

Finance Committee

Commercial Real Estate Management Process Update

October 19, 2022

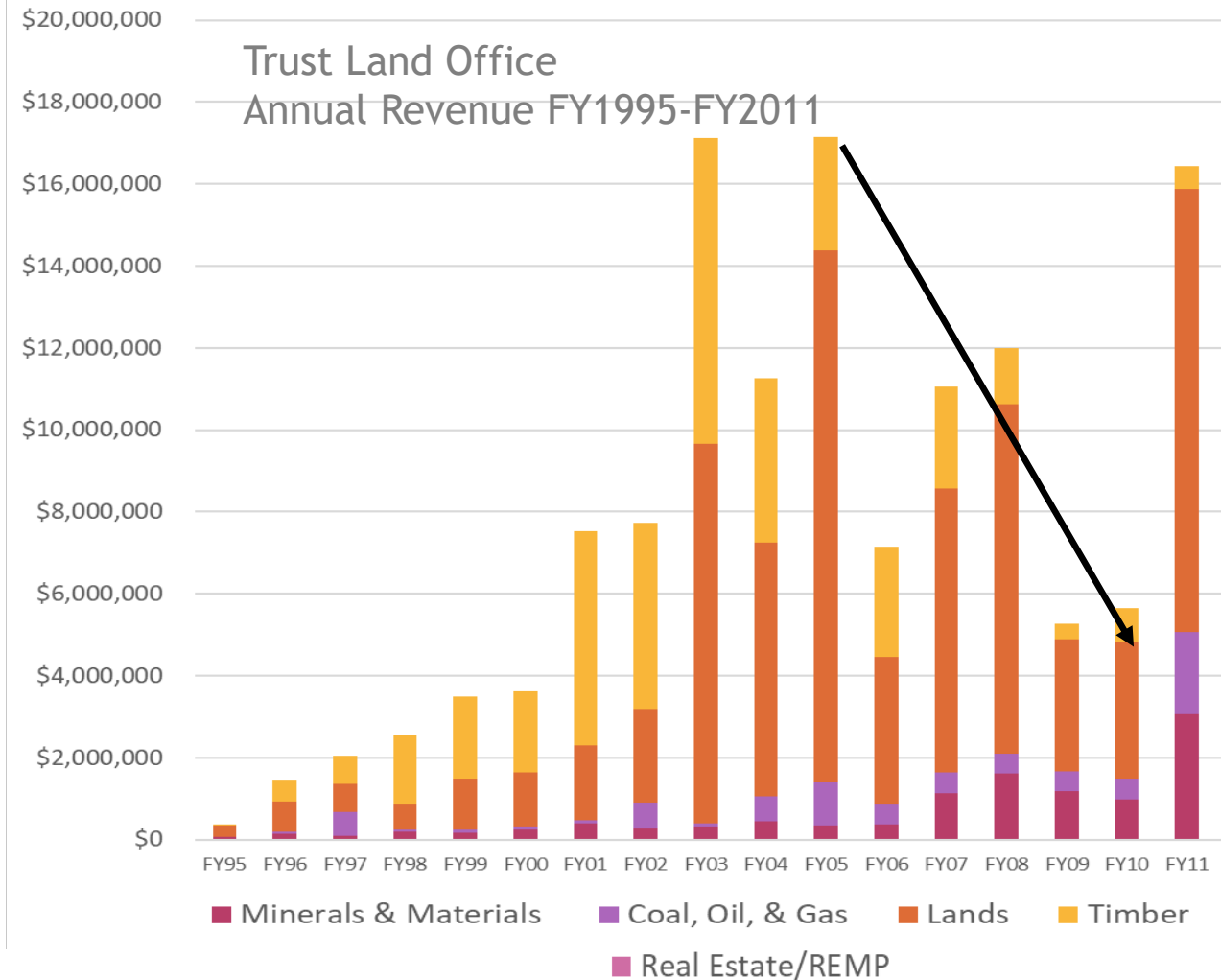


Trust
Alaska Mental Health
Trust Authority

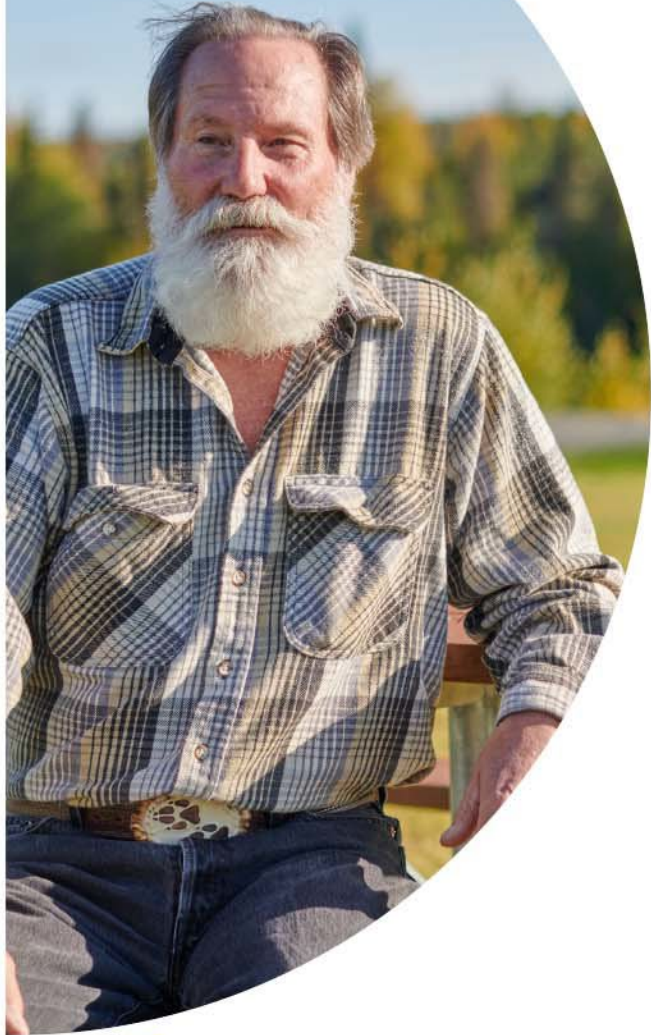
Historical perspective: 2009/2010 concern about sustainable revenue stream drives interest in additional investment strategies

Market Drivers

- Trust fund suffering lower-than-expected financial returns
 - Great Recession 2008-2013
- Trust land income declining
 - Timber harvesting
 - Trust land sales
- Trust resource revenues expected to be volatile

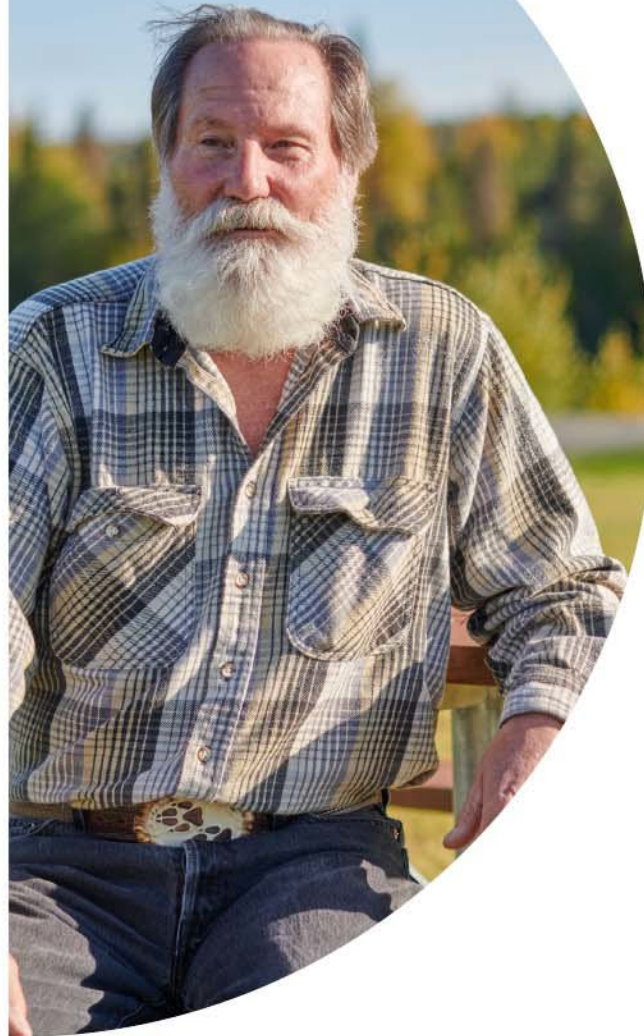


Historical perspective: Market establishment of Real Estate Management Plan



- Strategy
 - Secure diversified & stable spendable income
 - Produce predictable market rate returns
 - Hedging
- Goals
 - (1) Establish mechanism to reduce risk of potentially unstable TLO-sourced spendable income
 - (2) Diversify Trust holdings
 - (3) Act as a damper to financial market volatility
- Management
 - Real Estate Management Plan (REMP)
 - High quality commercial real estate
 - Geographic diversity
 - Long-term principal appreciation
 - Income appropriate for program needs

Oversight as a Land Asset changed to Oversight as Financial Investments



	2011-2019	2019-Present
Authority:	DNR Commissioner TLO Designee	Trustees
Trustee Role:	Consultation	Fiduciary
Statute:	AS 38.05.801 <i>Management of mental health trust land</i> AS 37.14.009 <i>Trust management</i>	AS 37.14.039 <i>Trust settlement income account administration</i> AS 37.10.071 Investment powers & duties

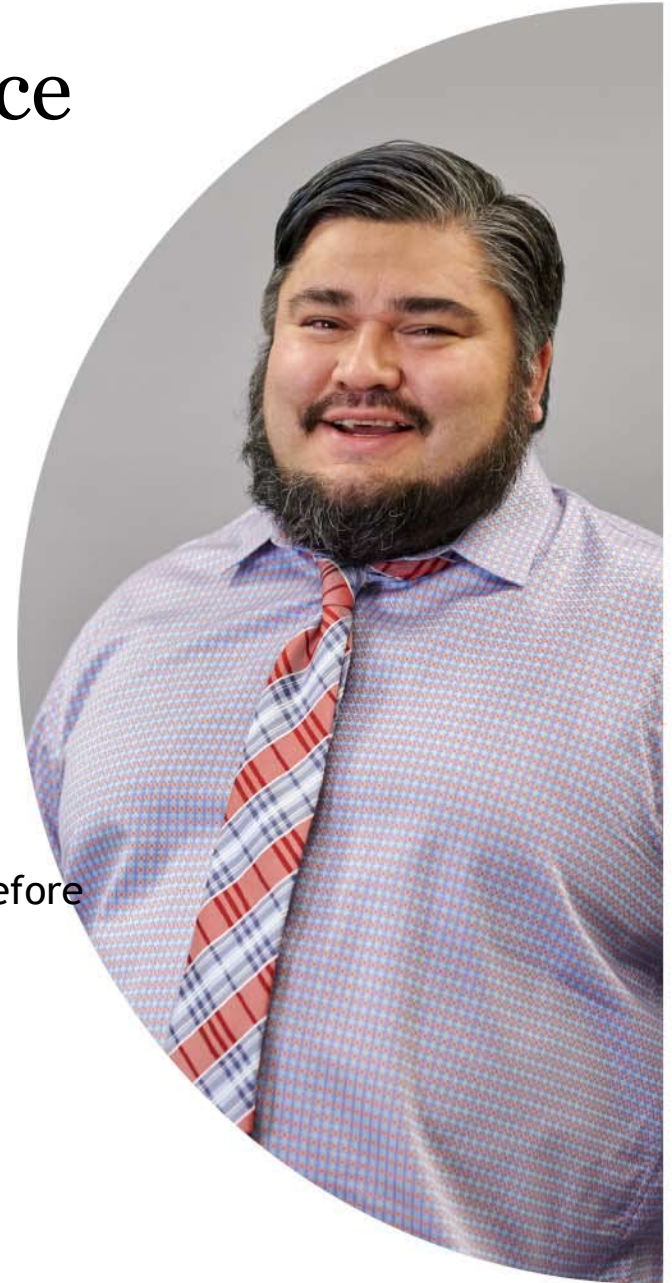
Current Status: Asset Management Policy Statement, 2019 (AMPS)

- Objective
 - Hedge against stock market volatility
 - Generate income that supplements annual distribution
- Guidelines
 - Time Horizon: Long-term (7-20 years)
 - Risk Tolerance: Moderate
 - Asset Allocation: Less than 10% of total Trust assets
- Performance Expectations
 - Benchmarked to NCREIF Property Index
 - Third-party real estate advisor: monitors assets, provides independent advice/recommendations, provides added expertise to Trustees on investment decisions, transaction recommendations
 - Trustees: review long-term performance, risk, liquidity
- Trustee Control Procedures
 - TLO financial performance review
 - Third-party real estate advisor annual review
 - CRE performance as part of blended benchmark



Current Status: AMPS – Trust Land Office Commercial Real Estate Guidelines

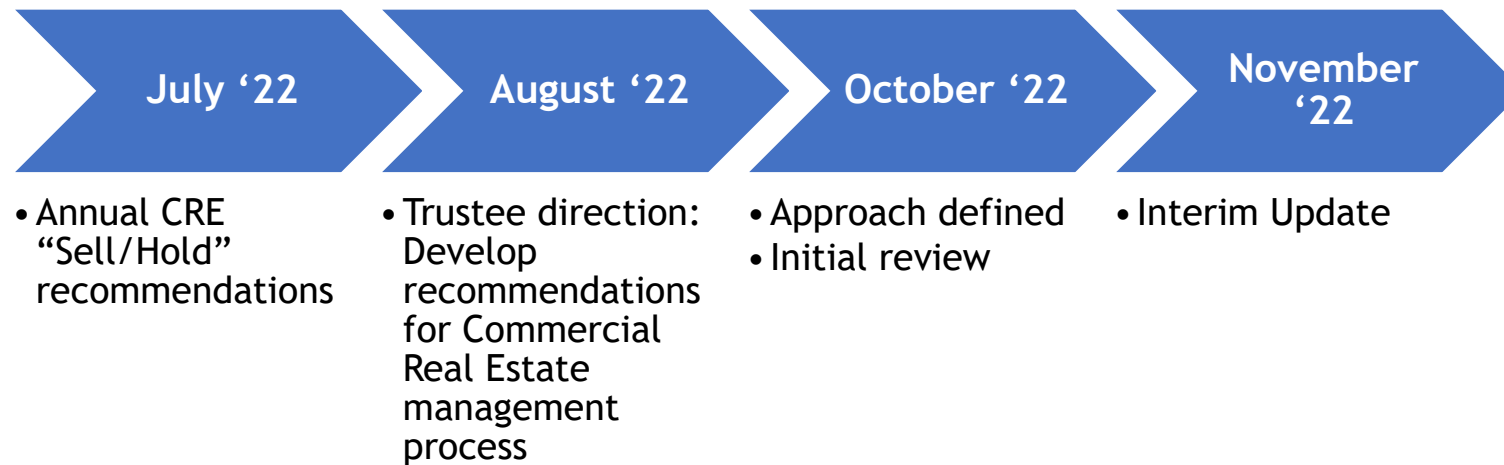
- Investment objectives
 - Income
 - Value creation through appreciation
 - Minimize potential investment vehicle concentration risk
- Benefits of TLO as asset manager
 - Minimize potential for inadvertent concentration risk
 - Assists in alignment of investment decisions
 - Lower incremental management costs
- Key features
 - Revenue assigned to operating costs, debt service and capital expenditures before spendable income distribution to Trust
 - Fund participation in Central Facility Fund for cash flow cushion
 - Assets' non-recourse debt carefully considered as part of investment strategy
 - Management outlined in Resource Management Strategy (2021)
- Budgets
 - Trustee-approved annual expenditure budget
 - Day-to-day managed by commercial property manager overseen by TLO



Pathway of review

Guiding principles:

- Ensure purpose and goals of assets are in best interest of Trust beneficiaries;
- Protect the value of the assets; and
- Mitigate risk(s) related to decisions to hold or dispose of assets.



Deliverables

- Asset Management Framework
- Policy Recommendations



Next Steps

- 1) Assessment of policy options and their pathways inclusive of:
 - Standard CRE Industry Investment Policies and Metrics
 - Listing of procedures to be developed to execute the pathways of goals
- 2) Present recommendations to trustees
- 3) Update the Asset Management Policy Statement and other policies as needed



Questions & Comments

