Alaska Mental Health Trust Authority

September 5, 2018
General Market Overview

Markets continued their positive performance throughout FY18

**Fixed Income**
- US rates continued to rise with push from Federal Reserve Bank
- Flattening of the yield curve
- Concerns over mounting trade tensions and slower global growth keeping yields suppressed

**Public Equities**
- US Stocks
  - S&P 500 Index up 13.8%
- International Stocks
  - MSCI AC World Index up 8.4%

**Private Markets**
- Continues to be a leading contributor to growth
- Hedge Fund portfolio designed to be uncorrelated to market
- Designed to maximize risk adjusted returns

**Real Estate**
- Continued positive returns in the real estate market
- NCREIF Property Index up 5.88%
- Strongest sector continues to be industrial
Asset Allocation Structure

**Growth**
- **Tradeable/Liquid**
  - Public Equities (Stocks)
- **Illiquid**
  - Private Equity
  - Absolute Return
  - Allocation Strategies

**Income**
- **Tradeable/Liquid**
  - Fixed Income Plus (Bonds)
  - Cash
- **Illiquid**
  - Real Estate
  - Infrastructure
The Portfolio

Allocation as of 6/30/2018

- Public Equities: 41%
- Fixed Income Plus: 6%
- Private Equity & Income Opportunities: 6%
- Real Estate: 6%
- Infrastructure, Credit, & Income Opportunities: 12%
- Asset Allocation Strategies: 10%
- Absolute Return: 4%

Target Allocation FY19

- Public Equities: 38%
- Fixed Income Plus: 11%
- Private Equity & Income Opportunities: 7%
- Real Estate: 12%
- Infrastructure, Credit, & Income Opportunities: 12%
- Asset Allocation Strategies: 5%
- Absolute Return: 5%
Performance FY18

APFC Total Fund Cumulative Returns

Total Fund versus Total Fund Targets

Returns for Periods Ending June 30, 2018

- Current Total Fund Benchmark = 39% MSCI ACWI IMI, 1.1% 90 Day T-Bills, 1.1% BB US TIPS, 5.5% BB Agg, 5.5% BB Credit, 2.2% BB Global Treasury ex-US Hedged, 0.55% JPM EMBI Global Diversified, 0.55% JPM GBI-EM Global Diversified TR, 2.2% BB US High Yield 2% Issuer Cap 2.2% S&P Global REIT, 1.1% S&P Global Listed Infrastructure, 11% Cambridge PE (lagged), 11% NCREIF Total Index (lagged), 3.6% FTSE Developed Core Infrastructure (lagged), 2.4% BB US High Yield 2% Issuer Cap (lagged), 5% HFRI Total HFOF Universe (weighted), 2% 90 Day T-Bills, and 4% Performance Benchmark (rounded to nearest tenth).

Source: Callan
### Performance Past 20 Years

#### APFC Total Fund Cumulative Returns

*Total Fund versus Total Fund Targets*

<table>
<thead>
<tr>
<th></th>
<th>Last 3 Years</th>
<th>Last 5 Years</th>
<th>Last 10 Years</th>
<th>Last 20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns</td>
<td>7.96</td>
<td>7.08</td>
<td>8.91</td>
<td>6.49</td>
</tr>
<tr>
<td></td>
<td>6.83</td>
<td>6.55</td>
<td>6.54</td>
<td>6.41</td>
</tr>
<tr>
<td></td>
<td>6.49</td>
<td>5.90</td>
<td>6.43</td>
<td>5.63</td>
</tr>
<tr>
<td></td>
<td>5.63</td>
<td>5.98</td>
<td>5.63</td>
<td>7.20</td>
</tr>
</tbody>
</table>

*Returns for Periods Ending June 30, 2018*

*Current Total Fund Benchmark = 39% MSCI ACWI IMI, 1.1% 90 Day T-Bills, 1.1% BB US TIPS, 5.5% BB Agg, 5.5% BB Credit, 2.2% BB Global Treasury ex-US Hedged, 0.55% JPM EMBI Global Diversified, 0.55% JPM GBI-EM Global Diversified TR, 2.2% BB US High Yield 2% Issuer Cap 2.2% S&P Global REIT, 1.1% S&P Global Listed Infrastructure, 11% Cambridge PE (lagged), 11% NCREIF Total Index (lagged), 3.6% FTSE Developed Core Infrastructure (lagged), 2.4% BB US High Yield 2% Issuer Cap (lagged), 5% HFRI Total HFOF Universe (weighted), 2% 90 Day T-Bills, and 4% Performance Benchmark (rounded to nearest tenth). Source: Callan*
## Growth (FY18 Returns as of 6/30/18)

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Equities</td>
<td>8.39%</td>
</tr>
<tr>
<td>Global Equities</td>
<td>11.51%</td>
</tr>
<tr>
<td>Domestic Equities</td>
<td>14.79%</td>
</tr>
<tr>
<td>Private Equity &amp; Special Opportunities</td>
<td>32.70%</td>
</tr>
<tr>
<td>Asset Allocation Strategies</td>
<td>2.58%</td>
</tr>
<tr>
<td>Absolute Return (Hedge Funds)</td>
<td>5.95%</td>
</tr>
</tbody>
</table>
### Income (FY18 Returns as of 6/30/2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income Aggregate</td>
<td>-0.41%</td>
</tr>
<tr>
<td>US Investment Grade Corporate</td>
<td>-0.72%</td>
</tr>
<tr>
<td>Non US Fixed Income</td>
<td>2.81%</td>
</tr>
<tr>
<td>Global High Yield</td>
<td>2.67%</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>-1.49%</td>
</tr>
<tr>
<td>TIPS</td>
<td>1.98%</td>
</tr>
<tr>
<td>REITS</td>
<td>5.84%</td>
</tr>
<tr>
<td>Cash</td>
<td>1.26%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>6.99%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>22.87%</td>
</tr>
<tr>
<td>Public/Private Credit</td>
<td>8.79%</td>
</tr>
<tr>
<td>Income Opportunities</td>
<td>1.90%</td>
</tr>
</tbody>
</table>
Alaska Permanent Fund Performance FY18

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value</th>
<th>FY18</th>
<th>3 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL FUND</td>
<td>$64.9</td>
<td>10.74%</td>
<td>7.96%</td>
<td>8.91%</td>
</tr>
<tr>
<td>Passive Index Benchmark</td>
<td>7.83%</td>
<td>6.49%</td>
<td>6.81%</td>
<td></td>
</tr>
<tr>
<td>Performance Benchmark</td>
<td>8.20%</td>
<td>7.08%</td>
<td>7.55%</td>
<td></td>
</tr>
<tr>
<td>Total Fund Return Objective</td>
<td>7.87%</td>
<td>6.83%</td>
<td>6.54%</td>
<td></td>
</tr>
<tr>
<td>PUBLIC EQUITIES</td>
<td>$26.7</td>
<td>11.72%</td>
<td>8.50%</td>
<td>9.52%</td>
</tr>
<tr>
<td>MSCI ACWI IMI Benchmark</td>
<td>11.14%</td>
<td>8.34%</td>
<td></td>
<td>9.60%</td>
</tr>
<tr>
<td>FIXED INCOME PLUS</td>
<td>$13.9</td>
<td>0.99%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PUBLIC INCOME Benchmark</td>
<td>0.86%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIVATE EQUITY &amp; SPECIAL OPPORTUNITIES</td>
<td>$7.2</td>
<td>32.70%</td>
<td>14.56%</td>
<td>23.84%</td>
</tr>
<tr>
<td>Cambridge Private Equity Benchmark</td>
<td>18.27%</td>
<td>12.66%</td>
<td></td>
<td>13.81%</td>
</tr>
<tr>
<td>REAL ESTATE</td>
<td>$3.9</td>
<td>6.99%</td>
<td>9.20%</td>
<td>9.99%</td>
</tr>
<tr>
<td>NCREIF Total Index Benchmark</td>
<td>7.22%</td>
<td>8.72%</td>
<td></td>
<td>10.00%</td>
</tr>
<tr>
<td>INFRASTRUCTURE, CREDIT &amp; INCOME OPPORTUNITIES</td>
<td>$4.4</td>
<td>16.68%</td>
<td>13.81%</td>
<td>12.02%</td>
</tr>
<tr>
<td>60% FTSE / 40% BC US corp HY Benchmark</td>
<td>4.49%</td>
<td>5.20%</td>
<td></td>
<td>6.65%</td>
</tr>
<tr>
<td>ABSOLUTE RETURN</td>
<td>$2.8</td>
<td>5.95%</td>
<td>3.28%</td>
<td>3.39%</td>
</tr>
<tr>
<td>Custom Absolute Return Benchmark</td>
<td>5.67%</td>
<td>5.73%</td>
<td>5.91%</td>
<td></td>
</tr>
<tr>
<td>ASSET ALLOCATION</td>
<td>$6.0</td>
<td>2.58%</td>
<td>2.25%</td>
<td>2.94%</td>
</tr>
<tr>
<td>Custom Asset Allocation Benchmark</td>
<td>5.89%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- All returns are annualized (for periods greater than one year) and provided by Callan Associates, Inc.
- For investments within Private Equity and Special Opportunities, Real Estate, and Infrastructure, Private Credit, and Income Opportunities asset classes, returns are lagged one (1) quarter.
FY18 Initiatives: Currency Overlay Program

- The Fund is exposed to foreign currency from both public and private investments in different asset classes around the globe
- APFC initiated an actively managed foreign currency exposure of $2 billion
- Mitigate adverse impact of foreign currency weakening
- Add value over benchmark by 100 bps per annum over a 3-5 year period
- Annual ex-post active risk expected to be 175-200 bps on average

- Benchmark is the currency component of return on the unhedged MSCI EAFE plus Canada index
- Program started September 2017
- Hedging shall be between 0%-100% per currency.
- Authorized instruments are foreign exchange spot and forward contracts of currencies in the MSCI EAFE plus Canada
- Program has reduced unwanted currency risk and added value through active management
FY18 Initiatives: 
Liquidity Overlay Program

• The Alaska Permanent Fund portfolio has exposure to cash within the portfolio due to a number of different factors:
  – Cash raised to fund annual appropriation(s);
  – Frictional cash held in equity manager accounts (2%-5%);
  – Cash generated by distributions from private markets portfolios;
  – Cash held in anticipation of funding capital calls for private markets portfolios.

• The long term expected return for cash is CPI plus 25 basis points, well below the targeted return for the overall portfolio.

• A liquidity overlay manager can use derivatives to “overlay” the cash held in the portfolio to achieve equity or fixed income market returns cheaply and efficiently.

• The cash overlay portfolio will target exposure of 65% MSCI ACWI index, and 35% Bloomberg Aggregate Bond index.
The overlay can be adjusted on a daily basis in reaction to the varying levels of cash in the underlying portfolio.

The process is mechanical in nature with the liquidity overlay manager following very specific guidelines with respect to the targeted exposures used in the overlay.

The program started in February 2018 with NISA Investment Advisors.

The cash with the overlay program should perform in line with the overall target asset allocation for the total fund and reduce the cash drag resulting from holding uninvested capital.

Source: Callan, Staff calculations.
Value of the AMHTA Assets Managed by APFC

<table>
<thead>
<tr>
<th>Year</th>
<th>AMHTA Value</th>
<th>Drawn Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14</td>
<td>460.86</td>
<td>-22</td>
</tr>
<tr>
<td>FY 15</td>
<td>461.83</td>
<td>-23.2</td>
</tr>
<tr>
<td>FY 16</td>
<td>445.18</td>
<td>-20</td>
</tr>
<tr>
<td>FY 17</td>
<td>501.26</td>
<td>-41.72</td>
</tr>
<tr>
<td>FY 18</td>
<td>509.75</td>
<td></td>
</tr>
</tbody>
</table>
Over the past 5 years, APFC has

- Beat the Passive Benchmark and Added Value of $4.7 billion to the Fund
  - By outperforming the Passive Index Benchmark (60 stocks | 30 bonds | 10 RE | 10 TIPs) by 2.10%
  - The Total Fund returned 8.91% vs 6.81% for the passive index.

- Improved Diversification
  - The risk of the Fund measured in realized volatility decreased by 24% (from 5.43 to 4.11).
  - Due to reduced volatility in the markets, and to APFC’s diversification efforts.

- Enhanced Fee Reporting for Greater Transparency
  - The Quarterly Investment Management Fee report is now posted on our website.

- Continued to Bring Management In-House
  - At the end of FY18, approximately 41% of the Portfolio was managed internally, which is up from 27% just 5 years ago.
AMHTA Real Estate Summary

- The Alaska Permanent Fund Corporation has been asked to consider assuming oversight of the Alaska Mental Health Trust Authority’s commercial real estate portfolio
  - In formulating our assessment, we have assumed that the Portfolio would be managed in a similar manner, using a similar mix of internal and external resources, as the APFC uses for its own portfolio
  - Under this arrangement, the APFC’s Board of Trustees would have ultimate responsibility for management of the portfolio with day-to-day activities delegated to APFC Staff under supervision of the APFC’s CEO
AMHTA Real Estate (continued)

- The asset profile of the AMHTA Portfolio does differ materially from the “typical” asset held in APFC’s real estate activities
  - AMHTA Portfolio includes seven assets valued at approximately $96.5 million (aggregate equity value of $50.8 million)
  - APFC Real Estate portfolio, by contrast, has an *average* gross asset value of close to $170 million
  - The AMHTA Portfolio is tilted toward smaller properties, of a less institutional profile, in many cases in secondary markets
  - The AMHTA Portfolio also has one asset with significant vacancy (2600 Cordova) and other assets with significant near-term lease expirations (in particular 1973 Rulon)
  - Given that most assets are valued with a broker opinion of value, we believe that there is a reasonably high level of valuation uncertainty with respect to the Portfolio
  - It is worth highlighting that the APFC approach to portfolio management will add some cost that is more material to these smaller properties than it is when applied to larger assets in the APFC portfolio (if each of these services were applied to the AMHTA portfolio)
AMHTA Real Estate (continued)

- Key third party service providers retained by APFC for its real estate portfolio that could be utilized for the AMHTA properties:
  
  i. Professional appraisal conducted annually under oversight of Cushman & Wakefield as an independent appraisal consultant,
  
  ii. Annual financial audit of each property, and
  
  iii. Oversight of the overall portfolio by a third party fiduciary manager / advisor
AMHTA Real Estate – Advisor Proposals

In preparing its assessment for AMHTA’s Board, APFC solicited proposals from three of its third party Real Estate Advisors

- CS Capital is a Los Angeles-based investment advisor with $945 million of Gross AUM; substantially all from the APFC
  - Six person investment team which manages a portfolio of seven properties for APFC including industrial, medical office, and traditional office investments; historical activities with APFC have also included single family homes for rent and multi-family properties

- L&B Realty is a Dallas-based investment advisor with $9 billion of AUM
  - APFC’s largest third party Advisor account covering retail, multi-family, and office; account coverage includes APFC’s only Alaska based property (APFC headquarters) and APFC’s largest asset (Tyson’s Corner)
  - Well resourced team (61 people on investment team, 113 personnel at the firm, 26 focused on property management) with coverage across multi-family, retail, office and industrial sectors

- Sentinel is a New York-based investment advisor with over $7 billion of AUM
  - Sentinel is known primarily as a multi-family specialist (71% of AUM), but does have some Industrial (3% of AUM) and Office (26% of AUM experience); including managing both commercial property types currently on behalf of APFC
  - Sentinel currently manages 11 separate accounts comprising $4.9 billion of the $7 billion of AUM (APFC largest at $1.3 billion); long history of accepting management of transferred assets from APFC and other clients
  - Well resourced and vertically integrated with 900 total employees, 48 members on investment team, and 665 person property management team

Detailed proposals from each Advisor outlines their qualifications, fees and approach to managing the Portfolio; these proposals are available upon request
AMHTA Real Estate Conclusions

• If AMHTA’s Board elects to transfer oversight of the Portfolio to APFC, APFC is prepared to assume this responsibility

• APFC would keep the portfolio segregated from the rest of APFC investment portfolio and would manage it on a separate account basis for AMHTA

• APFC would retain one of the Advisors listed on previous slide for account oversight

• APFC would ensure that AMHTA Staff receives quarterly reporting packages on each property and would be invited to listen in on account updates