At the May 2020 board meeting, staff were directed to address holding strategies for the CRE, in which refinancing the real estate assets would be considered, as well as the anticipated impact of the strategies, and the pros and cons of these options, including legislative, legal and financial risks.

**Summary Conclusions**

Since inception and on a portfolio basis, the properties in the Commercial Real Estate Portfolio have exceeded performance benchmarks.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Return</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
<td>3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Unrealized Gain(Loss)</td>
<td>4%</td>
<td>21%</td>
<td>7%</td>
<td>-2%</td>
<td>14%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Total</td>
<td>6%</td>
<td>25%</td>
<td>9%</td>
<td>2%</td>
<td>17%</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

Capital appreciation since purchase, at 7%, is near the typical 8% target set for the assets.

Countering that, distributions to the Trust are below projections at the time of purchase approval.

<table>
<thead>
<tr>
<th></th>
<th>Predicted</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount ($000)</td>
<td>$2,632</td>
<td>$1,309</td>
<td>$1,803</td>
<td>$1,270</td>
<td>$2,034</td>
<td>$1,640</td>
</tr>
<tr>
<td>% below prediction</td>
<td>-50%</td>
<td>-32%</td>
<td>-52%</td>
<td>-23%</td>
<td>-38%</td>
<td></td>
</tr>
</tbody>
</table>

Five simplified options were evaluated: the status quo, refinancing using amortized debt, refinancing as a portfolio using interest-only debt, refinancing three assets as needed and retaining the other mortgages, and lastly, selling the assets and reinvesting in the Trust’s Alaska Permanent Fund Corporation managed funds. Amortized mortgages did not compare favorably and are not included here.
There is uncertainty in any forecast. Three scenarios were evaluated and incorporated into an expected case. The differences between the options are summed below stated in ‘today’s’ dollars, and include the high and low range for each option.

<table>
<thead>
<tr>
<th>Option</th>
<th>Expected Benefit</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status Quo</td>
<td>$28.4MM</td>
<td>$36.8MM</td>
<td>$5.5MM</td>
</tr>
<tr>
<td>Interest Only Portfolio</td>
<td>$46.2MM</td>
<td>$54.6MM</td>
<td>$23.5MM</td>
</tr>
<tr>
<td>Partial Interest Only</td>
<td>$38.1MM</td>
<td>$46.5MM</td>
<td>$15.5MM</td>
</tr>
<tr>
<td>Sale/Invest in APFC</td>
<td>$24.3MM</td>
<td>$24.2MM</td>
<td>$24.3MM</td>
</tr>
</tbody>
</table>

**Portfolio Overview**

The Trust retains ownership of seven investment properties. All properties except for Cordova are financed with amortizing debt. Two properties, San Pedro (North Park) and Ridgepoint (Promontory Point) are financed with balloon payments due FY22 and FY26, respectively. The remaining mortgage lives are 10 years for Israel, 14 years for Rulon and Commercial, and 17 years for Amberglen. Below is a summary by property of the recent fair market appraisal valuations, debt summary, and leasing status.

**Cordova (2011)**
- Current Value: $4.100
- Debt: $0
- 100% occupied, includes TLO

**Commercial (2013)**
- Current Value: $2.870
- Debt: $1.010
- Rate: 3.94%
- Prepay Penalty: None
- 100% occupied with anticipated lease renewal

**Rulon (2013)**
- Current Value: $20.100
- Debt: $6.556
- Rate: 4.20%
- Prepay Penalty: None
- 100% occupied with long-term, strong-credit, single-tenant lease

**Israel (2014)**
- Current Value: $18.860
- Debt: $6.809
- Rate: 4.35%
- Prepay Penalty: $0.506
- WA purchase option at 98% of appraisal. Current lease negotiations expected to set a reference rate for 2023

**Ridgepoint (2015)**
- Current Value: $15.500
- Debt: $9.408
- Rate: 4.69%
- Prepay Penalty: $1.158
- 100% occupied. DOT backfilling upcoming vacancy

**San Pedro (2015)**
- Current Value: $13.500
- Debt: $6.628
- Rate: 5.20%
- Prepay Penalty: $0.197
- Active leasing showings to fill vacancies, including potential October vacancy

**Amber Glen (2016)**
- Current Value: $27.644
- Debt: $11.592
- Rate: 4.25%
- Prepay Penalty: $1.573
- Active leasing

**Performance Expectations** for returns are through a) dividends distributed from the individual LLCs to the Trust, providing ongoing revenue for Trust beneficiary benefit, and b) investment
earnings on returned principal and capital gains after the assets are sold, which benefit future beneficiaries.

Actual income distributed to the Trust from the properties has been lower than predicted at the time of Trustee purchase approval. In FY20, the Commercial Real Estate portfolio’s (CRE) operations generated a $1.6MM distribution to the Trust for a 1.7% realized return on investment.

**Distribution Predictions and Distribution to the Trust**

**FY16-FY20**

<table>
<thead>
<tr>
<th></th>
<th>Predicted</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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</thead>
<tbody>
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<td>-52%</td>
<td>-23%</td>
<td>-38%</td>
<td></td>
</tr>
</tbody>
</table>

Despite the impact of Covid 19, year-end 2020 appraisals and broker’s opinions demonstrate portfolio stability with $102.6MM combined asset value, up $1.6MM from the prior year. With $42MM mortgage debt outstanding, the Trust’s equity at YE2020 Fair Market Value is $60.6MM, 1.5 times the $39MM invested between 2011 and 2016.

Given the Trust’s total investments in the assets relative to current fair market value, the portfolio’s unrealized annual gain averaged 7%, and combined realized and unrealized returns averaged 8.8%. In FY20, the portfolio had a 5.8% year-over-year unrealized gain from asset appreciation. The total return, 1.7% realized and 5.8% unrealized, was 7.5%, exceeding APFC’s estimated total and real estate investment returns.

**CRE Portfolio**

<table>
<thead>
<tr>
<th></th>
<th>2012-2019 Average</th>
<th>FY 2020 Estimate</th>
<th>Average 5-yr Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Return</td>
<td>1.8%</td>
<td>1.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Unrealized Gain (Loss)</td>
<td>7.0%</td>
<td>5.8%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total CRE Return</td>
<td>8.8%</td>
<td>7.5%</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

**APFC**

<table>
<thead>
<tr>
<th></th>
<th>2012-2019 Average</th>
<th>FY 2020 Estimate</th>
<th>Average 5-yr Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Total</td>
<td>7.80%</td>
<td>0.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7.79%</td>
<td>0.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: FY20 estimate: APFC 5/31/20 1-year returns; CRE: 6/30/20 reports. Forecast source: APFC – Callan FY20 10-year forecast; CRE – TLO 5-year forecast
Despite the impact of Covid 19, year-end 2020 appraisals and broker’s opinions demonstrate portfolio stability with $102.6MM combined asset value, up $1.6MM from the prior year. With $42MM mortgage debt outstanding, the Trust’s equity at YE2020 Fair Market Value is $60.6MM, 1.5 times the $39MM invested between 2011 and 2016. This is in the ballpark for the investment objectives for asset appreciation for the properties at the time of purchase.

Cordova is the sole unlevered asset. Understandably with the TLO as a non-paying tenant, it has not held value. Pulling down the average are Cordova, which would be out of pocket close to $1MM, and San Pedro and Ridgepoint. The valuations for the latter two were essentially flat and up 1%, respectively, but their market values are expected to recover with upcoming leasings.

Looking forward, we use a composite forecast incorporating a pessimistic, base and optimistic scenarios. Excluding the FY22 San Pedro balloon payment, we anticipate a 5-year average of $2.4MM per year distributed to the Trust, with this year as a low of $677K. Cash flow is influenced by management decisions about reserves for capital expenditures, tenant improvements, lease commissions, general uncertainties, as well as financing structures.

**Holding and Financing Options**

Four holding and financing options are outlined in this memorandum:

1. Maintain the Status Quo (with no refinancing, paying off loan balances at maturity)
2. Refinance Assets as a Portfolio—Interest Only (I/O)
3. Refinance Israel, San Pedro and Ridgepoint—I/O as-needed
4. Sell the Assets, Reinvesting Proceeds with APFC

The following chart is a snapshot of the first five years of cash generation for the four options.

**Operating Cash Flow After Debt Service For Options Evaluated**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Year 1 FY21</th>
<th>Year 2 FY22</th>
<th>Year 3 FY23</th>
<th>Year 4 FY24</th>
<th>Year 5 FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Baseline: Cash Flow Before Debt Service</td>
<td>$4,350,983</td>
<td>$5,776,309</td>
<td>$6,776,730</td>
<td>$5,680,093</td>
<td>$6,744,960</td>
</tr>
<tr>
<td>Income Generated Under Alternate Financing Scenarios:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Option 1: Maintain Status Quo (No Refinancing)</td>
<td>$676,671</td>
<td>$(3,956,450)</td>
<td>$3,359,726</td>
<td>$2,479,135</td>
<td>$3,367,546</td>
</tr>
<tr>
<td>Option 2: Refinance Assets as a Portfolio</td>
<td>$1,896,237</td>
<td>$4,236,492</td>
<td>$5,135,271</td>
<td>$4,302,549</td>
<td>$5,186,770</td>
</tr>
<tr>
<td>Option 3: Refinancing As Needed</td>
<td>$927,527</td>
<td>$2,955,072</td>
<td>$4,009,087</td>
<td>$3,176,365</td>
<td>$4,060,586</td>
</tr>
<tr>
<td>Option 4: Sale &amp; APFC Investment</td>
<td>$378,320</td>
<td>$632,219</td>
<td>$1,301,818</td>
<td>$2,004,290</td>
<td>$2,734,464</td>
</tr>
</tbody>
</table>

Note: Assumes Jan 2021 transactions, 3.7% refinancing rate, 7% APFC return.
Considerations regarding the CRE applying to options:

- Real estate values may move independently from the broader financial markets, providing some hedging protection to the Trust’s cash investments. Historically, real estate investments have provided protection in an inflationary environment, with rents able to rise with inflation.
- Commercial real estate performance varies by assets over time due to regional market fluctuations and asset-specific dynamics. Within a well-balanced portfolio, an individual asset’s short-term negative operating performance can be expected to be supported by strong operating performance of the portfolio as a whole, allowing for a long-term investment horizon.
- Financing choices—such as balloon payments, rate structures, substitution rights or prepayment conditions—can enhance and/or limit cash flow flexibility depending upon objectives.
- Current market interest rates are for the most part significantly below the CRE’s current existing mortgage rates. The general rule of thumb is if a refinancing is expected to generate 3% or more cash in present value terms, refinancing should be pursued.
- The Trust has implemented the Legislative Audit recommendations, including retaining a real estate advisor.
- The Trust’s Asset Management Policy Statement and the TLO’s Real Estate Management Policy guide decision making on the CRE. These assets are evaluated for benefit to future beneficiaries, with the same time frame as the principal in the Trust Fund, and measurement is based on Net Present Value evaluation.

Benefits of the CRE holdings:

- The real estate portfolio has 60% Rated Credit tenancies, providing durable income to the Trust.
- Lease arrangements providing stability to Trust Land Office managed revenues.
- There continues to be potential for properties to appreciate in value, particularly when securing long term leases with high quality tenants.

Uncertainties or negative considerations of the CRE holdings:

- The Trust Land Office has major short-term decisions on three properties.
  - In the near term, Israel’s and San Pedro’s operations may be close to break-even before its current debt service (depending on the outcome of lease negotiations).
  - San Pedro and Ridge Point’s upcoming mortgage balloon payments of $6.2MM and $8.2MM, respectively, require use of Trust reserves or other funding or financing sources.
• As for all investments, the duration and depth of business disruptions from Covid 19 are still uncertain.
• Although the portfolio is balanced overall and has proven to have durable income with 98%+ rent collection, three properties are leased to either single credit long and short term tenants, or to a small number of users, which creates some level of concentration risk.
• As the IRS shifts more to electronic processing, focus should be on US congressional committee power in Utah versus the states with similar processing facilities, and the Trust may frame its Rulon hold/sell strategy accordingly.
• The Legislative Audit has been postponed from July 2020 until likely January 2021. The concerns from some in the State’s Legislative body over the CRE results in the Trust’s need to allocate financial and personnel resources away from beneficiary focus.

General Recommendation:

• The original strategy was that a TLO-managed real estate portfolio would be a permanent addition to the Trust’s overall mix of investment assets. The Trustee’s strategy should be reviewed in the future.
• Specific holding strategies should be reviewed based upon anticipated investment needs, market conditions, financing obligations, and accretive investing on behalf of the beneficiaries.

Option 1: Maintain Status Quo

Present Value Contribution to the Trust: $26.7MM over 17 year forecast period

Since inception the CRE has generated on average $1.6MM to the Trust. The TLO anticipates cash to increase 3% per year long-term.

Three assets – Israel, San Pedro and Ridgepoint—present short-term challenges to the Trust under the Status Quo. San Pedro has a $6.3MM mortgage balloon payment required 10/31/21. Ridgepoint has an $8.2MM balloon payment required 7/1/25 (not shown, FY26). These cash payments cannot be supported by the annual operating cash flow from the portfolio as a whole.

Status Quo 5-Year Forecast

<table>
<thead>
<tr>
<th>Commercial Real Estate Portfolio Forecast Distributions</th>
<th>Year 1 FY21</th>
<th>Year 2 FY22</th>
<th>Year 3 FY23</th>
<th>Year 4 FY24</th>
<th>Year 5 FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Before Debt Service</td>
<td>$4,350,983</td>
<td>$5,776,309</td>
<td>$6,776,730</td>
<td>$5,680,093</td>
<td>$6,744,960</td>
</tr>
<tr>
<td>Annual Debt Service</td>
<td>$3,805,756</td>
<td>$3,404,684</td>
<td>$3,204,684</td>
<td>$3,204,684</td>
<td>$3,204,684</td>
</tr>
<tr>
<td>Balloon Payment</td>
<td>$3,805,756</td>
<td>$3,404,684</td>
<td>$3,204,684</td>
<td>$3,204,684</td>
<td>$3,204,684</td>
</tr>
<tr>
<td>Cash Flow After Debt Service</td>
<td>$545,227</td>
<td>$(3,929,854)</td>
<td>$3,572,046</td>
<td>$2,475,409</td>
<td>$3,540,276</td>
</tr>
</tbody>
</table>
The TLO and Harvest note, with caveats, that Israel’s operating profit is not strong enough given its debt service to repay the debt nor fund significant leasing costs. The pending lease renewal for part of the State of Washington lease is at a breakeven rent with the existing debt service. Harvest’s worst case scenario is that Israel will require cash support in FY22 and FY24 of $1.7 million. Under best case, if re-leasing costs do not occur, there will negligible cash needs. Additionally, although the TLO is optimistic about maintaining occupancy at San Pedro, it forecasts FY21 operating income before debt service near breakeven. So with operating pressures and a FY22 balloon payment, San Pedro is expected to have a net $6MM drain on portfolio cash flow to the Trust.

Considerations

Three basic options exist for the Status Quo: debt repayment from existing Trust reserves, debt repayment payoff from the sale of assets, or refinancing the mortgages. At this point, given financial market uncertainty, the Trust should not plan on drawing from its reserves. Harvest advises against asset sales at this time, anticipating uncertainty in market interest and potential for a deep price discount.

Benefits of the Status Quo

Maintaining the current financing provides the following benefits to the Trust:

- Additional annual operating cash flowing to the Trust as mortgages are paid off.
- Continued equity build as amortized mortgages are paid down, with each year accruing more equity available for investment at the point of sale.
- After the balloon payments are made, operating cash to the Trust will increase by the amount of the mortgage payment:
  - FY22 San Pedro: $600K
  - FY26 Ridgepoint: $636K

  This increase in cash flow for beneficiary use will continue as other mortgages are paid off.

Option 2: Refinance Assets as a Portfolio

Present Value Contribution to the Trust: $46.2MM over 17 year forecast period

Summary

Harvest Capital, after being engaged in October 2019, quickly recommended that the commercial properties be refinanced as a portfolio with interest-only (I/O) financing. The arguments Harvest presented were that an estimated $2MM per year in cash would be
generated by eliminating the principal payments and securing a lower market interest rate, and noted that this was a “best practice” in the commercial real estate investment environment.

Harvests’ recommendation is to target January 2021 to close on an interest-only $45MM mortgage, based on an estimated $41MM debt outstanding and roughly $4MM in closing costs and pre-payment fees associated with some of the existing mortgages.

The table following shows an eight-year time horizon to reflect two balloon payments. The estimated difference between the Status Quo and an Interest Only structure shows the cash flow relief to the Trust. This benefit on a nominal basis decreases as more mortgages are paid off as can be seen on the last line of the table.

**Interest Only Financing**

<table>
<thead>
<tr>
<th>Commercial Real Estate Portfolio Forecast Distributions</th>
<th>Year 1 FY21</th>
<th>Year 2 FY22</th>
<th>Year 3 FY23</th>
<th>Year 4 FY24</th>
<th>Year 5 FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Before Debt Service</td>
<td>$4,350,983</td>
<td>$5,776,309</td>
<td>$6,776,730</td>
<td>$5,680,093</td>
<td>$6,744,960</td>
</tr>
<tr>
<td>Annual Debt Service</td>
<td>$2,736,303</td>
<td>$1,666,850</td>
<td>$1,666,850</td>
<td>$1,666,850</td>
<td>$1,666,850</td>
</tr>
<tr>
<td>Cash Flow After Debt Service</td>
<td>$1,614,680</td>
<td>$4,109,459</td>
<td>$5,109,880</td>
<td>$4,013,243</td>
<td>$5,078,110</td>
</tr>
<tr>
<td>Status Quo Cash Flow After Debt Service</td>
<td>$545,227</td>
<td>$(3,929,854)</td>
<td>$3,572,046</td>
<td>$2,475,409</td>
<td>$3,540,276</td>
</tr>
<tr>
<td>Cash Increase with Portfolio Interest Only</td>
<td>$1,069,453</td>
<td>$8,039,312</td>
<td>$1,537,834</td>
<td>$1,537,834</td>
<td>$1,537,834</td>
</tr>
</tbody>
</table>

Trust Investment guidelines require evaluation in present value terms. Over the forecast time horizon of 17 years (based on the last mortgage pay-off under the Status Quo), the CRE refinanced under Interest Only is expected to generate $46MM to the Trust versus $28MM under the Status Quo.

Here is where evaluation becomes more complex: Balloon payments are still required. These balloon payments may be refinanced, or the asset could be sold with part of the proceeds used to pay the balloon payment and the remainder invested with APFC. So, it is important to consider different time horizons for holding the properties and how proceeds from the sale of the assets are reinvested. Under various scenarios run, depending upon when the assets are sold and proceeds are reinvested, there is a large benefit over the Status Quo—up to two-thirds more cash flow (in today’s dollars) to the Trust over a 20 year time horizon.

**Considerations of Interest Only**

- Interest-Only financing does not preclude accelerated principal payment, rather the minimum payment is the interest portion of the debt.
• A portfolio structure allows cash flow management at the Trust Land Office level.
• The liability firewall between the Trust and LLC structures would continue to exist with a portfolio. The portfolio of assets would be held in a special purpose vehicle.
• Interest rates currently remain low, and an estimated 3.7% rate is below the average interest rates of the existing mortgages. However, there is no certainty that this rate can be secured.
• Because of refinancing costs, there should be agreement among Trustees regarding the holding period of the assets unless there is an advantageous outsized sales opportunity above appraisal valuation(s). If after refinancing a decision is made to, in the near term, reduce the real estate holdings, the financial benefits of refinancing will be reduced and may be worse than the Status Quo (unless it is well above appraisal valuations).
• It is hoped marketing a portfolio refinance to the two lenders with highest prepayment penalties, Principal and State Farm, would find either willing to renegotiate their penalties. There is no assurance that either lender would be interested in financing the portfolio.
• There is no guarantee that the assets in the portfolio will increase in value as originally proposed during the remaining holding period. However, with loan-to-value currently at 45%, the cash value generated for the Trust at the time of sale would not be expected to be much below the current $60MM value in a worst case scenario.

Option 3: Refinance Assets As-Needed

Present Value Contribution to the Trust: $38.1MM over 17 year forecast period

A partial refinancing strategy is to secure interest only mortgages for Israel, San Pedro and Ridgepoint. This can either be done as-needed—immediately for Israel, FY22 for San Pedro, and FY26 for Ridgepoint—or in the near future as a portfolio, with the remaining assets maintaining their current financing. The table below outlines cash flow generated on an as-needed basis as compared to the Status Quo.
Interest Only Refinancing As-Needed

Refinancing as-needed appears over the short term to be marginally beneficial over the Status Quo—save stabilizing cash flow in FY22. However, as discussed above, depending upon the holding period, there is significant benefit over the long-term. This partial refinancing option does not outperform a full Interest Only refinance, but it outperforms selling the portfolio’s assets and reinvesting in APFC, the last option evaluated.

Considerations for Partial Refinancing using Interest Only

- Given Israel’s recent appraisal of $18.86MM and a 36% loan-to-value, the TLO should be able to refinance the asset under favorable terms. Harvest calculates a prepayment penalty of $506K, but with an expected interest rate of roughly 0.5% below the current mortgage rate, there is strong cash flow benefit to refinancing.
- San Pedro’s balloon payment of $6,274,290 is due 10/31/21. Because of the large short term decline in valuation, the current the Loan-to-Value ratio is 49%. The TLO is expects that tenants will be secured prior to refinancing.
- Ridge Point’s balloon payment of $8,242,487 is due 7/1/2025. With a Loan-to-Value of 40% and Texas-DOT assuming upcoming available space, refinancing the balloon payment is supportable.

Benefits of Partial Interest Only Refinancing

- This financing strategy allows for the Trust to become comfortable with interest only structures over time, while addressing near-term cash flow shortfalls.

Uncertainties or negative considerations of a Partial Interest Only Refinancing:

- The partial interest only structure does not pool all the assets into a single special purpose vehicle. The ability of the TLO to manage cash flows across all assets does not occur.
• It is not expected that the interest rates will be as low for refinancing individual assets as for a portfolio of assets.
• The cost of financing on an individual basis will be higher than for the portfolio.

**Option 4: Asset Sale/Investment with APFC**

**Present Value Contribution to the Trust: $24.3 MM over 17 year forecast period**

The current net value of the CRE is $60.6MM. For this scenario, we assume the CRE is liquidated in FY21 at current fair market value and reinvested in an APFC managed fund. We assume $57.5MM is realized and APFC realizes a 7% return. Using the Trust distribution policy of a four-year rolling average and 4.25% drawdown, the Trust would receive its first distribution in FY22 of roughly $630K.

As can be seen in the table below, distributions would increase incrementally to $2.7MM by FY25, then continue to grow.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal Balance Year End</th>
<th>APFC Draw</th>
<th>Net Cash Flow</th>
<th>Status Quo Cash Flow After Debt Service</th>
<th>Cash Increase (Decrease) with Sale/Invest in APFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>$59,502,957</td>
<td>0%</td>
<td>$378,320</td>
<td>$545,227</td>
<td>($166,906)</td>
</tr>
<tr>
<td>FY22</td>
<td>$63,021,070</td>
<td>1.06%</td>
<td>$632,219</td>
<td>$(3,929,854)</td>
<td>$4,562,072</td>
</tr>
<tr>
<td>FY23</td>
<td>$66,115,005</td>
<td>2.13%</td>
<td>$1,301,818</td>
<td>$3,572,046</td>
<td>$(2,270,228)</td>
</tr>
<tr>
<td>FY24</td>
<td>$68,722,308</td>
<td>3.19%</td>
<td>$2,004,290</td>
<td>$2,475,409</td>
<td>$471,119</td>
</tr>
<tr>
<td>FY25</td>
<td>$70,781,336</td>
<td>4.25%</td>
<td>$2,734,464</td>
<td>$3,540,276</td>
<td>$(805,812)</td>
</tr>
</tbody>
</table>

**Performance Summary**

• Since the Trust began investing in commercial real estate in 2011, the average combined realized and unrealized return was over 8%, exceeding both APFC’s Fund and real estate investment performance, both averaging 7.8%.
• Both APFC and the Trust use the NCREIF index as a benchmark. This is a quarterly index and assumes assets are debt-free. For FY20, where data is available, the CRE exceeded NCREIF benchmark 6% to 5.2%.
• The with a 5-year distribution average CRE of 6.2% and a 3% estimate in portfolio appreciation, the CRE’s average expected return of 9.2% would exceed Callan’s 7% APFC forecast annual return over the next five years.
Considerations

- Past returns are not an indication of future returns, but on average the CRE has outperformed the APFC. With current investment market volatility there is no assurance that over the next few years the Trust would see 7% annual appreciation for the commercial real estate assets. Likewise there is no certainty that APFC will achieve a 7% annual gain.
  - For example, in a flat equity and bond market, cash flow from the APFC managed funds would start at $632K and reach $2.4MM in FY25, roughly $450K less than the forecast above and erode principal. This sensitivity also applies to the reinvestment of sales proceeds in the other financing scenarios.

- Actual sales prices are uncertain. Harvest is concerned that due to market volatility sales prices will be below the recent valuations from appraisers and brokers.

- Proceeds from asset sale under any scenario will require a Trustee decision regarding fund distribution. A decision does not need to be made at this point: if capital gains are placed in APFC Trust Fund or Budget Reserves the year-over-year cash generated for distribution will be the same, at 4.25%.

Summary data is provided on the following page.
Commercial Real Estate Evaluation:  Hold/Sell/Refinance - REVISED
Ms. Derr
July 27, 2020

Projection of Commercial Real Estate Performance
Options:  Status Quo, Interest Only Refinancing, Partial Refinance, Sale & APFC Investment

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
<th>Year 11</th>
<th>Year 12</th>
<th>Year 13</th>
<th>Year 14</th>
<th>Year 15</th>
<th>Year 16</th>
<th>Year 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Generated Under Alternate Financing Scenarios:</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Option 1: Maintain Status Quo (No Refinancing)</td>
<td>545,227</td>
<td>$(3,929,854)</td>
<td>3,572,046</td>
<td>3,540,276</td>
<td>$(5,964,467)</td>
<td>3,578,543</td>
<td>4,786,342</td>
<td>4,449,477</td>
<td>5,176,848</td>
<td>4,266,013</td>
<td>5,769,329</td>
<td>6,864,601</td>
<td>7,043,117</td>
<td>7,169,927</td>
<td>7,300,542</td>
<td>8,219,403</td>
<td></td>
</tr>
<tr>
<td>Option 2: Refinance Assets as a Portfolio</td>
<td>1,614,680</td>
<td>4,109,459</td>
<td>5,109,880</td>
<td>4,013,243</td>
<td>5,078,110</td>
<td>3,316,698</td>
<td>4,480,437</td>
<td>5,688,237</td>
<td>5,351,374</td>
<td>5,245,661</td>
<td>4,259,092</td>
<td>5,762,410</td>
<td>6,194,335</td>
<td>6,317,453</td>
<td>6,444,265</td>
<td>6,709,415</td>
<td></td>
</tr>
<tr>
<td>Option 3: Refinancing As Needed</td>
<td>367,670</td>
<td>2,783,274</td>
<td>3,983,696</td>
<td>2,287,059</td>
<td>3,951,926</td>
<td>2,478,358</td>
<td>3,642,097</td>
<td>4,849,896</td>
<td>5,131,031</td>
<td>4,407,318</td>
<td>3,420,748</td>
<td>4,924,064</td>
<td>6,019,336</td>
<td>6,197,832</td>
<td>6,324,662</td>
<td>6,455,277</td>
<td></td>
</tr>
</tbody>
</table>

Present Value Benefit of Alternatives over a 17 Year Horizon
| Option 1: Maintain Status Quo (No Refinancing) | $28,417,998 |
| Option 2: Refinance Assets as a Portfolio | $46,221,046 |
| Option 3: Refinancing As Needed | $38,092,489 |
| Option 4: Sale & APFC Investment | $24,251,379 |