

MEETING AGENDA

Meeting: Finance Committee
Date: April 19, 2023
Time: 12:45 PM
Location: online via webinar and teleconference
Teleconference: (844) 740-1264 / Meeting Number: 2465 625 7945 # / Attendee Number: #
<https://alaskamentalhealthtrust.org/>
Trustees: Brent Fisher (Chair), Verné Boerner, Rhonda Boyles, Kevin Fimon,
Anita Halterman, Agnes Moran, John Sturgeon

Wednesday, April 19, 2023

Page No.

12:45	<p><u>Call Meeting to Order (Brent Fisher, Chair)</u> Roll Call Announcements Approve Agenda Ethics Disclosure Approve Minutes</p> <ul style="list-style-type: none"> • January 6, 2023 	4
12:50	<p><u>Staff Report Items</u> CEO Finance Report</p>	
1:10	<p><u>Financial Update</u></p> <ul style="list-style-type: none"> • Carol Howarth, CFO • Kat Roch, Budget Controller 	hand-out
	<p>DOR FY24 Asset Allocation Approval</p> <ul style="list-style-type: none"> • Steve Sikes, DOR Investments 	10
2:00	<p>Commercial Real Estate Net Proceeds</p> <ul style="list-style-type: none"> • Gene Hickey, Sr. Asst. Attorney General, DOL <p>Executive session – (if necessary) <i>In accordance with the Open Meetings Act, AS 44.62.310(c).</i></p>	
2:30	<p>Break</p>	
2:45	<p>Commercial Real Estate Investment Guidelines</p> <ul style="list-style-type: none"> • Steve Williams, CEO • Carol Howarth, CFO • Jusdi Warner, Executive Director, TLO 	32
3:30	<p>Adjourn</p>	

Future Meeting Dates

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

(Updated – April 2023)

- | | | |
|--------------------------------|-----------------------------|------------------------|
| • Audit & Risk Committee | April 19, 2023 | (Wed) |
| • Finance Committee | April 19, 2023 | (Wed) |
| • Resource Mgt Committee | April 19, 2023 | (Wed) |
| • Program & Planning Committee | April 20, 2023 | (Thu) |
| • Full Board of Trustees | May 24-25, 2023 | (Wed, Thu) – MatSu |
| | | |
| • Audit & Risk Committee | July 25, 2023 | (Tue) |
| • Finance Committee | July 25, 2023 | (Tue) |
| • Resource Mgt Committee | July 25, 2023 | (Tue) |
| • Program & Planning Committee | July 26-27, 2023 | (Wed, Thu) |
| • Full Board of Trustees | August 29-30, 2023 | (Tue, Wed) – Anchorage |
| | | |
| • Audit & Risk Committee | October 19, 2023 | (Thu) |
| • Finance Committee | October 19, 2023 | (Thu) |
| • Resource Mgt Committee | October 19, 2023 | (Thu) |
| • Program & Planning Committee | October 20, 2023 | (Fri) |
| • Full Board of Trustees | November 15-16, 2023 | (Wed, Thu) – Anchorage |
| | | |
| • Audit & Risk Committee | January 4, 2024 | (Thu) |
| • Finance Committee | January 4, 2024 | (Thu) |
| • Resource Mgt Committee | January 4, 2024 | (Thu) |
| • Program & Planning Committee | January 5, 2024 | (Fri) |
| • Full Board of Trustees | Jan 31 – Feb 1, 2024 | (Wed, Thu) – Juneau |

Future Meeting Dates Statutory Advisory Boards (Updated – April 2023)

Alaska Commission on Aging

ACOA: <http://dhss.alaska.gov/acoa/Pages/default.aspx>

Executive Director: Jon Haghayeghi, (907) 465-4879, jon.haghayeghi@alaska.gov

- Quarterly Meeting: May 25-26, 2023 / TBD

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

AMHB: <http://dhss.alaska.gov/amhb/Pages/default.aspx>

ABADA: <http://dhss.alaska.gov/abada/Pages/default.aspx>

Acting Executive Director: Leah Van Kirk, (907)465-5114, leah.vankirk@alaska.gov

- Executive Committee – monthly via teleconference 10am (2nd Wednesday of the Month)
- Quarterly Meeting: TBD

Governor’s Council on Disabilities and Special Education

GCDSE: <http://dhss.alaska.gov/gcdse/Pages/default.aspx>

Acting Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Quarterly Meeting: June 1-2, 2023 / Anchorage

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

January 6, 2023

10:25 a.m.

WebEx Videoconference/Teleconference

Originating at:

**Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 200
Anchorage, Alaska 99508**

Trustees Present:

Anita Halterman, Chair
Kevin Fimon
Agnes Moran
John Sturgeon
Verne' Boerner

Trust Staff Present:

Steve Williams
Katie Baldwin-Johnson
Carol Howarth
Miri Smith-Coolidge
Michael Baldwin
Eric Boyer
Allison Biastock
Kat Roch
Kelda Barstad
Carrie Predeger

Trust Land Office staff present:

Jusdi Warner
Jeff Green
Sarah Morrison

Also participating:

Diane Fielden; Erin O'Boyle; Genia Demetriades; Bev Schoonover; Maranda Hamme; Mary David; Patrick Reinhardt; Charlene Tautfest; Lee Breinig.

PROCEEDINGS

CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She asked for any announcements. There being none, she moved to the agenda and asked for a motion.

APPROVAL OF AGENDA

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

After the roll-vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Fimon, yes; Trustee Sturgeon, yes; Trustee Moran, yes; Chair Halterman, yes.)

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to approval of minutes.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from October 19, 2022, was made by TRUSTEE BOERNER; seconded by TRUSTEE MORAN.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Fimon, yes; Trustee Sturgeon, yes; Trustee Moran, yes; Chair Halterman, yes.)

CHAIR HALTERMAN stated that Brent Fisher had an excused absence today, and continued with the CEO report from Steve Williams.

CEO REPORT

CEO WILLIAMS provided the trustees with a high-level, general finance update, and then led into an explanation of where the commercial real estate work group stood. He continued on the work of developing a process and guidelines for the commercial real estate assets as they relate to the hold/sell analysis and action. He highlighted that the principal deposits that had been made over to APFC added \$1.6 million of principal income at the end of December. The current balance of the corpus is \$543,600,000. The expectation is to increase that by another \$4 million by the close of FY23. He highlighted two related topics: to make sure that the purchasing power of the Trust corpus is maintained with inflation-proofing; and assessing the settlement income account fund's ability to sufficiently and comprehensively meet the needs of present and future beneficiaries and the methods of doing that analysis.

COMMERCIAL REAL ESTATE POLICY DISCUSSION

CEO WILLIAMS reminded all that the commercial real estate work group is made up of the chair of the Finance Committee, Brent Fisher, himself, Carol Howarth, Jusdi Warner and the contractors at Harvest Capital, Erin O'Boyle and Genia. They had been looking at a process for developing a policy document intended to frame and guide investment decision-making for the commercial real estate asset class. They developed a draft document that outlines the guideline or framework. The content areas looked at the investment characteristics of the asset classes

developed and drafted hold/sell analysis metrics to use looking at this asset class. He stated that a lot of work was done, and he appreciated everyone who helped on it. He added that it was not ready to share because it was still a draft with a need to go back to cross-reference against the other governance and policy documents of the Trust. He continued that they want to insure that it is a document that would allow trustee flexibility to the extent possible.

A brief question-and-answer session ensued.

CHAIR HALTERMAN moved to the Finance Update and recognized Carol Howarth.

FINANCIAL UPDATE

CFO HOWARTH stated that the financial update would cover a look at the dashboard; a look at inflation-proofing; and a look at the issue of having surplus funds. She turned the dashboard over to Kat Roch.

MS. ROCH started at the top of the dashboard with the Trust expenditures which were the day-to-day administrative operations for the Trust Authority and the Trust Land Office. The numbers were currently through November, were on plan, with the projection expending both full budgets. The trend for the program activities, the MHTAAR funds, are also on plan. She moved to Trust receipts and the money coming in. The Trust Land Office has the conservative forecast of meeting or exceeding plan. There is uncertainty for timber, but other resources are expected to meet or exceed plan. She continued that, in November, the Permanent Fund had positive earnings, and they also appeared positive in December; a good move from the September period where there was a significant loss. Moving to commercial real estate, there were some upcoming improvements planned which will have an effect of money coming in. She added that occupancy remained at 91.4 percent; the same as the first quarter. GeFONSI interests were on plan, and then she explained Trust resources.

TRUSTEE BOYLES asked about the 400 percent payout.

CFO HOWARTH explained that there was a 400 percent target reserve, which is to protect the Trust's ability to maintain a payout if the markets decline. She stated that this had gone up and down above and below 400 percent. The year started below the 400 percent targets, which is a nice spot to be in. From a cash management perspective, the timing of the payout is to manage the case that is really needed. There is still cash on hand. With regard to inflation-proofing, one of the core responsibilities of the Board is to insure that the future beneficiaries have support that is equitable. Traditionally, the January Finance Committee meeting is when the purchasing power is reviewed, and that is talking about the corpus. In reviewing the current position, staff is not recommending that the Finance Committee recommend to the Full Board the transfer of earnings to principal for true-up recommendations. She continued that there were three reasons why: first, under standard endowment practices, the Trust is protected; second is the impact of the inflation rate on the corpus which, at the end of the fiscal year, was just over \$531 million. A fully inflation-proofed Trust corpus would be just under \$601.8 million. In terms of priorities, there are not sufficient unrestricted earnings for the staff to make a recommendation that the trustees transfer earnings on a discretionary basis to principal. This brings forth the important point that the Trust spendable, unrestricted earnings are sufficient to cover the commitments and reserve requirements. The restricted earnings can provide inflation-proofing, and she explained

how in detail. She continued to the no-surplus discussion. She reviewed with the trustees the fund status and the determination of whether or not the Trust had surplus funds. She talked about a windfall where the Asset Management Policy Statement says that the Trust is required to do a new asset allocation and spending review. If the capacity of the Trust was altered significantly in some way, that would change the amount of funding expected to be available over the long run. She added, that is a really important policy that was established for the Trust and should give the trustees all the confidence that there is a policy in place for dealing with significant changes. She stated that Gene Hickey reviewed the Trust Settlement Income Account and the six elements for using settlement income account money. The sixth purpose states that if the money in the Trust settlement account is in excess of what is needed, that money would transfer to the State's unrestricted General Fund for State expenditures, and it was reasonable to be put in statute. In 2021, the legislative auditor made the recommendation to the Board to develop written policies to evaluate whether or not there was more than enough Trust income than what was needed to be transferred to the General Fund. That recommendation was appreciated because it recognized that with changes in the executive and legislative branches, there was potential for a repeat of what happened in December of 2020. At that time, the Governor's Office submitted a budget that tapped the Trust funds under the erroneous assumption that the Trust had excess funds. She continued her presentation, explaining the goals with the first question being if the Trust had sufficient funds to meet the current commitments. The second question deals with if the Trust had sufficient funds to equitably support future needs in the same manner it is doing now and in the past. Those two questions frame how measurements could be made and establish procedures. She continued that the commitments were the FY23 operating budget and prior-year obligations; multi-year grants; capital projects; maintenance reserves; and the 400-reserve target.

TRUSTEE BOYLES stated that there are fiduciary responsibilities, and we need to make decisions based on that in the best way possible. There is a need to be diligent and realistic.

CHAIR HALTERMAN stated, for the record, that Trustee Moran left the meeting about 11:00 and was excused for the remainder of this meeting. She continued with the \$70 million as a holding spot, and explained that it was an obligation that could not be met because the 400 percent reserve is an unmet obligation. That \$70 million could not be transferred because the money was needed in the endowment; that 400 percent reserve target was needed.

TRUSTEE BOYLES asked if there had ever been a time of not inflation-proofing on an annual basis.

CFO HOWARTH replied that they had not inflation-proofed annually, and they had actually inflation-proofed about ten times in the history of the Trust. The Trust policy had changed over time. She added that the purpose of the real estate assets is to protect the Trust during periods of high inflation. She continued that, regarding the statute, excess funds were not needed to be able to provide that equitable intergenerational support. She moved to the two math calculations that align with State statute requirements and provide support for determining that there were no surplus of funds, both immediate and long-term. It is important to understand that the Trust's available funding is driven by asset allocations, and trustees traditionally review every three years. With regard to the legislative audit recommendation, the two straightforward calculations can be incorporated into the procedural manual. With regard to the recommendation on strategy,

the statute can more clearly articulate that the statute guides the policy in the Asset Management Policy Statement, if that is needed. It could be done in the next review of the Asset Management Policy Statement when some revisions are being made.

CHAIR HALTERMAN asked Trustee Boerner for any questions.

TRUSTEE BOERNER replied that it was a great presentation, and she appreciated the discussion and questions. She added that the information was really good.

TRUSTEE BOYLES asked when the next AMPS review is scheduled.

CFO HOWARTH replied that, at this point, if a major revision is required, it would be put in. She stated that, in the review of the commercial real estate, there may be something that needs revision. The last update to the AMPS was in 2019.

TRUSTEE BOYLES stated that they had a fiduciary responsibility to make decisions with as much data and advice as possible, and there is a need to do that sooner than later.

TRUSTEE FIMON stated the need to be more blunt going forward. If decisions are based off one choice versus spending versus asset allocation, then it may need to be more clearly stated in policy so that it is not a question every time it is done.

CHAIR HALTERMAN stated that it was her understanding that Trustee Fisher is working with the CEO and the CFO through the commercial real estate review, and they are looking at the AMPS. They will be making some recommendations for revisions, if necessary.

CEO WILLIAMS stated that was a correct assumption.

TRUSTEE BOYLES responded, as a matter of record, that legislative audits were just that. The term “audit” intimidates because of being through some professional issues in our lives. Legislative audit is what has to be done consistently for following policies, and being diligent about updating them, if needed. She encouraged CEO Williams to look at the AMPS revision ASAP, if possible. The trustees just need to have a better understanding of AMPS.

CHAIR HALTERMAN stated that Laraine Derr had begged for inflation-proofing for many, many years. She continued that the trustees may not have been quite ready to have a complete discussion in the years that she served on the Board, but she definitely made an impact. We have some clear guidance now that we did not have before. CEO Williams has responded to legislators with regard to how inflation-proofing should be done, and there is some documentation. Whatever needed to be incorporated into the AMPS policies she would leave up to the CEO, the CFO and Trustee Fisher, since they are undertaking some work right now. She added that she had been learning a lot about inflation-proofing since being with the Trust, and it has been an evolving process which is getting more refined in the development of the policy and articulating how it will be done. She thanked all and asked for anymore questions. There being none, she asked for a motion to adjourn the meeting.

MOTION: A motion to adjourn the meeting was made by TRUSTEE STURGEON; seconded by TRUSTEE BOERNER.

After the roll-call vote, the MOTION was APPROVED. (Trustee Sturgeon, yes; Trustee Boerner, yes; Trustee Fimon, yes; Chair Halterman, yes.)

(Finance Committee Meeting adjourned at 11:52 a.m.)

Trust

Alaska Mental Health
Trust Authority




FY2023 Asset Allocation Update Finance Committee April 19, 2023

The background of the slide features a scenic landscape. In the foreground, there is a field of tall, green grasses with some golden-brown seed heads. In the mid-ground, a body of water is visible, and in the background, there are rolling mountains under a clear blue sky. The entire image is overlaid with a semi-transparent blue gradient that is darker at the bottom and lighter at the top.

Trustee Responsibility

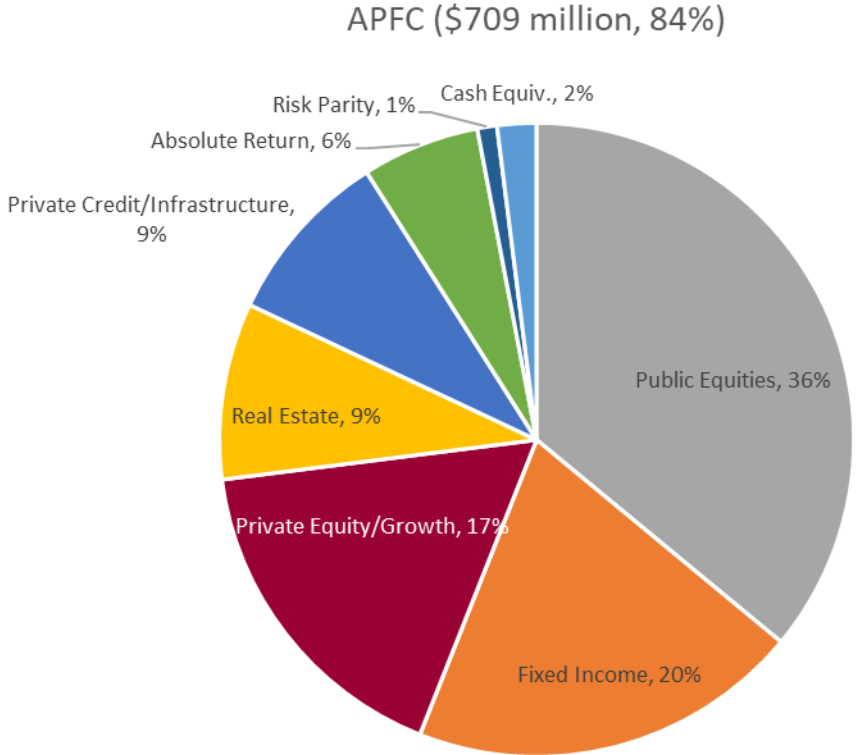
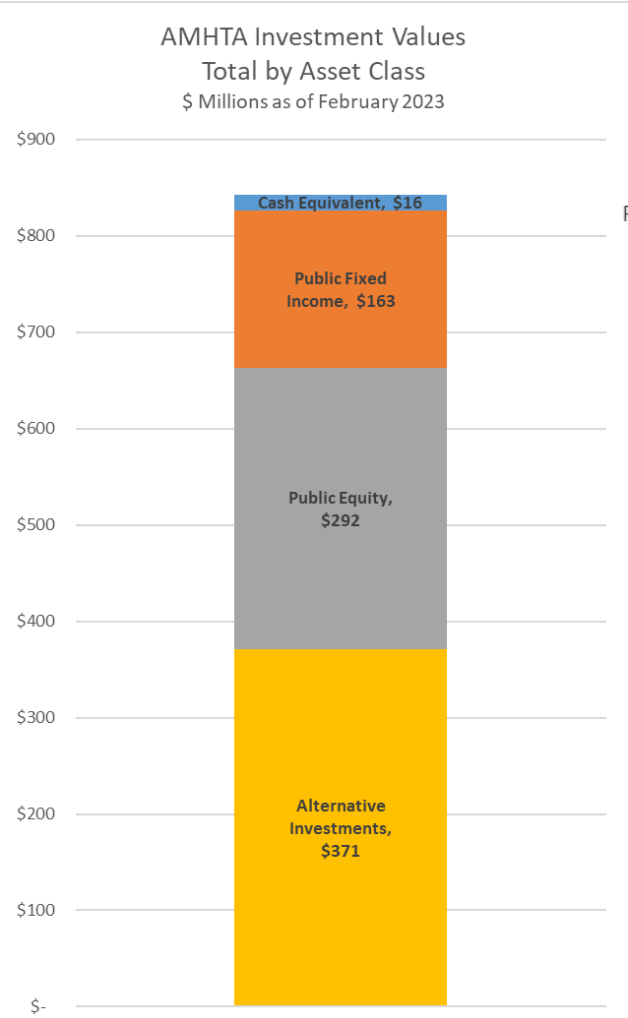
- Finance Committee
 - Review asset allocation
 - Adjust as necessary
- Board of Trustees
 - Annual review of performance, risk, liquidity and risk-return tradeoffs



Unique consideration: Trustees have limited ability to adjust asset allocation

- APFC managed funds - no ability to adjust
- Substantial land, concentrated in Alaska and illiquid, with global economic exposure
- Real estate investments have limited liquidity
- Trustees may adjust cash holdings and budget reserves managed by DOR

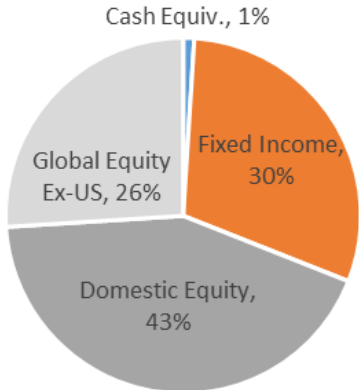
Asset allocation as of February 2023*



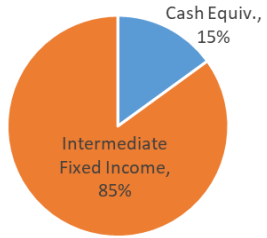
Commercial Real Estate (\$73 million FYE 2022, 9%)



DOR (\$53 million, 6%)



GeFONSI (\$7 Million, 1%)



*Commercial Real Estate value as of June 30, 2022

Questions?



To: Brent Fisher, Chair, Finance Committee
Through: Steve Williams, Chief Executive Officer
From: Carol Howarth, Chief Financial Officer
Date: April 12, 2023
Re: DOR Budget Reserves Asset Allocation Effective July 1, 2023

REQUESTED MOTION 1:

The Finance Committee recommends the full board of trustees the following asset allocation for budget reserves managed by the State of Alaska Department of Revenue effective July 1, 2023,:

<u>Asset Allocation</u>	<u>Target Holding</u>	<u>Target Range</u>
Broad U.S. Equity	39%	± 5%
International Equity	28%	± 5%
Core U.S. Fixed Income	32%	± 5%
Cash Equivalentents	1%	-1% / +2%

The Alaska Mental Health Trust Budget Reserve Fund (Fund 3321) is under the fiduciary control of the Trust and managed by the Department of Revenue’s Treasury Division (DOR). The Trust’s Asset Management Policy Statement, revised 2019 (AMPS), establishes the investment policy for the fund’s asset allocation, risk tolerance, investment objective, and time horizon. Investment management for Fund 3321 is delegated to DOR. Nonetheless, DOR requests the approval by the trustees of DOR’s Alaska Mental Health Trust Investment Policy Statement (IPS), which guides management of Fund 3321. Changes to asset allocation are generally implemented at the start of a fiscal year.

DOR has evaluated the asset allocation for FY24 and recommends the following asset allocation to be effective July 1, 2023.

Investment Topic	Proposed Asset Allocation Effective July 1, 2023			Existing Asset Allocation Approved Effective July 1, 2022		
	Asset Allocation	Target Holding	Target Range	Asset Allocation	Target Holding	Target Range
Asset Allocation	Broad U.S. Equity	39%	± 5%	Broad U.S. Equity	43%	± 5%
	International Equity	28%	± 5%	International Equity	26%	± 5%
	Core U.S. Fixed Income*	32%	± 5%	Core U.S. Fixed Income*	30%	± 5%
	Cash Equivalentents	1%	-1% / +2%	Cash Equivalentents	1%	-1% / +2%
	*may include up to 8% in tactical fixed income			*may include up to 7% in tactical fixed income		

The table below shows additional changes in DOR’s Investment Policy Statement from the current policy.

Investment Topic	Proposed Policy Effective July 1, 2023	Existing Policy Effective July 1, 2022
Rebalancing	Quarterly or more frequently within bands	Quarterly or more frequently within bands
Expected Return – Long-term	6.75%	5.60%
Risk – Standard Deviation*	12.29%	12.42%
Probability of Loss – 1 year	29%	32%
10% Probability of Annual Loss (10% cVaR*)	-15%	-16%

* The standard deviation measures the amount of change that could be anticipated, positive or negative, from the expected 6.75% return, here a roughly 68% chance that the return will be between -5.54% and 19.04%. The cVaR measures the worst expected 10% of annual returns, here -15%.

There are no changes in investment objectives, which are:

- 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.

Additionally, there are no changes from the AMPS: Risk Tolerance (Moderate), Policy Risk/Loss Range (>10%), Time Horizon (medium term, 5-7 years).



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Alaska Mental Health Trust Authority

Department of Revenue Budget Reserve Asset Allocation

April 2023

**Steve Sikes, CFA
State Investment Officer
State of Alaska, Department of Revenue**

AMHTA Assets Managed by the Department of Revenue

Alaska Mental Health Trust Budget Reserve Investments:

- The asset allocation is approved by Alaska Mental Health Trust Authority on an annual fiscal year basis based on the investment policy established in its Asset Management Policy Statement (AMPS).
- As stated in AMPS, the Alaska Mental Health Budget Reserve Fund has a moderate risk tolerance with a medium-term time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth.

GeFONSI (General Fund and Other Non-Segregated Investments):

- Alaska Mental Health Trust Authority short-term assets are pooled with other state funds. Asset allocation is set by the Commissioner of Revenue.

AMHTA Assets Managed by Department of Revenue	
as of February 28, 2023	\$ millions
DOR Budget Reserve	53.8
GeFONSI	6.7
Total	60.5

Alaska Mental Health Trust Authority

Asset Management Objectives (AHMTA Investment Policy Statement, August 29, 2019):

Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

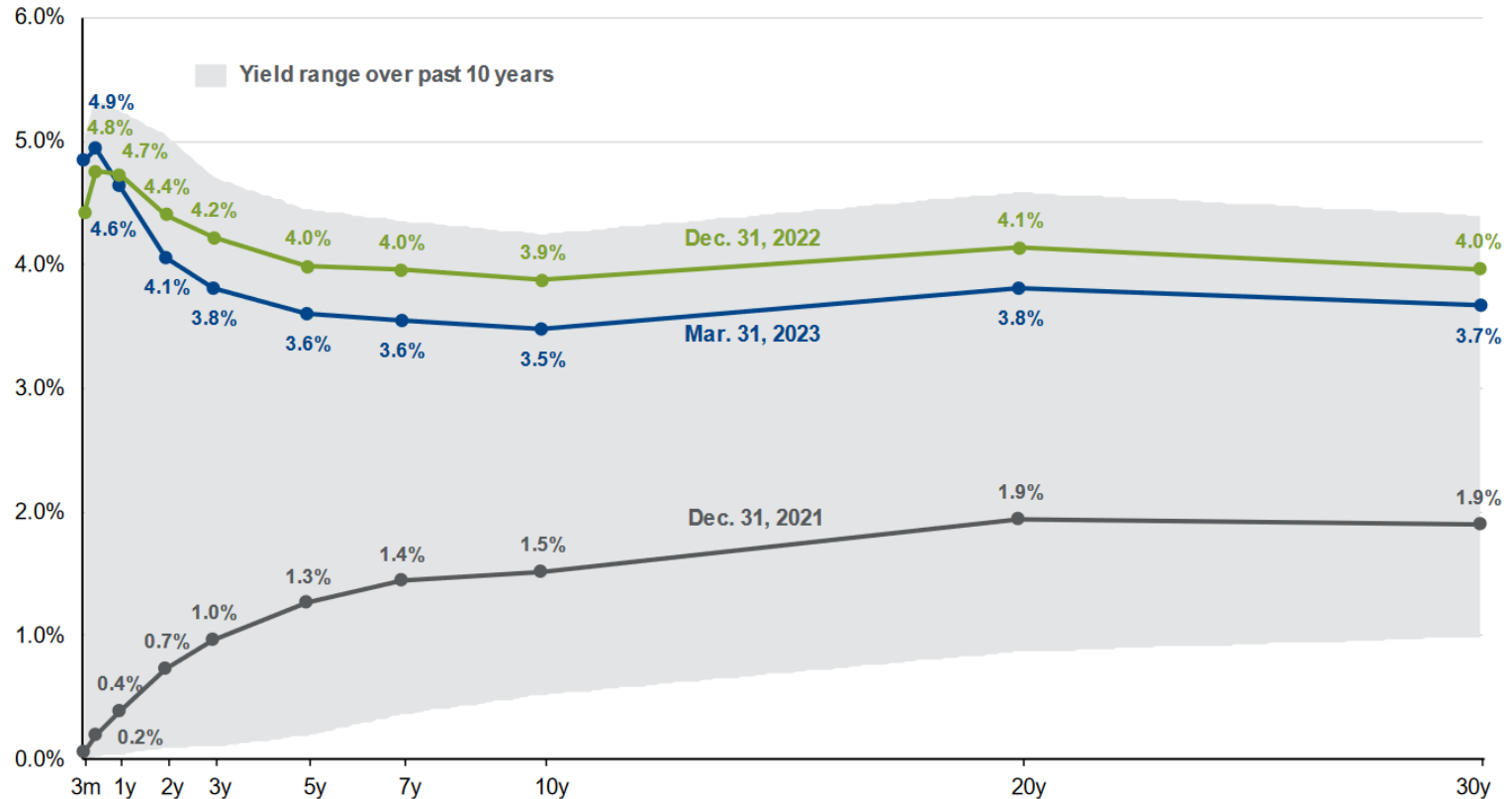
- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide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

Market Backdrop

Bond Yields

U.S. interest rates are significantly higher than in 2021.

U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of March 31, 2023.

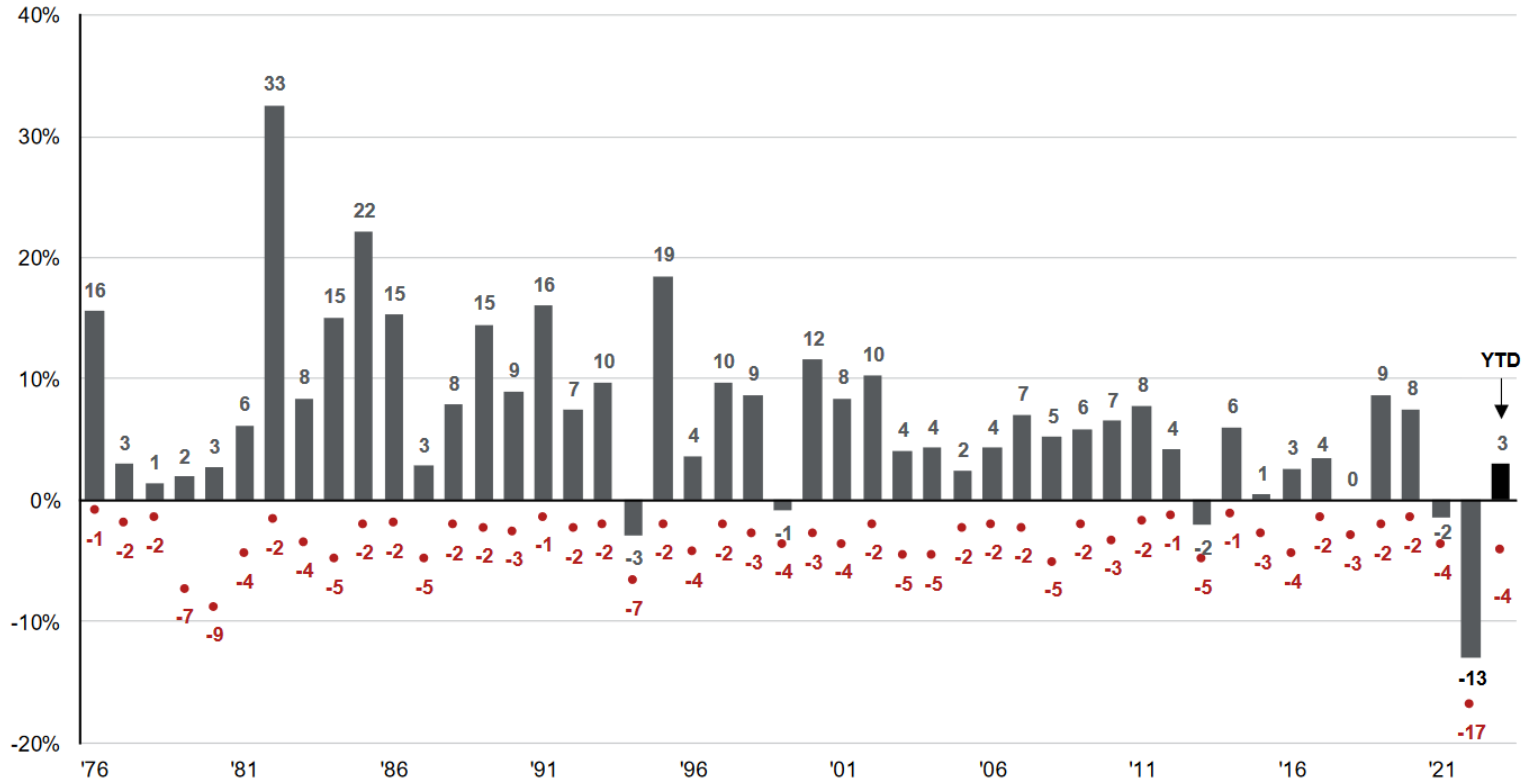
J.P.Morgan
 ASSET MANAGEMENT

Bond Market Returns

Bonds have a track record of producing positive, lower volatility returns. 2022 was an outlier.

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.3%, annual returns positive in 42 of 47 years



Source: Bloomberg, FactSet, J.P. Morgan Asset Management. Returns are based on total return. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2022, over which time period the average annual return was 6.6%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterwards. Guide to the Markets – U.S. Data are as of March 31, 2023.

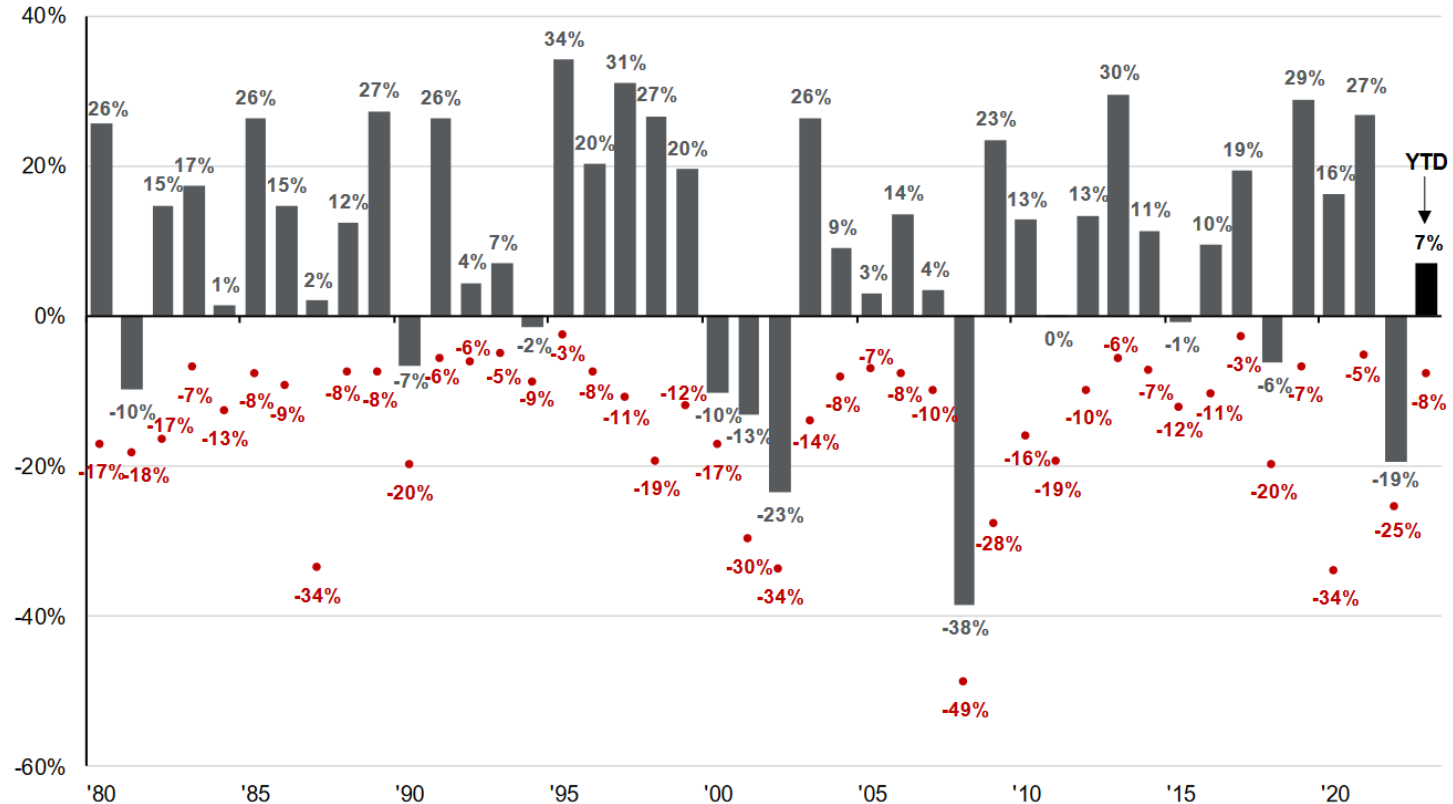
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Stock Market Returns

Stocks have produced strong results over time for long term investors who can tolerate the higher volatility.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



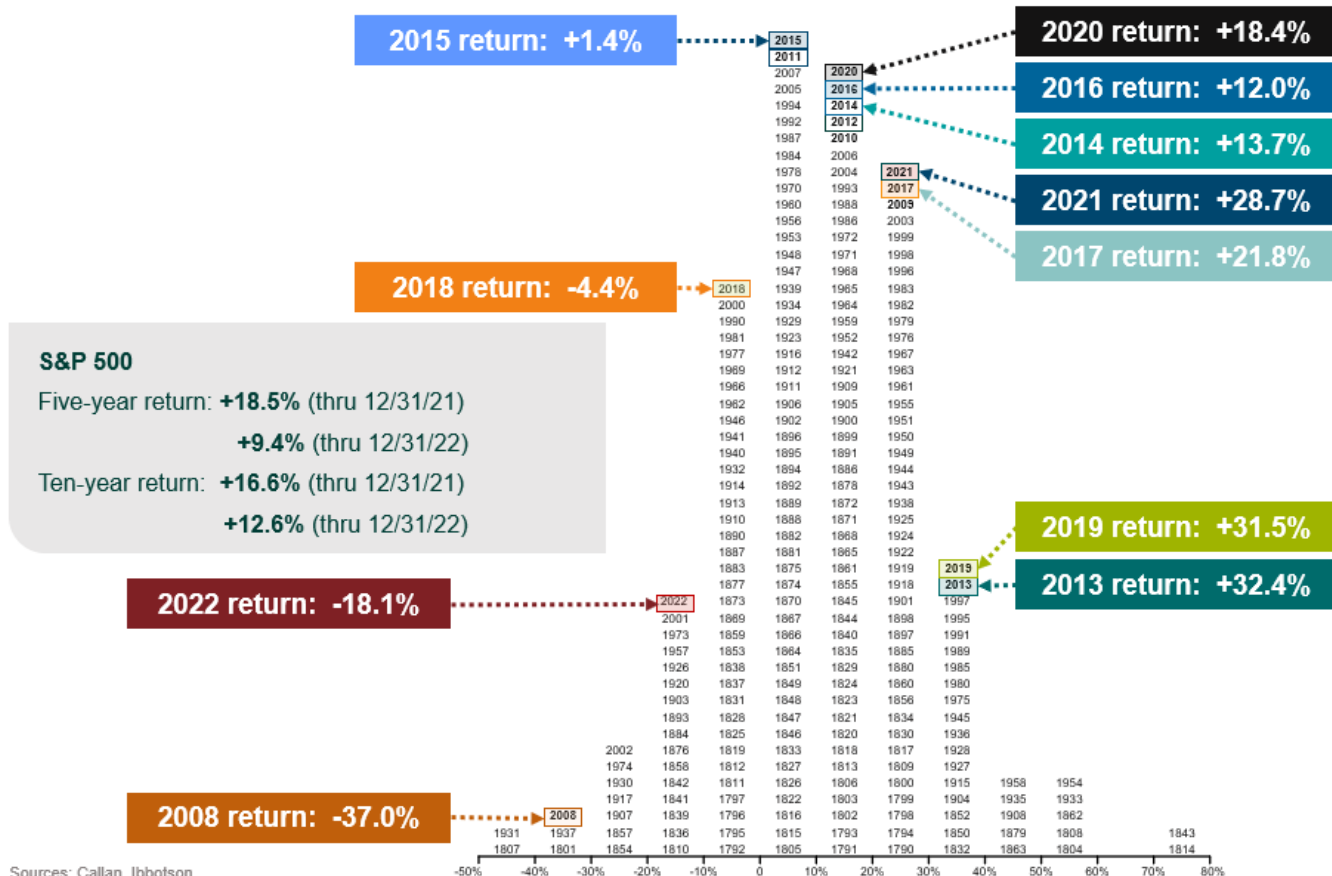
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
 Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2022, over which time period the average annual return was 8.7%.
 Guide to the Markets - U.S. Data are as of March 31, 2023.

Stock Market Returns - History

Distribution of annual stock returns has positive skew over long-term and very strong results over past decade.

Stock Market Returns by Calendar Year

2022 YTD performance in perspective: History of the U.S. stock market (233 years of returns)

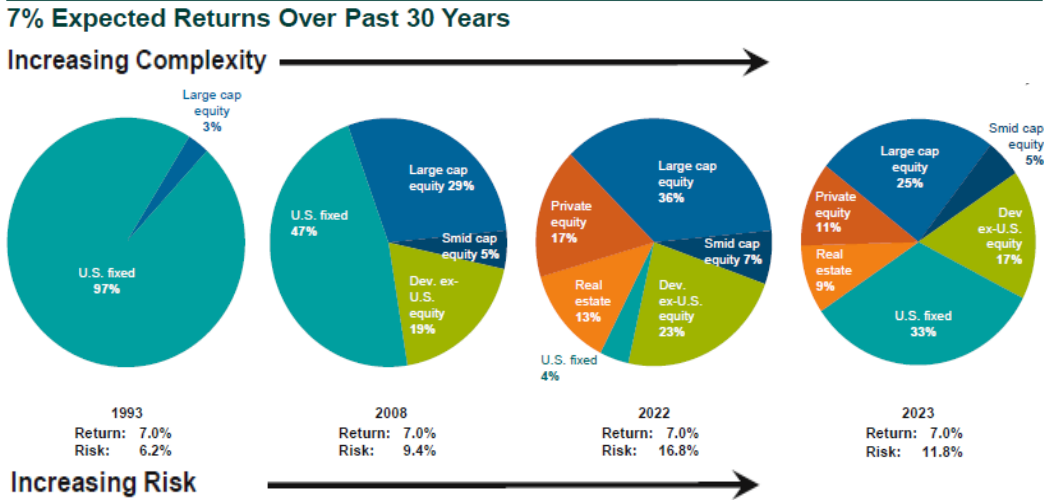


Asset Allocation

Asset Allocation

Asset Allocation Process:

- Callan LLC, develops annual 10-year capital market assumptions for risk, return, and correlations using a building block approach.
- After many years of declining risk adjusted return expectations, 2023 capital market assumptions indicate significantly higher returns going forward for the same level of risk. This is primarily due to higher fixed income return expectations.
- Staff evaluates Callan’s capital market assumptions and current market conditions to develop an asset allocation approach for each State fund.
- The goal is generally to maximize return or minimize risk consistent with investment objectives and risk tolerance using a combination of Modern Portfolio Theory and investment judgment.



2023 Capital Market Assumptions

Capital Market Assumptions:

- Callan’s 2023 capital market assumptions for FY 2024 reveal increased return and risk assumptions across asset classes. The largest increases were in fixed income as monetary policy has swung dramatically from the very stimulative pandemic stance (lower rates) to a very hawkish inflation fighting policy (higher rates). The resulting higher interest rates make fixed income investments more attractive.
- For Fiscal Year 2024, staff recommends continuing with the use of Broad U.S. Equities, International Equities, Core U.S. Fixed Income and Cash Equivalents for state funds.
- The Fixed Income portfolio includes up to 25% of the fixed income allocation in a tactical bond portfolio that can opportunistically invest in high yield, TIPS, and other fixed income asset classes in a risk-managed fashion.
- Staff selects a subset of these asset classes for investing based on risk, return, diversification, complexity, and cost.

Summary of Callan's Long-Term Capital Markets Assumptions (2023–2032)

Asset Class	Index	Projected Return			Projected Risk Standard Deviation	2022–2031			vs. 2022	
		1-Year Arithmetic	10-Year Geometric*	Real		1-Year Arithmetic	10-Year Geometric*	Standard Deviation	Geometric* Delta	Std Dev Delta
Equities										
Broad U.S. Equity	Russell 3000	8.75%	7.35%	4.85%	18.05%	8.00%	6.60%	17.95%	0.75%	0.10%
Large Cap U.S. Equity	S&P 500	8.60%	7.25%	4.75%	17.75%	7.85%	6.50%	17.70%	0.75%	0.05%
Smid Cap U.S. Equity	Russell 2500	9.60%	7.45%	4.95%	22.15%	8.75%	6.70%	21.30%	0.75%	0.85%
Global ex-U.S. Equity	MSCI ACWI ex USA	9.45%	7.45%	4.95%	21.25%	8.70%	6.80%	20.70%	0.65%	0.55%
Developed ex-U.S. Equity	MSCI World ex USA	9.00%	7.25%	4.75%	20.15%	8.25%	6.50%	19.90%	0.75%	0.25%
Emerging Market Equity	MSCI Emerging Markets	10.45%	7.45%	4.95%	25.70%	9.80%	6.90%	25.15%	0.55%	0.55%
Fixed Income										
Short Duration Gov/Credit	Bloomberg 1-3 Year Gov/Credit	3.75%	3.80%	1.30%	2.30%	1.50%	1.50%	2.00%	2.30%	0.30%
Core U.S. Fixed	Bloomberg Aggregate	4.25%	4.25%	1.75%	4.10%	1.80%	1.75%	3.75%	2.50%	0.35%
Long Government	Bloomberg Long Gov	4.55%	3.70%	1.20%	13.50%	1.85%	1.10%	12.50%	2.60%	1.00%
Long Credit	Bloomberg Long Credit	5.75%	5.20%	2.70%	11.75%	2.60%	2.10%	10.50%	3.10%	1.25%
Long Government/Credit	Bloomberg Long Gov/Credit	5.25%	4.75%	2.25%	11.35%	2.30%	1.80%	10.40%	2.95%	0.95%
TIPS	Bloomberg TIPS	4.10%	4.00%	1.50%	5.30%	1.35%	1.25%	5.05%	2.75%	0.25%
High Yield	Bloomberg High Yield	6.75%	6.25%	3.75%	11.75%	4.40%	3.90%	10.75%	2.35%	1.00%
Global ex-U.S. Fixed	Bloomberg Global Agg ex US	2.70%	2.25%	-0.25%	9.80%	1.20%	0.80%	9.20%	1.45%	0.60%
Emerging Market Sov. Debt	EMBI Global Diversified	6.25%	5.85%	3.35%	10.65%	4.00%	3.60%	9.50%	2.25%	1.15%
Alternatives										
Core Real Estate	NCREIF ODCE	6.60%	5.75%	3.25%	14.20%	6.60%	5.75%	14.20%	0.00%	0.00%
Private Infrastructure	MSCI GI Infra/FTSE Dev Core 50/50	7.15%	6.15%	3.65%	15.45%	7.10%	6.10%	15.45%	0.05%	0.00%
Private Equity	Cambridge Private Equity	11.95%	8.50%	6.00%	27.60%	11.45%	8.00%	27.60%	0.50%	0.00%
Private Credit	N/A	8.00%	7.00%	4.50%	15.50%	6.40%	5.50%	14.60%	1.50%	0.90%
Hedge Funds	Callan Hedge FOF Database	5.80%	5.55%	3.05%	8.45%	4.35%	4.10%	8.20%	1.45%	0.25%
Commodities	Bloomberg Commodity	5.05%	3.50%	1.00%	18.00%	4.05%	2.50%	18.00%	1.00%	0.00%
Cash Equivalents	90-Day T-Bill	2.75%	2.75%	0.25%	0.90%	1.20%	1.20%	0.90%	1.55%	0.00%
Inflation	CPI-U		2.50%		1.60%		2.25%	1.60%	0.25%	0.00%

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

Source: Callan

AMHTA DOR Assets - FY24 Asset Allocation

Alaska Mental Health Trust Reserve Investments:

- FY24 asset allocation recommendation: 2% shift from equity to fixed income. Within equity, 2% shift from domestic to international. Overall equity/fixed income mix shifts from 69%/31% to 67%/33%.
- Return expectation is consistent with 70/30 portfolio. Compared to 2022, return expectations increases by 1.15% and risk is down slightly.
- Allocation remains consistent with the Callan Asset Allocation and Spending Study review completed in April 2022 which recommended a move to 70% equity to maximize real purchasing power over time.
- Allocation produces a long-term expected **real** return of 4.25% which is consistent with 4.25% spending rate and up from 3.35% last year.
- Asset allocation will continue to exclude an allocation to REITs based on AMHTA’s exposure to direct real estate and as recommended by Callan in FY23.

State of Alaska FY2024 Asset Allocation		Current *	Rec	Change		
Asset Classes	FY23	FY24	FY23 - FY24		70/30	60/40
Broad U.S. Equity	43%	39%	-4%		70%	60%
Global ex-U.S. Equity	26%	28%	2%			
US REITS	0%	0%	0%			
Short Duration Gov't/Credit	0%	0%	0%			
Core U.S. Fixed Income	30%	32%	2%		30%	40%
Cash Equivalents	1%	1%	0%			
Total	100%	100%	0%		100%	100%
Optimization Results:						
Expected Return - Long-Term	5.60%	6.75%	1.15%		6.71%	6.43%
Risk - Standard Deviation	12.42%	12.29%	-0.13%		12.71%	10.98%
Sharpe Ratio	0.35	0.33	(0.03)		0.31	0.34
Risk Statistics:						
1-Year 10% Probable Return (10% cVaR)	-15.9%	-14.8%			-15.6%	-12.8%
1-Year 5% Probable Return (5% cVaR)	-19.7%	-18.6%			-19.5%	-16.2%
Probability of Loss - 1 Year	31.6%	29.1%			29.9%	27.9%
Probability of Loss - 10 Year	7.7%	4.1%			4.8%	3.2%
Return Statistics:						
Long-Term Expected Return	5.60%	6.75%			6.71%	6.43%
Long-Term Real Return	3.35%	4.25%			4.21%	3.93%

Current * - Based on FY23 Capital Market Assumptions

Alaska Mental Health Trust Reserve

Alaska Mental Health Trust Reserve – Asset Allocation History

	Short-Term Fixed Income	Intermediate-Term Fixed Income	Broad Market Fixed Income	Domestic Equity Pool	International Equity Pool	Equity/Fixed Income
2003		100%				
2006	10%		30%	45%	15%	60%/40%
2008	10%		29%	40%	21%	61%/39%
2019	0%		44%	33%	23%	56%/44%
2022	1%		30%	43%	26%	69%/31%
Rec 2023	1%		32%	39%	28%	67%/33%

Alaska Mental Health Trust Authority

Questions?

Appendix

AMHTA DOR Assets - Investment returns for quarter ending March 31, 2023:

Performance as of March 31, 2023	<u>FYTD</u>	<u>1 Year</u>	<u>5 year</u>	<u>10 year</u>
GeFONSI	2.45%	1.87%	1.33%	0.95%
GeFONSI Benchmark	2.18%	1.55%	1.19%	0.79%
Difference	0.27%	0.32%	0.14%	0.16%
Alaska Mental Health Trust Reserve	7.18%	-4.28%	8.24%	6.52%
Alaska Mental Health Reserve Benchmark	6.85%	-4.62%	7.94%	6.17%
Difference	0.33%	0.34%	0.30%	0.35%
Cash Equivalents	2.67%	2.79%	1.46%	1.03%
Core U.S. Fixed Income	0.53%	-4.07%	1.22%	1.56%
Tactical Bond	3.33%			
Domestic Equity	9.80%	-8.52%	10.44%	
International Equity	9.98%	-5.02%	2.53%	

To: Brent Fisher, Chair, Finance Committee
Through: Steve Williams, Chief Executive Officer
From: Carol Howarth, Chief Financial Officer
Date: April 12, 2023
Re: Draft Commercial Real Estate Investment Management Guidelines

At the August 2022 full board meeting of the Trust, Trustees directed Finance Chair Brent Fisher and Steve Williams, CEO, to work with Harvest Capital Partners, Jusdi Warner, TLO Executive Director, and Carol Howarth, CFO, to develop clear management processes for recommending the disposal of commercial real estate assets.

The attached draft document has been written with the following guiding principles in mind:

- The decision processes for asset disposal align with the purpose and objectives of the investments: they are managed in the best interest of the Trust and Trust beneficiaries.
- The asset values are protected, and the management processes mitigate risk(s) related to decisions to hold or dispose of assets.
- The decision processes result in the trustees' ability to maintain flexibility regarding treatment of net proceeds: use could range from the deposit into earnings reserves and/or principal as inflation proofing, and/or meet capital requirements of programmatic initiatives and/or land development projects.

This document is not a recommended final draft.

The purpose of discussing this document with trustees is to obtain feedback and input.

There is no recommendation or approval requested.

Trust

Alaska Mental Health Trust Authority

COMMERCIAL REAL ESTATE INVESTMENT MANAGEMENT GUIDELINES

April 2023

Working Document

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1. PURPOSE AND OBJECTIVE

The Trust is directly invested in seven high quality commercial and industrial assets ("CRE") over which Trustees have fiduciary responsibility per AS 37.10.071. This portfolio of assets is diversified with office and industrial buildings, with governmental and multi-tenant occupancy, and geographically with Alaska, Washington, Utah and Texas locations.

These investment management guidelines provide the Board of Trustees ("BOT"), Trust Authority ("TA") and Trust Land Office ("TLO") staff, and Trust stakeholders information on the investment objectives for holding the CRE assets, the BOT's delegation of management responsibilities, how CRE investment performance is evaluated, and how asset divestment is recommended and executed.

The objective of these guidelines is to ensure management decisions are made in the best interest of the Trust and its beneficiaries.

2. BOARD OF TRUSTEE'S GOVERNANCE DOCUMENTS AND AUTHORITY

Through the Trust Charters (October 2017), the BOT delegates the responsibility for:

- a. the development of the CRE policy and strategy to the Resource Management Committee;
- b. monitoring the CRE activities and performance for report to the board to the Resource Management Committee;
- c. the review and recommendations of financial and investment management policies for BOT approval to the Finance Committee;
- d. oversight of the implementation of approved financial and investment management policies to the Finance Committee; and
- e. monitoring of budget status and investment performance to the Finance Committee.

Through the Trust's Charters (adopted October 2017) and the Trust's Asset Management Policy Statement ("AMPS", adopted August 2019) the BOT delegates authority of the management of CRE assets to the Trust Land Office.

3. FIDUCIARY STANDARDS

The BOT is a fiduciary with the duty to protect and enhance Trust assets in perpetuity for Trust beneficiaries.

4. BACKGROUND

The Real Estate Management Program (REMP) began in 2011 to provide a hedge against financial market downturns. Trustees were responding to significant declines in investment value of assets managed by the Alaska

Permanent Fund Corporation (APFC) on behalf of the Trust due to the Great Financial Crisis in 2008 and 2009. The REMP was created to provide investment diversification and predictable cash flow to support Trust beneficiary programs.

Trustees authorized \$40 million for initial investment, with the following primary investment criteria: a) the purchase of existing buildings with strong occupancy; b) moderate expected investment risk with high credit-quality tenants and moderate capital requirements over the investment life; c) generating predictable cash flow with expected cash returns of 6% to 14%; d) a 7-20 year asset holding period; and e) the reinvestment of sales proceeds to build a robust real estate portfolio. Subsequent to the first two acquisitions, the investment strategy was amended to include moderate debt financing to enhance the assets' expected total returns, and a performance benchmark was added, the NCREIF NPI Benchmark.

\$39.5 million in principal revenue was invested between 2011 and 2016 in seven high quality office and industrial assets located in Alaska, Texas, Utah, and Washington. These assets were selected on the basis of tenant quality (government and multi-tenant), and expectations for strong durable income and appreciation.

In 2019, the BOT changed the status of the CRE portfolio from a principal funded investment to an earnings funded investment by transferring \$39.5 million from Trust earnings to principal. At that time, the BOT revised the Trust's AMPS to include new policy for the CRE investments, and added the role of a third party real estate advisor.

The 2019 changes were in follow-up to recommendation from the State's Legislative Auditor in 2018. In 2021, the State's Legislative Auditor reviewed the Trust's management of the CRE. It recommended that the Trust prudently liquidate the CRE holdings, a recommendation consistent with the Trust's investment goals and objectives.

5. COMPLIANCE WITH ASSET MANAGEMENT POLICY STATEMENT

These investment management guidelines delineate procedures in alignment with the Trust's AMPS. The AMPS delineates the asset management philosophy of the BOT and is the management plan for all the assets entrusted to the Board.

The specific purpose and management of the CRE is outlined below for reference:

Purpose of the CRE – CRE provides a hedge against volatility in the stock market and generates income that supplements annual distributions from the Trust's portfolio. The Trust may elect to sell these assets and replace them with different assets at any time.

Board of Trustees – reviews the long-term performance, risk, and liquidity of the CRE.

Finance Committee – assists the board in the monitoring of the overall financial performance of the Trust's assets including the CRE.

Resource Management Committee – assists the board in the oversight and strategic planning for the CRE.

Third Party Real Estate Advisor (Advisor) – advises staff and the BOT on the management of the CRE.¹

Trust Land Office (TLO) - manages the Trust's seven properties in accordance with the LLC agreements and the strategic direction of the BOT.

Chief Financial Officer (CFO) – provides general oversight of the Trust investments and reports on investment activity and results. The CFO manages the third party real estate advisor contract.

Chief Executive Officer (CEO) – implements the policies established by the BOT; annually or as needed brings recommendations to the BOT for asset sale or holding.

6. PLANNING, REPORTING AND MONITORING

Annual Budgeting and Outlook

- The TLO prepares CRE plans, budgets and valuations, and reports major actions and hold/sell recommendations for each property and on a consolidated basis.
- The Third Party Real Estate Advisor (Advisor) reviews with the property managers and the TLO the assets' plans and budgets and provides strategic advice.
- After CEO review, plans and budgets are presented to the Finance Committee for recommendation of BOT approval of annual CRE budgets.
- The Advisor provides the Trust with a performance forecast, and provides the Finance Committee with an independent performance review, outlook, and hold/sell recommendations.

Reporting

CRE performance is measured at the property level and investment level to allow assessment

¹ Outstanding issue: determination of when a third-party advisor is not required, e.g., number of assets, portfolio value or other decision point.

- a) by asset of its ability to return profit without including the impact of ownership, investment management and fund structure,
- b) of the impact of ownership management and financing structures at the asset and portfolio level, and
- c) of the portfolio's contribution to the Trust's overall fund performance and risk management.

Minimum performance reporting requirements on a quarterly (Q) and/or annual basis (A) are as follows:

Asset Level by Trust Land Office

- Net Operating Income (Q, A)
- Cash Flow (Q, A)
- Appreciation (A)
- Total Return (A)
- Net Asset Value (Q, A)
- Annual Benchmark comparison: NCREIF (Note: one quarter lag) (A)
- Occupancy (Q)
- Manager's discussion of performance (Q)

Portfolio Level by Trust Authority

- Investment Returns (A)
- Distributions (Q, A)
- Equity Value (A)
- Leverage (A)
- Comparisons: Benchmark and Total Fund Objectives (A)
- Approved funding commitments (A)

Reporting shall use the NCREIF/PREA Reporting Standards methodology.

7. INVESTMENT EVALUATION

Each asset is evaluated at a minimum annually to determine if it is accretive to the Trust to hold the asset or to sell the asset.

Characteristics of real estate investments can impact liquidity and valuation, and are important considerations in managing real estate and liquidating real estate. The decision to sell any asset has many considerations and may be limited by conditions and/or provisions that could impact and impair the ability to sell (liquidity), including loan prepayment restrictions, capital market and asset market conditions, recessionary conditions, high interest rate environments, and asset vacancies. These considerations are to be integrated, synthesized, and weighed into recommendations to the Trust.

The following chart provides a high-level summary of key metrics and considerations for an investment evaluation. These are not the sole metrics and considerations nor are they listed in terms of importance or with weighting. The

TLO and Advisor, each using their professional judgements, integrate these and other evaluation metrics in their investment evaluation.

Metric/Consideration	Role in Decision
Asset Position	<ul style="list-style-type: none"> Market supply and demand expectations, and asset quality and tenant quality can change the asset's expected risk profile.
Ability to Sell/Liquidity	<ul style="list-style-type: none"> Debt requirements may impose penalties that reduce the appetite for asset sale. Real estate cycles can both amplify and contract asset values relative to "fair" value, affecting buyers' ceiling price. Financial markets may limit potential buyers access to financing.
Sales Price Minimum	<ul style="list-style-type: none"> Sales Floor Price should be the greater of the present value expected to be generated over the asset's life or Fair Market Value as determined by the marketplace, but no less than appraised value.
Role of Durable Income	<ul style="list-style-type: none"> The asset's expected contribution to meeting the Trust's funding needs . The reinvestment option's expected ability to replace the durable income.
Net Cash Flow Available for Distribution	<ul style="list-style-type: none"> This metric reflects expected distributions to the Trust. It is part of the asset's Total Return and is projected forward 10 years as part of the investment analysis.
Asset Return	<ul style="list-style-type: none"> This metric reflects expected asset appreciation. It is part of the Total Return and is projected forward 10 years as part of the investment analysis.
Total Return	<ul style="list-style-type: none"> This metric is the combined evaluation of the expected cash distributions and asset appreciation, above. This return calculation incorporates assumed market capitalization rates, discount rates, and discount to replacement cost. For purposes of the investment evaluation, Total Return is compared to what the reinvestment option is expected to produce over a similar time frame.
Comparative Metrics	<ul style="list-style-type: none"> The investment evaluation triangulates the Total Return with recent sales comparables, the asset's appraisal and the Broker's Opinion of Value, if appropriate.

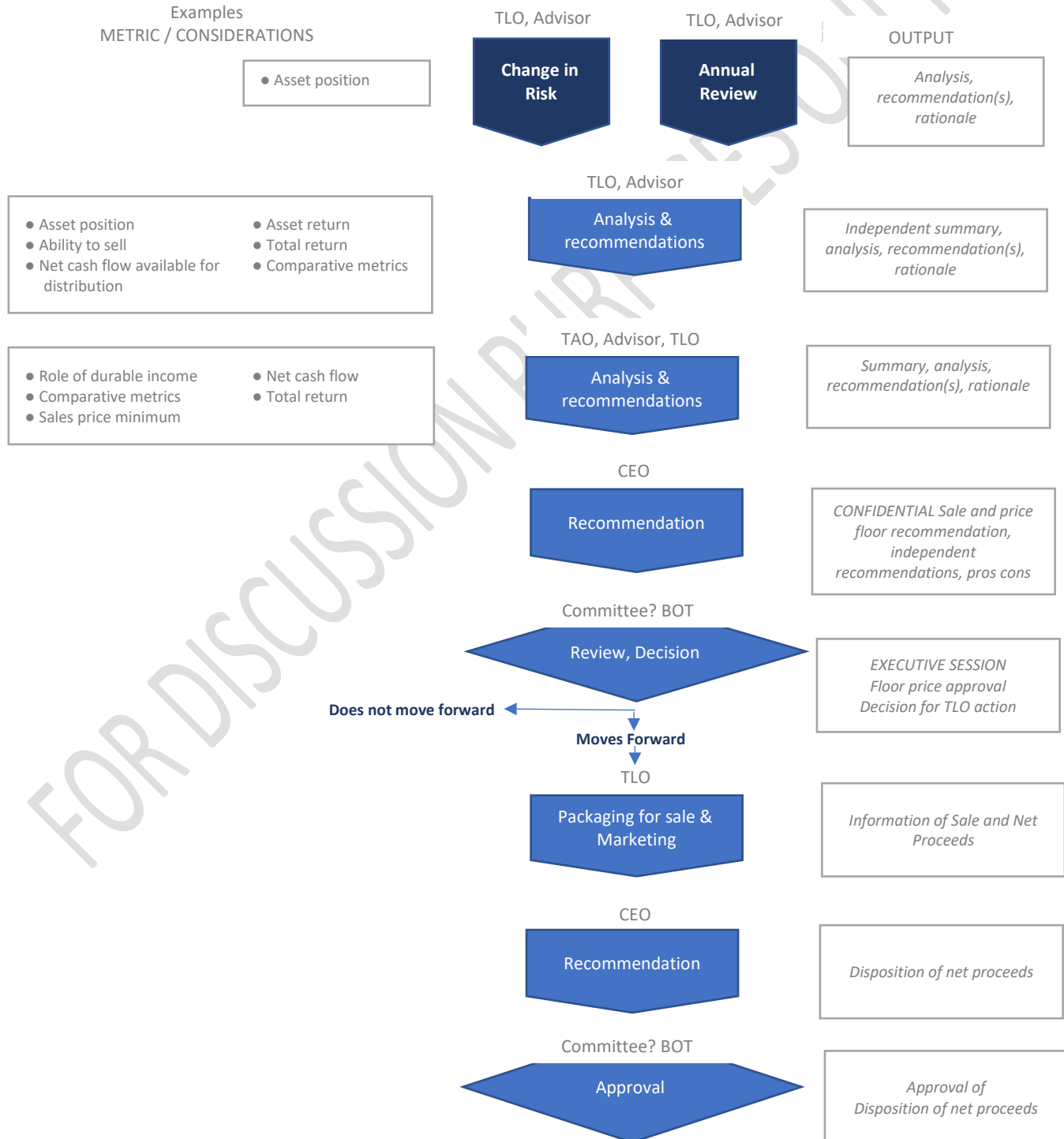
*These are key metrics. There are many other considerations that may be factored in an investment evaluation.

8. PROCESS FOR SALES RECOMMENDATION

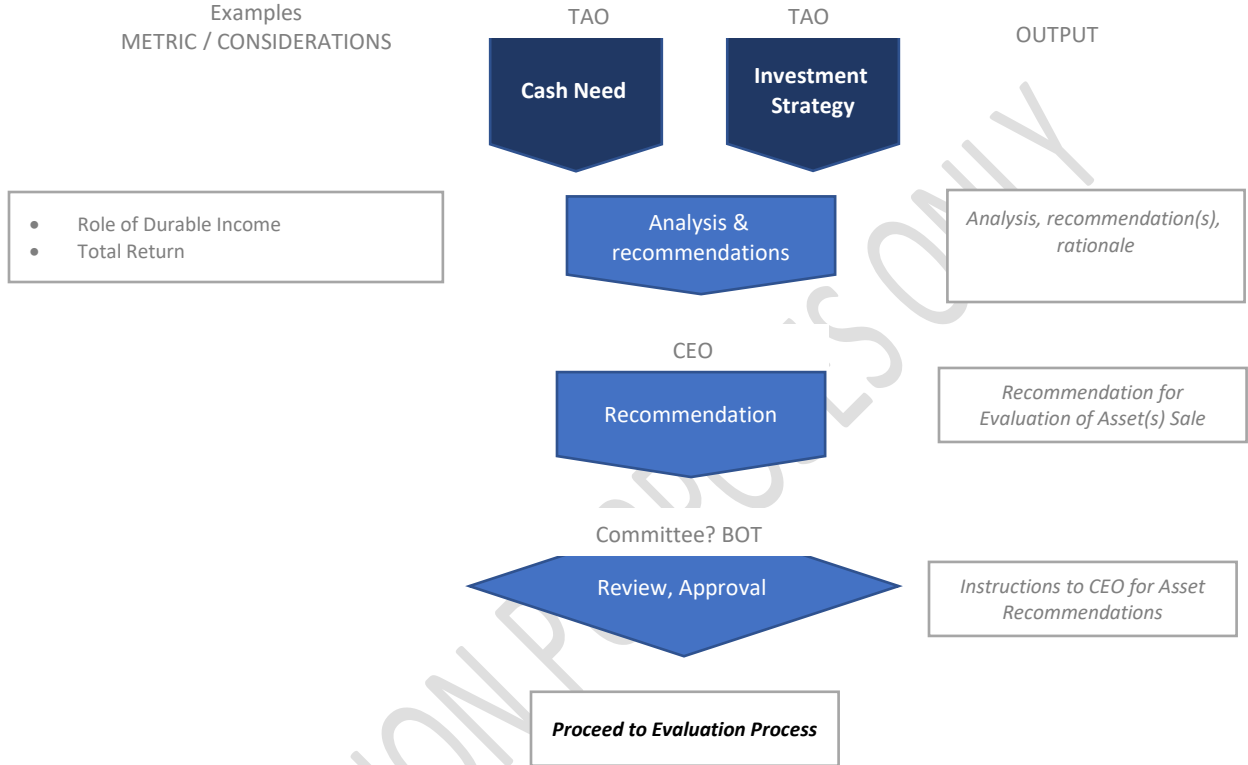
The process for initiating a sale recommendation could happen at any point in a calendar year, and may be triggered by a recommendation originating from a change in an asset's risk position, from an annual review, cash need to support other Trust activities, changes in investment strategy, such as asset allocation, or other unforeseen circumstances.

Investment Evaluation

The following provides a high-level overview of the steps to arrive at a decision for asset sale. It outlines the information, the party responsible and the expected output at each step. Additional metrics/measures may be included.



When the Trigger is Cash Need or Investment Strategy, the process would start with TAO analysis (Role of durable income, Total Return), move to a Trustee recommendation by the CEO, and then begin the asset evaluation process.



Investment Benchmark

As part of a Hold/Sell Analysis, the CFO will confirm the investment benchmark to the Trust Land Office and the Real Estate Advisor for their analysis. Unless revised, the investment benchmark will be the current 10-year “mid” projected return on the portfolio managed by the Alaska Permanent Fund Corporation (APFC).

Any change to the reinvestment benchmark will be recommended by the CFO to the CEO, and the CEO makes final recommendation for approval to the BOT.

Reinvestment

Unless otherwise designated, it is assumed that any real estate net proceeds will be initially invested under APFC management, designated as ‘reserves’ for investment purposes. The BOT may determine the future use of those proceeds as provided by Alaska Mental Health Trust Authority statute AS 37.14.041.

9. Potential Appendices

The Commercial Real Estate Investment Management Guidelines outlined in this document have both reporting and decision approval requirements to be consistent with stated policies of the Trust, AMPS, its Charters and its by-laws.

Below is sample draft table with reporting and approval responsibilities.

ALASKA MENTAL HEALTH TRUST AUTHORITY DRAFT Commercial Real Estate Investment Management Guidelines - Responsibilities

Action/Task	Frequency	TLO	Consultant	TAO	Board
1. CRE Investment Policies-Review & Revise					
2. CRE Third Party Advisor Selection Request for Proposal					
3. Portfolio Business Plan					
4. Detailed Property Operating Plans (Annual Budget)					
5. Annual Business Plans (per asset)					
6. Portfolio Strategic Plan (Hold/ Sell, Annual Performance)					
7. Sale Recommendation with Floor Price					
8. Final Investment of Sale Proceeds (Reinvestment)					
9. Quarterly Performance					
10. Portfolio/Property Compliance Service Provider Evaluations					

KEY
A = Approves
P = Prepares
R = Recommends
RT = Reported To
RV = Reviews
M = Monitors
*= Budget Approval

Potential Appendices

Below are descriptions of metrics of the CRE Investments, a product of the CRE working group of the Staff (TLO Exec. Director, CEO, and CFO), Harvest Capital Partners LLC, and the BOT Finance Committee Chair are appended as a resource.

Metrics/Considerations	Description
Ability to Sell/ Liquidity	<p>Liquidity is the efficiency or ease with which an asset can be converted to ready cash without affecting its market price. It is driven by two primary factors, either:</p> <ul style="list-style-type: none"> ▪ A restriction imposed on asset until the designated open period (e.g., loan cannot be repaid or transferred). ▪ Buyer/s in the marketplace willing to pay fair market value within a reasonable time. <p>Issues that nuance liquidity:</p> <ul style="list-style-type: none"> ▪ There are always terms in a transferable loan that are “unacceptable” to a buyer. ▪ Buyer must have liquidity/access to debt. ▪ Buyer’s overall cash requirements are balanced against the purchase (e.g., capacity to stretch balance sheet). ▪ While there is liquidity with single buyers, there is greater liquidity with multiple, backup buyers. ▪ Liquidity varies in down markets vs up markets (and type of buyers shifts). ▪ Capital markets and economic cycles can increase or decrease liquidity. Examples could include changes in interest rates or market volatility, which affect a buyer’s expected return. ▪ Asset-based issues can increase or decrease liquidity, depending upon where one is in the real estate cycle.
Sale Price Minimum (Floor)	<p>Floor price: Minimum sales price should be intrinsic value.</p> <ul style="list-style-type: none"> ▪ Intrinsic value: represented by comparables in the market, replacement cost, cash flow projections. <ul style="list-style-type: none"> ▪ Nuances to the cash flow projection standard of zero-based 10-year projections of operating cash flow and capital requirements: <ul style="list-style-type: none"> ▪ The present value of expected asset generation is affected by investors’ required rates of return, market rates and other uncertainties. ▪ 10-year projections smooth volatility. There are occasions when the time horizon could be shorter, e.g., if a proposed sales date coincides a major asset event, e.g., tenant turnover, refinancing. ▪ Cash flow can be distinguished as pre-debt service (unlevered) or with debt service (levered). Care should be applied: e.g., Trust cash flow is levered; a buyer will evaluate unlevered with its own target leverage. ▪ Nuances to setting floor price to intrinsic value: <ul style="list-style-type: none"> ▪ Minimum sales price should be the greater of the intrinsic valuation and hold/sell valuation. <ul style="list-style-type: none"> ▪ Depending upon timing within cycle, setting the minimum sales price to intrinsic value can be too high or too low. ▪ The Hold/Sell Valuation becomes the balance to Intrinsic Value and its weight in the decision-making process, e.g., downturn – intrinsic value is higher than hold/sell value; up-market (frothy market) hold/sell value could be higher than intrinsic value. ▪ Long-term behavior of real estate influences intrinsic value <ul style="list-style-type: none"> ▪ Market cycles have disproportionate impact on valuations—both positive and negative. ▪ Lease cycles influence the opportunity cost to hold. The impact is complex and lease duration does not determine the lease value. The impact on intrinsic value depends on the lease and the market (e.g., selling an asset with a single tenant 4-5 years prior to lease expiration is generally favorable; yet a below-market lease near term-end could be viewed favorably if it could generate higher lease rates or if there is demand for that space). ▪ There should be a discipline regarding adhering to a floor price (e.g., if due to transaction circumstances the price falls below the floor, then do not sell). ▪ Much dependent upon reinvestment.

Metrics/Considerations	Description
Net Cash Flow Available for Distribution	<p>Two measures for "income" are both cash flows</p> <ul style="list-style-type: none"> ▪ Asset cash flow ▪ Cash distributions to the Trust <ul style="list-style-type: none"> ▪ Asset cash flow is used for hold/sell decision-making <ul style="list-style-type: none"> • Starting point: budget development and annual business plan processes • Rank assets for disposal, including reasons for ranking <ul style="list-style-type: none"> ▪ Cash distribution to the Trust <ul style="list-style-type: none"> ▪ Used for comparison to reinvestment options <ul style="list-style-type: none"> ▪ Distributions plus net proceeds from disposal ▪ Ongoing distributions for use in evaluating Trust's Revenue calculation <ul style="list-style-type: none"> ▪ Comparison with reinvestment options
Comparative Metrics	<p>Forward-looking measures</p> <ul style="list-style-type: none"> ▪ Investor cap rates are based on the market and are calculated by dividing the property's net operating income by asset value. While the cap rate will change year-to-year, it provides a window on investor expectations at that time: <ul style="list-style-type: none"> ▪ Expectations entering investment ▪ Expectations exiting investment ▪ Discount rate ▪ Nuance: get to common understanding by clarifying cap rate, e.g., by equating to risk <p>Use of Comparatives – not recommended for quantitative measure</p> <ul style="list-style-type: none"> ▪ Comparatives' performance metrics can make decisions more confusing due to methodologies to normalize data, e.g., NCREIF ▪ A well-written recommendation can capture comparative elements (qualitative assessment) ▪ Trust should be prepared to explain

FOR DISCUSSION PURPOSES ONLY