Trust
Alaska Mental Health Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

MEETING AGENDA

Meeting:	Finance Committee
Date:	April 24, 2024
Time:	8:30 AM
Location:	Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference:	(844) 740-1264 / Meeting Number: 2630 429 8233 # / Attendee Number: # https://alaskamentalhealthtrust.org/
Trustees:	John Morris (Chair), Rhonda Boyles, Kevin Fimon, Brent Fisher, Anita Halterman, Agnes Moran, John Sturgeon

Wednesday, April 24, 2024

		Page No.
8:30	**Call Meeting to Order (John Morris, Chair)** Roll Call / Announcements / Approve Agenda / Ethics Disclosure Approve Minutes	
	• January 4, 2024	4
8:35	**Financial Update** Julee Farley, CFO & Sarah Morrison, TLO Chief Business Officer	
	• Dashboard with Performance Update	9
8:50	**Department of Revenue Presentation for Reserves**	13
	• Steve Sikes, Investment Officer, DOR	
9:05	**AMPS Update**	30
	• Julee Farley, CFO	
9:30	**Commercial Real Estate** Jusdi Warner, Executive Director, TLO David MacDonald, Senior Real Estate Asset Manager	
	• CRE Quarterly update	58
	• FY25 Real Estate and Program-Related Real Estate Facility Budgets	61
	• CRE Appraisals	
10:15	**Break**	
10:30	**Discussion of CFF Structure**	66
11:00	**Adjourn**	

Additional Document:

Callan - AMHTA Asset Spending Study Flowchart, April 2024	71

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Future Meeting Dates

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

(Updated – March 2024)

• Full Board of Trustees	May 22-23, 2024	(Wed, Thu) – Ketchikan
• Audit & Risk Committee	July 30, 2024	(Tue)
• Finance Committee	July 30, 2024	(Tue)
• Resource Mgt Committee	July 30, 2024	(Tue)
• Program & Planning Committee	Jul 31 – Aug 1, 2024	(Wed, Thu)
• Full Board of Trustees	August 28-29, 2024	(Wed, Thu) – Anchorage
• Audit & Risk Committee	October 16, 2024	(Wed)
• Finance Committee	October 16, 2024	(Wed)
• Resource Mgt Committee	October 16, 2024	(Wed)
• Program & Planning Committee	October 17, 2024	(Thu)
• Full Board of Trustees	November 13-14, 2024	(Wed, Thu) – Anchorage
• Audit & Risk Committee	January 8, **2025**	(Wed)
• Finance Committee	January 8, **2025**	(Wed)
• Resource Mgt Committee	January 8, **2025**	(Wed)
• Program & Planning Committee	January 9, **2025**	(Thu)
• Full Board of Trustees	February 5-6, **2025**	(Wed, Thu) – Juneau
• Audit & Risk Committee	April 23, **2025**	(Wed)
• Finance Committee	April 23, **2025**	(Wed)
• Resource Mgt Committee	April 23, **2025**	(Wed)
• Program & Planning Committee	April 24, **2025**	(Thu)
• Full Board of Trustees	May 21-22, **2025**	(Wed, Thu) – TBD

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Future Meeting Dates

Statutory Advisory Boards

(Updated – March 2024)

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: 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: Stephanie Hopkins, 907) 465-4667, stephanie.hopkins@alaska.gov

- Quarterly Meeting: April 16-18, 2024 / Wasilla
- Standing Advocacy Committee: Mondays from 12:00pm – 1:00pm
- Executive Committee: Second Monday at 9:00am

Governor's Council on Disabilities and Special Education

GCDSE: http://dhss.alaska.gov/gcdse/Pages/default.aspx
Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Triannual Meeting (summer): May 30-31, 2024 / Anchorage
- Triannual Meeting (fall): September 19-20, 2024 / Anchorage

ALASKA MENTAL HEALTH TRUST AUTHORITY
FINANCE COMMITTEE MEETING
January 4, 2024
8:30 a.m.

Originating at:
Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 200
Anchorage, Alaska 99508

Trustees Present:
Anita Halterman, Chair (telephonic)
John Morris (telephonic)
Kevin Fimon
Brent Fisher
John Sturgeon
Rhonda Boyles
Agnes Moran

Trust Staff Present:
Steve Williams
Julee Farley
Miri Smith-Coolidge
Michael Baldwin
Debbie DeLong
Valette Keller
Luke Lind
Kat Roch
Janie Ferguson
Heather Phelps

Trust Land Office staff present:
Jusdi Warner
Sarah Morrison
Marisol Miller

Also participating:
John Springsteen; Charlene Tautfest; Patrick Reinhart; Steph Kings; Stephanie Hopkins; Stephanie Wheeler; Larua Russell; Lisa Brown; Justin Borgen; Diane Fielden.

PROCEEDINGS

CALL TO ORDER
CHAIR HALTERMAN called the Finance Committee meeting to order and stated that she was stepping in for John Morris, committee chair, because he had a flight delay. She began with a roll call. Trustee Morris was excused, and there was a quorum. She asked for any announcements. There being none, she moved to the agenda.

APPROVAL OF AGENDA

MOTION: A motion to approve the agenda was made by TRUSTEE FIMON; seconded by TRUSTEE STURGEON.

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

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to the approval of the minutes from October 20, 2023.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from October 20, 2023, was made by TRUSTEE MORAN; seconded by TRUSTEE FIMON.

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

STAFF REPORTS
CEO REPORT
CEO WILLIAMS took the opportunity to introduce Heather Phelps, the new program officer, who joined the Trust in December. She came from the Department of Health, and is filling the role that was previously held by Travis Welch. He asked her to introduce herself.

MS. PHELPS stated that she was very excited to be there and added that the Trust had been benefiting her life in many ways. She first got into State service in 2005 through Trust funds as the first mental health clinician working at McLaughlin Youth Center. She has a long history working with the Trust and beneficiaries. She worked in the private sector and owned a business in counseling services for substance-use-disorder services. She also worked in nonprofits like Akeela, AK Child and Family, working with youth. She has a variety of experiences working with youth, adults, and with people that were incarcerated and on probation. She added that she looks forward to this role, and working in this capacity to serve Trust beneficiaries.

CHAIR HALTERMAN welcomed Ms. Phelps aboard and looked forward to meeting and working with her.

CEO WILLIAMS gave a brief outline of what would be discussed and stated that Julee Farley would be leading the discussion going through the four major areas of the update: the traditional financial dashboard update; discussion related to inflation-proofing; the no-surplus determination; and commercial real estate, which will set the stage for the Resource Management Committee meeting.

MS. FARLEY began with the one-page dashboard and stated that the format will be kept similar to this. It has a lot of information added that staff would help with in going through the data. She continued that the information was through November, and we just finished December, which was not included. It included five months of data. She did add a column to the right of the first set of numbers which was the percentage of budget expended. She went through the Trust Authority Office expenditures and continued through the dashboard. She explained that those were actual expenditures. She added that it is a work in progress. Not included are encumbrances and board commitments, approvals by trustees.

CEO WILLIAMS stated that it is important to remember that when looking at the MHTAAR, the Trust Authority office agency budgets, as well as Trust Land Office agency budgets, they are within the State system, which does not officially close out its budget until August 15th.

MS. MORRISON talked about seasonality with the budget and began with the TLODA project; Icy Cape is a good example of seasonality as it exists in natural resources. For context, during the winter, desktop geology is done where there is a lot of planning and logistics, analysis. This can be done in the office or, in Karsten's case, from West Virginia. Then, all of that is in preparation for the period from April to August, September, where the money is being spent quickly doing a lot of work; which has to be done before the weather changes. She stated that, for this project, they were entering Year 4 out of 5, and the expenditures are expected to be under budget for the project as a whole. She continued with the revenues generally and how those flow with seasonality. Revenues with income principal also have a seasonal flow, as well. She added that another example of seasonality is with the land sale program where the resource managers do a lot of work in the field season to prepare for a sale that occurs in the fall. Those initial revenues are received in the winter, and then contracts do not start rolling until the spring. She moved on and put income and principal in context. Income is for things like leases, interest on contracts, 15 percent of timber. It is for things that are not being disposed of permanently. This income generated goes into the spendable income that the Trust can spend right away. Principal is for gains that are being permanently disposed of. That cash received has to be permanently sequestered in the Permanent Fund, and it comes from land sales, royalties, and timber sales. She went through the funds generated, and expected to stay on budget for what is projected. She noted that the land sale had a really good year. She reported that they would have over 300 contracts in place once those are all set up. Last year was the biggest year ever, and this year will have that high again. She continued that the revenue that helps the endgame is the royalties from Fort Knox. She added that it is hard to predict; and that revenue and principal can look pretty slow, and then all of a sudden it does not. She asked for any questions.

CEO WILLIAMS did not see any questions from any of the trustees in the room.

CHAIR HALTERMAN recognized Julee Farley.

MS. FARLEY explained the investment activity. The first section is for the Permanent Fund, which is where the bulk of the investments are, as well as the bulk of the revenue. She talked about the unrealized earnings on principal, and then explained the statutory net income and the gap income on those earnings.

A brief discussion continued on the volatility of the market and the affect on investments.

MS. FARLEY mentioned the commercial real estate, which would be discussed at the Resource Management Committee meeting, and then moved to the best news in the GeFONSI interest account, which are the cash accounts. They have been doing very well. They were outperforming, and it is nice to see cash and short-term and bonds doing something.

CHAIR HALTERMAN announced that Trustee Morris has joined us, and is listening in for the remainder of the meeting. She thanked Ms. Farley for the presentation, and also thanked Ms. Roch and Ms. Morrison for their contributions and presentation.

MS. FARLEY pointed out that available reserves as a percentage of payout was at 336 percent with a target of 400 percent. She was working with Trustee Morris on this, and just wanted to provide something in graphical form to help with the information. Sometimes it is easier to digest when it is in pictures. She talked about the first two graphs where the first row represented activity and the mix of expenses. The second related to earnings.

CHAIR HALTERMAN asked for any questions. She thanked Ms. Farley, and noted appreciation for the visuals. She stated appreciation for the contributions of her fellow peers on the Board in giving different perspectives and different visuals, and thanked them for accommodating that request.

MS. FARLEY moved to the inflation-proofing update. She began with a little background and stated that inflation-proofing is not anything that is required by statute, and it is mentioned as one of the allowable uses of funds. The Trust has historically done some inflation-proofing, not every year, but throughout the years there was some practice of inflation-proofing. It was recommended by the 2021 Legislative Audit, and was supported by Trust law and, in general, represents a good stewardship of assets to inflation-proof the corpus. AMPS, the Asset Management Policy, allows for inflation-proofing once the 400 percent reserve target is met. In fiscal year '21, the trustees authorized \$120 million of inflation-proofing; \$50 million of that was transferred, and \$70 million is remaining.

CHAIR HALTERMAN asked for the reason for not fully expending the full \$120 million, and when would the \$70 million finish that commitment.

MS. FARLEY replied that the inflation-proofing comes from the reserve accounts and, at this point, we are not in a position to fund that. She explained that right now the reserve target is at 336 percent. Once it gets to 400 percent is when we could look at inflation-proofing and using up some of that \$70 million of the remaining commitments. She added that it is an obligation that the trustees incurred, but is not GAAP. She continued that inflation has been high, and it is important to look at inflation-proofing every year.

A brief discussion on inflation-proofing ensued.

MS. FARLEY continued that the next report was on funding sufficiency, which is done annually. The reason behind this is that the statute does allow for specific uses of Trust funds. It went further and says that if there is any excess, that could be transferred to the General Fund. The

Legislative Audit Report recommended having policies and procedures on this. The policy is in development; another project for fiscal year '24. She moved to the numbers that were reviewed to conclude that there are sufficient funds to meet the commitments, but we do not have excess. She added that the current investments are sufficient for continued payout support of $34 million. That was $30 million from the investments at 4.25 percent of the four-year average, plus the revenue generated by the Land Office.

CHAIR HALTERMAN thanked Ms. Farley for that optimistic outlook to end on. She thanked all for the presentations and entertained a motion to adjourn.

> **MOTION:** A motion to adjourn the meeting was made by TRUSTEE BOYLES; seconded by TRUSTEE MORRIS.
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Morris, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Fisher, yes; Trustee Moran, yes; Trustee Sturgeon, yes; Chair Halterman, yes.)*

CHAIR HALTERMAN adjourned the meeting.

(The Finance Committee meeting concluded at 9:33 a.m.)

Alaska Mental Health Trust
YTD FY2024 Activity

For period ending: February 29, 2024

% of FY reported: 67%

TRUST EXPENDITURES

Operations	July-Feb	YTD % of budget	Mar-Jun	Total	Approved Budget	Expected Variance
Administrative Activities						
Trust Authority Office	$ 2,447,400	53%	$ 1,979,800	$ 4,427,200	$ 4,652,200	$ (225,000)
Trust Land Office	3,129,500	62%	1,770,300	4,899,800	5,049,800	(150,000)
Total Admin. Costs	$ 5,576,900	57%	$ 3,750,100	$ 9,327,000	$ 9,702,000	$ (375,000)
Program Activities						
MHTAAR	$ 4,450,569	46%	$ 4,994,031	$ 9,444,600	$ 9,744,600	$ (300,000)
Authority Grants	7,906,417	40%	11,539,583	19,446,000	19,746,000	(300,000)
Total Program Costs	$ 12,356,986	42%	$ 16,533,614	$ 28,890,600	$ 29,490,600	(600,000)
Total Regular Activities	$ 17,933,886	46%	$ 20,283,714	$ 38,217,600	$ 39,192,600	$ (975,000)

Capital Projects
(funded from Budget Reserves)

	Total Investments Through Feb		Investments Expected March - June	Projected Total Invested through FY24	Approved Budget	Remaining Budget	
Beneficiary Facilities	$ -	0%	$ -	$ -	$ 3,655,000	$ 3,655,000	PRRe Funds Available
Mineral Project (TLODA)	-	0%	-	-	1,500,000	1,500,000	RSA
Subdivision Project (TLODA)	-	0%	-	-	$ 3,000,000	3,000,000	RSA
Icy Cape (TLODA)	6,719,200	67%	1,220,800	7,940,000	10,000,000	3,280,800	RSA
Total Special Projects	$ 6,719,200	37%	$ 1,220,800	$ 7,940,000	$ 18,155,000	$ 11,435,800	

TRUST RECEIPTS

	July-Feb		Mar-Jun	Total	Plan	Expected Variance	
Trust Land Office							
Trust Land Office-Income	$ 3,397,600	85%	$ 1,311,400	4,709,000	$ 3,979,900	$ 729,100	
Trust Land Office-Principal	4,364,700	66%	$ 2,807,300	7,172,000	6,636,700	$ 535,300	
Total Land Office Activity	$ 7,762,300	73%	$ 4,118,700	$ 11,881,000	$ 10,616,600	$ 1,264,400	
Investment Activity							
ealized gains (losses) on Principal APFC	*6,904,800*						
Statutory Net Income APFC	*22,031,300*						
APFC Gain	$ 28,936,100	43%	$ 17,568,300	$ 46,504,400	$ 66,779,100	$ (20,274,700)	FYTD perf 4.6% vs 5.8% bench
DOR Reserves Earnings	2,995,700	81%	1,136,137	4,131,837	3,710,600	421,237	FYTD perf 8.8% vs 8.6% bench
Commercial Real Estate	1,315,600	64%	791,400	2,107,000	2,068,500	38,500	FYTD perf 3.8% (incl principal pmts)
Less: CFF withdrawals	(273,371)		(546,742)	(820,113)		(820,113)	
	1,042,229		244,658	1,286,887			
DOR GeFONSI Interest	823,800	114%	411,900	1,235,700	724,700	511,000	
Total Investment Earnings	$ 33,797,829	46%	$ 19,360,995	$ 53,158,824	$ 73,282,900	$ (20,124,076)	

TRUST ASSETS at February 29, 2024

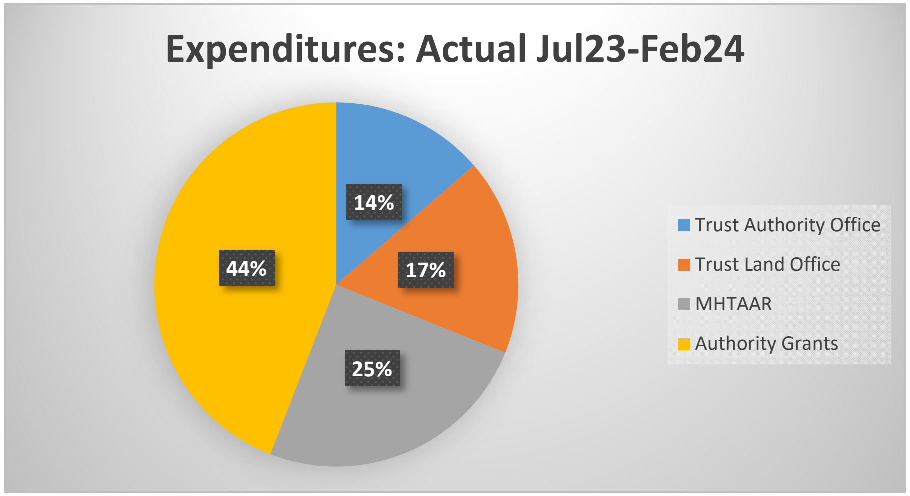
Investments

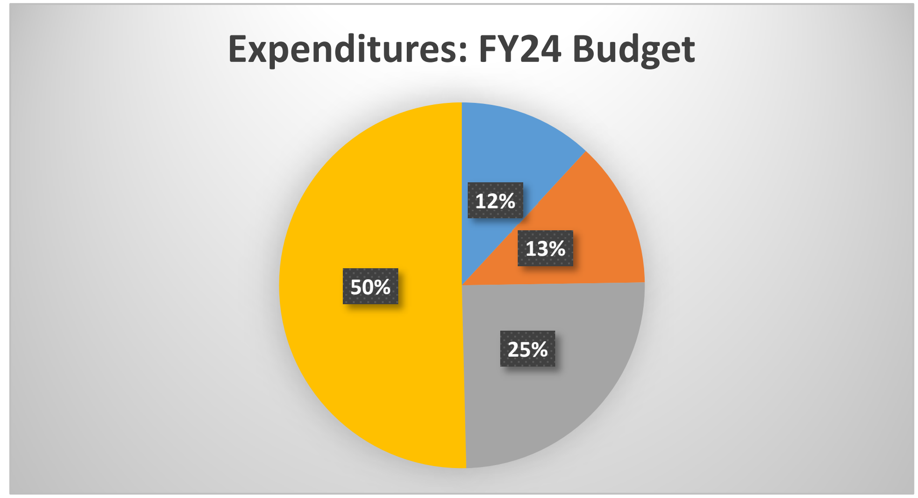
APFC-Managed Trust Principal	$ 544,621,000	
APFC-Managed Unrealized Gains	103,807,000	
APFC-Managed **Spendable** Reserves	*59,019,400*	
Total APFC Managed Funds	$ 707,447,400	
Trust Reserves at DOR	*51,642,600*	
Total Externally Managed Investments	**$ 759,090,000**	Basis for 4.25% payout calculation
TLO Managed Commercial Real Estate	61,378,000	Value at June 30, 2023
Total Investments	$ 820,468,000	
Total Reserves	110,662,000	
Available* Reserves as a % of Payout	354%	
Amount Above (Below) Target	(13,954,200)	

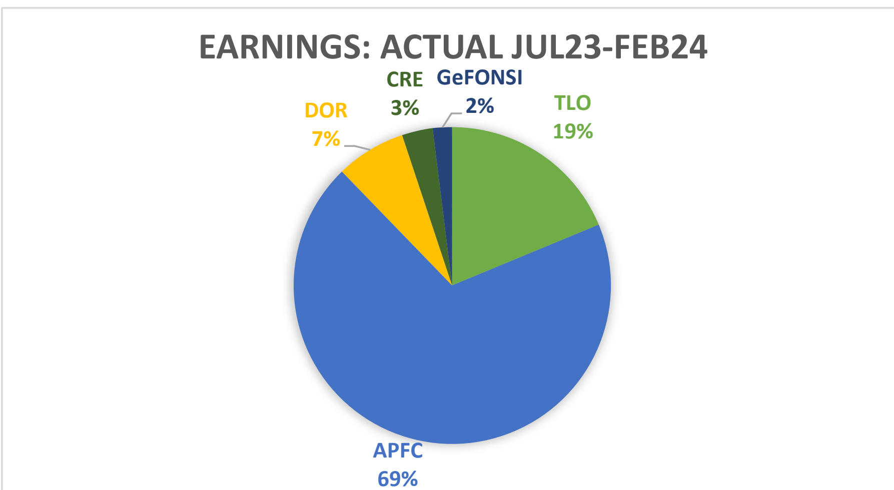
GeFONSI Accounts Managed by DOR

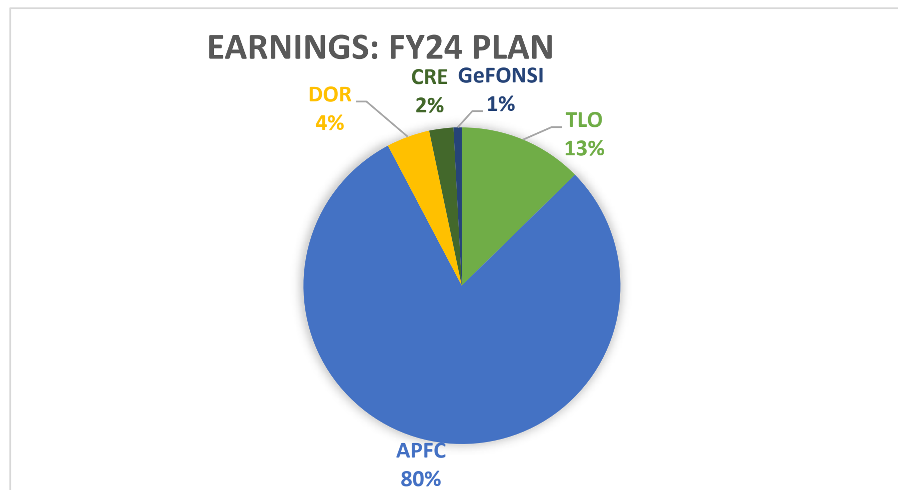
Trust Authority Development Acct	2,273,088
TLODA	6,560,000
Central Facility Fund Avail Bal	1,672,651
DOR Operating Funds	36,682,031
Total	47,187,770

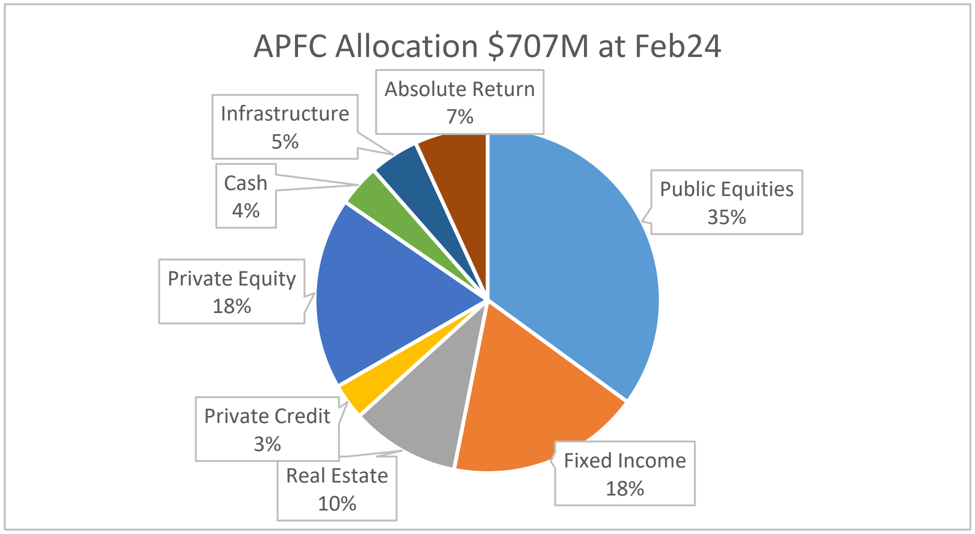
Dashboard Summary Fiscal Year-To-Date Through February 2024

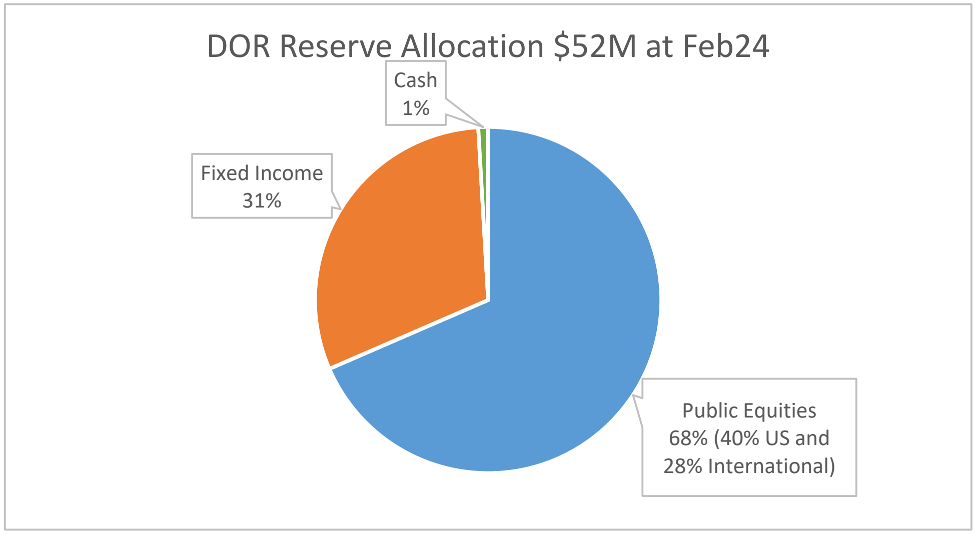


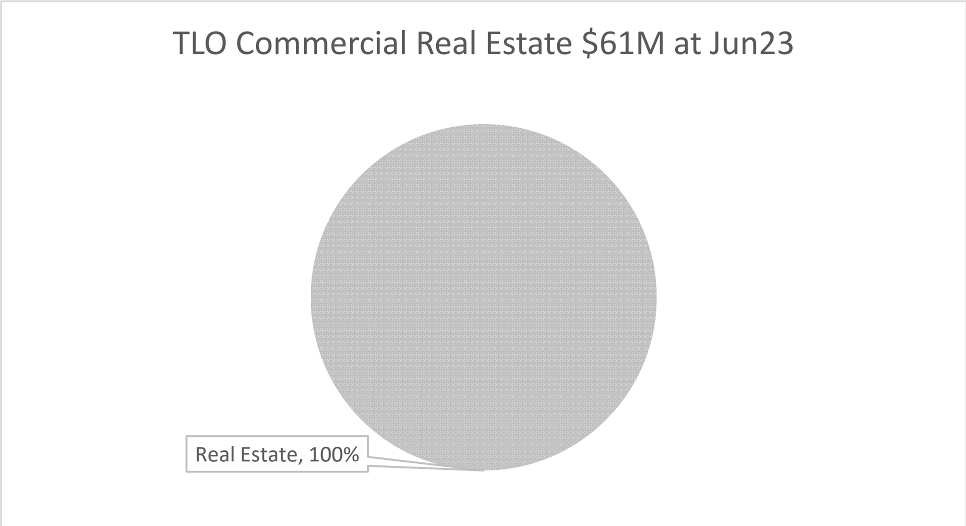


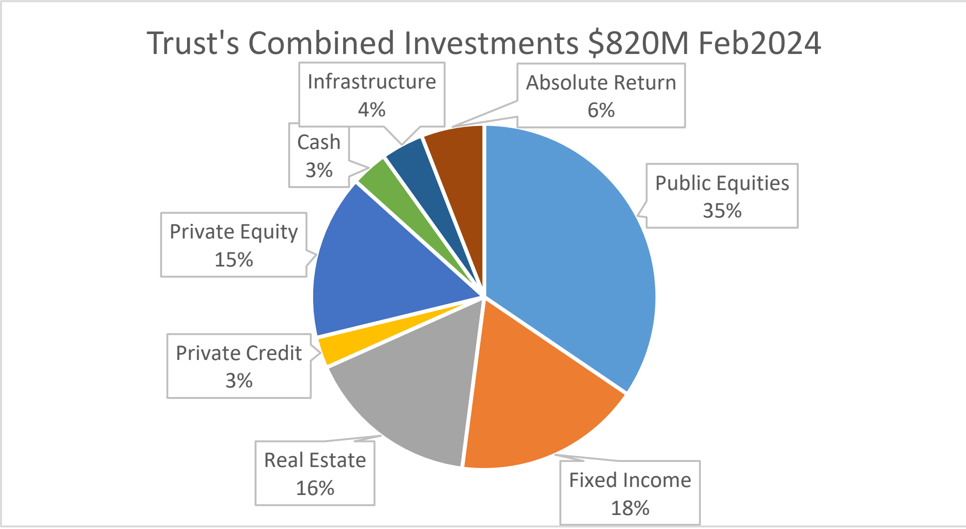


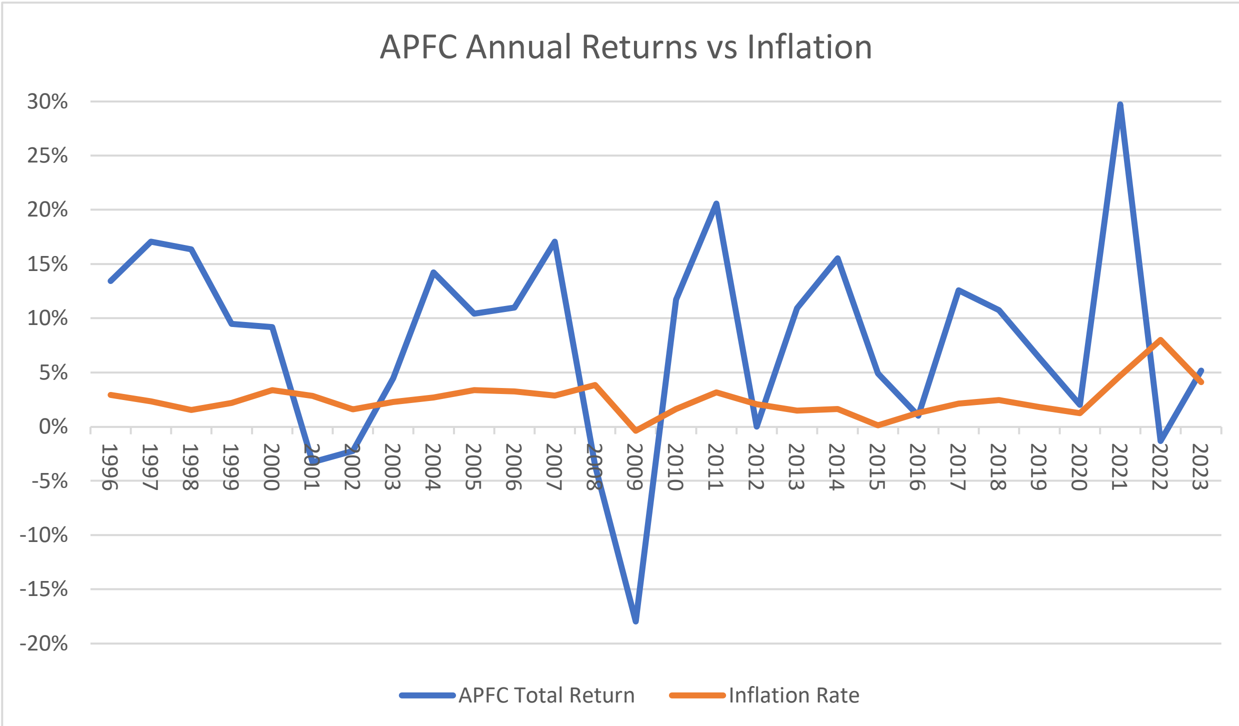



APFC Allocation $707M at Feb24
Absolute Return 7%
Infrastructure 5%
Cash 4%
Private Equity 18%
Private Credit 3%
Real Estate 10%
Fixed Income 18%
Public Equities 35%


DOR Reserve Allocation $52M at Feb24
Cash 1%
Fixed Income 31%
Public Equities 68% (40% US and 28% International)


TLO Commercial Real Estate $61M at Jun23
Real Estate, 100%


Trust's Combined Investments $820M Feb2024
Infrastructure 4%
Absolute Return 6%
Cash 3%
Private Equity 15%
Private Credit 3%
Real Estate 16%
Fixed Income 18%
Public Equities 35%


APFC Annual Returns vs Inflation
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
1996
1997
1998
1999
2000
2001
2002
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2007
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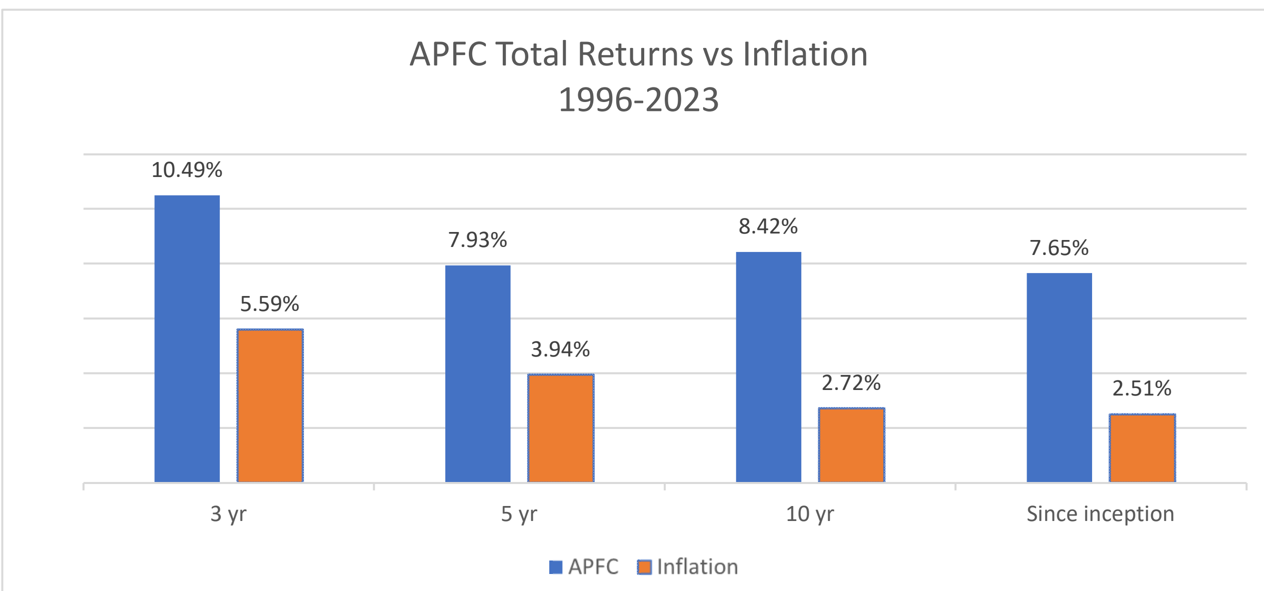
2021
2022
2023
APFC Total Return
Inflation Rate


APFC Total Returns vs Inflation
1996-2023
10.49%
5.59%
7.93%
3.94%
8.42%
2.72%
7.65%
2.51%
3 yr
5 yr
10 yr
Since inception
APFC
Inflation

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To:	John Morris, Chair, Finance Committee
Through:	Steve Williams, Chief Executive Officer
From:	Julee Farley, Chief Financial Officer
Date:	April 12, 2024
Re:	DOR Budget Reserves Asset Allocation Effective July 1, 2024

REQUESTED MOTION 1:

The Finance Committee recommends the full board of trustees approve the following asset allocation for budget reserves managed by the State of Alaska Department of Revenue effective July 1, 2024:

Asset Allocation	*Target Holding*	*Target Range*
Broad U.S. Equity	*32%*	*± 5%*
International Equity	*25%*	*± 5%*
Core U.S. Fixed Income	*42%*	*± 5%*
Cash Equivalents	*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 in 2023 (AMPS), establishes the risk tolerance, investment objectives, and time horizons for Trust investments. On an annual basis, DOR requests Trustee approval for DOR's recommended asset allocation for the *Alaska Mental Health Trust Budget Reserve Fund*. Changes to asset allocation are generally implemented after the start of a fiscal year.

DOR recommends the following asset allocation, effective July 1, 2024.

Investment Topic	Proposed Asset Allocation Effective July 1, 2024			Existing Asset Allocation Approved Effective July 1, 2023		
Asset Allocation	**Asset Allocation**	**Target Holding**	**Range**	**Asset Allocation**	**Target Holding**	**Range**
	Broad U.S. Equity	32%	± 5%	Broad U.S. Equity	39%	± 5%
	International Equity	25%	± 5%	International Equity	28%	± 5%
	Core U.S. Fixed Income	42%	± 5%	Core U.S. Fixed Income	32%	± 5%
	Cash Equivalents	1%	-1% / +2%	Cash Equivalents	1%	-1% / +2%

DOR utilizes low-cost index funds to implement the equity portions of the asset allocation. The fixed income component in managed by DOR and includes an approximately 10% allocation to the Fidelity Tactical Fixed Income strategy which was approved by the Board following Callan's recommendation in April 2022.

The table below shows various risk metrics of DOR's recommended asset allocation compared to the current allocation. All metrics below indicate that the proposed allocation has a lower risk profile as compared to the existing allocation. This is primarily due to more attractive expected long-term bond returns in a higher interest rate environment which results in a higher allocation to this asset class. Bonds have a lower risk profile than equity so this increased allocation to bonds lowers overall portfolio risk. The expected return of the proposed allocation increased by .25%, even as risk is reduced. Should market conditions remain, DOR may consider another incremental increase to the fixed income allocation next year.

Investment Topic	Proposed Asset Allocation Effective July 1, 2024	Existing Asset Allocation Effective July 1, 2023
Rebalancing	Quarterly or more frequently within bands	Quarterly or more frequently within bands
Expected Return – Long-term	7.00%	6.75%
Risk – Standard Deviation*	10.6%	12.29%
Probability of Loss – 1 year	25.5%	29%
10% Probability of Annual Loss (10% cVaR*)	-11.6%	-15%

* The standard deviation measures the amount of change that could be anticipated, positive or negative, from the expected 7.00% return, here a roughly 68% chance that the return will be between -3.6% and 17.6%. The cVaR is a measure of tail risk and data above indicates a 10% probability of a -11.6% return

<u>As outlined in AMPS:</u>
DOR Reserve account has a time horizon of 5-7 years with moderate risk tolerance.

The investment objectives of the Trust's total portfolio 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.

THE STATE *of* ALASKA

GOVERNOR MIKE DUNLEAVY

Alaska Mental Health Trust Authority

Department of Revenue
Budget Reserve Asset Allocation

April 2024

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 in the GeFONSI. The Asset allocation is set by the Commissioner of Revenue on an annual fiscal year basis.

AMHTA Assets Managed by Department of Revenue	
as of February 28, 2024	$ millions
DOR Budget Reserve	51.6
GeFONSI	47.2
Total	98.8

Alaska Mental Health Trust Authority

Asset Management Objectives (AHMTA Investment Policy Statement, August 29, 2023):

Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

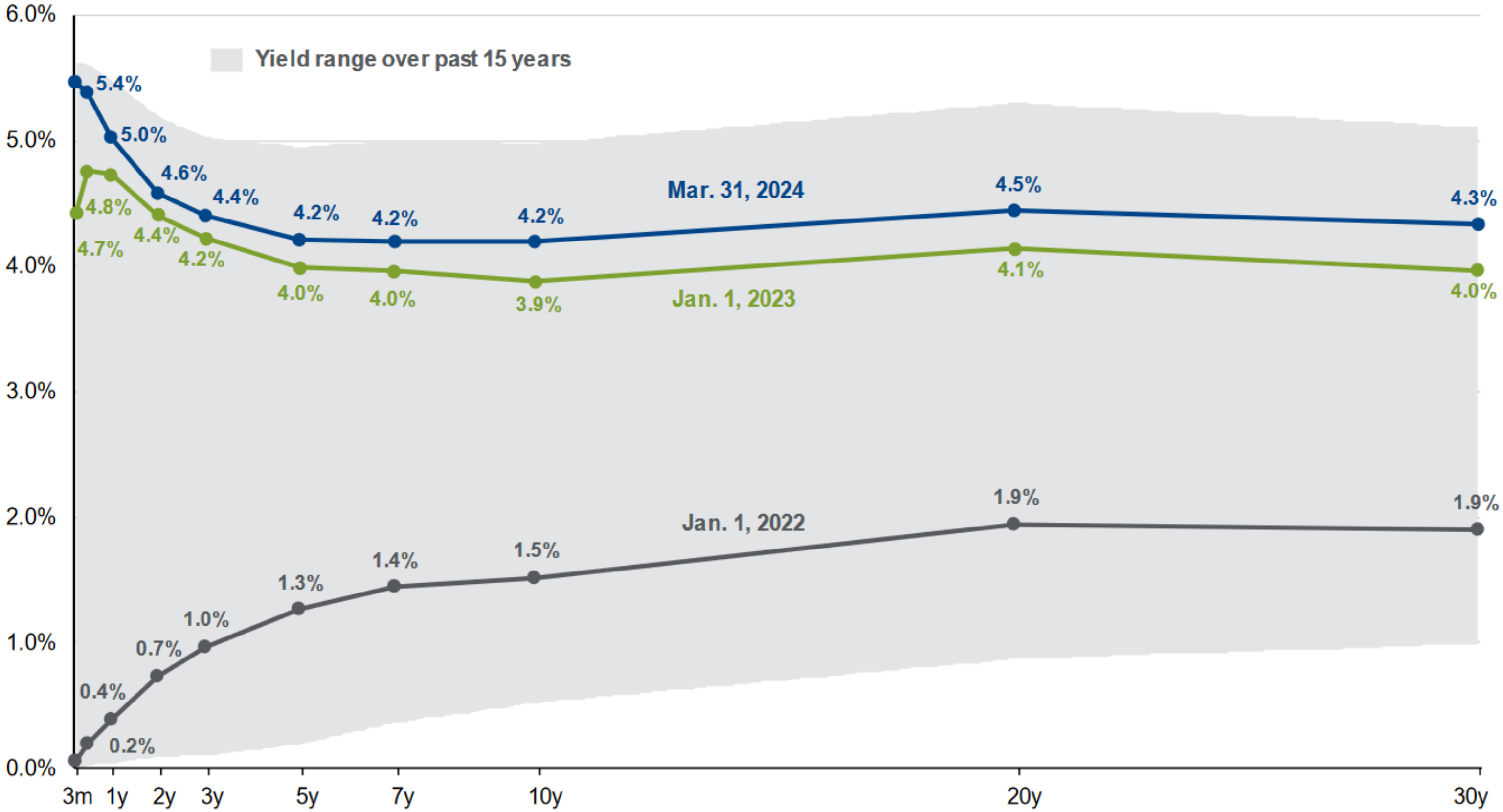
- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide 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 2022 and at the high end of 15-year range.

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, 2024.

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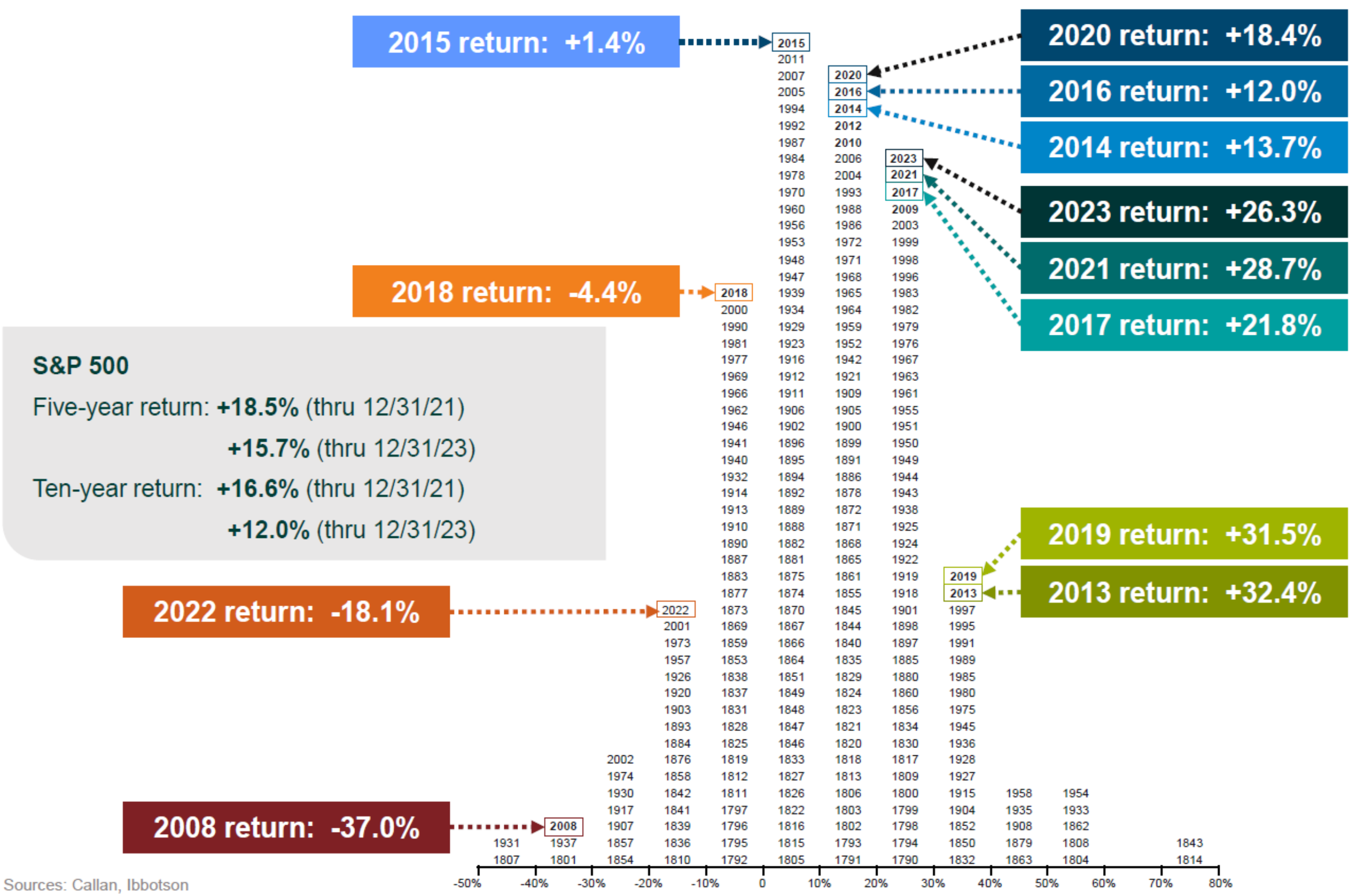
Stock Market Returns - History

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

Stock Market Returns by Calendar Year

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



Sources: Callan, Ibbotson

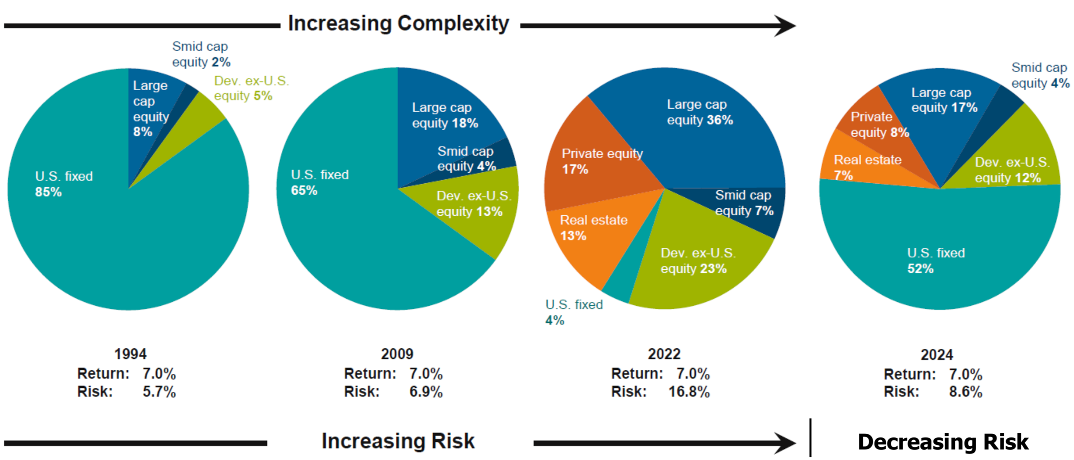
Asset Allocation

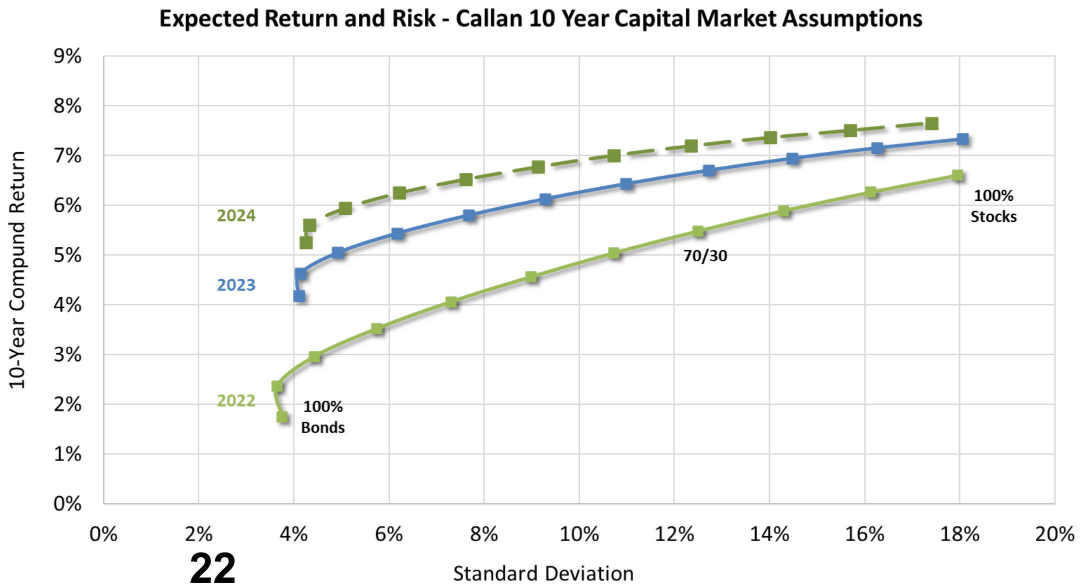
Asset Allocation

<u>Asset Allocation Process:</u>

- Callan LLC, develops annual 10-year capital market assumptions for risk, return, and correlations using a building block approach.
- 2024 capital market assumptions indicate a higher level of compensation for 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.

7% Expected Returns Over Past 30 Years





AMHTA Budget Reserve - FY25 Asset Allocation

- The FY25 asset allocation recommends a 10% shift from equity to fixed income. Overall equity/fixed income mix changes from 67%/33% to 57%/43%.
- FY25 allocation produces a long-term expected **real** return of 4.50% which is compatible with the 4.25% spending rate.
- Compared to last year, allocation increases expected yield by .36%, improves Sharpe Ratio, reduces overall risk, and reduces tail risk while increasing total return by 25bps.
- Allocation remains compatible with Callan Asset Allocation Spending Study review completed in April 2022. While Callan recommended a move to 70% equity in 2022 that assumed much lower bond returns. The proposed allocation produces a higher expected return than the 5.70% 70/30 mix used in that review at a lower risk level.

AMHTA Budget Reserve FY25 Asset Allocation	Current *		Recommended		Change
Asset Classes	**FY24**	**Option 1**	**Option 2**	**Option 3**	**Option 2 - FY24**
Broad U.S. Equity	39%	27%	32%	38%	-7%
Global ex-U.S. Equity	28%	20%	25%	29%	-3%
US REITS	0%	0%	0%	0%	0%
Short Duration Gov't/Credit	0%	0%	0%	0%	0%
Core U.S. Fixed Income	32%	51%	42%	32%	10%
Cash Equivalents	1%	1%	1%	1%	0%
Total	100%	100%	100%	100%	0%
Optimization Results:					
Expected Return - Long-Term	**6.75%**	**6.75%**	**7.00%**	**7.22%**	**0.25%**
Expected Return - Real/After Inflation	**4.25%**	**4.25%**	**4.50%**	**4.72%**	**0.25%**
Risk - Standard Deviation	12.3%	9.0%	10.6%	12.2%	-1.7%
Sharpe Ratio	0.33	0.42	0.38	0.34	0.05
Risk Statistics:					
1-Year 10% Probable Return (10% cVaR)	-14.8%	-9.0%	-11.6%	-14.3%	3.2%
1-Year 5% Probable Return (5% cVaR)	-18.6%	-11.8%	-14.9%	-18.0%	3.7%
Probability of Loss - 1 Year	29.1%	22.6%	25.5%	27.8%	-3.7%
Probability of Loss - 10 Year	4.1%	0.9%	1.9%	3.1%	-2.3%
Return Statistics:					
Long-Term Yield	3.18%	3.73%	3.54%	3.35%	0.36%

- FY25 asset allocation will continue to exclude an allocation to REITs based on AMHTA's exposure to direct real estate.
- FY25 asset allocation change will be implemented in equal increments over 5 months beginning in July.

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%
2023	1%		32%	39%	28%	67%/33%
Rec 2024	1%		42%	32%	25%	57%/43%

Alaska Mental Health Trust Authority

Questions?

Appendix

AMHTA DOR Assets - Investment returns for quarter ending March 31, 2024:

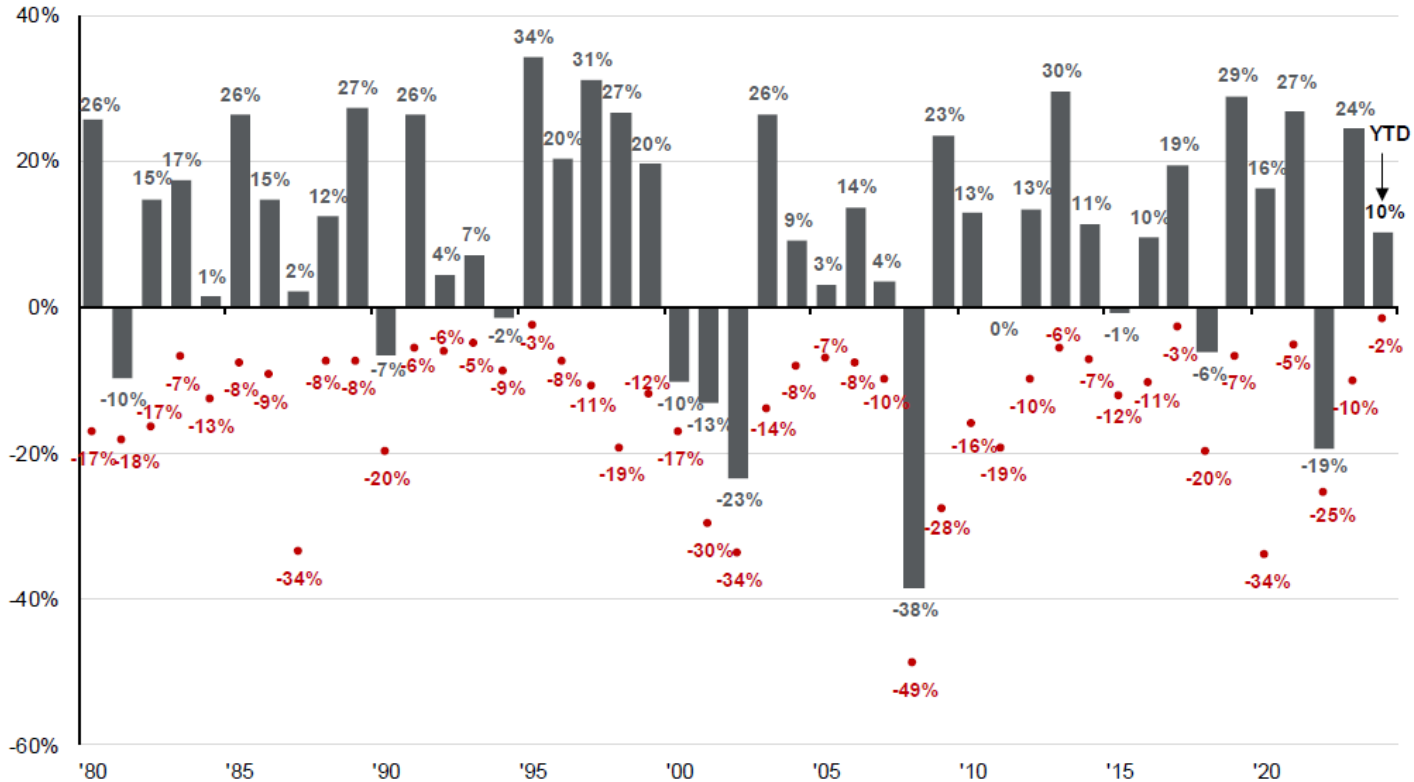
	FYTD	1 Year	5 year	10 year
GeFONSI	4.22%	5.34%	1.88%	1.45%
GeFONSI Benchmark	3.96%	4.90%	1.70%	1.13%
Difference	0.26%	0.44%	0.18%	0.33%
Alaska Mental Health Trust Reserve	11.47%	16.07%	7.51%	6.79%
Alaska Mental Health Reserve Benchmark	11.25%	15.70%	7.22%	6.48%
Difference	0.22%	0.37%	0.29%	0.31%
Cash Equivalents	4.27%	5.63%	2.79%	1.56%
Core U.S. Fixed Income	3.01%	2.40%	-1.94%	1.85%
Tactical Bond	4.14%	4.13%		
Domestic Equity	19.38%	29.39%	14.36%	
International Equity	10.34%	13.07%	5.99%	

Stock Market Returns

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

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

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 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 2023, over which time period the average annual return was 10.3%.
Guide to the Markets – U.S. Data are as of March 31, 2024.

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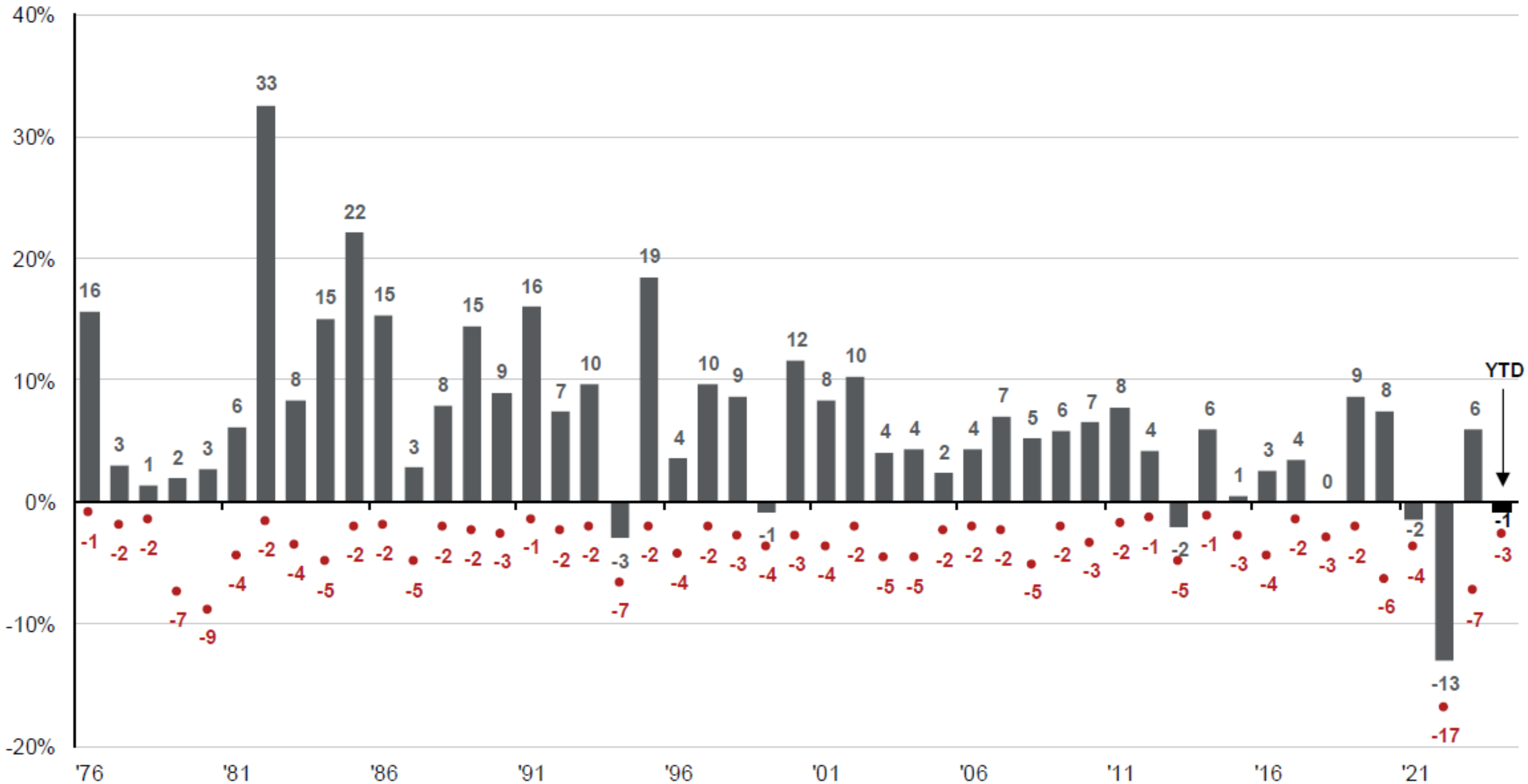
Bond Market Returns

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 3.5%, annual returns were positive in 43 of 48 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 2023, 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 afterward.
Guide to the Markets – U.S. Data are as of March 31, 2024.

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2024 Capital Market Assumptions

		PROJECTED RETURN			PROJECTED RISK	2023 - 2032			vs 2023	
Asset Class	Index	1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation	1-Year Arithmetic	10-Year Geometric*	Standard Deviation	Geometric* Delta	Std Dev Delta
Equities										
Broad U.S. Equity	Russell 3000	8.85%	7.65%	5.15%	17.40%	8.75%	7.35%	18.05%	0.30%	-0.65%
Large Cap U.S. Equity	S&P 500	8.70%	7.50%	5.00%	17.00%	8.60%	7.25%	17.75%	0.25%	-0.75%
Small/Mid Cap U.S. Equity	Russell 2500	9.80%	7.70%	5.20%	22.00%	9.60%	7.45%	22.15%	0.25%	-0.15%
Global ex-U.S. Equity	MSCI ACWI ex USA	9.65%	7.65%	5.15%	21.40%	9.45%	7.45%	21.25%	0.20%	0.15%
Developed ex-U.S. Equity	MSCI World ex USA	9.25%	7.50%	5.00%	20.15%	9.00%	7.25%	20.15%	0.25%	0.00%
Emerging Market Equity	MSCI Emerging Markets	10.65%	7.70%	5.20%	25.60%	10.45%	7.45%	25.70%	0.25%	-0.10%
Fixed Income										
Short Duration Gov't/Credit	Bloomberg 1-3 Yr G/C	4.25%	4.25%	1.75%	2.40%	3.75%	3.80%	2.30%	0.45%	0.10%
Core U.S. Fixed	Bloomberg Aggregate	5.25%	5.25%	2.75%	4.25%	4.25%	4.25%	4.10%	1.00%	0.15%
Long Government	Bloomberg Long Gov	6.20%	5.40%	2.90%	13.75%	4.55%	3.70%	13.50%	1.70%	0.25%
Long Credit	Bloomberg Long Cred	6.85%	6.30%	3.80%	11.90%	5.75%	5.20%	11.75%	1.10%	0.15%
Long Government/Credit	Bloomberg Long G/C	6.55%	6.00%	3.50%	11.70%	5.20%	4.65%	11.40%	1.35%	0.30%
TIPS	Bloomberg TIPS	5.10%	5.05%	2.55%	5.40%	4.10%	4.00%	5.30%	1.05%	0.10%
High Yield	Bloomberg High Yield	7.30%	6.80%	4.30%	11.75%	6.75%	6.25%	11.75%	0.55%	0.00%
Global ex-U.S. Fixed	Bloomberg Gl Agg xUSD	3.60%	3.15%	0.65%	9.80%	2.70%	2.25%	9.80%	0.90%	0.00%
Emerging Market Sovereign Debt	EMBI Global Diversified	6.75%	6.35%	3.85%	10.65%	6.25%	5.85%	10.65%	0.50%	0.00%
Alternatives										
Core Real Estate	NCREIF ODCE	6.85%	6.00%	3.50%	14.00%	6.60%	5.75%	14.20%	0.25%	-0.20%
Private Infrastructure	MSCI Glb Infra/FTSE Dev Core 50/50	7.30%	6.35%	3.85%	15.20%	7.15%	6.15%	15.45%	0.20%	-0.25%
Private Equity	Cambridge Private Equity	12.15%	8.75%	6.25%	27.60%	11.95%	8.50%	27.60%	0.25%	0.00%
Private Credit	Cambridge Senior Debt Index	8.40%	7.40%	4.90%	15.70%	8.00%	7.00%	15.50%	0.40%	0.20%
Hedge Funds	Callan Hedge FoF Database	6.25%	6.05%	3.55%	8.20%	5.80%	5.55%	8.45%	0.50%	-0.25%
Commodities	Bloomberg Commodity	5.45%	3.90%	1.40%	18.05%	5.05%	3.50%	18.00%	0.40%	0.05%
Cash Equivalents	90-Day T-Bill	3.00%	3.00%	0.50%	0.90%	2.75%	2.75%	0.90%	0.25%	0.00%
Inflation	CPI-U		2.50%		1.60%		2.50%	1.60%	0.00%	0.00%

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

Source: Callan

Trust
Alaska Mental Health
Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

MEMO

To: John Morris, Chair, Finance Committee
Thru: Steve Williams, Chief Executive Officer
From: Julee Farley, Acting Chief Finance Officer
Date: April 15, 2024
Re: Proposed Revisions to AMPS

REQUESTED MOTION:

The Finance Committee recommends that the Board of Trustees adopt the updated Asset Management Policy Statement (AMPS) changes as indicated in the attached redline version.

A red-lined updated version of the current AMPS is being presented to trustees for review and approval. Proposed changes reflect an update to the annual available funding framework, clarifying language on accounts referenced for time horizon, updated performance targets for accounts managed by the Department of Revenue (DOR), and clarifying language regarding total Trust performance benchmarks.

Background

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the Trust's board of trustees. It has been developed to serve as the management plan for those assets entrusted to the board. The AMPS helps the board effectively oversee, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The AMPS, as adopted and approved by the board, provides a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised and updated by action of the board when changes in practice have been authorized by the board and should be reviewed annually. Trustees adopted the current AMPS on August 29, 2023.

The proposed revisions are summarized as follows:

1. Clarify account names in the short-term, medium-term, and long-term time horizons (AMPS page 8)

2. Update the performance target for DOR managed accounts to reflect current practice (AMPS pages 13)

   Trustees approve the performance target annually for the Reserves managed by DOR. On an annual basis, the Commissioner of Revenue approves the performance target for the GeFONSI funds.

3. Add clarifying language for benchmarks for total trust performance (AMPS page 16)

   DOR manages both the Reserves and GeFONSI funds and each investment type has a different benchmark. New language clarifies this.

4. Update the annual available funding framework (AMPS page 17)

   The proposed changes will result in a revenue calculation that is based solely on actual numbers, and will allow lapsed funds to be incorporated into the annual revenue calculation sooner than the current method allows.

   Due to the timing of when revenue calculations are developed, the current calculations may require the use estimated values when certain actual values are not known due to the timing of audited financials and other State of Alaska year-end close processes. This has resulted in the use of a combination of actual and estimated values in the annual revenue calculation.

   The proposed changes are to:

   - Use the four-year historical average of actual net investments managed by the Alaska Permanent Fund Corporation and the Department of Revenue Reserve account. Current practice uses a combination of actual values plus 1-2 years of estimated values. This proposed change increases certainty over the Trust's largest component of revenue.
   - Include the average of 2 years of actual TLO income in the annual revenue calculation instead of the historical 4 years. The current practice incorporates the use of estimates due to the timing of audits and other year-end processes. This proposed change increases certainty over this component of the annual revenue calculation.
   - Use the two-year historical average of actual lapsed appropriations in the annual revenue calculation. The current practice incorporates the use of estimates due to the timing of when the lapsed amounts are known. This change will allow lapsed funds to be incorporated into the annual revenue calculation with increased certainty and allow the Trust to redeploy funds sooner.
   - Incorporate the actual interest earned on GeFONSI funds for the most recent fiscal year. The current practice incorporates a four-year average of historical and estimated amounts. This is the smallest component of the Trust's annual revenue calculation.

   These proposed changes will increase certainty for the annual revenue calculation. Further, the changes will not have a negative impact on the annual revenue calculation. The proposed changes will be effective beginning with the development of the FY26 revenue calculation. The table below provides a summary level comparison of the changes.

Proposed Revenue Calculation

4.25% of the 4-Year Average APFC Market Value

\+

4.25% of the 4-Year Average DOR BR Market Value

\+

2-Year Average of Spendable Income (TLO)

\+

Interest Income (GeFONSI), *Actual, most recent year*

\+

2-Year Average of Lapsed Funds

Current Revenue Calculation

4.25% of the 4-Year Average APFC Market Value

\+

4.25% of the 4-Year Average DOR BR Market Value

\+

4-Year Average of Spendable Income (TLO)

\+

4-Year Average of Interest Income (GeFONSI)

\+

4-Year Average of Lapsed Funds

Alaska Mental Health Trust Authority

Alaska Mental Health Trust Authority

Asset Management Policy Statement
Adopted: ~~August 29, 2023~~

Asset Management Policy Statement

Purpose

The Asset Management Policy Statement (AMPS) specifically delineates the asset management philosophy and practices of the board of trustees (the board) of the Alaska Mental Health Trust Authority (the Trust). It has been developed to serve as the management plan for those assets entrusted to the board. The board believes it is essential to adopt a long-term plan by which these assets will be maintained and enhanced through prudent management. The AMPS may be revised by action of the board, and should be reviewed annually. The board has adopted the AMPS to serve as that long-term plan, in order that:

- there be a clear understanding on the part of the trustees, staff, beneficiaries, and the public as to the objectives, goals, and restrictions with regard to the management of Trust assets;
- assets be structured and managed in a prudent manner; and
- there be a meaningful basis for performance evaluations of asset classes, managers, and strategies used to achieve the management objectives.

Background

Creation of the Trust

The Alaska Mental Health Trust (the Trust) was established by Congress under the Mental Health Enabling Act of 1956. The 1956 law included a grant to the State of Alaska of one million acres of land to be used to generate revenues to ensure the development of a Comprehensive Integrated Mental Health Program for the State of Alaska. In the mid 1980s, a class-action citizen lawsuit, Weiss v. State, was filed, alleging the mismanagement of these lands. In 1994, the Alaska Legislature passed legislation that was subsequently approved by the Alaska Superior Court as a settlement of the litigation (the settlement).

Settlement Framework

The settlement reconstituted the Trust with an initial $200 million in cash and nearly one million acres of land. A seven-member board of trustees was created and charged with the responsibility of administering the Trust. The settlement included statutory language (AS 37.14.009(a)) that assigned the Alaska Permanent Fund Corporation (APFC) management of the Mental Health Trust Fund and assigned the Department of Natural Resources (DNR)) management of Trust land, natural resource assets, and associated improvements. The 1994 legislation required DNR to establish a separate unit, the Trust Land Office (TLO), for this purpose. Other Trust funds, such as Trust income allocated for annual mental health program spending, a portion of budget reserves, and, on a short-term basis, cash receipts generated by the TLO are managed by the Department of Revenue (DOR).

The board directs the financial management of the earnings from the assets of the Trust into programs and projects that are designed to improve the lives of Trust beneficiaries: Alaskans who experience mental illness, developmental disabilities, chronic alcoholism, Alzheimer's disease and related dementia, traumatic brain injury and substance abuse disorders (see AS 44.25).

Mission Statement

The board has adopted the following mission statement for the Trust:

The Alaska Mental Health Trust Authority (the Trust) administers the Mental Health Trust to improve the lives of beneficiaries. Trustees have a fiduciary responsibility to protect and enhance trust assets in perpetuity for the beneficiaries. The Trust provides leadership in advocacy for and planning, implementing and funding of the Comprehensive Integrated Mental Health Program; and acts as a catalyst for change.

Roles and Responsibilities

Board of Trustees

Established by AS 44.25.200, the board of trustees is the governing body for the Alaska Mental Health Trust Authority. The board has the responsibility of establishing and maintaining broad policies and objectives for the prudent management of Trust assets. The Board establishes broad policies and sets the direction for asset management in this AMPS. The board delegates the implementation of these policies to the board's finance committee, resource management committee, executive committee and to staff. In doing so, the board maintains a "top-down" perspective, focusing on important policy-level issues, and maintaining the proper fiduciary perspective and time horizon for analysis of the performance of Trust assets.

Finance Committee

The board of trustees has established a finance committee to assist the board in the financial oversight and strategic financial planning for the Trust. This committee consists of current members of the board of trustees. The Finance Committee considers the overall financial performance of Trust assets, including the real estate and natural resources managed by the Trust Land Office and makes recommendations to the board when necessary. The committee will consult with the Chief Financial Officer and Chief Executive Officer to oversee the implementation of this AMPS. Additional responsibilities may be found in the committee charter.

Resource Management Committee

The board of trustees has established a resource management committee to assist the board in the oversight and strategic planning for the land, natural resource assets, and associated improvements held by the Trust. This committee consists of current members of the board of trustees. The committee will consult with the Chief Executive Officer and the Trust Land Office to oversee the implementation of this AMPS regarding the Trust's land, natural resource assets, and associated improvements by the Department of Natural Resources. Additional responsibilities may be found in the committee charter.

Chief Executive Officer

As defined by AS 44.25.230, the staff position that serves the board as the Chief Executive Officer of the AMHTA. The Chief Executive Officer implements the policies established by the board of trustees according to the authorities and guidelines provided in the Chief Executive Officer charter.

Chief Financial Officer

The Chief Financial Officer provides reports on investment activity and results, as well as provides general oversight of the Trust investments. As part of the annual budgeting process, the Chief Financial Officer will make a calculation and a recommendation to the Finance Committee as to the amount of money that should be withdrawn for the investment accounts to fund Trust activity. Where investment managers require administrative direction from the Trust to implement the investment policies and strategies (such as rebalancing activities) the Chief Financial Officer provides that direction in accordance with established policies.

Trust Land Office (TLO)

The office has responsibility for management of the Trust's property and natural resource assets. The TLO was established within the Department of Natural Resources under AS 44.37.050.

Trust Land Office (TLO) Executive Director

In fulfilling the contract with the board described in AS 37.14.009, this staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office. Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust with concurrence of the DNR Commissioner.

Alaska Permanent Fund Corporation (APFC)

The Alaska Permanent Fund Corporation manages the Mental Health Trust Fund and other Trust assets as agreed by the trustees and APFC.

Department of Revenue (DOR)

The Department of Revenue manages funds for the State of Alaska, including Trust budget reserves and other short-term investments.

Statement of Asset Management Philosophy

The AMPS helps the board effectively supervise, monitor, and evaluate the investment and management of the Trust's liquid and non-liquid assets. The cash investment program and Trust land and resource management program are defined in the various sections of the AMPS by:

- stating in a written document the board's expectations, objectives, and guidelines for management of the liquid and non-liquid assets;
- complying, or ensuring compliance, with all applicable fiduciary, prudence, and due diligence requirements that experienced investment professionals and land managers would reasonably

utilize, and with all applicable laws, rules, and regulations that may impact Trust assets;

- setting forth an investment structure for the liquid assets of the Trust; this structure includes various accounts, asset classes, investment management styles, risk tolerance, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term;

- establishing guidelines for management of the Trust's non-liquid assets consistent with the TLO's long-term asset management strategy as defined in 11AAC 99.090(c);

- monitoring, evaluating, and comparing the investment performance results achieved by APFC, DOR, and TLO on a regular basis;

- encouraging effective communications between the trustees, staff, APFC, DOR, and TLO;

- establishing a framework to aid trustees in determining the annual available funding amount for protection and enhancement of Trust assets and spending on behalf of the beneficiaries in mental health programs and projects; and

- aligning asset management strategies with the time horizons identified in the comprehensive mental health plan.

This AMPS is formulated upon the board's consideration of the financial implications of a wide range of policies and describes the prudent liquid, and non-liquid investment processes that the trustees deem appropriate.

The board recognizes that even though its investments are subject to short-term volatility, it is critical that a long-term investment focus be maintained. This prevents ad-hoc revisions to the board's philosophy and policies in reaction to either speculation or short-term market fluctuations.

The board recognizes that the Trust has many stakeholders with differing levels of expertise and will make reasonable efforts to develop policies that are easily communicated to partner boards and other stakeholders, so that the framework for decision making is clear and transparent.

Asset Management Objectives

The asset management objectives of the Trust have been established by the board in conjunction with a comprehensive review of the Trust's current and projected financial requirements. The investment earnings from liquid assets and income produced from Trust non-liquid assets will be used to protect and enhance the value of Trust assets and implement annual mental health program funding strategies. Accordingly, investment results and Trust land resource management decisions are critical elements in achieving the outcome objectives of the Trust. The overarching asset management objective is to maintain appropriate cash asset allocation and trust land management policies that are compatible with the spending policy while still having the potential to produce positive real returns.

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.

Non-Liquid Asset Management Objectives

Specific non-liquid land and natural resource management objectives are to:

- protect and enhance the non-cash asset value and productivity of Trust property;
- maximize revenues from Trust non-liquid assets over time;
- encourage a diversity of revenue-producing uses of Trust non-liquid assets;
- manage Trust land prudently, efficiently, and with accountability to the Trust and its beneficiaries; and
- use Trust non-liquid assets for beneficiary purposes, when such use is found to be in the best interest of the Trust and its beneficiaries.

Guidelines and Investment Policy

Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. The GeFONSI pool is intended to produce moderate returns with low levels of risk; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following

- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

From time to time, as part of the operations of the commercial real estate portfolio, the Trust may also hold cash, certificates of deposit, or money market accounts in federally insured banks. These funds are generally invested in low-risk, highly liquid accounts and include:

- Operating Accounts for Building management
- Property Reserves for Capital Improvements

Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth. Investments in this area include:

- Budget Reserves managed by DOR

Long-Term: The Trust also invests funds for the benefit of future beneficiaries. These investments are managed for long term growth, with a time horizon of seven to twenty years. Investments in this area include:

- Mental Health Trust Fund, including Budget Reserves managed by APFC
- Commercial Real Estate managed by the TLO
- TLODA projects managed by the TLO

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Risk Tolerance

Investment risk is generally correlated with investment returns. The potential for investments to perform differently than anticipated (producing either significantly better or worse returns) is referred to as volatility. Deciding how much volatility within the portfolio is acceptable is a critical decision in determining potential investment results and achieving positive investment results, net of inflation. The Trust considers both the risk associated with specific investment strategies as well as the aggregate risk to total Trust assets.

The board recognizes the difficulty faced by APFC, DOR and DNR in meeting investment and Trust land resource management objectives because of the uncertainties and complexities of contemporary investment markets and the non-liquid asset management operating arena. The board also recognizes that some risk must be assumed to achieve the APFC's long-term investment objectives, the DOR's Budget Reserve investment objectives, and the TLO's land management objectives. Further, in co-mingling Trust liquid assets with the Alaska Permanent Fund managed by the APFC, the ability to withstand short and intermediate term market volatility has been considered. The board will review the realized five-year and ten-year risk (standard deviation) of the Trust on a periodic basis (not less than once every three years) to ensure the Trust's overall portfolio has not exhibited an undue level of risk.

Asset Allocation

Careful allocation of Trust capital is an essential component of managing the overall portfolio risk profile and the potential return. Investing decisions strive for a balance between overweighting capital in a narrow section (*concentration risk)* and distributing capital so broadly that investments are not focused and generate mediocre results. Asset allocation is the framework for managing investment decisions to achieve the desired result within an acceptable range of risk.

The Trust has unique features when considering asset allocation:

- Through the Settlement the Trust holds approximately one million acres of land throughout Alaska. This is a substantial asset for the Trust, but it has limited liquidity and is concentrated in Alaska.
- Associated with the land holdings, the Trust participates in natural resource development (harvesting timber, mining, oil & gas production, etc.). This creates some sensitivity to commodity prices, foreign exchange rates, and overall economic environment.
- The Trust maintains a commitment to serving beneficiary needs through the provision of facilities at lease rates that may differ from

market rates. These assets generate limited financial return to the Trust and may need to be considered as a separate asset class than other real estate investments.

- By investing as a commingled account at the Alaska Permanent Fund, the Trust enjoys economies of scale and reduced costs. However, the Trust cannot adjust the asset allocation or the investment strategies of the Alaska Permanent Fund, and is subject to periodic changes to the return and risk targets adopted by APFC.

- The Trust holds direct real estate investments in several commercial properties. The funds invested in these assets represent less than 10% of total Trust assets and have limited liquidity.

Considering these factors, the Finance Committee shall review the asset allocation annually following completion of the annual financial statement audit and adjust the asset allocation as necessary to achieve Trust objectives. The Chief Financial Officer will provide the Committee with an aggregate report of current asset valuations and make recommendations for reallocations for trustee consideration.

Asset allocation amounts are based on a range of invested funds rather than a dollar threshold. The Trust assets are distributed as follows:

Investment Manager	Risk Profile	Asset Allocation
Department of Revenue (Cash or GeFONSI)	Low	Established by the Manager.[1]
Department of Revenue (Budget Reserves)	Moderate	Established by the Manager with Trust direction[2].
Alaska Permanent Fund (Trust Fund and Reserves)	Moderate	Established by the Manager[3].
Trust Land Office Commercial Real Estate	Moderate	Established by the Trust[4]

[1] Department of Revenue investment policies and allocations are published on line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf
[2] The Trust gives broad guidance around which Department of Revenue investment funds the Trust should participate in. Descriptions of the allocations and investment pools are published on line at: http://treasury.dor.alaska.gov/Portals/0/docs/blue_book/investment_policies_and_procedures.pdf under the section Z-1.
[3] The Permanent Fund Asset Allocation framework and targets are published at: https://apfc.org/diversification-framework-asset-allocation/
[4] Current allocation is seven properties, with approximately $40 million in invested funds.

Trust Land Office TLODA Projects (including PRI activity)	Moderate	Established by the Trust[5]

Performance Expectations

A substantial factor in achieving positive long term investment results is the costs and fees associated with investment services. The Trust has two managers that handle financial investments: the Alaska Permanent Fund Corporation and the Department of Revenue. Because of the amount of assets managed by the Permanent Fund Corporation[6] and the State of Alaska GeFONSI investment pool[7] the Trust receives the benefit of their purchasing power and economies of scale. This relationship allows for investments to be made at a lower cost than what would otherwise be available to the Trust and contributes to the long term growth of Trust investments. Accordingly, the Trust seeks to work with these agencies as our investment managers whenever possible.

Liquid Asset Managers

Alaska Permanent Fund Corporation

APFC management responsibilities for the Trust's principal are provided for in APFC statute and a memorandum of agreement between the Trust and the APFC (APFC MOA).

The board reviews the long-term performance, risk, and liquidity characteristics of the APFC on a periodic basis (but not less than annually) and evaluates whether the APFC's asset allocation strategy meets the long-term investment return objective of the Trust with an acceptable level of risk. The finance committee will meet with the APFC investment staff on a periodic basis (but not less than annually) to review the APFC's investment strategy.

The performance target for the APFC investment will be APFC's current Blended Performance Benchmark, as outlined by the APFC, along with APFC's long-term Total Fund Return Objective of CPI+5%.

Department of Revenue

The asset allocation for Budget Reserves under management of the Treasury Division is directed by the trustees.

[5] The Trust has made an allocation of up to $8 million in development projects, but has not yet approved projects from this account.
[6] $65 Billion as of May 2019
[7] $3 Billion as of May 2019

The Department of Revenue Treasury Division holds and manages one half of the Budget Reserve, cash balances of the Central Facilities Fund and on a short-term basis the revenue generated by the TLO and Trust income allocated by the trustees for spending on the Comprehensive Integrated Mental Health Program.

Investments of the Budget Reserves are made pursuant to guidance provided by staff under the fiduciary direction of the board. In executing their duties, the finance committee shall periodically (not less than every three years) review asset allocation independently or request consultation from outside entities and, if appropriate, recommend the board adopt changes.

The Central Facilities Fund is currently invested alongside the General Fund and other Non-Segregated Investments (GeFONSI). The finance committee shall periodically (not less than every three years) review the cash balances of the Trust in conjunction with projected expected expenditure or reinvestment demand and recommend an asset allocation to the board.

The performance target for the ~~liquid~~ Budget Reserves ~~assets~~ managed by the Department of Revenue are approved by Trustees annually. The performance target for the GeFONSI funds are specified in the Investment Policy Statement that is approved by the Commission Revenue on an annual basis. a~~are benchmarked to the Bloomberg Barclays 1-3 Year Government/Credit index.~~

Non-Liquid Asset Managers

Trust Land Office

The TLO manages the Trust's non-liquid assets on behalf of the trustees, in accordance with applicable statutes, regulations, and a memorandum of understanding between the Trust and DNR (DNR MOU).
The land resource component of the Trust is made up of Alaskan land parcels, natural resource assets, and associated improvements. TLO management responsibilities are provided for in AS 38.05.801, 11 AAC 99, and the DNR MOU.

TLO outcomes are projected each budget cycle with annual outcomes addressed in annual TLO budgets approved by the board. While the TLO consults primarily with the resource management committee of the board on specific transactions, consultation can also occur between the TLO and the Trust Administration Office (TAO) and between the TLO and the board, in accordance with specific board policies or transaction circumstances.

The performance of direct private equity real estate will be annually evaluated using an index or indices determined by the finance committee.

General operating expectations are as follows:

- TLO will focus first on land or resources at the high end of their market values (“Best Markets”) and then on land or resources with Best Market potential within the next two to ten years;
- land or resources not included above will be considered “Long Term Market” lands, with TLO management emphasis placed on reasonable value preservation and enhancement actions in the interim;
- generally, the TLO will focus on transactions that:
    1. maximize return at prudent levels of risk;
    2. contribute to a diverse assortment of resource activity;
    3. provide ancillary values to the Trust; and
    4. remove or prevent liability risks;
- leases are preferred over sales and, when reasonable to do so, land values should be enhanced before disposal through lease or sale;
- transactions should not harm values of or future opportunities associated with other Trust lands;
- investments in Trust land should be consistent with the guidelines in the Resource Management Strategy and, when expected to generate increased value for the Trust, the proposed results should compete favorably with the projected long-term total rate of return of the Alaska Permanent Fund Corporation;
- land exchanges may be considered, when associated costs and outcomes can be reasonably established;
- if beneficiary program uses of Trust lands are proposed at rents below fair market value, the increment between proposed rents and fair market value rents will be considered an allocation of Trust revenue and must be approved by the board; and
- lands, structures, and resources may be acquired when the acquisition will add value to the Trust’s non-liquid asset portfolio or will contribute to the mission of the Trust in another way. All acquisitions will be analyzed on a ‘Life Cycle Basis’; defined as the present value of the acquisition cost, the operating income/benefits during the holding periods and the value of the asset at disposition.

In accordance with AS 13.38, 20 AAC 40.610, and this AMPS, TLO revenue will be allocated as follows:

- To Principal: Land sale revenues; royalties from coal, gas, materials, minerals, and oil; perpetual easements; and 85% of revenues from timber sales.
- To Income: Interest from land sale contracts; bonus bids; rents; distributions from the commercial real estate portfolio and 15% of revenues from timber sales.

Real Estate Investments

The TLO monitors and manages the real estate investment assets of the Trust. The TLO provides advice and recommendations regarding Trust's non-liquid direct real estate investments to trustees when considering investment decisions.

The board reviews the long-term performance, risk, and liquidity characteristics of the real estate investments on a periodic basis (but not less than annually).

The performance target for the assets is the NCREIF Property Sector Return.

Control Procedures

AMPS Revisions

It is not expected that the AMPS will change frequently. In particular, short-term changes in the financial, real estate and natural resource markets and associated operating arenas should not require adjustments to the AMPS. However, the board will review the AMPS at least annually to confirm it remains relevant. Additionally, the AMPS shall be reviewed if there is a substantial sale of Trust non-liquid property or natural resource assets[8], a fundamental change to how APFC manages its portion of the liquid assets, alterations to the Trust's spending policy, or if the Trust is impacted by statutory revisions.

Liquid Assets

APFC & DOR performance will be reviewed quarterly by the finance committee who will report all performance to the board to determine the continued feasibility of achieving the investment and Trust land management objectives and the appropriateness of the AMPS for achieving those objectives.

Land, Natural Resources, and associated improvements (Non-Liquid Assets)

The TLO will maintain a level of management capacity necessary to prudently manage and develop Trust non-liquid assets over time. It is understood that this component of Trust non-liquid asset management represents a significant expense to the Trust.

[8] A substantial sale is considered a transaction one that generates cash proceeds large enough to materially change the Trust's financial performance. Using the 4.25% distribution rate, a sale of $23 million in property would increase the annual portfolio distribution by $1 million over the 4 year averaging cycle.

The duties and responsibilities of the TLO are generally provided for in AS 38.05.801 and more specifically provided for in 11 AAC 99 and the DNR MOU. The specific management principles are provided for in 11 AAC 99.

TLO financial performance will be reviewed at least annually by the finance committee which will report all performance to the board.

Total Trust Performance

On at least an annual basis, the total financial performance of the Trust assets will be presented to the board. Performance will be compared to a blended benchmark consisting of the following indices (weighted based upon the Trust's allocation to each category as of the beginning of each fiscal year):

- APFC Allocation: APFC's Blended Performance Benchmark
- DOR Budget Reserves: Blended Benchmark aligned with asset allocation
- ~~Allocation~~DOR GeFONSI: Bloomberg Barclays 1-3 Year Gov't/Credit Index
- TLODA Projects ~~Allocation~~n: ~~TLO's~~ actual performance
- TLO Commerical Real Estate: NCREIF Property Sector Return

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Spending Policies

The board has the authority to authorize the expenditure of Trust funds to protect and enhance the value and productivity of Trust assets, for the award of grants and contracts in fulfillment of the Trust's purpose to ensure a Comprehensive Integrated Mental Health Program, and, with legislative approval, the operating expenses of the TAO. This Spending Policy outlines five board objectives:

1. protect and enhance the corpus of the Trust by allocating sufficient resources to ensure that Trust assets are properly managed, including the use of funds allocated to the Trust Land Office Development Account, where appropriate, to maximize the value and productivity of Trust non-liquid assets;

2. apply smoothing mechanisms to mitigate the effects of short-term market volatility on spending and maintain a reliable funding stream to ensure the support of a Comprehensive Integrated Mental Health Program for the beneficiaries;

3. establish a Budget Reserve account to ensure funding support for the Comprehensive Integrated Mental Health Program is maintained in a difficult market environment;

4. maintain the purchasing power of the Trust principal, including addressing the effects of inflation, by using the reserve model consisting of the Budget Reserve account originally recommended by Callan Associates in 1996; and

5. follow a spending policy based upon a sustainable percentage of investment net asset values and expendable income from Trust land management.

The board recognizes achieving Trust asset management objectives requires adequate resources be allocated for that purpose by reimbursing APFC and DOR, DNR for the reasonable costs of managing Trust assets.

Annual Available Funding Framework

Having a relatively consistent and predictable funding stream is paramount to ensuring an effective Comprehensive Integrated Mental Health Program. To mitigate the effects of periodic market volatility on funding, the board utilizes smoothing mechanisms to maximize funding consistency.

The following components have been established as a framework to aid trustees in determining the annual available funding amount:

- An annual withdrawal calculation consisting of 4.25 percent of the rolling four year-end[9] average of the ~~aggregate~~ actual net asset value (NAV) at the end of fiscal year for the aggregate of ~~of~~ the following:
  - Principal Invested at APFC[10]
  - Budget Reserve invested at APFC
  - Budget Reserve invested at DOR

- The rolling ~~four~~ two year-end average of known and termed lapsed appropriations funded from the Settlement Income Account[11], or other process approved by the board to capture the value of prior year unused funds;

- The rolling ~~four~~ two year-end average of ~~expendable~~ income generated by Trust Land Office operations;

- The ~~rolling four year-end average of~~ interest earned on cash held with the General Fund and Other Non-Segregated Investments (GeFONSI) managed by DOR for the most recent fiscal year;

[9] To ensure clarity and consistency in calculations, the year-end amounts referred to in the Annual Available Funding Framework are defined as the amounts/values as of the end of the fiscal year (June 30th) rather than the end of the calendar year (December 31).
[10] Funds in the Trust operating accounts Account are not included in the payout calculation unless Trustees approve otherwise.
[11] Settlement Income Account fund 1092 only. Lapsed appropriations funded from other sources are not

included in the calculation.

- The unobligated/unallocated funds that could have been authorized in previous fiscal years under this framework calculation; and

- Other miscellaneous unrestricted revenues properly deposited into the Trust Settlement Income Account such as contributions from partner agencies and the recovery of prior year expenditures received after the funding appropriation lapsed.

Trustees reserve the right to expend additional funds when circumstances warrant. Concurrently, trustees acknowledge that principal assets are not available for expenditure.

The annual withdrawal calculation amount will be transferred to the Settlement Income Account and invested with the GeFONSI with minimal risk on a lump sum or periodic basis by the CFO in consultation with the CEO based on market conditions and cash flow needs.

Budget Reserve Guidelines

In order to fulfill funding requirements during market downturns, a Budget Reserve account will be maintained to help ensure funding availability. Based on a Callan Associates study of the Alaska Permanent Fund and the Alaska Mental Health Trust Fund, the Budget Reserve is set at 400% of the targeted annual withdrawal calculation amount. This reserve amount should be adequate to provide maximum assurance that the Trust will be able to meet annual funding goals.

Approximately one half of the Budget Reserve shall be invested by the DOR. The remainder of the Budget Reserve shall be invested by the APFC in the same manner as the Principal.

When APFC experiences gains for a given year, the Budget Reserve at DOR will first be adjusted up to 200% of the current year's targeted annual withdrawal calculation. If additional gains remain, adjustments will be made to the Budget Reserve invested by APFC. When the Budget Reserve is fully funded at both DOR and APFC, funds may be used to help offset the effects of inflation ("inflation proofing"). The effect of inflation will be estimated by using US Department of Labor Bureau of Labor Statistics CPI-U index[12].

When the APFC or DOR experiences losses for a given year, the Budget Reserve at DOR will be maintained or adjusted to 200% of the annual withdraw calculation from the Budget Reserve at APFC.

[12] Consumer Price Index All Urban Consumers; U.S.; All Items; 1967=100

In the event of severe and/or sustained losses whereby the Budget Reserve is insufficient to meet the annual payout while maintaining at least 200% of the current year's annual withdrawal calculation then the withdrawal rate or amount may be reviewed by the trustees.

Full or partial inflation proofing may be facilitated by the following method:

- Inflation proofing permanent transfer (official non-spendable transfer)
    - Upon notification by the CFO that trustees have performed an official and permanent inflation proofing, APFC will initiate an accounting entry to irretrievably transfer funds from Budget Reserves to the Mental Health Trust Fund.

Trust Land Office Development Account Guidelines

The value and productivity of Trust liquid and non-liquid assets must be maximized through the reinvestment of Trust income where appropriate. This includes investments made through Program Related Real Estate (PRRE), the Resource Management Strategy (RMS) or other programs approved by trustees. To achieve this objective, the Board will maintain a Trust Land Office Development Account (TLODA) to use Trust income to exchange one asset for another, to maintain or enhance the value of the Trust's existing non-liquid asset portfolio, either through prudent investments in non-liquid assets already owned by the Trust or through the acquisition of additional assets. Assets in the TLODA may also be used to acquire assets that enhance the capacity of the state's mental health program, such as facilities for delivering services to beneficiaries. This may be accomplished through the financing of projects, purchase/lease of assets, exchange or resale.

Recommendations for expenditure from the TLODA will be noticed in the same manner as other Trust expenditures, including presentation to appropriate Trust committees and final approval by a committee or the board of trustees, as provided for in the Trust bylaws. Recommendations will be based upon a specific work plan with identified priorities.

Where TLODA funds are used to enhance the value of the Trust's existing non-liquid assets, each project will be accounted for individually and the proceeds from the project will be used to calculate an internal rate of return (IRR). The trustees may adjust the TLODA IRR target on a case by case basis, reflecting the unique circumstances of each project. Classifying these cash flows between principal and income shall be done at the direction of the trustees, in accordance with 20 AAC 40.610.

The TLODA projects may involve real estate investment and natural resource development, asset classes that are potentially illiquid or exposed to fluctuating commodity prices. Accordingly, the trustees have established $8 million as the allocation to this account, representing approximately 1.5% of Trust liquid assets.

Additional allocations may be made in the future, depending upon the needs of the Trust

Trust Land Office Commercial Real Estate Guidelines

The commercial real estate assets held by the Trust generate income through lease payments. These assets also have the potential to create value through appreciation, through a combination of property improvements, lease renewals, and overall economic growth. Management of these assets is outlined in the Resource Management Strategy and handled by the Trust Land Office.

The Trust Land Office has been selected as the manager for these assets because of their unique and comprehensive knowledge of the Trust settlement lands and resources, which will minimize the potential for inadvertent concentration risk, their understanding of the Trust mission and objectives, which will assist with the alignment of investment decisions along with the Comprehensive Integrated Mental Health Plan, and their ability to perform these duties within their current responsibilities thereby creating a low incremental cost for their services.

There are three key features associated with the commercial real estate assets that should be considered as part of the AMPS:

- Each property has an annual budget for operations, debt service, and maintenance/capital improvements. Because these costs must be paid to preserve the value of the assets, income generated by the properties will be used to fund these costs first, prior to making distributions to fund beneficiary programs.
- The properties participate in the Central Facilities Fund, with contributions from the properties accumulating over time. These funds provide a cash flow cushion in the event that major improvements are needed to maintain the properties or to secure leases. The fund has a target of $2 million and contributions to the fund should be made prior to making distributions to fund beneficiary programs.
- Certain properties have outstanding mortgages. These mortgages are structured as non-recourse debt, which limits the overall liability of the Trust. The terms of each mortgage, especially the timing of any balloon payment requirements, should be carefully considered as part of the overall investment strategy.

These assets are managed by the Trust Land Office and compose less than 10% of the Trust's overall investments. Each property has a commercial property manager that prepares an annual budget, collects the rents, and handles day to day operations. Expenditures must be part of the trustee approved annual budget and TLO staff monitor the monthly results of each property.

These assets serve two purposes: they provide a hedge against volatility in the stock market and they generate income that supplements the annual distribution from the Trust portfolio. The Trust may elect to sell these assets and replace them with different assets at any time.

Definitions

For purposes of ease of administration and understanding of this Asset Management Policy Statement, the following terms are defined or clarified:

APFC: The Alaska Permanent Fund Corporation manages the liquid assets of the Alaska Mental Health Trust Authority under the APFC board's asset allocation policy and its investment policies and guidelines for major asset classes.

ASSETS: Consists of the liquid and non-liquid assets of the Alaska Mental Health Trust Authority, including property and resource assets acquired by the TLO on behalf of the Trust.

BOARD: The governing body of the Alaska Mental Health Trust Authority established by AS 44.25.210.

BUDGET RESERVE: Budget Reserve is set at 400% of the targeted annual withdrawal amount. This reserve amount should be adequate to ensure the Trust's ability to meet its spending goals in a difficult market environment and to ensure liquidity in future years. The budget reserve is maintained both within the state treasury as well as the Alaska Permanent Fund Corporation.

CHIEF EXECUTIVE OFFICER (CEO): The staff position as defined by AS 44.25.230 serving the board as the chief executive officer of the Alaska Mental Health Trust Authority.

CHIEF FINANCIAL OFFICER (CFO): The staff position serving as the chief financial officer of the Alaska Mental Health Trust Authority.

GENERAL FUND AND OTHER NON-SEGREGATED INVESTMENT (GEFONSI): An investment pool managed by the Alaska Department of Revenue Treasury Division. The pool buys fixed income securities on behalf of the Trust and tracks the earnings and value of the Trust's share of the pool.

LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that are invested through the Department of Revenue (DOR), under management of the Treasury Division, and also through the Alaska Permanent Fund Corporation (APFC).

NON-LIQUID ASSETS: Assets of the Alaska Mental Health Trust Authority that consist of property and natural resource assets. Such assets are overseen by the Trust Land Office (TLO).

TRUST SETTLEMENT INCOME ACCOUNT: The GeFONSI account in which income available for appropriation and expenditure is deposited (and from which agencies receiving MHTAAR funded appropriations expend). The account is maintained on the state accounting system as GASB fund 1092.

TRUST AUTHORITY DEVELOPMENT ACCOUNT: The holding place for cash principal until it is transferred to the APFC for investment alongside the Alaska Permanent Fund. The account also holds some funding for previously authorized development projects that are being completed. The account is maintained on the state accounting system as GASB fund 3320. Prior to September 2014, this account was referred to as the Trust Land Development Account.

TRUST FACILITY MAINTENANCE ACCOUNT/CENTRAL FACILITY FUND: A component of the Settlement Income Account where a portion of facility rents are deposited to finance operations and maintenance on buildings owned by the Trust, including capital improvements and leasing commissions for the commercial real estate portfolio. The account is maintained on the state accounting system as GASB fund 3322. The account was originally authorized by Resolution 05-04.

TRUST LAND OFFICE DEVELOPMENT ACCOUNT: A component of the Budget Reserves, where a portion of spendable income has been assigned for future use on natural resource development projects or other activities authorized by the trustees.

TRUST LAND PORTFOLIO: The non-liquid assets of the Alaska Mental Health Trust Authority that are managed by the Trust Land Office, including improved properties and facilities. The land portfolio includes properties acquired through the Settlement as well as other properties acquired for program related investment and commercial investment properties.

SETTLEMENT: The statutes, settlement agreement, letters clarifying the settlement agreement, and the final Superior Court order creating and approving the settlement of Weiss v. State of Alaska.

SETTLEMENT LAND: The properties and associated improvements transferred to the Trust as part of the original Mental Health Enabling Act (PL 94-830) as well as the properties subsequently transferred to the Trust as replacement lands (June 10, 1994 settlement).

STAFF: The CEO, Trust Land Office Executive Director, all employees of the Trust and the Trust Land Office.

TRUST: The Alaska Mental Health Trust established by Congress under the Mental Health Enabling Act of 1956.

TRUST AUTHORITY: The Alaska Mental Health Trust Authority established by AS 44.25.200.

TRUSTEE(S): The board of trustees of the Trust Authority, either collectively or individually.

TRUST AUTHORITY OFFICE (TAO): The office with responsibility for providing support to the chief executive officer and board of trustees in management of Trust financial assets and in assuring development of the Comprehensive Integrated Mental Health Program.

TRUST LAND OFFICE (TLO): The office with responsibility for management of the Trust non-liquid assets and natural resource assets and associated improvements established within the Department of Natural Resources under AS 44.37.050.

TRUST LAND OFFICE (TLO) EXECUTIVE DIRECTOR:

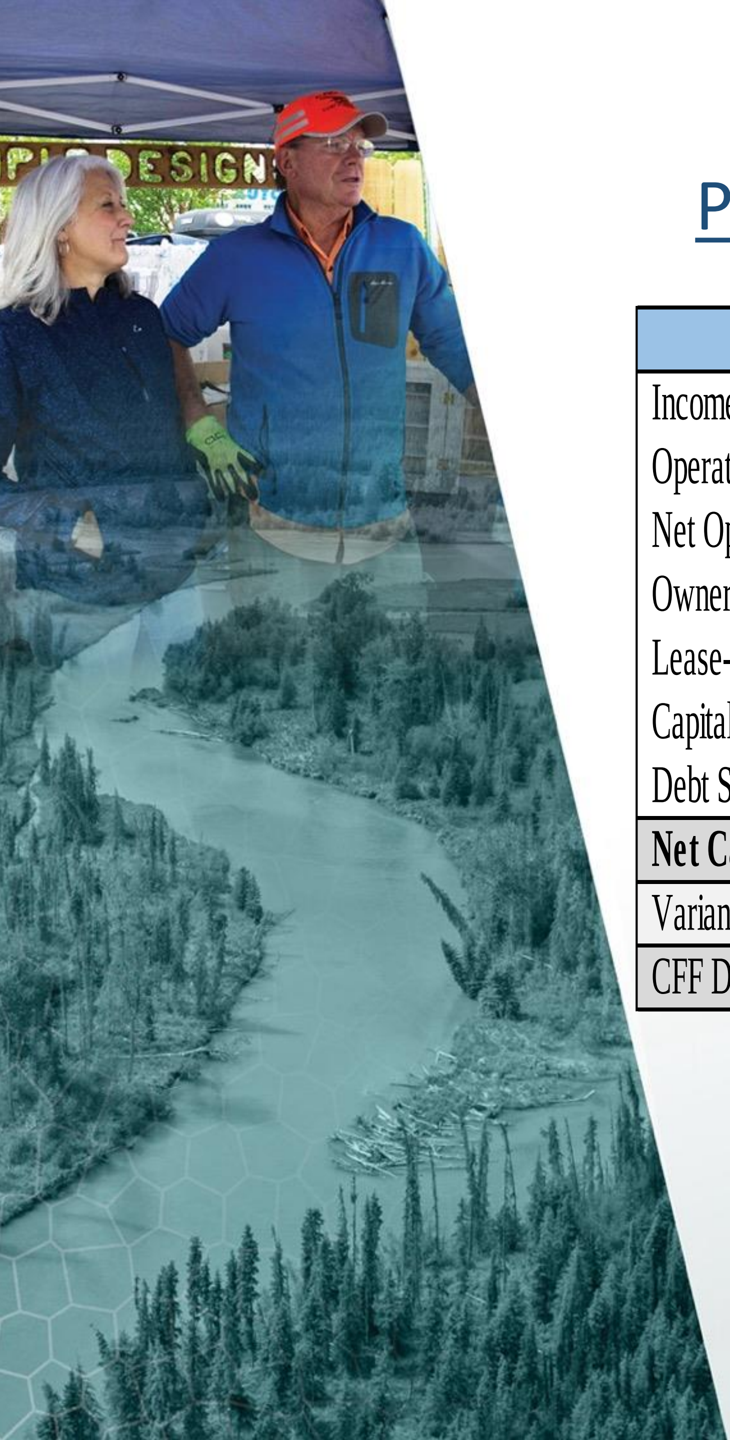
In fulfilling the contract with the board described in AS 37.14.009, this staff position serves the commissioner of the Department of Natural Resources as the Executive Director of the Trust Land Office. Per the Memorandum of Understanding with the Department of Natural Resources, the Commissioner has delegated the authority to select/replace the Executive Director to the Trust with concurrence of the Commissioner.

Trust Land Office

Commercial Real Estate Performance Update

Finance Committee

April 24, 2024



Portfolio Cash Flow Summary – FY24 YTD (7/1/23-3/31/24)

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
Income	$420,030	$188,244	$1,212,639	$1,650,196	$1,635,701	$2,743,435	$1,110,354	$8,960,599
Operating Expenses	$190,763	*Paid Directly*	$350,484	$608,628	$583,756	$956,890	$450,462	$3,140,983
Net Operating Income	$229,268	$188,244	$862,155	$1,041,568	$1,051,945	$1,786,545	$659,892	$5,819,616
Owner Expenses	$7,404	$11,369	$7,009	$2,349	$13,749	$37,686	$3,226	$82,792
Lease-Up Costs	$19,789	$0	$12,205	$0	$0	$223,849	$488,207	$744,051
Capital Expenditures	$63,989	$0	$0	$112,525	$0	$0	$22,646	$199,160
Debt Service	$0	$47,929	$681,615	$335,680	$476,957	$705,878	$303,400	$2,551,458
Net Cash Flow	**$138,085**	**$128,946**	**$161,326**	**$591,014**	**$561,240**	**$819,131**	**-$157,588**	**$2,242,154**
Variance to Budget	$15,667	-$1,949	$70,834	$63,305	$201,961	$445,621	-$22,066	$773,373
CFF Draws (Equity Contribution)	$0	$0	$0	$0	$0	$0	$273,371	$273,371

- *Equity buildup through the half totaled $1,479,389.*
- *Distributions through March totaled $1,596,642.*

Asset Disposal: 1973 N. Rulon White Blvd., Ogden, UT

Current Status:

- Appraisal and Fair Market Value determination have been completed.
- Investment broker selection process has been completed.
- Underwriting in process and Offering Memorandum being prepared.
- Marketing campaign expected to commence officially in early May.

2600 Cordova Street, Suite 201
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	John Morris, Finance Committee Chair
From:	David MacDonald
Thru:	Jusdi Warner
Date:	April 24, 2024
Re:	FY25 Commercial Real Estate & Program-Related Real Estate Budgets
Fiscal Year:	2025
Amount:	$10,993,685

Approval

Proposed Finance Committee Motion:

Proposed Motion: *"The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees approve the incremental building expenditures, totaling $10,993,685 budgeted for the fiscal year 2025 to be paid by the property manager from rents, cash reserve and other income collected from the properties and the Central Facility Fund."*

Background:

Introduction:
Each year the TLO presents the budget for managing commercial and program-related real estate properties. These are based on the TLO's projections for occupancy and the related capital and operating expenses for each property in FY25. If approved, this budget allows the TLO to manage these properties within the constraints of the approved budget but with the flexibility to manage cash flows and obligations to maintain the facilities in good working order, attractive to tenants, and for appropriate revenue production. At each property throughout the year, cash reserves and distributions are determined based on projected needs.

In addition to this budget approval, the board has previously approved additional funding from the Central Facility Fund for specific operating or capital improvements that could not be covered by property cash flows. These funds do not lapse and, along with cash reserves, may carry forward and cross into other fiscal years.

Many of the associated expenses including tenant improvement allowances and commissions will be paid/realized in fiscal year 2025. Depending on the amount of space leased, timing, and terms, the revenues may be greater than the projections in the proposed budget. The proposed budget includes operating and capital expenses for the properties that include significant one-time expenses associated with recruiting new tenants as required by local market conditions. If revenues exceed expectations and/or expenses prove less than expected, then the use of property reserves or CFF funds may be reduced.

General Background: We have established a system to adequately plan, manage, audit, and report activity in the real estate portfolio. Asset Managers oversee and direct professional management services, the property information is accounted for by:

1) matching income to expenses.
2) comprehensive reporting and budgeting for each property; and
3) capital expense forecasting.

Anticipated revenues within FY25 equal $12.6 million from the Investment Portfolio and $689 thousand from the Program-Related Real Estate. These projections account for known revenue sources with current occupancy levels, expected expiration of leases, and conservative filling of vacancies. The revenues can be affected by the timing of obtaining new tenants and the negotiated lease rental amounts.

Consistency with the Resource Management Strategy: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted October 2021 in consultation with the Trust and provides for assuring that the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate. In addition, 11 AAC 99.020(c)(3) cites protection and enhancement of the long-term productivity of Trust land.

FY25 Real Estate Budget from Rent and Other Property Income (Proposed Motion)

Transaction/Resource: Budgets are presented to seek approval from the board of trustees for the expenditures necessary to service the properties. For the sake of clarity, the expenditures include operating expenses, owner expenses, lease-up costs, capital expenditures and debt service; they do not include revenues. The proposed property expenditures are funded by the rents generated by the properties, as well as cash reserves and other income collected from the properties and the Central Facility Fund. The anticipated expenditures for FY25 equal $10,538,841 for the Investment Portfolio and $454,844 from the Program-Related Real Estate.

In aggregate, the combined expenditures forecast for FY25 total $10,993,685.

Property Description/Acreage/MH Parcel(s): Commercial Real Estate and Non-Investment Program Related Properties are as follows:

Commercial Real Estate Properties	Non-Investment-Program Related Properties
2600 Cordova Street; Anchorage, AK	650 Younker Court; Fairbanks, AK
2618 Commercial Drive; Anchorage AK	1300 Moore Street; Fairbanks, AK
1111 Israel Road; Tumwater, WA	1423 Peger Road; Fairbanks, AK
1973 North Rulon; Ogden, UT	2330 Nichols Street; Anchorage, AK
2420 & 2500 Ridgepoint Drive; Austin, TX	3745 Community Park Loop Road; Anchorage, AK
9601 Amberglen Blvd; Austin, TX	
17319 San Pedro Avenue; San Antonio, TX	

The anticipated distributions for FY25 equal $2,069,000 from the Investment Portfolio and $233,000 from the Program-Related Real Estate.

In aggregate, the combined distributable income to the Trust forecast for FY25 is $2.3 million.

Trust Land Office Recommendation: The TLO recommends that it is in the Trust's best interest to approve the incremental building expenditures for FY25 to be funded by tenant rents, cash reserves, other income collected from the properties, and the Central Facility Fund.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motions presented in this briefing document fulfill the approval requirements that are applicable to the transaction.

Exhibits:

Combined FY25 Budget – Investment Portfolio
Combined FY25 Budget – Program-Related Real Estate

Combined FY25 Budget - Investment Portfolio

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total	Expenditures
Income	$584,596	$264,600	$1,616,845	$2,352,291	$2,346,624	$3,632,913	$1,811,940	$12,609,809	n/a
Operating Expenses	$321,879	*Paid Directly*	$633,781	$922,412	$1,379,898	$1,593,304	$751,315	$5,602,589	$5,602,589
Net Operating Income	$262,717	$264,600	$983,064	$1,429,879	$966,726	$2,039,610	$1,060,625	$7,007,221	n/a
Owner Expenses	$29,345	$27,262	$44,856	$25,682	$9,450	$22,015	$11,116	$169,726	$169,726
Lease-Up Costs	$17,000	$0	$0	$0	$0	$511,317	$164,763	$693,080	$693,080
Capital Expenditures	$115,000	$0	$0	$157,500	$0	$249,000	$150,000	$671,500	$671,500
Debt Service	$0	$63,905	$908,822	$447,574	$635,942	$941,171	$404,533	$3,401,947	$3,401,947
Net Cash Flow	**$101,372**	**$173,433**	**$29,386**	**$799,123**	**$321,334**	**$316,107**	**$330,213**	**$2,070,968**	**$10,538,841**
Distributions	**$101,000**	**$173,000**	**$29,000**	**$799,000**	**$321,000**	**$316,000**	**$330,000**	**$2,069,000**	
Delta vs. FY24	*-$22,426*	*$93,459*	*$828*	*$37,202*	*-$360,957*	*-$77,606*	*$330,000*	*$500*	

Existing Vacancy	--	--	--	--	--	4%	9%	2%
Lease Expirations	21%	0%	85%	0%	100%	16%	8%	36%

CFF Draws*	$0	$0	$0	$0	$0	$0	$0	$0

** Future leases may necessitate CFF draws depending on terms and timing.*

Combined FY24 Budget - Investment Portfolio

	Cordova	Commercial	WA Parks	Rulon White	Prom. Point	Amber Oaks	North Park	Total
Income	$559,267	$254,757	$1,616,845	$2,201,258	$2,341,787	$3,870,585	$1,615,206	$12,459,705
Operating Expenses	$301,621	*Paid Directly*	$571,541	$841,441	$1,136,836	$1,516,536	$614,000	$4,981,976
Net Operating Income	$257,646	$254,757	$1,045,304	$1,359,817	$1,204,951	$2,354,049	$1,001,206	$7,477,730
Owner Expenses	$6,232	$13,112	$5,096	$13,132	$9,450	$18,195	$6,320	$71,537
Lease-Up Costs	$0	$0	$0	$0	$0	$429,815	$1,287,896	$1,717,711
Capital Expenditures	$175,000	$0	$40,000	$150,000	$0	$0	$38,000	$403,000
Debt Service	$0	$63,905	$908,819	$447,574	$635,942	$941,171	$404,533	$3,401,944
Net Cash Flow	**$76,414**	**$177,740**	**$91,389**	**$749,111**	**$559,559**	**$964,868**	**-$735,543**	**$1,883,537**
Cash Reserve Coverage								$184,963
Distributions	**$123,426**	**$79,541**	**$28,172**	**$761,798**	**$681,957**	**$393,606**	**$0**	**$2,068,500**

CFF Draw - Circle K	$0	$0	$0	$0	$0	$0	$820,112	$820,112
CFF Draw - Spectrum**	$0	$0	$0	$0	$0	$0	$544,166	$544,166
CFF Draws - Total	$0	$0	$0	$0	$0	$0	$1,364,278	$1,364,278

*** Approved but not withdrawn as of 4/24/24.*

Combined FY25 Budget - Program-Related Real Estate

	Detox	Sobering Ctr	Fahrenkamp	Assets, Inc.	TAB	Total	Expenditures
Income	$30,000	$90,465	$147,111	$72,613	$348,724	$688,913	n/a
Operating Expenses	$0	$4,659	$7,201	$0	$313,018	$324,878	$324,878
Net Operating Income	$30,000	$85,806	$139,910	$72,613	$35,706	$364,035	n/a
Owner Expenses	$0	$19,612	$19,612	$55,600	$35,142	$129,966	$129,966
Lease-Up Costs	$0	$0	$0	$0	$0	$0	$0
Capital Expenditures	$0	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0	$0
Net Cash Flow	**$30,000**	**$66,194**	**$120,298**	**$17,013**	**$564**	**$234,069**	**$454,844**
Distributions	**$30,000**	**$66,000**	**$120,000**	**$17,000**	**$0**	**$233,000**	
Delta vs. FY24	*$3,932*	*$9,919*	*-$11,155*	*-$44,291*	*$0*	*-$41,595*	
CFF Draws*	$0	$0	$0	$0	$0	$0	

** TAB renovation/building systems repair may necessitate CFF draws; full analysis/evaluation in process.*

Combined FY24 Budget - Program-Related Real Estate

	Detox	Sobering Ctr	Fahrenkamp	Assets, Inc.	TAB	Total
Income	$115,741	$94,082	$148,699	$71,891	$327,924	$758,337
Operating Expenses	$0	$28,390	$11,532	$0	$296,963	$336,885
Net Operating Income	$115,741	$65,692	$137,167	$71,891	$30,961	$421,452
Owner Expenses	$12,012	$9,612	$9,612	$10,600	$29,085	$70,921
Lease-Up Costs	$0	$0	$0	$0	$0	$0
Capital Expenditures	$0	$0	$0	$0	$0	$0
Debt Service	$0	$0	$0	$0	$0	$0
Net Cash Flow	**$103,729**	**$56,080**	**$127,555**	**$61,291**	**$1,876**	**$350,531**
Distributions	**$26,068**	**$56,081**	**$131,155**	**$61,291**	**$0**	**$274,595**
CFF Draws	$0	$0	$0	$0	$10,784	$10,784

2600 Cordova Street
Anchorage, Alaska 99503
Phone: 907-269-8658
Fax: 907-269-8605

To:	Mary Jane Michaels, Chair
Through:	Mike Abbott
From:	Wyn Menefee and Andy Stemp
Date:	5/24/2018
Re:	FY19 Real Estate Management Plan and Non-Investment/Program-Related Real Estate Facility Budgets
Fiscal Year:	2019
Amount:	$11,603,832

Approval

Requested Motions:

Proposed Motion One: *"The Trust Authority board of trustees authorize the use of Fund 3322 to create a central facility fund, beginning immediately in FY2018, to meet property expenses that exceed the amount of funds held at the property level. The CFO is directed to consult with the Executive Director of the Trust Land Office each quarter and transfer money from real estate rental income into the central facility fund, in an amount mutually agreed upon, until the fund reaches and is maintained at a total balance of $2.0 million. Expenditures from this fund require approval of the CEO, RMC, or board of trustees within limitation expressed in the governance charters."*

Proposed Motion Two: *"The Trust Authority board of trustees approve the incremental building expenditures, totaling $11,603,832 for the fiscal year 2019, to be paid by the property manager in the case of expenditures, primarily from rents and other income collected from the properties or from the central facility fund for capital expenditures that cannot be covered by rents and other income from the properties. The cash flow for REMP and Non-Investment/Program Related Real Estate portfolios are to be managed respectively on a portfolio basis while maintaining appropriate building specific accounting."*

Background:

Creation of Central Facility Fund (Proposed Motion 1)

General Background: The Trust has two distinct property portfolios: the program related real estate and the commercial real estate. Both portfolios generate income and have corresponding expenses, including the need for periodic upgrades and major maintenance. The Trust has been able to address these needs on an ad hoc basis using a combination of income from the properties, some savings/reserves that are held for certain properties, and by accessing other Trust funds. This approach has worked for small to moderate sized needs, but paying for large needs (i.e. tenant improvements) has the potential to create an uncomfortable level of cash flow compression.

To help mitigate the risk of cash flow compression, a central facility fund can be used to accumulate cash over time and stabilize any need for resources. The Trust historically used fund 3322 (Deferred Maintenance) as a tool to address these types of needs. The account could be reactivated and a schedule of regular deposits into the account could be established to build up the fund.

Trust Land Office and CFO Recommendation: Based on research into industry practices, the staff have started developing a schedule of large projects that will need funding over the next three years. These projects range from major tenant improvements such as with the IRS facility (~$2 million) to potentially replacing some HVAC systems (~$100,00). Using this schedule as a roadmap, the Trust would set aside a portion of rental income to build up the central facility fund. When needed the Trust Land office would request authorization to use the fund to complete projects following approval guidelines listed in the governance charters.

Staff recommend starting the fund with an initial contribution of $105,000 (the current balance of the old account) and then contributing a portion of the FY18 rents that might have otherwise still have been available for distributions, and continuing in FY 19 between $50,000 and $150,000 per quarter into the account. Contributions would continue until the account reaches a $2.0 million balance. At that point, the contributions would be suspended until money is drawn down from the account; at that point contributions would resume until the account is replenished.

A key consideration of this approach is that the contribution to the central facility fund would take place prior to distributing income for use by Trust programs, so there is a short-term reduction in available net distributions. This is mitigated by the benefit of having a stable and predictable source of funding for facility needs and avoids any out of budget cycle surprises that might negatively impact programs.

A central facility fund would be used to fund property expenses such as:

- Property costs that exceed PPRE and REMP portfolio cash flows
- Repair
- Replacement of larger building components based upon a replacement schedule when these replacement needs arise sooner than expected
- Leasing obligations
- Expansion or retrofit

<u>FY19 Rent Funded Real Estate Facility Budget (Proposed Motion Two)</u>

Transaction/Resource: Facility budgets are presented to seek approval from the board of trustees for the expenditures necessary to service the properties. The proposed property expenditures including contingency reserves are funded by tenant rents and other income collected from the properties or by using the central facility fund when cash flow management cannot cover the capital expense.

Property Description/Acreage/MH Parcel(s): Real Estate Management Plan and other AMHT Properties are as follows:

Real Estate Management Plan Properties	Other AMHT Properties
1111 Israel Road; Tumwater, WA	3745 Community Park Loop Road; Anchorage, AK
1973 North Rulon; Ogden, UT	650 Yonker Court; Fairbanks, AK
2600 Cordova Street; Anchorage, AK	2330 Nichols Street; Anchorage, AK
2618 Commercial Drive; Anchorage AK	1300 Moore Street, Fairbanks, AK
2420 & 2500 Ridgepoint Drive; Austin, TX	1423 Peger Road, Fairbanks, AK
17319 San Pedro Avenue; San Antonio, TX	
9601 Amberglen Blvd; Austin, TX	

General Background:
There is an obligation to maintain all facilities, whether REMP properties or the Non-Investment/Program Related Real Estate properties. Failing to maintain the facilities would diminish the value of the Trust corpus, would make the facilities less attractive to new tenants, and would impair the Trust's ability to sell the facilities in the future. Well-maintained and fully-rented properties provides the best income, preserves the value of the corpus, and fulfills the obligation of managing the properties with accountability to the Trust.

The TLO has established a system to adequately plan, manage, audit and report activity in the real estate portfolio. Using professional management services, the property information is accounted for by:

1) matching income to expenses;
2) comprehensive reporting and budgeting for each property; and
3) capital expense forecasting.

Even with appropriate planning, occasional building management costs occur that cannot be covered by the normal cash flow in the property specific building accounts. These property expenses can often be covered by managing cash flows at the property manager level on a portfolio basis.

Management of the cash flows for REMP properties and the Non-Investment/Program Related Real Estate properties should be managed separately as two distinct portfolios. The portfolio management structure allows the TLO managers to manage the property management accounts with some amount of contingency reserve for each property. This is prudent property management and in line with industry standards, such as what banks and other lending institutions require. Comparable industry standards show reserves equating to approximately $.15/sq.ft. added each year, but with flexibility to retain more or less, as reserves, as conditions dictate. Similarly, for this budget, a contingency reserve of 1% of expenditures will be maintained. The combined building accounts provide an appropriate cushioning that one building income can cover the extraordinary expense of another temporarily, to be rebalanced throughout the following year from rental income. This preferred methodology for most building maintenance expenditures and would limit the need to ask for approvals from the board to only what could not be covered by appropriate property level portfolio cash management.

If some expense, such as with a major tenant improvement at the IRS building, cannot be fully covered by property level portfolio cash management, the central facility fund would be used. The subsequent use of the central facility fund in FY19 within the limitations of facility expenditures shown in this approval will not require additional approval from the board.

Consistency with the Resource Management Strategy: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted March 2016 in consultation with the Trust and provides for maximization of return on investment and provides for long term income generation at prudent levels of risk.

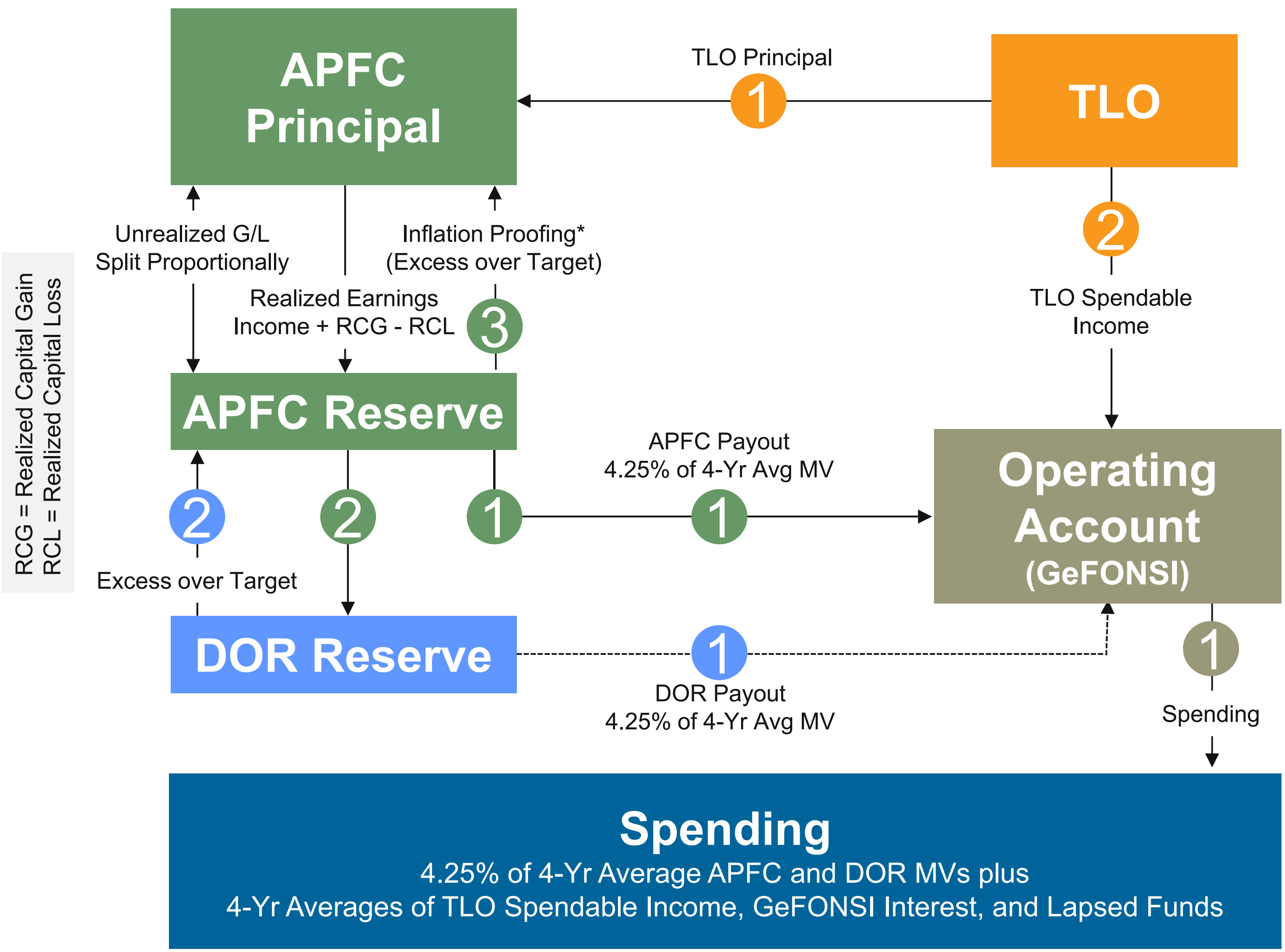
Trust Land Office Recommendation: The TLO recommends that it is in the Trust's best interest to approve the incremental building expenditures for FY19 to be funded by tenant rents and other income collected from the properties or the central facility fund.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motions presented in this briefing document fulfill the approval requirements that are applicable to the transaction.

Exhibit:
Exhibit 1 - Property Budget Summary

Additional Document



1 APFC Reserve payout

2 Anything leftover after spending flows to the DOR

3 Money in excess of the total reserve target goes towards inflation proofing*

1 DOR Reserve payout, if necessary

2 Money in excess of the reserve target flows to the APFC Reserve

1 TLO principal flows to APFC principal

2 TLO spendable income flows to GeFONSI

1 Trust Spending

*Money in excess of 400% budget reserve target may be invested in land or PRIs