

A person with long hair, seen from behind, is walking on a rocky beach. The beach is covered in small, smooth stones. In the background, there is a calm body of water, likely a lake or a wide river, and a range of mountains under a clear sky. The shoreline is lined with dense evergreen trees. The overall scene is peaceful and scenic.

Trust

Alaska Mental Health
Trust Authority

Inflation Proofing Update January 4, 2024 Finance Committee



Inflation Proofing Background

- Inflation proofing the principal is not required by statute, but is supported by practice and recommended by the 2021 Legislative Budget and Audit report.
- The Asset Management Policy (AMPS) allows for inflation proofing contributions after the 400% reserve target is met. November Earnings Reserves: 336% of FY2024 payout
- The Trustees authorized \$120MM of inflation proofing in FY21. \$70MM of this commitment is remaining.
- Callan's April 2022 Asset Spending Study provided recommendations for making sure principal keeps up with inflation. Staff will incorporate this recommendation during the annual asset allocation review in FY24.

Recent inflationary environment has significant impact on inflation proofing calculation

- Inflation in 2022 was 8.0% (source: US Bureau of Labor Statistics)
- Investment returns for FY23 at APFC was 5.18%
- Asset allocation is reviewed annually to determine if the Trust's assets are expected to keep up with inflation over the long term
- Inflation proofing will again be evaluated in FY25



Outlook: indicators point to a slowing of inflation

Good news:

- Inflation rate slowing. The CPI has dropped to 3.24% year-over-year through October 2023, compared to a 7.75% year-over-year inflation in October 2022
- The Federal Reserve plans to cut rates in 2024 - but will they cut rates 2, 3 or 4 times?
- Lower inflation with increased market returns could improve the Trust's inflation proofing calculation

