mental Health Trust Authority was established within the Alaska Department of Revenue to administer the mental health programs. The management of land and other non-cash

assets — primarily composed of land, real estate, timber, materials and subsurface oil, gas, coal and minerals — was assigned to the Alaska Department of Natural Resources (DNR) and the newly created Trust Land Office (TLO). The TLO was created as an office within DNR in order to effectively manage non-cash Trust assets separately from those under state ownership. The Alaska Permanent Fund Corporation was assigned management of the cash corpus as a commingled percentage of the Permanent Fund, upon a contribution of such funds by the Trustees. A portion of the spendable income generated from the Permanent Fund is distributed to the Trust annually for programmatic purposes. The remaining funding required for beneficiary (individuals receiving Trust services) programs is generated by the TLO.

IDENTIFICATION AND DISTRIBUTION OF TLO REVENUES

Revenue-generating uses of Trust land include land leasing and sales; real estate investment and development; commercial timber sales; mineral exploration and production; coal, oil and gas exploration and development; sand, gravel and rock sales; and other general land uses.

Rents, fees and 15 percent of timber revenue from Trust land uses are considered “spendable income” and are available to The Trust for use in the following fiscal year. Land sale revenue, hydrocarbon and mineral royalties, and 85 percent of timber revenue are considered “principal” and must be invested in other principal assets.



22 YEARS OF REVENUE — IN BRIEF

TLO has changed significantly since its first year in FY95. For the first five years, 86 percent of revenue was derived through surface lands and timber (36 percent and 50 percent, respectively) and the average annual revenue was just under \$2 million. Revenue growth was rapid — by FY01 annual revenue was nearly \$8 million and would only dip below that twice in the next 14 years. While revenue increased briskly, a shift in the portfolio structure began in FY03; this marked the last year that timber revenue would earn more than all other TLO revenue sources. Timber's share of revenue continued to decline and revenue generated from surface lands increased rapidly. Between FY05 and FY09 surface land revenue generated 67 percent of TLO revenue. Timber had fallen to 18 percent, and the subsurface estate (coal, oil, gas, and minerals) had not yet begun to generate revenue significant enough to balance the portfolio. Large land sales would keep surface lands as the major source of revenue for several more years, but the share of revenue decreased as the TLO's portfolio diversity continued to improve. A productive gold mine, bonus bids for new coal and oil and gas leases, and a new real estate investment plan contributed to

a more balanced revenue environment and between FY11 and the current year, portfolio diversity changed dramatically. The TLO now relies more evenly on all asset classes; minerals, energy (coal, oil and gas), surface lands, real estate and timber generated over \$10 million in revenue collectively each year for the last three years.

The TLO structures planning around seven asset classes; land, minerals and materials, program-related real estate, forests, real estate, energy and mitigation marketing (FY15 was the first year that the TLO included mitigation marketing as its own asset class). Staff is structured within the following asset classes:

- Lands (land and mitigation marketing)
- Minerals and Energy (also includes materials)
- Forest Resources
- Real Estate

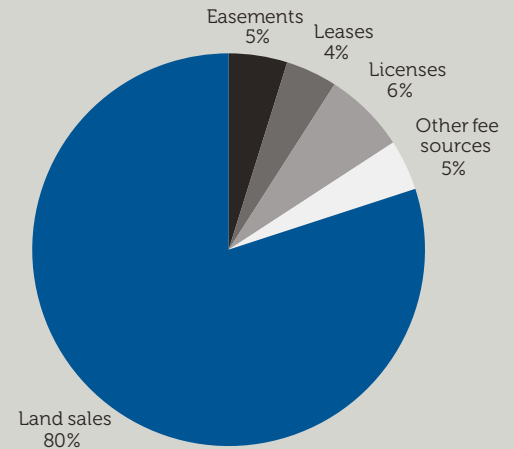
This report follows this structure.

LAND



Since 2012, the TLO has worked with the Matanuska-Susitna Borough (MSB) to authorize the construction and sale of that portion of the Port MacKenzie Rail Extension (PMRE) located on Trust land. The total PMRE Project consists of constructing 32 miles of new rail bed, eight miles of which traverse 195 acres Trust land. By working with the MSB and their contractors, the TLO ensured continued access to existing authorized land uses. The TLO also issued exploration licenses to MSB contractors to find material sources nearer to the PMRE Project, resulting in a 75,500 cubic yard material sale. In FY16, the TLO received an additional \$136,000 from MSB for the PMRE land sale, bringing the overall project revenue to \$392,028 over three fiscal years.

FY16 Percent of Revenues by Lands Segment



With just over a million total acres, the Trust Land Section manages nearly 600,000 acres that include all rights (fee simple), leaving the balance for which the Trust only maintains management of the subsurface estate. This ownership structure requires diligent analysis and constant interaction across TLO resource groups to determine the highest and best use of Trust land. Development and management of the surface estate is geared toward strategic, novel agreement structures favoring efficiency and scalability, as well as branching into new asset classes such as mitigation marketing.

The TLO generated \$2.5 million in total revenues during FY16 through management of the surface estate. This includes leases, land sales, interest on land sale contracts, and easements. The most significant portion of this revenue, 80 percent, is derived from sales through the Land Sale Program as well as various negotiated sales. It is important to note that since inception, \$70.5 million, or roughly 37 percent, of all TLO revenue has been derived through land sales, but less than 3 percent of the land has been sold. The TLO is effectively generating revenue through land sales and doing so prudently in order to effectively fulfill the Trust's goal of perpetuity.

Recognizing the increased costs and challenges of developing subdivisions in the boroughs because of their

requirements, the Lands Section has been focusing on lands outside the boroughs to expand its inventory. There will be more focus on land that requires little or no infrastructure to make saleable through negotiated sales or the Annual Land Sale Program. The TLO also offered its first land for sale in Yakutat at the end of the fiscal year to explore the market of this area.

The TLO holds two land sales each year, in the fall and spring, as part of the Annual Land Sale Program. The FY16 fall sale received bids of \$903,171.07 — a 15 percent premium above the minimum bid value of \$787,000. The FY16 spring sale received bids totaling \$639,658 — a 4 percent premium above the minimum bid value of \$613,100. The Spring Land Sale was the highest sale revenue for a second offering. In addition to generating Principal revenue, additional Income revenue is generated through the TLO's ability to offer financing contracts. Interest from these contracts generated \$391,701 in FY16.

Of special note, the TLO was able to sell six parcels to the community of Elfin Cove for \$143,000 through a negotiated sale, land the community has sought for many years. The TLO also will, at times, sell parcels that are critical for special projects. The TLO entered a purchase sale agreement for an easement in Edna Bay which is critical for certain road upgrades. Further effort was made to negotiate a sale to the Department of Military and Veterans Affairs for a veteran's cemetery/memorial near Fairbanks, but that has not yet resulted in a sale.

The TLO continues to bring more utility corridors under the Master Easement Agreement program, which is used for customers who have a need for multiple easements over a long period of time. Contract terms are negotiated up front and do not need to be renegotiated for each additional easement, making the leasing process more efficient for both the TLO and the client. This methodology is especially effective for clients that require linear easements (such as fiber optic cable, telecommunications, power, or trails) that will cross multiple parcels across large areas that plan to expand over time. Master Agreements have significantly increased revenues while reducing administrative cost to process and manage easements. There are currently four Master Agreements with eight linked easements totaling \$100,000 in annual rent and projected \$2.6 million in total revenue over their term. Seven utility easements are being evaluated during FY17. Other types of utility easements generated an additional \$12,700 of spendable income.

Demand for increased access to communication technology for voice and internet services increased development opportunities on Trust lands. Land leases for cellular tower sites with national and local communication companies generated \$34,000 in FY16. Agreements for both communication and utility infrastructure easements provide a long-term and stable source of spendable income for the Trust. Utility and telecommunication companies seeking to co-locate infrastructure on existing facilities require a separate or secondary easement agreement that enables the TLO to generate multiple sources of revenue from a single parcel of trust land.

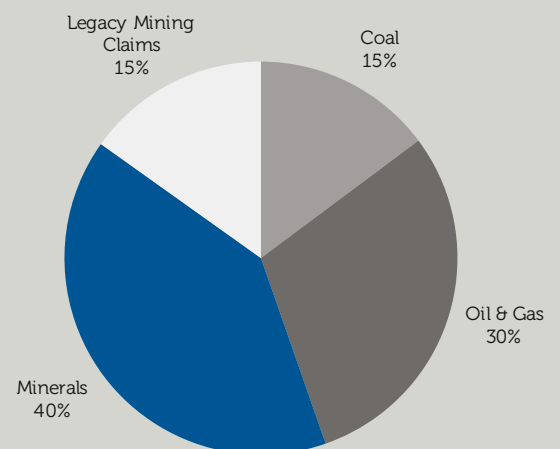
The TLO is also tasked with preserving and protecting the value of Trust resources. This can take the form of monitoring the cleanup of a contaminated site, removing solid waste resulting from unauthorized activities on Trust land, or asserting Trust ownership of disputed lands. This function can require extensive field work in addition to significant research efforts. Stewardship does not directly generate revenue, but is critical to preserving the revenue potential of Trust land. During FY16, the TLO worked with locals to clean up the Sowel Material Site to prepare for future operators. Also in Wrangell, in cooperation with the Department of Environmental Conservation, lead and other contamination that was placed on Trust lands in trespass was removed next to the Byford salvage yard. A clean up of a formerly used defense site is underway at Yakutat. Staff also began efforts to resolve the damage and destruction to survey monuments in Yakutat caused by a road maintenance project in the Yakutat subdivision.

Staff continues to evaluate possibilities to bring in revenue through mitigation marketing under the new asset class, and is exploring the potential for carbon credit sales. The focus on creating our own wetlands mitigation bank has lessened after balancing the risk and demand seen in Alaska. However, the TLO will continue to evaluate if there are specific projects on Trust land that we might be able to undertake through the DNR in-lieu mitigation program that has been approved by the Corps of Engineers.

MINERALS & ENERGY



FY16 Percent of Revenues by Minerals & Energy Segment



The Minerals and Energy Section identified the Icy Cape land block as prospective for placer gold and for associated heavy minerals as added value in gold exploitation. Minerals and Energy conceived, designed, and initiated the Icy Cape Gold and Industrial Heavy Minerals Project in July 2015. Designed as a staged and incremental effort, the project's focus is evaluation of potential for industrial heavy minerals (for example, garnet, zircon, and rutile) as co-products in gold exploitation.



The TLO manages natural resources that include coal, oil and gas, minerals, industrial minerals such as armor rock, sand and gravel; and industrial heavy minerals such as garnet, rutile, zircon, ilmenite and epidote. Continuing low commodity prices in FY16 have created challenges for companies operating in the oil and gas and mining sectors, making it difficult to attract new investment for exploration and development. In order to overcome this trend, the TLO adopted a more individually tailored methodology to attract resource companies. Staff quickly respond to market changes by adapting promotional methods and technical products to gain an advantage. They partner with industry to leverage financial resources and keep exploration on Trust land moving forward.

The Minerals and Energy section participated in the annual Mineral Exploration Roundup in Vancouver, British Columbia, which attracted over 5,400 attendees. TLO staff also participated in various national mining and exploration conventions and gave several presentations describing the exploration activities and opportunities that exist on Alaska Mental Health Trust Lands. TLO staff also presented and marketed mineral opportunities directly to key players in the industry. This visibility is expected to improve the field of competition for Trust leases and increase revenue over time.

In FY16, the TLO initiated the Icy Cape Gold and Industrial Heavy Minerals Project. Phase 1 of the project consisted of exploratory work at Icy Cape to evaluate the potential for development of gold and industrial heavy mineral resources. The elevated marine sand deposits and active beach sands contain garnet, rutile, ilmenite, zircon, magnetite, epidote, platinum-containing minerals, and placer gold. Recent work by the TLO demonstrates that the sands contain an average of 26% heavy minerals. Based on the successful outcome of Phase 1, the TLO will conduct Phase 2 in FY17 which will consist of bulk sampling to produce mineral concentrates to be used in testing, application, and marketing of these resources. Further work in FY17 will include a high-resolution, low-altitude aeromagnetic survey over the entire land block to detect areas of high concentration of heavy minerals that represent prime targets for testing for ore grade material. Completion of Phase 2 work would then lead to a drilling program to further delineate the resources on the property. The TLO is in dialog with global heavy minerals mining companies and producers of industrial mineral products to promote development of this unique mineral property and to develop a market for its unusual variety of valuable industrial mineral species. Infrastructure

remaining from timber harvest activities, such as tidewater access, a road system, and an airstrip, will facilitate the development of this remote area.

In Fairbanks, the Fort Knox Mine poured its seven millionth ounce of gold during its twentieth year of operation. Both of these are milestones achieved well beyond the original projected mine life of this project. Fairbanks Gold Mining, Inc., the operator of the mine, estimates over two million ounces of gold remain in reserve at the site, with the current life of the mine extended out to 2020. The company continues to explore the surrounding area and hopes to push the mine's expiration date out even further.

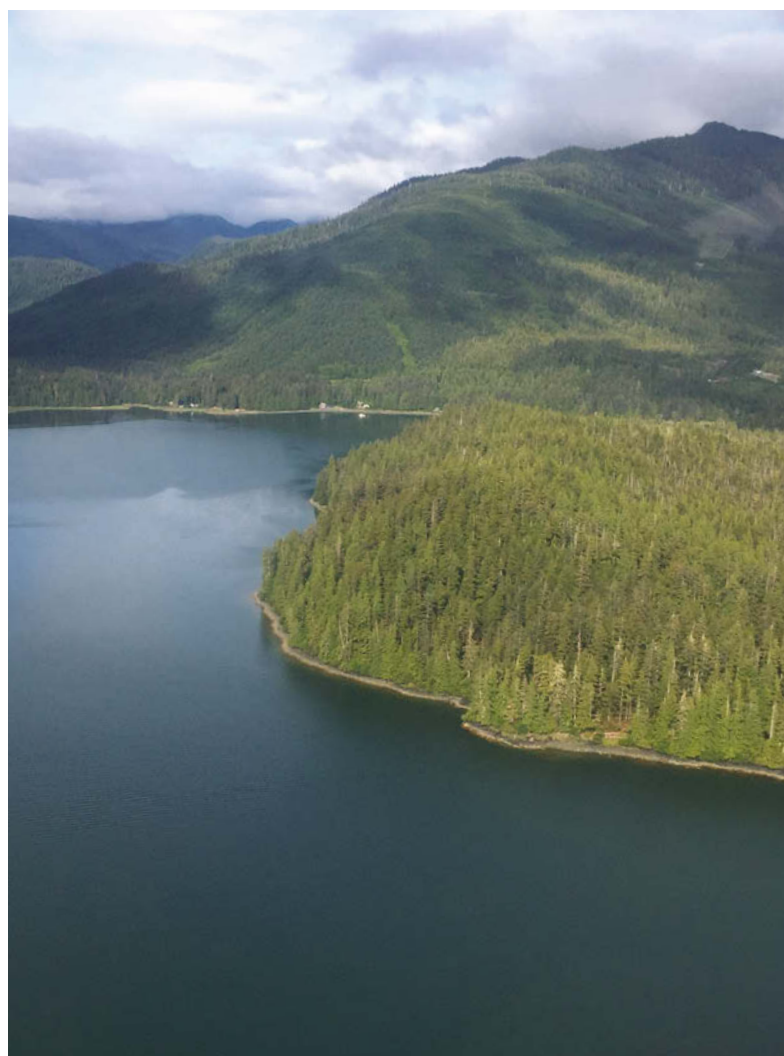
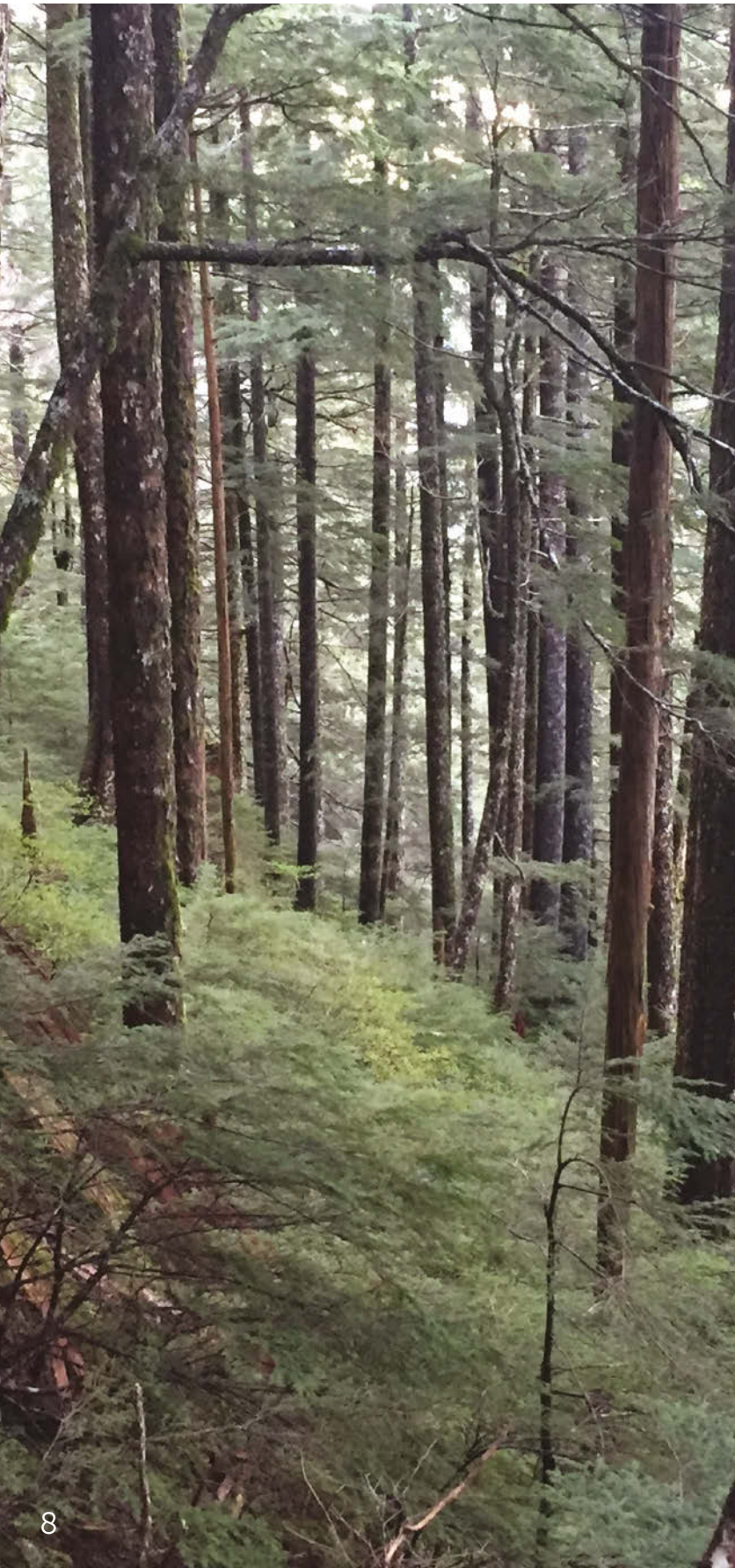
At Livengood, work continues to optimize the proposed mining and milling operations to make the project more economic. However, the current price of gold makes the operation cost prohibitive, despite projected gold reserves that have been discovered there to be in excess of twice the amount of gold that has been mined at Fort Knox.

Constantine Metal Resources (Constantine) conducted exploration work on the "Haines Block" focusing on regional target generation and the extension of the Palmer VMS Cu-Zn-Au-Ag deposit onto adjacent Trust lands. Main exploration activities included drilling, reconnaissance geochemical sampling, geological mapping, and environmental baseline studies.

The TLO continues to hold discussions with Constantine regarding conversion of the core federal claim block within the Palmer Project to a Trust upland mining lease. This claim block contains the above referenced VMS deposit, and would add 3,200 acres to the Trust portfolio if converted to Trust land. In addition, the conversion would facilitate the mine development by changing primacy for permitting from the federal Bureau of Land Management to the state Department of Natural Resources.

The Kenai Loop Gas Field continued to operate smoothly and efficiently, producing a consistent payout of production royalty to the Trust. The field is in its fifth year of production, and although tests performed by the operator confirmed a somewhat larger gas reserve than what was originally estimated, it is anticipated that compression facilities will be required in the near future to optimize gas production from the field. Royalty payments received during FY16 were nearly \$2 million.

FOREST RESOURCES



The Trust owns close to 250,000 acres of timbered lands. These lands range for a thousand miles from near the southern edge of Alaska, near Ketchikan; to Livengood, north of Fairbanks. The timber on these lands is as diverse as the landscape they are located upon.

The TLO timber inventory program has utilized several resources to inventory and identify its timber assets. One resource includes the Forest Stewardship program administered by State and Private Forestry. This plan assists landowners in developing a long-term management plan for specific holdings. To date, stewardship plans have been developed for two major timber blocks and a third is in process.

The TLO has had a successful timber sale program for over 20 years, generating about \$43 million of revenue since its inception. These funds are split between principal, 85 percent; and income, 15 percent. The program goals, objective and management criteria are outlined in the Forestry section of the Trust Land Office, Resource Management Strategy, January 2016. The Resource Management Strategy is updated regularly to reflect the latest environmental, marketing, management and development opportunities and issues associated with the timber sale program.

The most valuable timber assets held by the Trust are located in southeast Alaska. The Trust has harvested most of the timber located in the more remote parcels. There are several areas with significant timber that are in close proximity to communities where more opposition to logging is expressed by local residents. These holdings have been included in the proposed AMHT-USFS Land Exchange to trade for more remote lands that would not receive the same type of opposition. Senator Murkowski introduced the bill S.3006, Alaska Mental Health Trust Land Exchange of 2016, in May 2016. This legislation will expedite the land exchange and save the Trust considerable money and resources in completing the Federal Land Exchange process. It is expected to be passed in November or December 2016. Staff continue to spend considerable time working with the USFS, congressional staff, and contractors to respond to inquiries and resolve issues related to this effort.

The TLO worked with other State entities to develop timber resources in Haines in 2016. The University of Alaska (UA) and the Division of Forestry (DOF) along with the AMHT

have significant timber holdings in the Haines Area. The Trust has an ongoing small timber sale program geared to local manufacturers in the area. The DOF has a substantial timber sale of 20 million board feet that could be sold in Haines, the UA has similar volumes, and the Trust also has substantial volumes. The primary challenge in developing a successful large timber sale is the lack of infrastructure. The Constantine mine and other major projects may provide a suitable docking facility for movement of bulk materials. If so, the TLO will move forward with these projects alongside other landowners.

Staff continues to look throughout the State for forested areas that can provide revenue. Timber revenues in FY16 were very low due to limited activity of Trust timber sales. There were two active sales under contract; the Kasaan Timber Sale Addition, MHT 9100666 and Icy Bay, MHT 9100698. Depressed markets resulted in low activity on the Trust sales, even on the contracted sales. Timber receipts in FY16 were \$12,344 (3 percent of Goal), revenue from timber sales by the TLO are split 85 percent (\$10,492) to principal and 15 percent (\$1,852) to the income account. This is the first time that revenue from timber has fallen short of projections in several years. FY17 is projected to be \$900,000. The Cat Island Helicopter Sale, MHT 9100814 will be harvested by Alcan Forest Products in July, 2016 and provide over \$500,000 in revenue. Kasaan Timber sale is also scheduled to provide about \$400,000 in revenue the fall of 2016. In addition to timber sales, the TLO received over \$100,000 in FY16 revenue from the use of the Tolstoi Timber Sort Yard operations. That is income, versus principal, because it is land use rather than sale of the timber.

The TLO sold the Icy Bay Timber Sale, MHT 9100698, to Sealaska Timber Corporation in FY14. This sale is expected to contribute between \$8 and \$10 million to the Trust. Sealaska has done limited work there and has had a watchman on site most of the summer of 2016. They plan on brushing the road and doing timber sale layout during the first half of FY17. Sealaska has been helpful in TLO mineral exploration in the area. A contractor is expected to be hired in late FY17, with operations commencing shortly afterwards. The Trust will see revenue in FY18 under this scenario. This contract alleviated on-going maintenance issues experienced by the TLO at Icy Bay.

REAL ESTATE



North Park Corporate Center in San Antonio, Texas was purchased in September, 2015. The Trust acquired three buildings of a five building corporate campus in the vibrant North Central submarket. The location offers convenient access to US Highway 281 and has close proximity to the San Antonio International Airport, dining, shopping, lodging, entertainment and service amenities. The buildings consist of 86,000 SF and include strong credit and international tenants such as Marriott International and Vitromex USA, Inc. The property is expected to generate \$450,000 per year of spendable income revenue to the Trust.

Real Estate management is segregated into three management areas; Real Estate Development (development of existing surface estate for investment), Program-Related Real Estate (real estate program for beneficiary purposes), and the Real Estate Management Plan (acquisition of new real estate for investment). Each distinct focus area requires a distinct strategy.

REAL ESTATE DEVELOPMENT

Vacant Trust land in high value areas — such as the 'U-Med' district in Anchorage and the 'Support' in Juneau — continue to provide unique opportunities for revenue as unencumbered land continues to increase in value. The

TLO may invest in these areas and work with a developer (risk sharing) or enter into a long-term (50+ years) lease with developers (low risk). Additionally, vacant holdings in high value areas may be lacking basic infrastructure. The TLO has worked with the Alaska Department of Transportation to gain a delegation of construction authority necessary to let contracts out state work. In FY16 the TLO completed a bid and contract letting for a parcel improvement project in the U-Med District. This is another example of increasing the value proposition of these holdings through in-house development initiatives.

The TLO may also consider partnership opportunities where the risk of development would be shared, leading to greater future revenues; or may collaborate with local municipalities, cities, boroughs, or towns to identify improvements of mutual interest; or in some cases to evaluate adjacent developments to confirm they do not negatively affect Trust holdings. In FY16 the Trust was a collaborator with the City and Borough of Juneau on its capital improvements to Whittier Street, which is the central corridor providing access to the Trust's Subport holdings. Additionally, the TLO collaborated with the Municipality of Anchorage on its proposed Yosemite Drive Upgrade Project in Eagle River, Alaska. This project has the potential to deliver water service to Trust holdings that were formerly unserved. Additionally, the TLO continues to provide input on other aspects of the design in an effort to achieve an end project that will maximize benefit to the Trust.

Real Estate Development agreements generated approximately \$475,000 of spendable income revenue in FY16.

The TLO manages multiple surface leases throughout the state and strives to establish additional long-term surface leases capable of generating additional spendable income for the Trust.

PROGRAM-RELATED REAL ESTATE

The Trust continues to evaluate the acquisition of real estate assets for the specific purpose of serving Trust beneficiaries and/or Trust programs where applicable. This type of real estate asset is referred to as a Program Related Investment or PRI. Trust staff, working on behalf of a beneficiary group, may bring a proposal to the TLO for real estate consideration. Proposals may identify the need to acquire select properties and/or the need to identify a parcel of Trust land that would be appropriate for the development of a beneficiary program or facility. TLO staff provides technical and professional assistance and service to Trust staff by identifying existing Trust land or

other available land for potential consideration by Trust staff and/or the board of trustees. Ultimately, the use of existing Trust assets or acquisition of new assets for beneficiaries need be considered by both the board of trustees and the TLO. Real estate considered for use for these purposes is managed by the TLO.

Specific to Alaska's largest real estate market, the Municipality of Anchorage is underway with its planning effort for the update of the Anchorage 2020 Comprehensive Land Use Plan. The refresh of this planning tool will be renamed as Anchorage 2040. Early studies completed in an effort to support the update continue to forecast an overall shortage of available lands to support Anchorage's needs for economic and residential growth. This shortage will put additional pressure on program-related user groups in need of real estate space; and as such, the TLO anticipates a continued, and potentially increased inquiry from programmatic sources looking to address their real estate needs. The Trust is working to put additional resources in place to help meet this need.

PRI assets remain largely unchanged from FY15. These include the Fairbanks Enhanced Detox Facility and an office building in East Anchorage that houses Trust Authority operations, the Long Term Care Ombudsman, Bloom Alaska Healthcare Services, LLC and classroom space for the Anchorage School District as well as FY15 acquired assets including:

- Fahrenkamp Center, a Fairbanks residential diagnostic treatment center that provides services to children ages 6-12 as part of the Bring the Kids Home program. This building will become vacant in early FY17.
- Denardo Center, a currently vacant building in Fairbanks, planned to house mental health programs in the future.
- The Assets Building, an Anchorage job training and employment center for beneficiaries.

REAL ESTATE INVESTMENT

The Alaska Mental Health Trust continues with its long-term strategy implemented in FY12 to mitigate risk in the Trust's holdings through geographic and property type diversification. Acquisitions of stabilized, commercial income properties continue to be pursued in Alaska, Utah, Washington and Texas.

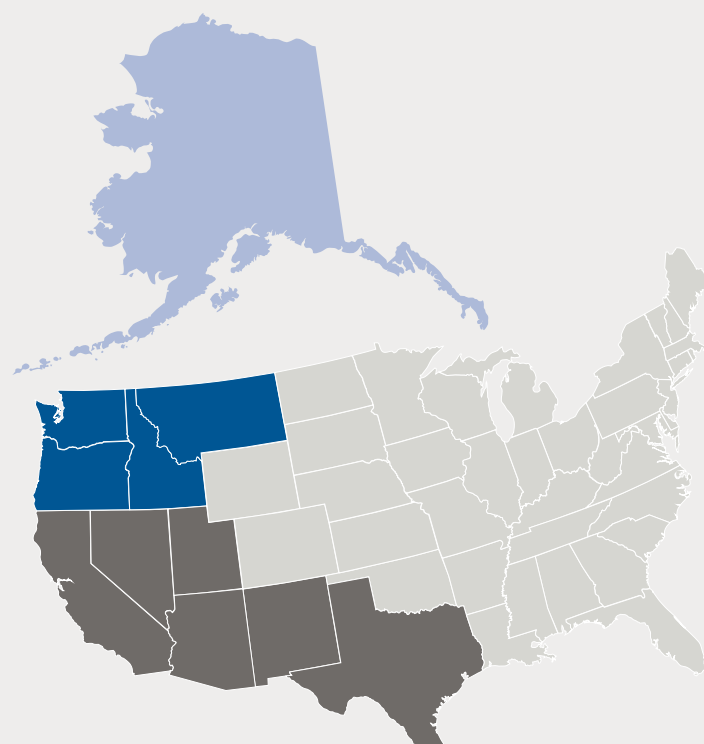
FY16 included a new acquisition supporting the continuation of our investment strategy of seeking quality and well-positioned properties. In total, the completion of this new acquisition added five new stable, credit-worthy tenants, located in one of the fastest growing markets in the Lower 48.

Since inception of this strategy, real estate assets have generated \$9,395,020 of cash flow. At the close of FY16, the Trust's real estate investment assets totaled 380,000 SF, with an estimated market value of \$69,512,801. During FY16, this included an acquisition completed in San Antonio, Texas at the North Park Corporate Center. The North Park acquisition added 86,401 SF to the investment portfolio. This three building complex is fully leased with long-term agreements and is located in an emerging business district in the San Antonio area.

Real estate investment generated nearly \$1.1 million of distributed cash flow in FY16.

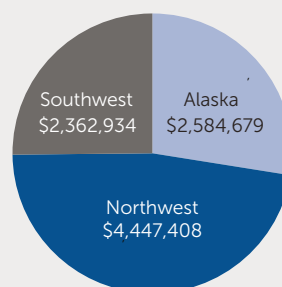
Portfolio as of June 30, 2016			
Asset Basis	68,086,845		
Asset Appreciation/(Depreciation)	1,425,956		
Current Asset Value	69,512,801		
- Debt	35,542,879	48.87%	
= Equity	33,969,922	51.13%	

FY16 Returns			
Cash Flow From Operations	\$3,490,979	11.85%	
Appreciation - Unrealized Gains	\$1,104,219	3.75%	
Total Return	\$4,595,198	15.6%	

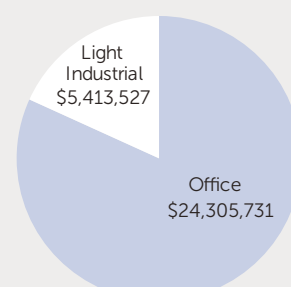


Data below is inception to date as of June 30, 2016.

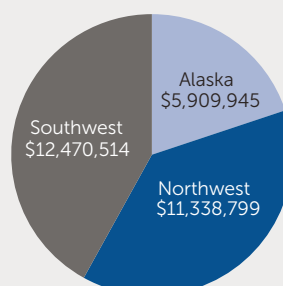
Cash Flow Since Inception
by Geographic Area



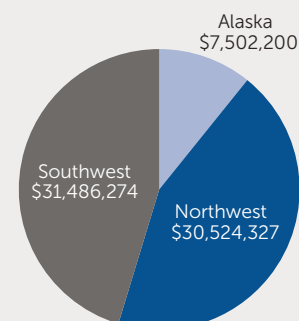
Allocation by Business Type
Principle Investment



Area Allocation
Principle Investment



Allocation by Area
Asset Value





LAND EXCHANGE

The TLO engaged in the administrative process of a potential land exchange with the US Forest Service (USFS) with the Agreement to Initiate signed in June, 2015. However, in May 2016, Senator Murkowski introduced the Alaska Mental Health Trust Land Exchange bill S.3006. Because it is expected to expedite the exchange, the TLO has focused attention on supporting efforts to get the bill through Congress by January 2017. The exchange has taken on a greater importance to the communities of SouthEast Alaska as available timber supplies have diminished and the timber operators plan to leave Alaska if they do not have sufficient timber supplies within two years. It is essential to get the exchange consummated as quickly as possible to allow the TLO to offer more timber sales to bridge the supply demand until the state and the USFS are able to supply more young growth timber.

This equal value exchange consists of roughly 18,000 acres of Trust land and 21,000 acres of federal land located within the Tongass National Forest. The Trust acreage is located in areas of high recreation, viewshed and subsistence value near communities along the Inside Passage. If successful, the Trust would receive approximately 21,000 acres of developable land in more remote areas of Prince of Wales Island and Shelter Cove. The parcels that were identified for the exchange were the culmination of several years of collaborative work between the Trust, USFS, state, communities, environmental groups, and others. The legislative proposal closely aligns with the parcels identified in the Agreement to Initiate.



2016 REVENUE SUMMARY

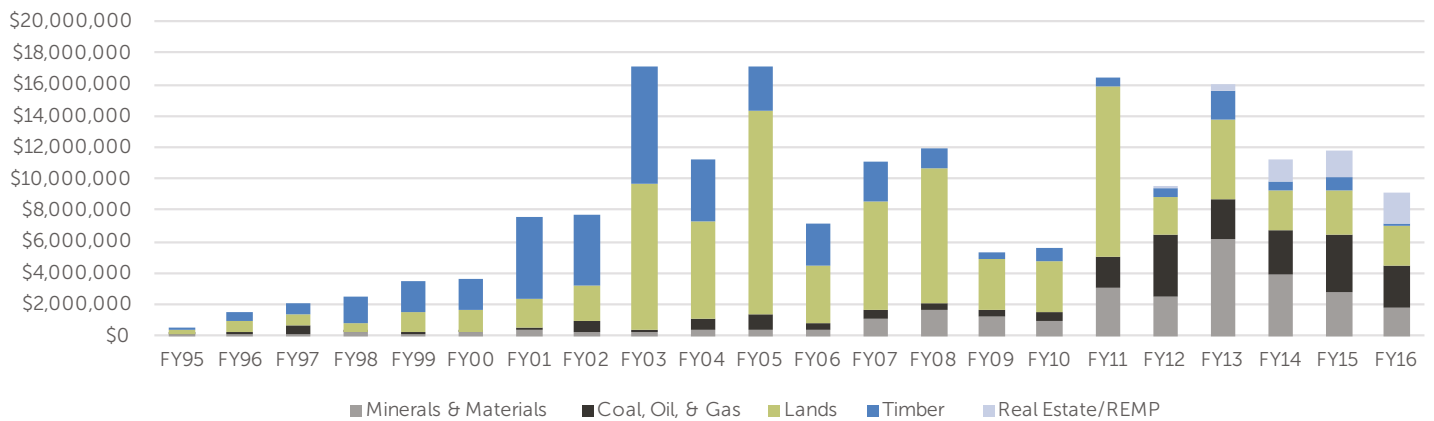
Principal	Actual	(Under)/Over	Annual Goal	% Annual Goal
Coal	-	-	-	-
Oil & Gas	2,182,024	334,024	1,848,000	118%
Minerals	1,334,768	(665,232)	2,000,000	67%
Materials	5,000	(304,000)	309,000	2%
Timber	10,492	(244,508)	255,000	4%
Land	1,631,570	431,570	1,200,000	136%
REMP	-	-	-	-
Real Estate	-	-	-	-
Total	\$5,163,854	\$(448,146)	\$5,612,000	92%

Income	Actual	(Under)/Over	Annual Goal	% Annual Goal
Coal	140,049	(123,951)	264,000	53%
Oil & Gas	282,503	(133,797)	416,300	68%
Minerals	518,449	(17,451)	535,900	97%
Materials	-	-	-	-
Timber	114,546	69,546	45,000	255%
Land	891,100	(9,400)	900,500	99%
REMP	1,309,342	(90,658)	1,400,000	94%
Real Estate	694,388	126,588	567,800	122%
Total	\$3,950,377	\$(179,123)	\$4,129,500	96%

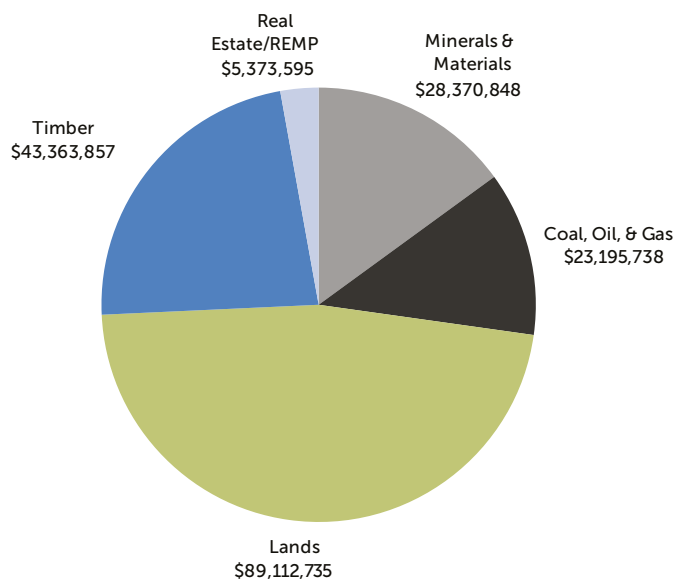
Total	Actual	(Under)/Over	Annual Goal	% Annual Goal
Coal	140,049	(123,951)	264,000	53%
Oil & Gas	2,464,527	200,227	2,264,300	109%
Minerals	1,853,218	(682,682)	2,535,900	73%
Materials	5,000	(304,000)	309,000	2%
Timber	125,038	(174,962)	300,000	42%
Land	2,522,670	422,170	2,100,500	120%
REMP	1,309,342	(90,658)	1,400,000	94%
Real Estate	694,388	126,588	567,800	122%
Total	\$9,114,231	\$(627,269)	\$9,741,500	94%



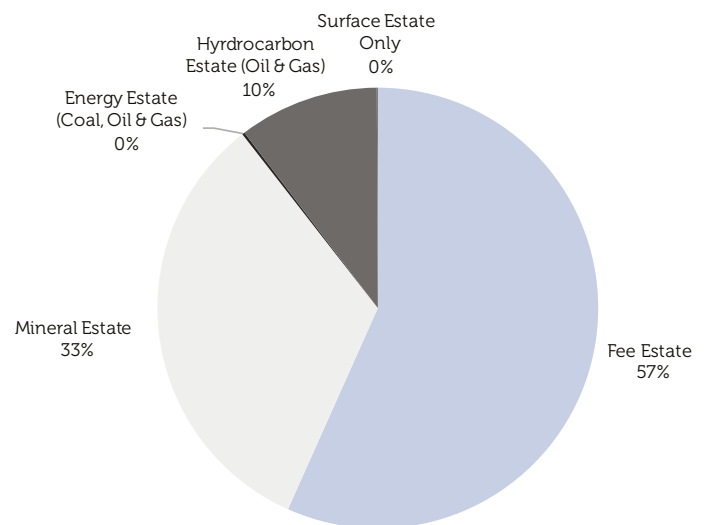
Annual Revenue FY95-FY16



Total Revenue by Asset Class Since Inception



Land Rights by Acre





ON THE HORIZON

The board of trustees approved the acquisition of two new real estate properties. Amber Oaks, located in Austin, Texas, is a multi-tenant office located in a corporate campus in one of the strongest submarkets of Austin. The other is a proposed joint venture with Panattoni in Everett, Washington to develop a warehouse/distribution center ideally located near the Port of Everett, interstate highway exchange and rail. The TLO expects both of these acquisitions to be finalized in FY17.

The TLO continues to evaluate potential mitigation opportunities as part of the newly established Mitigation Marketing asset class. After further review of the options, staff are exploring carbon credit markets and the potential for specific projects that might be developed under the umbrella of the newly established in-lieu mitigation program created by the State of Alaska. The TLO will also consider mitigation tools that are directly related to key development projects as they are initiated.

The TLO continues development of subdivisions that require little capital for improvements and that will generate strong returns. The TLO is also targeting key individual parcels for sale that have strong potential demand.

The TLO will evaluate bulk samples obtained at Icy Cape and begin planning a future drilling program to further refine the distribution, quality, and quantity of the heavy mineral resource. Active marketing will continue to acquire appropriate business partners to effectively develop this resource.

Sealaska Regional Corporation will begin engineering their timber harvest at Icy Bay on Trust lands during FY17. This harvest activity will further benefit the mineral development potential at Icy Bay.

Sealaska Regional Corporation (Sealaska) received 68,500 acres of federal timberlands concluding their outstanding land entitlement under the Alaska Native Claims Settlement Act. This will provide Sealaska sufficient timberlands to operate well in to the future; the development of the Icy Bay timber sale could be postponed while Sealaska harvests its own timber. Their increased activities provide novel opportunities for revenue generation, such as a license for use of the Tolstoi sort yard on Trust land. This agreement is anticipated to generate nearly \$200,000 of Income revenue annually starting in FY17.

AVAILABLE

4.5 Acres Divisible

ZONING: R-O SL



Trust
Land Office

907.269.8658



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