Trust
Alaska Mental Health
Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

MEETING AGENDA

Meeting: Finance Committee
Date: August 1, 2019
Time: 10:30 AM
Location: Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference: (844) 740-1264 / Meeting Number: 809 966 172 # / Attendee Number: #
http://thetrust.webex.com
Trustees: Laraine Derr (Chair), Verné Boerner, Chris Cooke, Paula Easley, Ken McCarty, Mary Jane Michael, John Sturgeon

Thursday, August 1, 2019

		Page No.
10:30 am	**Call Meeting to Order (Laraine Derr, Chair)**	
	Roll Call	
	Announcements	
	Approve Agenda	
	Ethics Disclosure	
	Approve Minutes – 04/17/19	4
10:35	**Staff Report Items**	
	Cash Management Reports – Andy Stemp, CFO	Hand-Out
10:45	**Planning Items**	
	Trust Land Office Operating Budget FY21 – Wyn Menefee, Executive Director	10
	Trust Authority Office Operating Budget FY21 – Mike Abbott, CEO	12
12:00	**Catered Lunch**	
12:30	**Planning Items – (continued)**	
	Revenue Forecast / Update – Andy Stemp, CFO	Hand-Out
	Asset Management Policy Statement (AMPS) and Resource Management Strategy (RMS) Policy Revisions – Steven Center, Callan Associates and Andy Stemp, CFO	14
2:00	**Adjourn**	

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Future Meeting Dates

Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – June 2019)

• Program & Planning Committee	July 31, 2019	(Wed)
• Audit & Risk Committee	August 1, 2019	(Thu)
• Finance Committee	August 1, 2019	(Thu)
• Resource Mgt Committee	August 1, 2019	(Thu)
• Full Board of Trustee	August 28-29, 2019	(Wed, Thu) – Anchorage
• Full Board of Trustee	November 6-7, 2019	(Wed, Thu) – Anchorage
• Audit & Risk Committee	January 3, **2020**	(Fri)
• Finance Committee	January 3, **2020**	(Fri)
• Resource Mgt Committee	January 3, **2020**	(Fri)
• Program & Planning Committee	January 3, **2020**	(Fr1)
• Full Board of Trustee	January 29-30, **2020**	(Wed, Thu) – Juneau
• Audit & Risk Committee	April 22, **2020**	(Wed)
• Finance Committee	April 22, **2020**	(Wed)
• Resource Mgt Committee	April 22, **2020**	(Wed)
• Program & Planning Committee	April 22, **2020**	(Wed)
• Full Board of Trustee	May 20, **2020**	(Wed) – TBD

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Future Meeting Dates

Statutory Advisory Boards

(Updated – June 2019)

Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse

- Executive Committee – monthly via teleconference (First Wednesday of the Month)
- September 23-27, 2019 – Kenai or Anchorage <tentative>

Governor's Council on Disabilities and Special Education

- Oct 2-3, 2019 - Anchorage (pre-meeting for Autism Ad Hoc on Oct 1)

Alaska Commission on Aging

- September 12-15, 2019 – ACOA Rural Outreach

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

April 17, 2019
2:40 p.m.

Taken at:

Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska

OFFICIAL MINUTES

Trustees present:
Jerome Selby, Chair
Carlton Smith
Mary Jane Michael
Laraine Derr
Chris Cooke
Paula Easley
Verne Boerner

Trust staff present:
Mike Abbott
Steve Williams
Andy Stemp
Allison Biastock
Mike Baldwin
Travis Welch
Katie Baldwin-Johnson
Miri Smith-Coolidge

Trust Land Office present:
Wyn Menefee
Jusdi Doucet
Jeff Green
Aaron O'Quinn
Sarah Morrison
David Griffin
Bruce Buzby

Others participating:
John Sturgeon; Ken McCarty.

PROCEEDINGS

CHAIR SELBY called the Finance Committee meeting to order, noting that all members were present. He asked for any announcements. There being none, he moved to approval of the agenda.

> **MOTION:** A motion to approve the agenda was made by TRUSTEE BOERNER; seconded by TRUSTEE SMITH.

CHAIR SELBY asked for any ethics disclosures. There being none, he asked for a motion to approve the minutes.

> **MOTION:** A motion to approve the minutes of January 3, 2019, was made by TRUSTEE DERR.
>
> *There being no objection, the MOTION was approved.*

CHAIR SELBY moved to the staff report.

STAFF REPORT

CASH MANAGEMENT REPORT
MR. STEMP began with the Cash Management Report as of February 28, 2019. He explained the actual expenses of the administrative activities for the year to date, and expected more to come through the State system. He stated that he would post additional activities going through the remainder of the year. He then talked about the expenses on the program side, adding that area is also on track. He continued through the report, explaining the income and expenses in various areas. He stated that the FY 2020 Payout Estimate is an attempt to update and forecast FY2020 in terms of investment values. He walked through the entire list and reconciled between where it began and the approved budget. Using the new information, a total available funding in FY20 is expected to be $33.1 million. He added that there is an approved FY20 budget of $31.7 million. He concluded his report.

TRUSTEE EASLEY asked about the TADA.

MR. ABBOTT explained that in the next six to 12 months, the obligations in the TADA would be met and, at that point, the TADA would be back to being a single-purpose fund which will accumulate the principal to be disposed of as the trustees determine in the future.

CHAIR SELBY moved to the FY 2020 Budget Update and recognized Mike Abbott.

FY 2020 BUDGET UPDATE
MR. ABBOTT stated that that the budget was built and approved in September of FY18. The revenue estimates basically included FY19 activity, the big one being Permanent Fund and other investment earnings. He explained that there would be some recommendations for FY20 spending changes at the Program and Planning discussion due to Governor Dunleavy's amended budget. He added that there are a few big items in the spending plan for FY20 related to

Medicaid reform with Governor Dunleavy's administration considering significant changes. The Trust may not be on board with all of them.

CHAIR SELBY asked for any questions. There being none, he moved to the follow-up on the analysis of the real estate options. He stated that the board had requested taking a closer look at four of the seven options. He recognized Andy Stemp.

REAL ESTATE OPTIONS

MR. STEMP stated that a financial analysis was done around each of the possible scenarios. The first one is the status quo to hold the properties and continue in their present form. There are some benefits and some drawbacks that would not satisfy the special audit recommendations. He clarified that these were discussions around the seven investment properties acquired over previous years that are managed by the personnel at the Trust Land Office; and also helped by the ground property managers. He continued that the focus of making the investments was to develop a stable stream of income to support the Trust programs. These properties were accumulated over the years. Option 2 is developed around the recommendation of the special audit which would be to manage the properties through the Permanent Fund Corporation. This would have a separately managed account with the seven properties treated as investments in that account. The Permanent Fund would assist with retaining an outside manager and would be a separate project outside of the regular Permanent Fund portfolio. He added that there are some benefits by providing additional reporting resources and augmenting the TLO capabilities. This would fulfill the legislative audit recommendation without locking into a long-term management agreement. The original proposal would be for a one-year term, which would then be re-examined. Option 3 is a slightly different approach which would be to take $39.5 million of current spendable reserves and move that into the Trust fund to replace the principal. Then, move forward with the management of the properties through existing staff at the TLO. This would be a way of extinguishing some of the previous questions that have come up. He continued that management believes that this will partially satisfy the audit recommendation. Option 4 is to retain the real estate in the status quo format, but then develop a replacement schedule where transfer would be made over time to send a total of 39.5 million to the Permanent Fund. That would be funded from the earnings of the portfolio and could be conservatively accomplished over a 15-year time frame. He added that this approach would be a slow but sure way to fulfill the special audit recommendations. He asked for direction from the board to help moving forward in this area.

MR. ABBOTT added that, in conversation with a couple of legislators on this topic, Senator Stedman was concerned that Option 3 would not satisfy the folks that were concerned about the Trust continuing to own the real estate assets. He felt that the simplest answer was to transfer the assets to the Permanent Fund along the lines of Option 2. Similar concerns were expressed by several other legislators.

TRUSTEE COOKE stated that, in view of those comments, if a fifth option to sell the properties should be looked at.

MR. ABBOTT stated that contemplation of selling the properties at advantageous times was always a consideration. He continued that there is still the need to have processes in place to guide the decision-making about when a sale might make sense and what to do with sale proceeds should a sale take place.

TRUSTEE SMITH stated that he would favor looking more closely at Options 3 and 4, and explained his reasoning. He added that it would make sense to have a third-party consultant to begin thinking about the future of what is owned.

CHAIR SELBY stated that No. 1 is interesting because it gives a benchmark about the way the properties were acquired and how they are managed. He continued that he cannot support the Permanent Fund appropriation which would divert $3.5 million of program funds that help beneficiaries. The whole idea in the first acquisition was to create cash flow for the beneficiaries and for the program. The only other one that comes close is Option 3, and he would like to focus the discussion for two major reasons: No. 1, it resolves the legislative audit, which would then free the board to have an opportunity to hire a third party.

TRUSTEE DERR agreed and stated that her concern was reducing the reserve to 375 percent. She continued that she would like to see the reserve stay at 400 percent to have a little buffer.

TRUSTEE COOKE stated that the clash remains between the economic realities of managing this real estate and what some people believe that the legislation requires in terms of what is done with the revenue and putting it into the Permanent Fund account, which is still Trust money. He also did not like No. 2 for the reasons stated; and liked No. 3 for the reasons discussed. He would like a closer analysis of the money flow.

TRUSTEE MICHAEL supported having real estate as part of the portfolio not only for the purposes of generating revenue, but also as a program-related investment. She also stated support of having a professional advising the Trust on a constant basis of what the valuations are when the market is right; and would also like to take what is made from that and reinvest it into something equally as profitable. She supported the recommendation to look at Option 3.

CHAIR SELBY moved to the motion.

> **MOTION:** A motion that the Finance Committee recommend that the Full Board of Trustees authorize the transfer of $41,300,000 from the budget reserve to the Mental Health Trust Fund. In combination with this transfer, the seven properties identified as real estate investments will be designated as long-term investments within the budget reserve. Proceeds from any subsequent sale of these properties will flow into the budget reserve, was made by TRUSTEE DERR; seconded by TRUSTEE BOERNER.

TRUSTEE COOKE asked about the effect of changing the wording to “authorize the transfer of up to $41,300,000.

MR. STEMP replied that this came back to the trustees’ original spirit of being free of the audit legacy. He stated that the commercial real estate portfolio got most of the attention. The audit also determined that about $1.8 million of TADA funds that had been allocated by the board for program-related facility investments was also inappropriate because the Trust should not have used principal either to purchase commercial real estate or to invest in program-related facilities. It made sense to include them and make a single transfer and alleviate both of the audit findings related to this issue.

CHAIR SELBY urged the board, over the next year and a half or so, to work with staff and get on the record a long-term real estate policy.

TRUSTEE BOERNER agreed.

TRUSTEE COOKE stated that he was in favor of sending this on to the board for consideration.

CHAIR SELBY asked for any further discussion. There being none, he asked for any objections to the motion.

There being no objection, the MOTION was approved.

CHAIR SELBY moved on to an update on investment policy.

INVESTMENT POLICY UPDATE

MR. ABBOTT stated that No. 3 of the audit recommendations suggested the Trust evaluating and potentially updating its asset management program; and staff agreed. He continued that Callan & Associates, investment adviser for the Alaska Permanent Fund and others in Alaska, were contracted to review the existing plan and comment on it. An initial draft of their recommendations was received. He asked Mr. Stemp to continue.

MR. STEMP stated that the majority of the recommendations are grouped in five areas. The first is an expanded description and definitions around roles and responsibilities of key staff and providers. The Trust has evolved over time and more clarity is always helpful. The second point is the revisions for performance measurement and risk metrics. This would be beneficial because of the constantly changing industry expectations. This would make sure the documents have the most current and up-to-date benchmarks and risk metrics that the industry applies. He continued that the third one is review and oversight of the managers, which is currently being done. There are some changes in key terms, definitions and benchmarks. There are also some goals for the Trust. Historically, a reference point of saying CPI, Consumer Price Index, plus 5 percent. That is not a valid benchmark for specific portions of the Trust investments. He moved to the final area, which is the actual review process. There is no schedule published in the documents giving the timetable to make sure the policies are regularly reviewed. These five areas from Callan are largely intended to help move to a higher level and a better-quality set of documents. He added that was a preview of what can be expected in the future from this Callan project.

TRUSTEE COOKE asked for clarification about the policies.

MR. STEMP replied that the policies that are being referred to are the internal policies. The Trust, on the whole, has a policy that deals with the investment and a policy dealing with the assets and resources. He stated that the auditor’s report brought forth the benefit of having a third party check in and make sure all the items are up to date; more of a good housekeeping kind of update. He concluded his update.

CHAIR SELBY asked for any further comments, then asked for any further business for the committee. He thanked the staff for all the efforts put into analyzing the four options and all of the information. He appreciated all the efforts to give good, solid information; an outstanding job. He adjourned the meeting.

(The Finance Committee Meeting adjourned at 4:30 p.m.)

Trust Land Office

2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	Laraine Derr, Chair Finance Committee
From:	Wyn Menefee, Executive Director
Thru:	Mike Abbott, Chief Executive Officer
Date:	7/23/2019
Re:	FY21 Operating Budget – Item 1
Fiscal Year:	2021
Amount:	$4,425,600

Approval

Proposed RMC Motion:

"The Finance Committee recommends that the Alaska Mental Health Trust Authority board of trustees approve the Trust Land Office operating budget for FY21 in the amount of $4,425,600."

Background:

The Trust Land Office (TLO) seeks the recommendation of the Finance Committee for the FY21 operating budget. Please see Exhibit 1 for a breakout of the proposed line items.

For this request, the FY21 budget is compared against the FY20 budget. The FY20 budget approved by trustees was reduced by the Governor prior to submission to the Legislature. The reduction of $34,700 was primarily in travel.

Exhibit(s):
Exhibit 1 – FY21 Trust Land Office Budget Proposal

TRUST LAND OFFICE OPERATING BUDGET

FY21 Proposal

Expenditures	FY19 YTD as of 6/30/19[1]	FY20 Trustee Approved Budget[2]	FY20 Mgmt Plan*	FY21 Proposal	FY20-21 %
Personal Services	2,557,207	2,943,400	2,900,100	2,973,700	2%
Travel	112,124	125,200	94,600	94,600	0%
Services	1,080,432	1,412,100	1,451,200	1,298,800	-12%
Supplies	80,793	58,500	58,600	58,500	0%
Capital Outlay	131,549				
Total	**3,962,105**	**4,539,200**	**4,504,500**	**4,425,600**	**-2%**
			Total FY21 Increase	(78,900)	

Revenue	FY19 YTD as of 6/30/19[1]	FY20 Trustee Approved Budget	FY20 Mgmt Plan	FY21 Proposal	FY20-21 %
Principal	5,680,422	8,852,600	9,172,500	5,694,500	-38%
Income	5,622,626	4,949,000	4,620,500	5,120,038	11%
Total	**11,303,048**	**13,801,600**	**13,793,000**	**10,814,538**	-22%

(1) Numbers are not final until the reappropriation period ends August 31

(2) Difference between FY20 Trustee Approved Budget and FY20 Management Plan reflects reductions made by Governor prior to submission to Legislature

* FY20 Management Plan per approved Conference Committee budget.

FY21 TRUSTEE REQUEST:

$4,425,600

Personal Services*		
FY21 Merit Inc. Est.	$	57,000
FY21 Benefits Inc. Est.	$	16,600
Total Merit and Benefits Inc. Est.	$	73,600

*Request is rounded

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MEMO

To: Laraine Derr, Finance Committee Chair
Thru: Mike Abbott, Chief Executive Officer
From: Andrew Stemp, Chief Financial Officer
Date: July 24, 2019
Re: FY 21 Trust Authority Office MHT Admin budget request

REQUESTED MOTION:

The Finance Committee recommends that the full Board of Trustees approve the FY 21 Trust Authority Office MHT Admin budget of $4,215,136.

BACKGROUND

Staff have prepared the FY 21 Trust Authority Office administrative budget based on the anticipated activity levels of the Trust. The Trust staff request that the Finance Committee recommend that the full board of trustees approve the MHT Admin funds as detailed in the attached document.

The FY 21 .proposed budget reflects a net increase of $80,000 (approximately 1.9%) from the amount approved by the full board for FY 20. The proposed increase is requested to fund the following line items:

Budget Line	Amount	Major Component
Personal Services	30,516	Reflects increases in labor costs and employee benefits. No new positions are proposed
Travel	(40,000)	Reflects proposed reduction in travel, increased use of technology for meetings and training.
Services (line 3000)	73,000	Reflects expected increase in shared services costs for State of Alaska supplied I.T., payroll processing, financial services, and other support services. Also reflects increased need for technology services to support trainings
Supplies	2,284	Reflects increase in expected costs.
Equipment (line 5000)	14,000	Proposed copier replacement to reduce overall maintenance costs.

MENTAL HEALTH TRUST AUTHORITY
OPERATING BUDGET

EXPENDITURES	FY20 Approved	FY20 Conf Cmte	FY21 Proposal	20 Approved-21 %age
1000 Personal Services	2,952,595	2,952,595	2,983,111	1.0%
Personal Services	2,891,639	2,891,639	2,914,655	0.8%
cell phones	3,456	3,456	3,456	0.0%
Honorarium	57,500	57,500	65,000	13.0%
2000 Travel	122,000	82,000	82,000	-32.8%
3000 Services	996,025	996,025	1,069,025	7.3%
4000 Supplies	64,711	64,711	67,000	3.5%
5000 Equipment	-		14,000	
Total	**4,135,331**	**4,095,331**	**4,215,136**	1.9%

FUNDING SOURCE	FY 21 Proposal
MHT Admin	4,215,136
	0

FY2021 Request to TRUSTEES:

<u>$4,215,136</u>

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MEMO

To: Laraine Derr, Chair, Finance Committee
Thru: Mike Abbott, Chief Executive Officer
From: Andrew Stemp, Chief Financial Officer
Date: July 18, 2019
Re: Proposed Revisions to AMPS

REQUESTED MOTION:

The Finance Committee recommends that the Board of Trustees adopt the changes to the Asset Management Policy Statement (AMPS) as recommended by Callan LLC.

Through the legislative audit process, the Trust received recommendations to update the Asset Management Policy Statement to reflect the best practices used in the investment community. The audit report identified three areas for consideration:

1. Create an organizational structure whereby evaluation of cash and non-cash assets are addressed by a single fiduciary body and incorporate an entity-wide view of all AMHTA assets.[1]
2. Develop and document an aggregate asset allocation policy.[2]
3. Document decision-making addressing the rationale for utilization of the TLO as a real estate investment program to drive revenue growth for the AMHTA. If the AMHTA seeks to have the TLO pursue real estate investing, a best practice policy should address specific guidelines in how such a program is to be carried out.

The Trust engaged Callan LLC ("Callan"), an independent investment advisory firm, to review the existing Asset Management Policy Statement and help develop revisions and updates to the policy that address the audit report recommendations. Callan is a top tier advisory firm with a long history of advising the Alaska Retirement Management Board and the Alaska Permanent Fund Management Corporation. Callan also has a long relationship with the Trust and has previously performed investment analysis and policy development work for the Trust, beginning in 1997. Callan has assigned Steven Center, a Senior Vice President and holder of the Chartered Financial Analyst designation, to work with Trust staff and prepare policy revisions for consideration. The proposed revisions are summarized as follows:

<u>Revision to the description of the Finance Committee responsibilities (AMPS Page 4)</u>: The proposed language explicitly states that the committee will consider the overall financial performance of Trust assets, including the real estate and natural resources

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[1] RVK report Page 9, included as Appendix B in the audit report (Page 83)

[2] RVK report Page 9, included as Appendix B in the audit report (Page 83)

managed by the Trust Land Office. This revision should satisfy audit recommendation #1.

Revision to Guidelines and Investment Policy (AMPS Page 8 through Page 10):

The proposed revision includes a detailed discussion of investment time horizon, risk tolerance, and asset allocation. A table is included on page ten that details the allocations for each investment manager and provides references to where the most recent investment holdings are published online by each of the investment managers. This revision should satisfy audit recommendation #2.

Insert New Section on Trust Land Office Commercial Real Estate Guidelines (AMPS Page 19 and 20):

The proposed revision includes new language with a detailed discussion of the benefits created by using the Trust Land Office as the manager for these investments, including their extensive understanding of the Trust's mission and goals, the ability to align investing decisions to support objectives in the Comprehensive Integrated Mental Health Plan, and the low incremental cost to the Trust. Additional language is included that defines the size of the program, the best practices that are expected in order to preserve and enhance the value of these assets, as well as the investment program goals of generating income and acting as a hedge against stock market volatility. This revision should satisfy audit recommendation #3.

In addition to addressing the audit recommendations, additional revisions are included to update the AMPS in order to best meet Trust policy needs. These revisions include the following key points:

Expanding Roles and Responsibilities (AMPS Page 3):

Additional language is proposed to reflect the role of an Independent Real Estate Advisor to assist with the oversight of the commercial real estate investments.

Additional language is proposed to reflect the role of the Chief Financial Officer to oversee investments, calculate withdrawal amounts, and provide direction to investment managers in order to implement Trust policy.

Statement of Asset Management Philosophy (AMPS Page 5 through Page 7):

A comprehensive change in terminology from using "cash" and "non-cash" as a description of assets and replacing the terms with "liquid" and "non-liquid".

Additional language is proposed to encourage the development of policies that can be easily communicated and, through taking steps to have less technical language in Trust investment policies, improve the overall clarity and transparency around the process.

Clarifying Performance Expectations (AMPS Page 13):

Additional language is proposed to clarify the expectations around investments made in Trust land, including expectations around comparing proposed financial results with potential investment of funds by the Alaska Permanent Fund Corporation

Updating Control Procedures (AMPS Page 14):

Additional language is proposed to specify how frequently the AMPS is reviewed as well as proposing a review if the Trust experiences an unusual event, such as regulatory change, or a major property sale.

Updating Trust Land Office Development Account Guidelines (AMPS Page 18):

New language is proposed to reflect the shift away from the use of the Trust Authority Development Account as a source of project funding and the potential use of the new Trust Land Office Development Account for future projects.

The proposed revisions also include minor changes to reflect administrative changes (i.e. referencing new fund account number), updates to the benchmarks used for reference when comparing investment performance, and expansion of definitions/background information. These changes are intended to improve the readability of the document and increase the overall usefulness as a reference tool.

Alaska Mental Health Trust Authority

Asset Management Policy Statement
Adopted: August 28, 2019

Asset Management Policy Statement

Purpose

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the board of trustees (the board) of the Alaska Mental Health Trust Authority (the Trust). It has been developed to serve as the management plan for those assets entrusted to the board. The board believes it is essential to adopt a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised by action of the board, and should be reviewed annually. The board has adopted the AMPS to serve as that long-term plan, in order that:

- there be a clear understanding on the part of the trustees, staff, beneficiaries, and the public as to the objectives, goals, and restrictions with regard to the management of Trust assets;
- assets be structured and managed in a prudent manner; and
- there be a meaningful basis for performance evaluations of asset classes, managers, and strategies used to achieve the management objectives.

Background

Creation of the Trust

The Alaska Mental Health Trust (the Trust) was established by Congress under the Mental Health Enabling Act of 1956. The 1956 law included a grant to the State of Alaska of one million acres of land to be used to generate revenues to ensure the development of a Comprehensive Integrated Mental Health Program for the State of Alaska. In the mid 1980s, a class-action citizen lawsuit, Weiss v. State, was filed, alleging the mismanagement of these lands. In 1994, the Alaska Legislature passed legislation that was subsequently approved by the Alaska Superior Court as a settlement of the litigation (the settlement).

Settlement Framework

The settlement reconstituted the Trust with an initial $200 million in cash and nearly one million acres of land. A seven-member board of trustees was created and charged with the responsibility of administering the Trust. The settlement included statutory language (AS 37.14.009(a)) that assigned the Alaska Permanent Fund Corporation (APFC) management of the Mental Health Trust Fund and assigned the Department of Natural Resources (DNR)) management of Trust land, natural resource assets, and associated improvements. The 1994 legislation required DNR to establish a separate unit, the Trust Land Office (TLO), for this purpose. Other Trust funds, such as Trust income allocated for annual mental health program spending, a portion of budget reserves, and, on a short-term basis, cash receipts generated by the TLO are managed by the Department of Revenue (DOR).

The board directs the financial management of the earnings from the assets of the Trust into programs and projects that are designed to improve the lives of Trust beneficiaries: Alaskans who experience mental illness, developmental disabilities, chronic alcoholism, Alzheimer's disease and related dementia, traumatic brain injury and substance abuse disorders (see AS 47.30).

Mission Statement

The board has adopted the following mission statement for the Trust:

The Alaska Mental Health Trust Authority (the Trust) administers the Mental Health Trust to improve the lives of beneficiaries. Trustees have a fiduciary responsibility to protect and enhance trust assets in perpetuity for the beneficiaries. The Trust provides leadership in advocacy for and planning, implementing and funding of the Comprehensive Integrated Mental Health Program; and acts as a catalyst for change.

Roles and Responsibilities

Board of Trustees

Established by AS 47.30.016, the board of trustees is the governing body for the Alaska Mental Health Trust Authority. The board has the responsibility of establishing and maintaining broad policies and objectives for the prudent management of Trust assets. The Board establishes broad policies and sets the direction for asset management in this AMPS. The board delegates the implementation of these policies to the board's finance committee, resource management committee, executive committee and to staff. In doing so, the board maintains a “top-down” perspective, focusing on important policy-level issues, and maintaining the proper fiduciary perspective and time horizon for analysis of the performance of Trust assets.

Finance Committee

The board of trustees has established a finance committee to assist the board in the financial oversight and strategic financial planning for the Trust. This committee consists of current members of the board of trustees. The Finance Committee considers the overall financial performance of Trust assets, including the real estate and natural resources managed by the Trust Land Office and makes recommendations to the board when necessary. The committee will consult with the Chief Financial Officer and Chief Executive Officer to oversee the implementation of this AMPS. Additional responsibilities may be found in the committee charter.

Resource Management Committee

The board of trustees has established a resource management committee to assist the board in the oversight and strategic planning for the land, natural resource assets, and associated improvements held by the Trust. This committee consists of current members of the board of trustees. The committee will consult with the Chief Executive Officer and the Trust Land Office to oversee the implementation of this AMPS regarding the Trust's land, natural resource assets, and associated improvements by the Department of Natural Resources. Additional responsibilities may be found in the committee charter.

Chief Executive Officer

As defined by AS 47.30.026, the staff position that serves the board as the Chief Executive Officer of the AMHTA. The Chief Executive Officer implements the policies established by the board of trustees according to the authorities and guidelines provided in the Chief Executive Officer charter.

Chief Financial Officer

The Chief Financial Officer provides reports on investment activity and results, as well as provides general oversight of the Trust investments. As part of the annual budgeting process, the Chief Financial Officer will make a calculation and a recommendation to the Finance Committee as to the amount of money that should be withdrawn for the investment accounts to fund Trust activity. Where investment managers require administrative direction from the Trust to implement the investment policies and strategies (such as rebalancing activities) the Chief Financial Officer provides that direction in accordance with established policies.

Trust Land Office (TLO)

The office has responsibility for management of the Trust's property and natural resource assets. The TLO was established through a Memorandum of Understanding within the Department of Natural Resources under AS 44.37.050.

Trust Land Office (TLO) Executive Director

Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust. This staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office in fulfilling the contract with the board described in AS 37.14.009.

Alaska Permanent Fund Corporation (APFC)

The Alaska Permanent Fund Corporation manages the Mental Health Trust Fund and other Trust assets as agreed by the trustees and APFC.

Department of Revenue (DOR)

The Department of Revenue manages funds for the State of Alaska, including Trust budget reserves and other short-term investments.

Independent Real Estate Advisor

An independent advisor will be retained to assist in the oversight and management of real estate investment assets acquired by the Trust for income generating purposes. The advisor is managed by the CFO and also provides an annual report to the trustees on the status of these real estate assets.

Statement of Asset Management Philosophy

The AMPS helps the board effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The cash investment program and Trust land and resource management program are defined in the various sections of the AMPS by:

- stating in a written document the board's expectations, objectives, and guidelines for management of the liquid and non-liquid assets;

- complying, or ensuring compliance, with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals and land managers would reasonably utilize, and with all applicable laws, rules, and regulations that may impact Trust assets;

- setting forth an investment structure for the liquid assets of the Trust; this structure includes various accounts, asset classes, investment management styles, risk tolerance, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term;

- establishing guidelines for management of the Trust's non-liquid assets consistent with the TLO's long-term asset management strategy as defined in 11AAC 99.090(c);

- monitoring, evaluating, and comparing the investment performance results achieved by APFC, DOR, and TLO on a regular basis;

- encouraging effective communications between the trustees, staff, APFC, DOR, and TLO;

- establishing a framework to aid trustees in determining the annual available funding amount for protection and enhancement of Trust assets and spending on behalf of the beneficiaries in mental health programs and projects; and

- aligning asset management strategies with the time horizons identified in the comprehensive mental health plan.

This AMPS is formulated upon the board's consideration of the financial implications of a wide range of policies and describes the prudent liquid, and non-liquid investment processes that the trustees deem appropriate.

The board recognizes that even though its investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. This prevents ad-hoc revisions to the board's philosophy and policies in reaction to either speculation or short-term market fluctuations.

The board recognizes that the Trust has many stakeholders with differing levels of expertise and will make reasonable efforts to develop policies that are easily communicated to partner boards and other stakeholders, so that the framework for decision making is clear and transparent.

Asset Management Objectives

The asset management objectives of the Trust have been established by the board in conjunction with a comprehensive review of the Trust's current and projected financial requirements. The investment earnings from liquid assets and income produced from Trust non-liquid assets will be used to protect and enhance the value of Trust assets and implement annual mental health program funding strategies. Accordingly, investment results and Trust land resource management decisions are critical elements in achieving the outcome objectives of the Trust. The overarching asset management objective is to maintain appropriate cash asset allocation and trust land management policies that are compatible with the spending policy while still having the potential to produce positive real returns.

Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

Non-Liquid Asset Management Objectives

Specific non-liquid land and natural resource management objectives are to:

- protect and enhance the non-cash asset value and productivity of Trust property;
- maximize revenues from Trust non-liquid assets over time;

- encourage a diversity of revenue-producing uses of Trust non-liquid assets;

- manage Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries; and

- use Trust non-liquid assets for beneficiary purposes, when such use is found to be in the best interest of the Trust and its beneficiaries.

Guidelines and Investment Policy

Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. The GeFONSI pool is intended to produce moderate returns with low levels of risk; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following

- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

From time to time, as part of the operations of the commercial real estate portfolio, the Trust may also hold cash, certificates of deposit, or money market accounts in federally insured banks. These funds are generally invested in low-risk, highly liquid accounts and include:

- Operating Accounts for Building management
- Property Reserves for Capital Improvements

Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth. Investments in this area include:

- Budget Reserves

Long-Term: The Trust also invests funds for the benefit of future beneficiaries. These investments are managed for long term growth, with a time horizon of seven to twenty years. Investments in this area include:

- Mental Health Trust Fund
- Commercial Real Estate

Risk Tolerance

Investment risk is generally correlated with investment returns. The potential for investments to perform differently than anticipated (producing either significantly better or worse returns) is referred to as volatility. Deciding how much volatility within the portfolio is acceptable is a critical decision in determining potential investment results and achieving positive investment results, net of inflation. The Trust considers both the risk associated with specific investment strategies as well as the aggregate risk to total Trust assets.

The board recognizes the difficulty faced by APFC, DOR and DNR in meeting investment and Trust land resource management objectives because of the uncertainties and complexities of contemporary investment markets and the non-liquid asset management operating arena. The board also recognizes that some risk must be assumed to achieve the APFC's long-term investment objectives, the DOR's Budget Reserve investment objectives, and the TLO's land management objectives. Further, in co-mingling Trust liquid assets with the Alaska Permanent Fund managed by the APFC, the ability to withstand short and intermediate term market volatility has been considered. The board will review the realized five-year and ten-year risk (standard deviation) of the Trust on a periodic basis (not less than once every three years) to ensure the Trust's overall portfolio has not exhibited an undue level of risk.

Asset Allocation

Careful allocation of Trust capital is an essential component of managing the overall portfolio risk profile and the potential return. Investing decisions strive for a balance between overweighting capital in a narrow section (*concentration risk)* and distributing capital so broadly that investments are not focused and generate mediocre results. Asset allocation is the framework for managing investment decisions to achieve the desired result within an acceptable range of risk.

The Trust has unique features when considering asset allocation:

- Through the Settlement the Trust holds approximately one million acres of land throughout Alaska. This is a substantial asset for the Trust, but it has limited liquidity and is concentrated in Alaska.

- Associated with the land holdings, the Trust participates in natural resource development (harvesting timber, mining, oil & gas production, etc.). This creates some sensitivity to commodity prices, foreign exchange rates, and overall economic environment.

- The Trust maintains a commitment to serving beneficiary needs through the provision of facilities at lease rates that may differ from market rates. These assets generate limited financial return to the Trust and may need to be considered as a separate asset class than other real estate investments.

- By investing as a commingled account at the Alaska Permanent Fund, the Trust enjoys economies of scale and reduced costs. However, the Trust cannot adjust the asset allocation or the investment strategies of the Alaska Permanent Fund, and is subject to periodic changes to the return and risk targets adopted by APFC.

- The Trust holds direct real estate investments in several commercial properties. The funds invested in these assets represent less than 10% of total Trust assets and have limited liquidity.

Considering these factors, the Finance Committee shall review the asset allocation annually following completion of the annual financial statement audit and adjust the asset allocation as necessary to achieve Trust objectives. The Chief Financial Officer will provide the Committee with an aggregate report of current asset valuations and make recommendations for reallocations for trustee consideration.

Asset allocation amounts are based on a range of invested funds rather than a dollar threshold. The Trust assets are distributed as follows:

Investment Manager	**Risk Profile**	**Asset Allocation**
Department of Revenue (Cash or GeFONSI)	Low	Established by the Manager.[1]

[1] Department of Revenue investment policies and allocations are published on line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf

Department of Revenue (Budget Reserves)	Moderate	Established by the Manager with Trust direction[2].
Alaska Permanent Fund (Trust Fund and Reserves)	Moderate	Established by the Manager[3].
Trust Land Office Commercial Real Estate	Moderate	Established by the Trust[4]
Trust Land Office TLODA Projects (including PRI activity)	Moderate	Established by the Trust[5]

Performance Expectations

A substantial factor in achieving positive long term investment results is the costs and fees associated with investment services. The Trust has two managers that handle financial investments: the Alaska Permanent Fund Corporation and the Department of Revenue. Because of the amount of assets managed by the Permanent Fund Corporation[6] and the State of Alaska GeFONSI investment pool[7] the Trust receives the benefit of their purchasing power and economies of scale. This relationship allows for investments to be made at a lower cost than what would otherwise be available to the Trust and contributes to the long term growth of Trust investments. Accordingly, the Trust seeks to work with these agencies as our investment managers whenever possible.

Liquid Asset Managers

Alaska Permanent Fund Corporation

APFC management responsibilities for the Trust's principal are provided for in APFC statute and a memorandum of agreement between the Trust and the APFC (APFC MOA).

The board reviews the long-term performance, risk, and liquidity characteristics of the APFC on a periodic basis (but not less than annually)

[2] The Trust gives broad guidance around which Department of Revenue investment funds the Trust should participate in. Descriptions of the allocations and investment pools are published in line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf under the section Z-1.
[3] The Permanent Fund Asset Allocation framework and targets are published at: https://apfc.org/diversification-framework-asset-allocation/
[4] Current allocation is seven properties, with approximately $40 million in invested funds.
[5] The Trust has made an allocation of up to $8 million in development projects, but has not yet approved projects from this account.
[6] $65 Billion as of May 2019
[7] $3 Billion as of May 2019

and evaluates whether the APFC's asset allocation strategy meets the long-term investment return objective of the Trust with an acceptable level of risk. The finance committee will meet with the APFC investment staff on a periodic basis (but not less than annually) to review the APFC's investment strategy.

The performance target for the APFC investment will be APFC's current Blended Performance Benchmark, as outlined by the APFC, along with APFC's long-term Total Fund Return Objective of CPI+5%.

Department of Revenue

The asset allocation for Budget Reserves under management of the Treasury Division is directed by the trustees.

The Department of Revenue Treasury Division holds and manages one half of the Budget Reserve, cash balances of the Central Facilities Fund and on a short-term basis the revenue generated by the TLO and Trust income allocated by the trustees for spending on the Comprehensive Integrated Mental Health Program.

Investments of the Budget Reserves are made pursuant to guidance provided by staff under the fiduciary direction of the board. In executing their duties, the finance committee shall periodically (not less than every three years) review asset allocation independently or request consultation from outside entities and, if appropriate, recommend the board adopt changes.

The Central Facilities Fund is currently invested alongside the General Fund and other Non-Segregated Investments (GeFONSI). The finance committee shall periodically (not less than every three years) review the cash balances of the Trust in conjunction with projected expected expenditure or reinvestment demand and recommend an asset allocation to the board.

The performance target for the liquid assets managed by the Department of Revenue are benchmarked to the Bloomberg Barclays 1-3 Year Government/Credit index.

Non-Liquid Asset Managers

Trust Land Office

The TLO manages the Trust's non-liquid assets on behalf of the trustees, in accordance with applicable statutes, regulations, and a memorandum of understanding between the Trust and DNR (DNR MOU).

The land resource component of the Trust is made up of Alaskan land parcels, natural resource assets, and associated improvements. TLO management responsibilities are provided for in AS 38.05.801, 11 AAC 99, and the DNR MOU.

TLO outcomes are projected each budget cycle with annual outcomes addressed in annual TLO budgets approved by the board. While the TLO consults primarily with the resource management committee of the board on specific transactions, consultation can also occur between the TLO and the Trust Administration Office (TAO) and between the TLO and the board, in accordance with specific board policies or transaction circumstances.

The performance of direct private equity real estate will be annually evaluated using an index or indices determined by the finance committee.

General operating expectations are as follows:

- TLO will focus first on land or resources at the high end of their market values ("Best Markets") and then on land or resources with Best Market potential within the next two to ten years;
- land or resources not included above will be considered "Long Term Market" lands, with TLO management emphasis placed on reasonable value preservation and enhancement actions in the interim;
- generally, the TLO will focus on transactions that:
    1. maximize return at prudent levels of risk;
    2. contribute to a diverse assortment of resource activity;
    3. provide ancillary values to the Trust; and
    4. remove or prevent liability risks;
- leases are preferred over sales and, when reasonable to do so, land values should be enhanced before disposal through lease or sale;
- transactions should not harm values of or future opportunities associated with other Trust lands;
- investments in Trust land should be consistent with the guidelines in the Resource Management Strategy and, when expected to generate increased value for the Trust, the proposed results should compete favorably with the projected long-term total rate of return of the Alaska Permanent Fund Corporation;
- land exchanges may be considered, when associated costs and outcomes can be reasonably established;
- if beneficiary program uses of Trust lands are proposed at rents below fair market value, the increment between proposed rents and fair market value rents will be considered an allocation of Trust revenue and must be approved by the board; and
- lands, structures, and resources may be acquired when the acquisition will add value to the Trust's non-liquid asset portfolio or will contribute to the mission of the Trust in another way. All

acquisitions will be analyzed on a 'Life Cycle Basis'; defined as the present value of the acquisition cost, the operating income/benefits during the holding periods and the value of the asset at disposition.

In accordance with AS 13.38, 20 AAC 40.610, and this AMPS, TLO revenue will be allocated as follows:

- To Principal: Land sale revenues; royalties from coal, gas, materials, minerals, and oil; perpetual easements; and 85% of revenues from timber sales.
- To Income: Interest from land sale contracts; bonus bids; rents; distributions from the commercial real estate portfolio and 15% of revenues from timber sales.

Real Estate Investments

The third party real estate advisor monitors the Trust's non-cash property and natural resource assets that have been acquired subsequent to the Mental Health Enabling Act of 1956, including the Commercial Real Estate managed by the TLO. This advisor acts as an independent fiduciary over the Trust's non-liquid direct real estate investments. The TLO provides the staff to manage the investments.

The board reviews the long-term performance, risk, and liquidity characteristics of the real estate investments on a periodic basis (but not less than annually). The third-party real estate advisor may make recommendations to the board regarding transactions related to the assets.

The performance target for the assets overseen by the third-party real estate advisor is the NCREIF Property index ("NPI").

Control Procedures

AMPS Revisions

It is not expected that the AMPS will change frequently. In particular, short-term changes in the financial, real estate and natural resource markets and associated operating arenas should not require adjustments to the AMPS. However, the board will review the AMPS at least annually to confirm it remains relevant. Additionally, the AMPS shall be reviewed if there is a substantial sale of Trust non-liquid property or natural resource assets[8], a fundamental change to how APFC

[8] A substantial sale is considered a transaction one that generates cash proceeds large enough to materially change the Trust's financial performance. Using the 4.25% distribution rate, a sale of $23

manages its portion of the liquid assets, alterations to the Trust's spending policy, or if the Trust is impacted by statutory revisions.

Liquid Assets

APFC & DOR performance will be reviewed quarterly by the finance committee who will report all performance to the board to determine the continued feasibility of achieving the investment and Trust land management objectives and the appropriateness of the AMPS for achieving those objectives.

Land, Natural Resources, and associated improvements (Non-Liquid Assets)

The TLO will maintain a level of management capacity necessary to prudently manage and develop Trust non-liquid assets over time. It is understood that this component of Trust non-liquid asset management represents a significant expense to the Trust.

The duties and responsibilities of the TLO are generally provided for in AS 38.05.801 and more specifically provided for in 11 AAC 99 and the DNR MOU. The specific management principles are provided for in 11 AAC 99.

TLO financial performance will be reviewed at least annually by the finance committee which will report all performance to the board.

Performance of the third-party real estate advisor will be reviewed annually by the finance committee which will report all performance to the board.

Total Trust Performance

On at least an annual basis, the total financial performance of the Trust assets will be presented to the board. Performance will be compared to a blended benchmark consisting of the following indices (weighted based upon the Trust's allocation to each category as of the beginning of each fiscal year):

- APFC Allocation: APFC's Blended Performance Benchmark
- DOR Allocation: Bloomberg Barclays 1-3 Year Gov't/Credit Index
- TLO Allocation: TLO's actual performance
- Third-Party Real Estate Advisor: NCREIF Property Index

Spending Policies

million in property would increase the annual portfolio distribution by $1 million over the 4 year averaging cycle.

The board has the authority to authorize the expenditure of Trust funds to protect and enhance the value and productivity of Trust assets, for the award of grants and contracts in fulfillment of the Trust's purpose to ensure a Comprehensive Integrated Mental Health Program, and, with legislative approval, the operating expenses of the TAO. This Spending Policy outlines five board objectives:

1. protect and enhance the corpus of the Trust by allocating sufficient resources to ensure that Trust assets are properly managed, including the use of funds allocated to the Trust Land Office Development Account, where appropriate, to maximize the value and productivity of Trust non-liquid assets;

2. apply smoothing mechanisms to mitigate the effects of short-term market volatility on spending and maintain a reliable funding stream to ensure the support of a Comprehensive Integrated Mental Health Program for the beneficiaries;

3. establish a Budget Reserve account to ensure funding support for the Comprehensive Integrated Mental Health Program is maintained in a difficult market environment;

4. maintain the purchasing power of the Trust principal, including addressing the effects of inflation, by using the reserve model consisting of the Budget Reserve account originally recommended by Callan Associates in 1996; and

5. follow a spending policy based upon a sustainable percentage of investment net asset values and expendable income from Trust land management.

The board recognizes achieving Trust asset management objectives requires adequate resources be allocated for that purpose by reimbursing APFC and DOR, DNR and the third-party real estate advisor for the reasonable costs of managing Trust assets.

Annual Available Funding Framework

Having a relatively consistent and predictable funding stream is paramount to ensuring an effective Comprehensive Integrated Mental Health Program. To mitigate the effects of periodic market volatility on funding, the board utilizes smoothing mechanisms to maximize funding consistency.

The following components have been established as a framework to aid trustees in determining the annual available funding amount:

- An annual withdrawal calculation consisting of 4.25 percent of the rolling four year-end[9] average aggregate net asset value (NAV) of the following:
    - Principal Invested at APFC[10]
    - Budget Reserve invested at APFC
    - Budget Reserve invested at DOR

- The rolling four year-end average of lapsed appropriations funded from the Settlement Income Account[11], or other process approved by the board to capture the value of prior year unused funds;

- The rolling four year-end average of expendable income generated by Trust Land Office operations;

- The rolling four year-end average of interest earned on cash held with the General Fund and Other Non-Segregated Investments (GeFONSI) managed by DOR;

- The unobligated/unallocated funds that could have been authorized in previous fiscal years under this framework calculation; and

- Other miscellaneous unrestricted revenues properly deposited into the Trust Settlement Income Account such as contributions from partner agencies and the recovery of prior year expenditures received after the funding appropriation lapsed.

Trustees reserve the right to expend additional funds when circumstances warrant. Concurrently, trustees acknowledge that principal assets are not available for expenditure.

The annual withdrawal calculation amount will be transferred to the Settlement Income Account and invested with the GeFONSI with minimal risk on a lump sum or periodic basis by the CFO in consultation with the CEO based on market conditions and cash flow needs.

Budget Reserve Guidelines

[9] To ensure clarity and consistency in calculations, the year-end amounts referred to in the Annual Available Funding Framework are defined as the amounts/values as of the end of the fiscal year (June 30th) rather than the end of the calendar year (December 31).
[10] Funds in the Trust operating accounts Account are not included in the payout calculation unless Trustees approve otherwise.
[11] Settlement Income Account fund 1092 only. Lapsed appropriations funded from other sources are not included in the calculation.

In order to fulfill funding requirements during market downturns, a Budget Reserve account will be maintained to help ensure funding availability. Based on a Callan Associates study of the Alaska Permanent Fund and the Alaska Mental Health Trust Fund, the Budget Reserve is set at 400% of the targeted annual withdrawal calculation amount. This reserve amount should be adequate to provide maximum assurance that the Trust will be able to meet annual funding goals.

Approximately one half of the Budget Reserve shall be invested by the DOR. The remainder of the Budget Reserve shall be invested by the APFC in the same manner as the Principal.

When APFC experiences gains for a given year, the Budget Reserve at DOR will first be adjusted up to 200% of the current year's targeted annual withdrawal calculation. If additional gains remain, adjustments will be made to the Budget Reserve invested by APFC. When the Budget Reserve is fully funded at both DOR and APFC, funds may be used to help offset the effects of inflation ("inflation proofing"). The effect of inflation will be estimated by using US Department of Labor Bureau of Labor Statistics CPI-U index[12].

When the APFC or DOR experiences losses for a given year, the Budget Reserve at DOR will be maintained or adjusted to 200% of the annual withdraw calculation from the Budget Reserve at APFC.

In the event of severe and/or sustained losses whereby the Budget Reserve is insufficient to meet the annual payout while maintaining at least 200% of the current year's annual withdrawal calculation then the withdrawal rate or amount may be reviewed by the trustees.

Full or partial inflation proofing may be facilitated by the following method:

- Inflation proofing permanent transfer (official non-spendable transfer)
    - Upon notification by the CFO that trustees have performed an official and permanent inflation proofing, APFC will initiate an accounting entry to irretrievably transfer funds from Budget Reserves to the Mental Health Trust Fund.

Trust Land Office Development Account Guidelines

The value and productivity of Trust liquid and non-liquid assets must be maximized through the reinvestment of Trust income where appropriate. This includes investments made through Program Related Investments (PRI), the Resource Management Strategy (RMS) or other programs approved by trustees. To achieve this objective, the Board will maintain a Trust Land Office Development Account (TLODA) to use Trust income to exchange one asset for another, to maintain or enhance the value of the Trust's existing non-liquid asset portfolio, either through

[12] Consumer Price Index All Urban Consumers; U.S.; All Items; 1967=100

prudent investments in non-liquid assets already owned by the Trust or through the acquisition of additional assets. Assets in the TLODA may also be used to acquire assets that enhance the capacity of the state's mental health program, such as facilities for delivering services to beneficiaries. This may be accomplished through the financing of projects, purchase/lease of assets, exchange or resale.

Recommendations for expenditure from the TLODA will be noticed in the same manner as other Trust expenditures, including presentation to appropriate Trust committees and final approval by a committee or the board of trustees, as provided for in the Trust bylaws. Recommendations will be based upon a specific work plan with identified priorities.

Where TLODA funds are used to enhance the value of the Trust's existing non-liquid assets, each project will be accounted for individually and the proceeds from the project will be used to calculate an internal rate of return (IRR). The trustees may adjust the TLODA IRR target on a case by case basis, reflecting the unique circumstances of each project. Classifying these cash flows between principal and income shall be done at the direction of the trustees, in accordance with 20 AAC 40.610.

The TLODA projects may involve real estate investment and natural resource development, asset classes that are potentially illiquid or exposed to fluctuating commodity prices. Accordingly, the trustees have established $8 million as the allocation to this account, representing approximately 1.5% of Trust liquid assets. Additional allocations may be made in the future, depending upon the needs of the Trust

Trust Land Office Commercial Real Estate Guidelines

The commercial real estate assets held by the Trust generate income through lease payments. These assets also have the potential to create value through appreciation, through a combination of property improvements, lease renewals, and overall economic growth. Management of these assets is outlined in the Resource Management Strategy and handled by the Trust Land Office.

The Trust Land Office has been selected as the manager for these assets because of their unique and comprehensive knowledge of the Trust settlement lands and resources, which will minimize the potential for inadvertent concentration risk, their understanding of the Trust mission and objectives, which will assist with the alignment of investment decisions along with the Comprehensive Integrated Mental Health Plan, and their ability to perform these duties within their current responsibilities thereby creating a low incremental cost for their services.

There are three key features associated with the commercial real estate assets that should be considered as part of the AMPS:

- Each property has an annual budget for operations, debt service, and maintenance/capital improvements. Because these costs must be paid to preserve the value of the assets, income generated by the properties will be used to fund these costs first, prior to making distributions to fund beneficiary programs.
- The properties participate in the Central Facilities Fund, with contributions from the properties accumulating over time. These funds provide a cash flow cushion in the event that major improvements are needed to maintain the properties or to secure leases. The fund has a target of $2 million and contributions to the fund should be made prior to making distributions to fund beneficiary programs.
- Certain properties have outstanding mortgages. These mortgages are structured as non-recourse debt, which limits the overall liability of the Trust. The terms of each mortgage, especially the timing of any balloon payment requirements, should be carefully considered as part of the overall investment strategy.

These assets are managed by the Trust Land Office and compose approximately 7% of the Trust's overall investments. Each property has a commercial property manager that prepares an annual budget, collects the rents, and handles day to day operations. Expenditures must be part of the trustee approved annual budget and TLO staff monitor the monthly results of each property.

These assets serve two purposes: they provide a hedge against volatility in the stock market and they generate income that supplements the annual distribution from the Trust portfolio. The Trust may elect to sell these assets and replace them with different assets at any time.

Definitions

For purposes of ease of administration and understanding of this Asset Management Policy Statement, the following terms are defined or clarified:

APFC: The Alaska Permanent Fund Corporation manages the liquid assets of the Alaska Mental Health Trust Authority under the APFC board's asset allocation policy and its investment policies and guidelines for major asset classes.

ASSETS: Consists of the liquid and non-liquid assets of the Alaska Mental Health Trust Authority, including property and resource assets acquired by the TLO on behalf of the Trust.

BOARD: The governing body of the Alaska Mental Health Trust Authority established by AS 47.30.016.

BUDGET RESERVE: Budget Reserve is set at 400% of the targeted annual withdrawal amount. This reserve amount should be adequate to ensure the Trust’s ability to meet its spending goals in a difficult market environment and to ensure liquidity in future years. The budget reserve is maintained both within the state treasury as well as the Alaska Permanent Fund Corporation.

CHIEF EXECUTIVE OFFICER (CEO): The staff position as defined by AS 47.30.026 serving the board as the chief executive officer of the Alaska Mental Health Trust Authority.

CHIEF FINANCIAL OFFICER (CFO): The staff position serving as the chief financial officer of the Alaska Mental Health Trust Authority.

GENERAL FUND AND OTHER NON-SEGREGATED INVESTMENT (GEFONSI): An investment pool managed by the Alaska Department of Revenue Treasury Division. The pool buys fixed income securities on behalf of the Trust and tracks the earnings and value of the Trust’s share of the pool.

LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that are invested through the Department of Revenue (DOR), under management of the Treasury Division, and also through the Alaska Permanent Fund Corporation (APFC).

NON-LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that consist of property and natural resource assets. Such assets are overseen by the Trust Land Office (TLO) and the Third-Party Real Estate Adviser.

THIRD-PARTY REAL ESTATE ADVISOR: The Third-Party Real Estate Advisor is hired by the board to oversee the Trust's non-liquid real estate and natural resource assets acquired subsequent to the Mental Health Enabling Act of 1956. These non-liquid assets are managed by the TLO.

TRUST SETTLEMENT INCOME ACCOUNT: The GeFONSI account in which income available for appropriation and expenditure is deposited (and from which agencies receiving MHTAAR funded appropriations expend). The account is maintained on the state accounting system as GASB fund 1092.

TRUST AUTHORITY DEVELOPMENT ACCOUNT: The holding place for cash principal until it is transferred to the APFC for investment alongside the Alaska Permanent Fund. The account also holds some funding for previously authorized development projects that are being completed. The account is maintained on the state accounting system as GASB fund 3320. Prior to September 2014, this account was referred to as the Trust Land Development Account.

TRUST FACILITY MAINTENANCE ACCOUNT/CENTRAL FACILITY FUND: A component of the Settlement Income Account where a portion of facility rents are deposited to finance operations and maintenance on buildings owned by the Trust, including capital improvements and leasing commissions for the commercial real estate portfolio. The account is maintained on the state accounting system as GASB fund 3322. The account was originally authorized by Resolution 05-04.

TRUST LAND OFFICE DEVELOPMENT ACCOUNT: A component of the Budget Reserves, where a portion of spendable income has been assigned for future use on natural resource development projects or other activities authorized by the trustees.

TRUST LAND PORTFOLIO: The non-liquid assets of the Alaska Mental Health Trust Authority that are managed by the Trust Land Office, including improved properties and facilities. The land portfolio includes properties acquired through the Settlement as well as other properties acquired for program related investment and commercial investment properties.

SETTLEMENT: The statutes, settlement agreement, letters clarifying the settlement agreement, and the final Superior Court order creating and approving the settlement of Weiss v. State of Alaska.

SETTLEMENT LAND: The properties and associated improvements transferred to the Trust as part of the original Mental Health Enabling Act

(PL 94-830) as well as the properties subsequently transferred to the Trust as replacement lands (June 10, 1994 settlement).

STAFF: The CEO, Trust Land Office Executive Director, all employees of the Trust and the Trust Land Office.

TRUST: The Alaska Mental Health Trust established by Congress under the Mental Health Enabling Act of 1956.

TRUST AUTHORITY: The Alaska Mental Health Trust Authority established by AS 47.30.011.

TRUSTEE(S): The board of trustees of the Trust Authority, either collectively or individually.

TRUST AUTHORITY OFFICE (TAO): The office with responsibility for providing support to the chief executive officer and board of trustees in management of Trust financial assets and in assuring development of the Comprehensive Integrated Mental Health Program.

TRUST LAND OFFICE (TLO): The office with responsibility for management of the Trust non-liquid assets and natural resource assets and associated improvements established within the Department of Natural Resources under AS 44.37.050.

TRUST LAND OFFICE (TLO) EXECUTIVE DIRECTOR: Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust. This staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office in fulfilling the contract with the board described in AS 37.14.009.

Alaska Mental Health Trust Authority

Asset Management Policy Statement
Adopted: ~~September 4~~August 28, 2019

Asset Management Policy Statement

Purpose

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the board of trustees (the board) of the Alaska Mental Health Trust Authority (the Trust). It has been developed to serve as the management plan for those assets entrusted to the board. The board believes it is essential to adopt a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised by action of the board, and should be reviewed annually. The board has adopted the AMPS to serve as that long-term plan, in order that:

- there be a clear understanding on the part of the trustees, staff, beneficiaries, and the public as to the objectives, goals, and restrictions with regard to the management of Trust assets;
- assets be structured and managed in a prudent manner; and
- there be a meaningful basis for performance evaluations of asset classes, managers, and strategies used to achieve the management objectives.

Background

Creation of the Trust

The Alaska Mental Health Trust ~~Authority~~ (the Trust) was established by Congress under the Mental Health Enabling Act of 1956. The 1956 law included a grant to the State of Alaska of one million acres of land to be used to generate revenues to ensure the development of a Comprehensive Integrated Mental Health Program for the State of Alaska. In the mid 1980s, a class-action citizen lawsuit, Weiss v. State, was filed, alleging the mismanagement of these lands. In 1994, the Alaska Legislature passed legislation that was subsequently approved by the Alaska Superior Court as a settlement of the litigation (the settlement).

Settlement Framework

The settlement reconstituted the Trust with an initial $200 million in cash and nearly one million acres of land. A seven-member board of trustees was created and charged with the responsibility of administering the Trust. The settlement ~~includes~~included statutory language (AS 37.14.009(a)) that

~~assigns~~assigned the Alaska Permanent Fund Corporation (APFC) ~~as the manager~~management of the Mental Health Trust Fund and ~~assigns~~assigned the Department of Natural Resources (DNR)) ~~as the manager~~management of ~~Trustproperty and~~ Trust land, natural resource assets, and associated improvements. The 1994 legislation required DNR to establish a separate unit, the Trust Land Office (TLO), for this purpose. Other Trust funds, such as Trust income allocated for annual mental health program spending, a portion of budget reserves, and~~-~~, on a short-term basis, cash receipts generated by the TLO are managed by the Department of Revenue (DOR).

The board directs the financial management of the earnings from the assets of the Trust into programs and projects that are designed to improve the lives of Trust beneficiaries: Alaskans who experience mental illness, developmental disabilities, chronic alcoholism, Alzheimer's disease and related dementia, traumatic brain injury and substance abuse disorders (see AS 47.30).

Mission Statement

The board has adopted the following mission statement for the Trust:

The Alaska Mental Health Trust Authority (the Trust) administers the Mental Health Trust to improve the lives of beneficiaries. Trustees have a fiduciary responsibility to protect and enhance trust assets in perpetuity for the beneficiaries. The Trust provides leadership in advocacy for and planning, implementing and funding of the Comprehensive Integrated Mental Health Program; and acts as a catalyst for change.

Roles and Responsibilities

Board of Trustees

Established by AS 47.30.016, the board of trustees is the governing body for the Alaska Mental Health Trust Authority. The board has the responsibility of establishing and maintaining broad policies and objectives for the prudent management of Trust assets. The Board establishes broad policies and sets the direction for asset management in this AMPS. The board delegates the implementation of these policies to the board's finance committee, resource management committee, executive committee and to staff. In doing so, the board maintains a "top-down" perspective, focusing on important policy-level issues, and maintaining the proper fiduciary perspective and time horizon for analysis of the performance of Trust assets.

Finance Committee

The board of trustees has established a finance committee to assist the board in the financial oversight and strategic financial planning for the Trust. This committee consists of current members of the board of trustees. The Finance Committee considers the overall financial performance of Trust assets, including the real estate and natural resources managed by the Trust Land Office and makes recommendations to the board when necessary. The committee will consult with the Chief Financial Officer and Chief Executive Officer to oversee the implementation of this AMPS. Additional responsibilities may be found in the committee charter.

Resource Management Committee

The board of trustees has established a resource management committee to assist the board in the oversight and strategic planning for the ~~property and~~land, natural resource assets, and associated improvements held by the Trust. This committee consists of current members of the board of trustees. The committee will consult with the Chief Executive Officer and the Trust Land Office to oversee ~~they~~the implementation of this AMPS regarding the Trust's ~~non-liquid property and~~ land, natural resource assets, and associated improvements by the Department of Natural Resources. Additional responsibilities may be found in the committee charter.

Chief Executive Officer

As defined by AS 47.30.026, the staff position that serves the board as the Chief Executive Officer of the AMHTA. The Chief Executive Officer implements the policies established by the board of trustees according to the authorities and guidelines provided in the Chief Executive Officer charter.

Chief Financial Officer

The Chief Financial Officer provides reports on investment activity and results, as well as provides general oversight of the Trust investments. As part of the annual budgeting process, the Chief Financial Officer will make a calculation and a recommendation to the Finance Committee as to the

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amount of money that should be withdrawn for the investment accounts to fund Trust activity. Where investment managers require administrative direction from the Trust to implement the investment policies and strategies (such as rebalancing activities) the Chief Financial Officer provides that direction in accordance with established policies.~~**Trust Land Office (TLO)**~~

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Trust Land Office (TLO)

The office ~~with~~ has responsibility for management of the Trust's property and natural resource assets. The TLO was established through a Memorandum of Understanding within the Department of Natural Resources under AS 44.37.050.

Trust Land Office (TLO) Executive Director

Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust. Th~~e~~is staff position ~~serving~~ serves the commissioner of the Department of Natural Resources ~~in conjunction with the board~~ as the ~~executive director~~Executive Director of the Trust Land Office in fulfilling the contract with the board described in AS 37.14.009.

Alaska Permanent Fund Corporation (APFC)

The Alaska Permanent Fund Corporation manages the Mental Health Trust Fund and other Trust assets as agreed by the trustees and APFC.

Department of Revenue (DOR)

The Department of Revenue manages funds for the State of Alaska, including Trust budget reserves and other short-term investments.

Independent Real Estate ~~Adviser~~Advisor

An independent ~~adviser~~advisor will be retained to assist in the oversight and management of real estate investment assets acquired by the Trust for income generating purposes. ~~or other investment purposes. The advisor is not required to support TLO activity related to the management of settlement land or natural resources. The adviser provides additional expertise on valuations, acquisitions and disposals, capital budgeting, and other strategic decision making.~~ The ~~adviser~~advisor is managed by the

CFO and also provides an annual report to the trustees on the status of these ~~projects~~real estate assets.

Statement of Asset Management Philosophy

The AMPS helps the board effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The cash investment program and Trust land and resource management program are defined in the various sections of the AMPS by:

- stating in a written document the board's expectations, objectives, and guidelines for management of the liquid and non-liquid assets;
- complying, or ensuring compliance, with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals and land managers would reasonably utilize, and with all applicable laws, rules, and regulations that may impact Trust assets;
- setting forth an investment structure for the liquid assets of the Trust; this structure includes various accounts, asset classes, investment management styles, risk tolerance, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term;
- establishing guidelines for management of the Trust's non-liquid assets consistent with the TLO's long-term asset management strategy as defined in 11AAC 99.090(c);
- monitoring, evaluating, and comparing the investment performance results achieved by APFC, DOR, and TLO on a regular basis;
- encouraging effective communications between the trustees, staff, APFC, DOR, and TLO;
- establishing a framework to aid trustees in determining the annual available funding amount for protection and enhancement of Trust assets and spending on behalf of the beneficiaries in mental health programs and projects; and
- aligning asset management strategies with the time horizons identified in the comprehensive mental health plan.

This AMPS is formulated upon the board's consideration of the financial implications of a wide range of policies and describes the prudent ~~cash~~liquid, and non-~~cash~~liquid investment processes that the trustees deem appropriate.

The board recognizes that even though its investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. This prevents ad-hoc revisions to the board's philosophy and policies in reaction to either speculation or short-term market fluctuations.

The board recognizes that the Trust has many stakeholders with differing levels of expertise and will make reasonable efforts to develop policies that are easily communicated to partner boards and other stakeholders, so that the framework for decision making is clear and transparent.

Asset Management Objectives

The asset management objectives of the Trust have been established by the board in conjunction with a comprehensive review of the Trust's current and projected financial requirements. The investment earnings from liquid assets and income produced from Trust non-liquid assets will be used to protect and enhance the value of Trust assets and implement annual mental health program funding strategies. Accordingly, investment results and Trust land resource management decisions are critical elements in achieving the outcome objectives of the Trust. The overarching asset management objective is to maintain appropriate cash asset allocation and trust land management policies that are compatible with the spending policy while still having the potential to produce positive real returns.

Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-~~cash~~liquid asset portfolio;

- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and

- provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

Non-Liquid Asset Management Objectives

Specific non-liquid ~~property~~land and natural resource ~~managment~~management objectives are to:

- protect and enhance the non-cash asset value and productivity of Trust property;
- maximize revenues from Trust non-liquid assets over time;
- encourage a diversity of revenue-producing uses of Trust non-liquid assets;
- manage Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries; and
- use Trust non-liquid assets for beneficiary purposes, when such use is found to be in the best interest of the Trust and its beneficiaries.

Guidelines and Investment Policy

Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. The GeFONSI pool is intended to produce moderate returns with low levels of risk; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following~~:~~

- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

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From time to time, as part of the operations of the commercial real estate portfolio, the Trust may also hold cash, certificates of deposit, or money market accounts in federally insured banks. These funds are generally invested in low-risk, highly liquid accounts and include:

- Operating Accounts for Building management
- Property Reserves for Capital Improvements

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Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth. Investments in this area include:

- Budget Reserves

Long-Term: The Trust also invests funds for the benefit of future beneficiaries. These investments are managed for long term growth, with a time horizon of seven to twenty years. Investments in this area include:

- Mental Health Trust Fund
- Commercial Real Estate

Risk Tolerance

Investment risk is generally correlated with investment returns. The potential for investments to perform differently than anticipated (producing either significantly better or worse returns) is referred to as volatility. Deciding how much volatility within the portfolio is acceptable is a critical decision in determining potential investment results and achieving positive investment results, net of inflation. The Trust considers both the risk associated with specific investment strategies as well as the aggregate risk to total Trust assets.

> The board recognizes the difficulty faced by APFC, DOR and DNR in meeting investment and Trust land resource management objectives because of the uncertainties and complexities of contemporary investment markets and the non-liquid asset management operating arena. The board also recognizes that some risk must be assumed to achieve the APFC's long-term investment objectives, the DOR's Budget Reserve investment objectives, and the TLO's land management objectives. Further, in co-mingling Trust ~~liquidy~~liquid assets with the Alaska Permanent Fund managed by the APFC, the ability to withstand short and intermediate term market volatility has been considered. The board will review the realized five-year and ten-year risk (standard deviation) of the Trust on a periodic basis (not less than once every three years) to ensure the Trust's overall portfolio has not exhibited an undue level of risk.

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Asset Allocation

Careful allocation of Trust capital is an essential component of managing the overall portfolio risk profile and the potential return. Investing decisions strive for a balance between overweighting capital in a narrow section (*concentration risk)* and distributing capital so broadly that investments are not focused and generate mediocre results. Asset allocation is the framework for managing investment decisions to achieve the desired result within an acceptable range of risk.

The Trust has unique features when considering asset allocation:

- Through the Settlement the Trust holds approximately one million acres of land throughout Alaska. This is a substantial asset for the Trust, but it has limited liquidity and is concentrated in Alaska.

- Associated with the land holdings, the Trust participates in natural resource development (harvesting timber, mining, oil & gas production, etc.). This creates some sensitivity to commodity prices, foreign exchange rates, and overall economic environment.

- The Trust maintains a commitment to serving beneficiary needs through the provision of facilities at lease rates that may differ from market rates. These assets generate limited financial return to the Trust and may need to be considered as a separate asset class than other real estate investments.

- By investing as a commingled account at the Alaska Permanent Fund, the Trust enjoys economies of scale and reduced costs.~~,~~ ~~h~~However, the Trust cannot adjust the asset allocation or the investment strategies of the ~~fund~~Alaska Permanent Fund, and is subject to periodic changes to the return and risk targets adopted by APFC.

- The Trust holds direct real estate investments in ~~seven~~ several commercial properties. The funds invested in these assets represent ~~approximately 7~~less than 10% of total Trust assets and have limited liquidity.

Considering these factors, the Finance Committee shall review the asset allocation annually following completion of the annual financial statement audit and adjust the asset allocation as necessary to achieve Trust objectives. The Chief Financial Officer will provide the Committee with an aggregate report of current asset valuations and make recommendations for reallocations for trustee consideration.

Asset allocation amounts are based on a range of invested funds rather than a dollar threshold. The Trust assets are distributed as follows:

Investment Manager	Risk Profile	Asset Allocation
Department of Revenue (Cash or GeFONSI)	Low	Established by the Manager.[1]
Department of Revenue (Budget Reserves)	Moderate	Established by the Manager with Trust direction[2].
Alaska Permanent Fund (Trust Fund and Reserves)	Moderate	Established by the Manager[3].
Trust Land Office Commercial Real Estate	Moderate	Established by the Trust[4]
Trust Land Office TLODA Projects (including PRI activity)	Moderate	Established by the Trust[5]

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Performance Expectations

A substantial factor in achieving positive long term investment results is the costs and fees associated with investment services. The Trust has two managers that handle financial investments: the Alaska Permanent Fund Corporation and the Department of Revenue. Because of the amount of assets managed by the Permanent Fund Corporation[6] and the State of Alaska GeFONSI investment pool[7] the Trust receives the benefit of their purchasing power and economies of scale. This relationship allows for investments to be made at a lower cost than what would otherwise be available to the Trust and contributes to the long term growth of Trust investments. Accordingly, the Trust seeks to work with these agencies as our investment managers whenever possible.

Liquid Asset Managers

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[1] Department of Revenue investment policies and allocations are published on line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf

[2] The Trust gives broad guidance around which Department of Revenue investment funds the Trust should participate in. Descriptions of the allocations and investment pools are published in line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf under the section Z-1.

[3] The Permanent Fund Asset Allocation framework and targets are published at: https://apfc.org/diversification-framework-asset-allocation/

[4] Current allocation is seven properties, with approximately $40 million in invested funds.

[5] The Trust has made an allocation of up to $8 million in development projects, but has not yet approved projects from this account.

[6] $65 Billion as of May 2019

[7] $3 Billion as of May 2019

Alaska Permanent Fund Corporation

APFC management responsibilities for the Trust's principal are provided for in APFC statute and a memorandum of agreement between the Trust and the APFC (APFC MOA).

The board reviews the long-term performance, risk, and liquidity characteristics of the APFC on a periodic basis (but not less than annually) and evaluates whether the APFC's asset allocation strategy meets the long-term investment return objective of the Trust with an acceptable level of risk. The finance committee will meet with the APFC investment staff on a periodic basis (but not less than annually) to ~~confirm~~review the APFC's investment strategy~~ continues to meet the long-term objective of the Trust~~.

The performance target for the APFC investment will be APFC's current Blended Performance Benchmark, as outlined by the APFC, along with APFC's long-term Total Fund Return Objective of CPI+5%.

Department of Revenue

The asset allocation for Budget Reserves under management of the Treasury Division is directed by the trustees.

The Department of Revenue Treasury Division holds and manages one half of the Budget Reserve, cash balances of the ~~TADA,~~Central Facilities Fund and on a short-term basis the revenue generated by the TLO and Trust income allocated by the trustees for spending on the Comprehensive Integrated Mental Health Program.

Investments of the Budget Reserves are made pursuant to guidance provided by staff under the fiduciary direction of the board. In executing their duties, the finance committee shall periodically (not less than every three years) review asset allocation independently or request consultation from outside entities and, if appropriate, recommend the board adopt changes.

The ~~TADA~~Central Facilities Fund is currently invested alongside the General Fund and other Non-Segregated Investments (GeFONSI). The finance committee shall periodically (not less than every three years) review the cash balances of the ~~TADA~~Trust in conjunction with projected expected expenditure or reinvestment demand and recommend an asset allocation to the board.

The performance target for the liquid assets managed by the Department of Revenue are benchmarked to the Bloomberg Barclays 1-3 Year Government/Credit index.

Non-Liquid Asset Managers

Trust Land Office

The TLO manages the Trust's non-~~cash~~liquid assets on behalf of the trustees, in accordance with applicable statutes, regulations, and a memorandum of understanding between the Trust and DNR (DNR MOU). The land resource component of the Trust is made up of Alaskan land parcels~~.~~, ~~the~~ natural resource assets~~s~~, and associated improvements~~.~~. TLO management responsibilities are provided for in AS 38.05.801, 11 AAC 99, and the DNR MOU.

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TLO outcomes are projected each budget cycle with annual outcomes addressed in annual TLO budgets approved by the board. While the TLO consults primarily with the resource management committee of the board on specific transactions, consultation can also occur between the TLO and the Trust Administration Office (TAO) and between the TLO and the board, in accordance with specific board policies or transaction circumstances.

The performance of direct private equity real estate will be annually evaluated using an index or indices determined by the ~~resource~~ finance~~management~~ committee.

General operating expectations are as follows:

- TLO will focus first on land or resources at the high end of their market values ("Best Markets") and then on land or resources with Best Market potential within the next two to ten years;
- land or resources not included above will be considered "Long Term Market" lands, with TLO management emphasis placed on reasonable value preservation and enhancement actions in the interim;
- generally, the TLO will focus on transactions that:
    1. maximize return at prudent levels of risk;
    2. contribute to a diverse assortment of resource activity;
    3. provide ancillary values to the Trust; and
    4. remove or prevent liability risks;
- leases are preferred over sales and, when reasonable to do so, land values should be enhanced before disposal through lease or sale;
- transactions should not harm values of or future opportunities associated with other Trust lands;
- investments in Trust land should be consistent with the guidelines in the Resource Management Strategy and, when expected to generate increased value for the Trust, the proposed results should compete favorably with the projected long-term total rate of return of the Alaska Permanent Fund Corporation;

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- land exchanges may be considered, when associated costs and outcomes can be reasonably established;
- if beneficiary program uses of Trust lands are proposed at rents below fair market value, the increment between proposed rents and fair market value rents will be considered an allocation of Trust revenue and must be approved by the board; and
- lands, structures, and resources may be acquired when the acquisition will add value to the Trust's non-liquid asset portfolio or will contribute to the mission of the Trust in another way. All acquisitions will be analyzed on a 'Life Cycle Basis'; defined as the present value of the acquisition cost, the operating income/benefits during the holding periods and the value of the asset at disposition.

In accordance with AS 13.38, 20 AAC 40.610, and this AMPS, TLO revenue will be allocated as follows:

- To Principal: Land sale revenues; royalties from coal, gas, materials, minerals, and oil; perpetual easements; and 85% of revenues from timber sales.
- To Income: Interest from land sale contracts; bonus bids; rents; distributions from the commercial real estate portfolio and 15% of revenues from timber sales.

Real Estate Investments

The third party real estate ~~adviser manages~~advisor monitors the Trust's non-cash property and natural resource assets that have been acquired subsequent to the Mental Health Enabling Act of 1956, including the Commercial Real Estate managed by the TLO. This ~~adviser~~advisor acts as an independent fiduciary over the Trust's non-liquid direct ~~property and natural resource~~real estate investments. The TLO provides the staff to manage the investments.~~.~~

The board reviews the long-term performance, risk, and liquidity characteristics of the real estate ~~adviser~~investments on a periodic basis (but not less than annually). The third-party real estate ~~adviser is~~advisor may make recommendations to the board regarding transactions related to the ~~non-liquid~~assets.

The performance target for the assets overseen by the third-party real estate ~~adviser~~advisor is the NCREIF Property index ("NPI").

Control Procedures

AMPS Revisions

It is not expected that the AMPS will change frequently. In particular, short-term changes in the financial, real estate and natural resource markets and associated operating arenas should not require adjustments to the AMPS. However, the board will review the AMPS at least annually to confirm it remains relevant. Additionally, the AMPS shall be reviewed if there is a substantial sale of Trust non-liquid property or natural resource assets[8], a fundamental change to how APFC manages its portion of the liquid assets, alterations to the Trust's spending policy, or if the Trust is impacted by statutory revisions.

Liquid Assets

APFC & DOR performance will be reviewed quarterly by the finance committee who will report all performance to the board to determine the continued feasibility of achieving the investment and Trust land management objectives and the appropriateness of the AMPS for achieving those objectives.

Land, Natural Resources, and associated improvements (Non-Liquid ~~Property and Natural Resource~~ Assets)

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The TLO will maintain a level of management capacity necessary to prudently manage and develop Trust non-liquid assets over time. It is understood that this component of Trust non-liquid asset management represents a significant expense to the Trust.

The duties and responsibilities of the TLO are generally provided for in AS 38.05.801 and more specifically provided for in 11 AAC 99 and the DNR MOU. The specific management principles are provided for in 11 AAC 99.

TLO financial performance will be reviewed at least annually by the ~~resource~~ finance c~~management c~~ommittee which will report all performance to the board.

Performance of the third-party real estate ~~adviser~~ advisor will be reviewed ~~at least quarterly~~annually by the ~~resource management~~finance committee which will report all performance to the board.

Total Trust Performance

On at least an annual basis, the total financial performance of the Trust assets will be presented to the board. Performance will be compared to a blended benchmark

[8] A substantial sale is considered a transaction one that generates cash proceeds large enough to materially change the Trust's financial performance. Using the 4.25% distribution rate, a sale of $23 million in property would increase the annual portfolio distribution by $1 million over the 4 year averaging cycle.

consisting of the following indices (weighted based upon the Trust's allocation to each category as of the beginning of each fiscal year):

- APFC Allocation: APFC's Blended Performance Benchmark
- DOR Allocation: Bloomberg Barclays 1-3 Year Gov't/Credit Index
- TLO Allocation: TLO's actual performance
- Third-Party Real Estate ~~Adviser~~Advisor: NCREIF Property Index

Spending Policies

The board has the authority to authorize the expenditure of Trust funds to protect and enhance the value and productivity of Trust assets, for the award of grants and contracts in fulfillment of the Trust's purpose to ensure a Comprehensive Integrated Mental Health Program, and, with legislative approval, the operating expenses of the TAO. This Spending Policy outlines five board objectives:

1. protect and enhance the corpus of the Trust by allocating sufficient resources to ensure that Trust assets are properly managed, including the use of funds allocated to the Trust Land Office Development Account, where appropriate, to maximize the value and productivity of Trust non-liquid assets;

2. apply smoothing mechanisms to mitigate the effects of short-term market volatility on spending and maintain a reliable funding stream to ensure the support of a Comprehensive Integrated Mental Health Program for the beneficiaries;

3. establish a Budget Reserve account to ensure funding support for the Comprehensive Integrated Mental Health Program is maintained in a difficult market environment;

4. maintain the purchasing power of the Trust principal, including addressing the effects of inflation, by using the reserve model consisting of the Budget Reserve account originally recommended by Callan Associates in 1996; and

5. follow a spending policy based upon a sustainable percentage of investment net asset values and expendable income from Trust land management.

The board recognizes achieving Trust asset management objectives requires adequate resources be allocated for that purpose by reimbursing APFC and DOR, DNR and the third-party real estate advisor for the reasonable costs of managing Trust assets.

Annual Available Funding Framework

Having a relatively consistent and predictable funding stream is paramount to ensuring an effective Comprehensive Integrated Mental Health Program. To mitigate the effects of periodic market volatility on funding, the board utilizes smoothing mechanisms to maximize funding consistency.

The following components have been established as a framework to aid trustees in determining the annual available funding amount:

- An annual withdrawal calculation consisting of 4.25 percent of the rolling four year-end[9] average aggregate net asset value (NAV) of the following:
  - Principal Invested at APFC[10]
  - Budget Reserve invested at APFC
  - Budget Reserve invested at DOR

- The rolling four year-end average of lapsed appropriations funded from the Settlement Income Account[11], or other process approved by the board to capture the value of prior year unused funds;

- The rolling four year-end average of expendable income generated by Trust Land Office operations;

- The rolling four year-end average of interest earned on cash held with the General Fund and Other Non-Segregated Investments (GeFONSI) managed by DOR;

- The unobligated/unallocated funds that could have been authorized in previous fiscal years under this framework calculation; and

- Other miscellaneous unrestricted revenues properly deposited into the Trust Settlement Income Account such as contributions from partner agencies and the recovery of prior year expenditures received after the funding appropriation lapsed.

Trustees reserve the right to expend additional funds when circumstances warrant. Concurrently, trustees acknowledge that principal assets are not available for expenditure.

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[9] To ensure clarity and consistency in calculations, the year-end amounts referred to in the Annual Available Funding Framework are defined as the amounts/values as of the end of the fiscal year (June 30th) rather than the end of the calendar year (December 31).

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[10] Funds in the Trust operating accounts Account are not included in the payout calculation unless Trustees approve otherwise.

[11] Settlement Income Account fund 1092 only. Lapsed appropriations funded from other sources are not included in the calculation.

The annual withdrawal calculation amount will be transferred to the Settlement Income Account and invested with the GeFONSI with minimal risk on a lump sum or periodic basis by the CFO in consultation with the CEO based on market conditions and cash flow needs.

Budget Reserve Guidelines

In order to fulfill funding requirements during market downturns, a Budget Reserve account will be maintained to help ensure funding availability. Based on a Callan Associates study of the Alaska Permanent Fund and the Alaska Mental Health Trust Fund, the Budget Reserve is set at 400% of the targeted annual withdrawal calculation amount. This reserve amount should be adequate to provide maximum assurance that the Trust will be able to meet annual funding goals.

Approximately one half of the Budget Reserve shall be invested by the DOR. The remainder of the Budget Reserve shall be invested by the APFC in the same manner as the Principal.

When APFC experiences gains for a given year, the Budget Reserve at DOR will first be adjusted up to 200% of the current year's targeted annual withdrawal calculation. If additional gains remain, adjustments will be made to the Budget Reserve invested by APFC. When the Budget Reserve is fully funded at both DOR and APFC, funds may be used to help offset the effects of inflation ("inflation proofing"). The effect of inflation will be estimated by using US Department of Labor Bureau of Labor Statistics CPI-U index[12].

When the APFC or DOR experiences losses for a given year, the Budget Reserve at DOR will be maintained or adjusted to 200% of the annual withdraw calculation from the Budget Reserve at APFC.

In the event of severe and/or sustained losses whereby the Budget Reserve is insufficient to meet the annual payout while maintaining at least 200% of the current year's annual withdrawal calculation then the withdrawal rate or amount may be reviewed by the trustees.

Full or partial inflation proofing may be facilitated by the following method:

- Inflation proofing permanent transfer (official non-spendable transfer)
    - Upon notification by the CFO that trustees have performed an official and permanent inflation proofing, APFC will initiate an accounting entry to irretrievably transfer funds from Budget Reserves to the Mental Health Trust Fund.

Trust Land Office Development Account Guidelines

[12] Consumer Price Index All Urban Consumers; U.S.; All Items; 1967=100

The value and productivity of Trust liquid and non-liquid assets must be maximized through the reinvestment of Trust income where appropriate. This includes investments made through Program Related Investments (PRI), the Resource Management Strategy (RMS) or other programs approved by trustees. To achieve this objective, the Board will maintain a Trust Land Office Development Account (TLODA) to use Trust income to exchange one asset for another, to maintain or enhance the value of the Trust's existing non-liquid asset portfolio, either through prudent investments in non-liquid assets already owned by the Trust or through the acquisition of additional assets. Assets in the TLODA may also be used to acquire assets that enhance the capacity of the state's mental health program, such as facilities for delivering services to beneficiaries~~,~~. This may be accomplished through the financing of projects, purchase/lease of assets, exchange or resale.

Recommendations for expenditure from the TLODA will be noticed in the same manner as other Trust expenditures, including presentation to appropriate Trust committees and final approval by a committee or the board of trustees, as provided for in the Trust bylaws. Recommendations will be based upon a specific work plan with identified priorities.

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Where TLODA funds are used to enhance the value of the Trust's existing non-liquid assets, each project will be accounted for individually and the proceeds from the project will be used to calculate an internal rate of return (IRR). The trustees may adjust the TLODA IRR target on a case by case basis, reflecting the unique circumstances of each project. Classifying these cash flows between principal and income shall be done at the direction of the trustees, in accordance with 20 AAC 40.610.

The TLODA projects may involve real estate investment and natural resource development, asset classes that are potentially illiquid or exposed to fluctuating commodity prices. Accordingly, the trustees have established $8 million as the allocation to this account, representing approximately 1.5% of Trust liquid assets. Additional allocations may be made in the future, depending upon the needs of the Trust

Trust Land Office Commercial Real Estate Guidelines

The commercial real estate assets held by the Trust generate income through lease payments. These assets also have the potential to create value through appreciation, through a combination of property improvements, lease renewals, and overall economic growth. Management of these assets is outlined in the Resource Management Strategy and handled by the Trust Land Office.

The Trust Land Office has been selected as the manager for these assets because of their unique and comprehensive knowledge of the Trust settlement lands and resources, which will minimize the potential for inadvertent concentration risk, their understanding of the Trust mission and objectives, which will assist with the alignment of investment decisions along with the Comprehensive Integrated Mental Health Plan, and their ability to perform these duties within their current responsibilities thereby creating a low incremental cost for their services.

There are three key features associated with the commercial real estate assets that should be considered as part of the AMPS:

- Each property has an annual budget for operations, debt service, and maintenance/capital improvements. Because these costs must be paid to preserve the value of the assets, income generated by the properties will be used to fund these costs first, prior to making distributions to fund beneficiary programs.
- The properties participate in the Central Facilities Fund, with contributions from the properties accumulating over time. These funds provide a cash flow cushion in the event that major improvements are needed to maintain the properties or to secure leases. The fund has a target of $2 million and contributions to the fund should be made prior to making distributions to fund beneficiary programs.
- Certain properties have outstanding mortgages. These mortgages are structured as non-recourse debt, which limits the overall liability of the Trust. The terms of each mortgage, especially the timing of any balloon payment requirements, should be carefully considered as part of the overall investment strategy.

These assets are managed by the Trust Land Office and compose approximately 7% of the Trust's overall investments. Each property has a commercial property manager that prepares an annual budget, collects the rents, and handles day to day operations. Expenditures must be part of the trustee approved annual budget and TLO staff monitor the monthly results of each property.

These assets serve two purposes: they provide a hedge against volatility in the stock market and they generate income that supplements the annual distribution from the Trust portfolio. The Trust may elect to sell these assets and replace them with different assets at any time.

Definitions

For purposes of ease of administration and understanding of this Asset Management Policy Statement, the following terms are defined or clarified:

APFC: The Alaska Permanent Fund Corporation manages the liquid assets of the Alaska Mental Health Trust Authority under the APFC board's asset allocation policy and its investment policies and guidelines for major asset classes.

ASSETS: Consists of the liquid and non-liquid assets of the Alaska Mental Health Trust Authority, including property and resource assets acquired by the TLO on behalf of the Trust.

BOARD: The governing body of the Alaska Mental Health Trust Authority established by AS 47.30.016.

BUDGET RESERVE: Budget Reserve is set at 400% of the targeted annual withdrawal amount. This reserve amount should be adequate to ensure the Trust's ability to meet its spending goals in a difficult market environment and to ensure liquidity in future years. The budget reserve is maintained both within the state treasury as well as the Alaska Permanent Fund Corporation.

CHIEF EXECUTIVE OFFICER (CEO): The staff position as defined by AS 47.30.026 serving the board as the chief executive officer of the Alaska Mental Health Trust Authority.

CHIEF FINANCIAL OFFICER (CFO): The staff position serving as the chief financial officer of the Alaska Mental Health Trust Authority.

GENERAL FUND AND OTHER NON-SEGREGATED INVESTMENT (GEFONSI): An investment pool managed by the Alaska Department of Revenue Treasury Division. The pool buys fixed income securities on behalf of the Trust and tracks the earnings and value of the Trust's share of the pool.

LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that are invested through the Department of Revenue (DOR), under management of the Treasury Division, and also through the Alaska Permanent Fund Corporation (APFC).

NON-LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that consist of property and natural resource assets. Such assets are overseen by the Trust Land Office (TLO) and the Third-Party Real Estate Adviser.

THIRD-PARTY REAL ESTATE ADVISO~~E~~R: The Third-Party Real Estate ~~Adviser~~ Advisor is hired by the board to oversee the Trust's non-liquid real estate and natural resource assets acquired subsequent to the Mental Health Enabling Act of 1956. These non-liquid assets are managed by the TLO.

TRUST SETTLEMENT INCOME ACCOUNT: The GeFONSI account in which income available for appropriation and expenditure is deposited (and from which agencies receiving MHTAAR funded appropriations expend). The account is maintained on the state accounting system as GASB fund 1092.

TRUST AUTHORITY DEVELOPMENT ACCOUNT: The holding place for cash principal until it is transferred to the APFC for investment alongside the Alaska Permanent Fund. The account also holds some funding for previously authorized development projects that are being completed. The account is maintained on the state accounting system as GASB fund 3320. Prior to September 2014, this account was referred to as the Trust Land Development Account.

TRUST FACILITY MAINTENANCE ACCOUNT/CENTRAL FACILITY FUND: A component of the Settlement Income Account where a portion of facility rents are deposited to finance operations and maintenance on buildings owned by the Trust, including capital improvements and leasing commissions for the commercial real estate portfolio. The account is maintained on the state accounting system as GASB fund ~~3320~~3322. The account was originally authorized by Resolution 05-04.

TRUST LAND OFFICE DEVELOPMENT ACCOUNT: A component of the Budget Reserves, where a portion of spendable income has been assigned for future use on natural resource development projects or other activities authorized by the trustees.

TRUST LAND PORTFOLIO: The non-~~cash~~liquid assets of the Alaska Mental Health Trust Authority that are managed by the Trust Land Office, including improved properties and facilities. The land portfolio includes properties acquired through the Settlement as well as other properties acquired for program related investment and commercial investment properties.

SETTLEMENT: The statutes, settlement agreement, letters clarifying the settlement agreement, and the final Superior Court order creating and approving the settlement of Weiss v. State of Alaska.

SETTLEMENT LAND: The properties and associated improvements transferred to the Trust as part of the original Mental Health Enabling Act (PL 94-830) as well as the properties subsequently transferred to the Trust as replacement lands (June 10, 1994 settlement).

STAFF: The CEO, Trust Land Office Executive Director, all employees of the Trust and the Trust Land Office.

TRUST: The Alaska Mental Health Trust established by Congress under the Mental Health Enabling Act of 1956.

TRUST AUTHORITY: The Alaska Mental Health Trust Authority established by AS 47.30.011.

TRUSTEE(S): The board of trustees of the Trust Authority, either collectively or individually.

TRUST AUTHORITY OFFICE (TAO): The office with responsibility for providing support to the chief executive officer and board of trustees in management of Trust financial assets and in assuring development of the Comprehensive Integrated Mental Health Program.

TRUST LAND OFFICE (TLO): The office with responsibility for management of the Trust non-~~cash~~liquid assets ~~(property~~ and natural resource assets~~)~~ and associated improvements established within the Department of Natural Resources under AS 44.37.050.

TRUST LAND OFFICE (TLO) EXECUTIVE DIRECTOR: Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust. This staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office in fulfilling the contract with the board described in AS 37.14.009.~~The staff position serving the commissioner of the Department of Natural Resources in conjunction with the board as the executive director of the Trust Land Office.~~