

November 13, 2019

Representative Chris Tuck
Legislative Budget and Audit Committee
Alaska Capitol
Juneau, AK 99811

Dear Chairman Tuck:

Please accept this letter as the report requested in sec. 8, ch. 2 FSSLA 2019. We appreciate the opportunity to describe the progress the Trust has made in the last three years.

Background

A 2018 legislative audit raised several concerns with recent Trust operations and investments. Perhaps the most important audit finding was a concern that certain Trust investments were not compliant with Trust statutes or the settlement of the Weiss litigation. From 2010-2016 the Trust invested approximately \$40 million of principal income in seven commercial real estate properties in Alaska and three other states instead of depositing those funds into the Mental Health Trust Fund (MHTF) to be managed by the Alaska Permanent Fund Corporation (APFC). The legislative audit opined that the Trust did not have the authority to make those investments and that the investments might not be appropriate – even if allowable.

Corrective Actions

Here is a summary of the most significant actions the Trust has taken since 2017 to address concerns related to commercial real estate investments.

The Trust has not made any further commercial real estate investments since the audit findings were released, and no additional commercial real estate investments are contemplated.

The Trust has transferred funds (approximately \$40 million) from settlement income funds to the MHTF to bring the MHTF to the same funding level it would have been if the principal funds had not been invested in commercial real estate. To the extent that there is a concern that the MHTF was harmed by the commercial real estate investments, that perceived harm has been eliminated.

The Trust has revised its Asset Management Policy Statement (AMPS), as recommended by the legislative audit, to adopt best practices regarding the management of Trust owned real estate investments and to implement guidelines for including real estate investments within the Trust's overall asset mix. The revised AMPS, based on recommendations from Callan, LLC, identifies parameters and expectations for Trust-owned real estate investments, incorporates industry best practices, and considers the commercial real estate holdings as part of the portfolio-wide asset allocation strategy.

As required by the revised AMPS, the Trust has secured the services of a commercial real estate investment advisor. Harvest Capital Partners, LLC has been retained to evaluate these investments and their management, provide direction on the preparation of a comprehensive annual operating budget, advise on property management decisions, advise on tactical and strategic plans for each of the properties and as a portfolio, and report annually to the Trustees. Harvest Capital is a highly regarded investment services provider serving a variety of institutional investors with current direct real estate holdings of over \$8 billion.

Conclusion

Although the Trust does not agree that its commercial real estate investments were ever non-compliant, we have taken several substantive steps to address the concerns raised in the 2018 legislative audit. As such, in response to the specific question in the legislative intent language, the Trust is in full compliance with the Weiss settlement and Alaska statutes with respect to investment in commercial real estate properties.

Finally, as we have stated in prior correspondence regarding the legislative audit, we appreciate the opportunity to review our operations, and to improve our business practices and governance. In addition to addressing the commercial real estate investments, we have completed corrective actions relating to all of the audit's other findings. The legislative audit, the Trust's responses and our AMPS are all available on the Trust website.

Please contact us if you have questions about these or other Trust issues.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael K. Abbott".

Michael K. Abbott
Chief Executive Officer

cc: Senator Burt Stedman, Co-Chair Senate Finance Committee
Senator Natasha Von Imhof, Co-Chair Senate Finance Committee
Representative Neil Foster, Co-Chair House Finance Committee
Representative Jennifer Johnston, Co-Chair House Finance Committee
Kris Curtis, Legislative Auditor