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:	January 8, 2025
Time:	12:30 PM
Location:	Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference:	(844) 740-1264 / Meeting: 2864 389 1064 # / Attendee: # alaskamentalhealthtrust.org
Trustees:	John Morris (Chair), Kevin Fimon, Anita Halterman

Wednesday, January 8, 2025

		Page
12:30	**Call Meeting to Order (John Morris, Chair)** Roll Call Announcements Approve Agenda Ethics Disclosure Approve Minutes – October 16, 2024	4
12:35	**Introduction to Risk** Sebastian Vadakumcherry, APFC Chief Risk & Compliance Officer	14
1:00	**Asset Spending Study by Callan, LLC** Steve Center, CFA, Fund Sponsor Consulting, Callan Julia Moriarty, CFA, Capital Markets Research, Callan	30
2:30	**Break**	
2:45	**Commercial Real Estate Net Proceeds**	84
3:15	**Commercial Real Estate Management** Executive Session – (if necessary) *In accordance with the Open Meetings Act, AS 44.62.310(c)*	86
4:00	**Surplus Determination** Julee Farley, CFO	87
4:15	**Financial Update** Julee Farley, CFO Sarah Morrison, TLO Chief Business Officer • FY2024 Dashboard, June 30, 2024 • FY2025 Dashboard, November 30, 2024	handout
4:30	**Adjourn**	

Trust
Alaska Mental Health
Trust Authority

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

Future Meeting Dates

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

(Updated – November 2024)

• 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
• Audit & Risk Committee	July 31, 2025	(Thu)
• Finance Committee	July 31, 2025	(Thu)
• Resource Mgt Committee	July 31, 2025	(Thu)
• Program & Planning Committee	Aug 1, 2025	(Fri)
• Full Board of Trustees	August 27-28, 2025	(Wed, Thu) – Anchorage
• Audit & Risk Committee	October 15, 2025	(Wed)
• Finance Committee	October 15, 2025	(Wed)
• Resource Mgt Committee	October 15, 2025	(Wed)
• Program & Planning Committee	October 16, 2025	(Thu)
• Full Board of Trustees	November 19-20, 2025	(Wed, Thu) – Anchorage
• Audit & Risk Committee	January 7, **2026**	(Wed)
• Finance Committee	January 7, **2026**	(Wed)
• Resource Mgt Committee	January 7, **2026**	(Wed)
• Program & Planning Committee	January 8, **2026**	(Thu)
• Full Board of Trustees	February 4-5, **2026**	(Wed, Thu) – Juneau

Trust
Alaska Mental Health
Trust Authority

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

Future Meeting Dates

Statutory Advisory Boards

(Updated – December 2024)

Alaska Commission on Aging

ACOA: https://aging.alaska.gov
Executive Director: Martin Lange, (907) 465-4879, martin.lange@alaska.gov

- Quarterly Meeting: Spring / TBD

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

AMHB: http://health.alaska.gov/amhb/Pages/default.aspx
ABADA: https://health.alaska.gov/abada/Pages/default.aspx
Executive Director: Stephanie Hopkins, 907) 465-4667, stephanie.hopkins@alaska.gov

- Quarterly Meeting (winter): January 2025 / Zoom
- Quarterly Meeting (spring): April 15-18, 2025 / Anchorage

Governor's Council on Disabilities and Special Education

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

- Triannual Meeting (winter): February 11-13, 2025 / Juneau
- Triannual Meeting (spring): May 2025 / Anchorage

ALASKA MENTAL HEALTH TRUST AUTHORITY
FINANCE COMMITTEE MEETING
HYBRID/WEBEX
October 16, 2024
8:30 a.m.

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

Trustees Present:
John Morris, Chair
Anita Halterman
Corri Feige
Agnes Moran
Kevin Fimon
Brent Fisher
Rhonda Boyles

Trust Staff Present:
Allison Biastock
Katie Baldwin-Johnson
Julee Farley
Miri Smith-Coolidge
Michael Baldwin
Eric Boyer
Kat Roch
Kelda Barstad
Debbie DeLong
Valette Keller
Tina Voelker-Ross
Eliza Muse
Janie Caq'ar Ferguson
Carrie Predeger
Luke Lind

Trust Land Office staff present:
Jusdi Warner
Jeff Green
Sarah Morrison
Brittany Williams
Mariana Sanchez
Blain Alfonso

Also participating:
Gene Hickey; Steve Sikes; Rep. Julie Coulombe; Rep. Justin Ruffridge; Chris Orman; Stephanie Hopkins; Rep. Mike Prax; Kathy Craft.

PROCEEDINGS

CALL TO ORDER
CHAIR MORRIS called the meeting to order and began with a roll call. He asked for any announcements. Hearing none, he asked for a motion to approve the agenda.

APPROVAL OF AGENDA

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

There being no objection, the MOTION was APPROVED.

CHAIR MORRIS asked for any ethics disclosures. Haring none, he moved to the approval of the minutes from July 30, 2024.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from July 30, 2024, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FEIGE.

There being no objection, the MOTION was APPROVED.

STATUTORY ADVISOR UPDATE
CHAIR MORRIS stated that Deven Mitchell, the executive director of the Alaska Permanent Fund Corporation, would be talking about some details on the management of the Trust endowment.

MR. MITCHELL stated that he has been the CEO of the Alaska Permanent Fund Corporation for about two years, with a professional institutional investment management team consisting of eight asset classes that place money primarily in the United States, and also around the world. He continued that it is a sophisticated institution with a target rate return of CIP+5, so inflation plus 5 percent, which is recognized as a high target, and is difficult to hit through all markets. He stated that they would see a little less volatility in the performance of the investment of the Trust, with an impact on the good side, but also on the bad side. APFC stays closer to the CPI+5 target and having a regular recurring return. He went through an overview of the mission and vision of the corporation, which aligns with the Mental Health Trust Authority. He stated that they have the ability to invest money for similar public fund accounts and manage not just the funds at the Alaska Mental Health Trust, but as of two years ago, the Power Cost Equalization Endowment. The Fund wants to deliver outstanding returns for the benefit of all generations of Alaskans. He continued through the presentation, explaining and answering questions as he went along. He summarized the Trust's $734.8 million total value with about 10 percent of that, $75.2 million available, and realized earnings and earnings deposits. He laid out the framework that was discussed, and added that they adhere to their statutory mandate to invest the Mental Health Trust moneys alongside the Permanent Fund in a fashion that adheres to the statutory requirements, which are the key words the Permanent Fund tries to live by in representing both the Fund, as well as the Trust.

CHAIR MORRIS thanked Mr. Mitchell for the generosity of his time and stated appreciation for his expertise. He recognized Steve Sikes for the Treasury update.

DEPARTMENT OF REVENUE/TREASURY UPDATE
MR. SIKES introduced himself as a State investment officer with the Department of Revenue in Juneau. He stated that the goals of his presentation were to review the FY24 performance for the assets of the Mental Health Trust, and also to review how the Alaska Retirement Management Board manages its real estate separate account portfolios. He stated that the Department of Revenue currently manages over $54 billion, with approximately $34 billion of that being the defined benefit assets of the Alaska Retirement Management Board. Another $10 billion is defined contribution assets; and the remaining $10 billion is other assets of State funds, which includes the Alaska Mental Health Trust assets. He moved to an overview of the assets that DOR manages for the Trust, and gave some history between the Fund and the Trust. He talked about the Alaska Mental Health Trust Reserve, which is a segregated account with the investment accounts internally managed by DOR staff. He then moved on to discussing the performance and the fees, which are approximately 11 basis points. He spent time explaining how real estate is invested in, and specifically the separate accounts.

TRUSTEE BOYLES stated that the Board would be interested in seeing a proposal from DOR to better educate this board with advice for asset allocation.

MR. SIKES replied that he would work with Ms. Farley to make sure that presentation occurs.

TRUSTEE BOYLES stated that April would be preferrable.

CHAIR MORRIS thanked Mr. Sikes for sharing his expertise and experience, particularly in managing real estate, and called a break.

(Break.)

CHAIR MORRIS moved to the Approvals of the TLO fiscal year '25 commercial real estate budget amendment, and asked for a motion.

APPROVALS

> **MOTION:** The Finance Committee recommends that the Trust Authority Board of Trustees approve amending the previously approved fiscal year 2025 Commercial Real Estate/Program-Related Real Estate budget to include a $180,000 expenditure this fiscal year for a rooftop mechanical unit at the Amber Oaks asset. The expenditures made in connection with this request will be paid from rents and/or reserves held at the property-level accounts, with no further funding necessary from the Trust Authority. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE HALTERMAN.

E.D. WARNER recognized David MacDonald.

MR. MacDONALD explained that between 12 and 18 months ago there was a need for a new air conditioning unit at the Amber Oaks project. It was ordered, delivered, and just installed last month. He stated that it had been approved in a prior budget; ordered last year; but delivered this year. So the expenditure falls in this year. The CFO had brought up including all expenditures in the current year's budget, and this motion is an attempt to accommodate the CFO's request.

TRUSTEE FEIGE asked, in terms of supply chain, how they were doing broadly, and if some of the supply-chain issues were still absorbed since COVID.

MR. MacDONALD replied that the market has improved dramatically in that regard across the board, but there are still instances where it happens.

CFO FARLEY asked about when the State of Alaska required funds to be available and recorded in the books when the order was placed.

MS. MORRISON replied that when expending State funds at the State versus at the LLCs, when a purchase order is placed, it is at that point that an encumbrance is placed against that operating budget. That is pertaining to the State, but it is different from the way property managers manage at the LLC level.

MR. MacDONALD added that the request came in to do it a certain way, and we like to try to do it that way.

CHAIR MORRIS asked for any further commentary on the rooftop unit. Hearing none, he called the question.

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

CENTRAL FACILITY FUND APPROVAL

MOTION: <u>The Finance Committee recommends that the Trust Authority Board of Trustees approve funding and instruct the CFO to transfer up to $75,000 to the third-party property manager, as requested by the TLO, for capital expenditures of the Trust Authority Building from the Central Facility Fund for the fiscal year 2025. The expenditures made in connection with this request shall amend the Fiscal Year 2025 Expenditure Budget previously approved by the Board of Trustees. The motion was made by TRUSTEE FEIGE; seconded by TRUSTEE HALTERMAN.</u>

E.D. WARNER recognized Mr. MacDonald.

MR. MacDONALD stated that this motion pertains to the fire panel in the TAO building which is failing. If it fails, per city code, the building would not be safe to occupy. There are lease obligations to provide a functioning space to other tenants, and we want to handle the replacement of the fire panel right now to make sure we remain in compliance and the building continues to be safe to occupy with the fire systems working intact. He continued that there was a proposal for the item through Colliers which adds a construction management fee. There is a contingency in case there is anything that comes up at the time of the installation requiring additional charges. The total requested today is $75,000. He added that this also changes the budget, if approved, because this would exceed the LLC account.

A brief discussion ensued.

CHAIR MORRIS asked for any other comments or questions. There being none, he called the question.

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

FY25 PAYOUT FROM THE ALASKA PERMANENT FUND CORPORATIN BUDGET RESERVE

MOTION: The Finance Committee recommends that the Full Board of Trustees authorize the transfer of $32,398,600 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement Income account to finance the Fiscal Year 2025 budget. The CFO may fulfill this motion with one lump sum or multiple transfers, and a full transfer must be made prior to June 30, 2025. The CFO will report to the Finance Committee when the transfers are made. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FEIGE.

CFO FARLEY stated that everything was covered in the memo.

TRUSTEE HALTERMAN made a statement and observation giving a bit of background about the 4.25 percent draw because this is a public meeting, and people are listening online.

CHAIR MORRIS noted that the background information is also available online. He recognized CFO Farley.

CFO FARLEY noted that the annual payout transfer reflects the calculation which is a very prescribed calculation reflecting the four-year average of the balances held at the Alaska Permanent Fund Corporation and at the Department of Revenue, the budget reserve account. She went through the math that created the rate, which was reviewed by Callan, the external consultant, who reviews that rate to ensure that there is equity between current generations, current beneficiaries, and future beneficiaries. The rate is 4.25 percent, which is subject to review, and there may be a different number next year.

A brief discussion ensued.

CHAIR MORRIS asked for any further comments or questions. There being none, he called the question.

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

FUND 3320 BALANCE

MOTION: The Board of Trustees approve the removal of a target level for the Trust Authority Development Account, TADA, the GeFONSI Fund 3320, and authorizes the Chief Financial Officer to transfer funds in TADA to the Trust's Investment Fund as principal managed as part of the Alaska Permanent Fund, with a minimum transfer of $500,000. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE FEIGE.

CFO FARLEY stated that this is a housekeeping matter. There were previous motions that established a minimum balance in this account to fund trustee-approved obligations. At this point, those obligations have been met, and there is no longer a need to maintain a balance in this account, which means that all principal revenue that the TLO earns would be sent directly to the principal account at the Permanent Fund.

CHAIR MORRIS asked for any questions or comments. There being none, he called the question.

> *After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Moran, yes; Trustee Boyles, yes; Trustee Fimon, yes; Trustee Feige, yes; Trustee Halterman, yes; Chair Morris, yes.)*

STAFF REPORT ITEMS
FY24 DASHBOARD AND TRUST PERFORMANCE REVIEW
CFO FARLEY stated that she and Sarah Morrison would present different parts of the review. She continued that it was the year-end dashboard which is an important part of the accounting process to present through June 30th to close out the year. She began with the different levels of expenditures and added that they were under budget. The Authority Grants would continue getting processed and paid out in subsequent years. She continued through the review, answering questions as she went along.

MS. MORRISON spoke about some of the money coming in under budget and noted that several vacancies were experienced in the spring. She moved on to the capital projects and explained that it was a very good year for the TLO.

CFO FARLEY continued through the commercial real estate and then the GeFONSI interest. She talked through the list of investments, explaining and answering questions as she went along.

CHAIR MORRIS thanked CFO Farley and Ms. Morrison, and continued to the Approvals regarding Commercial Real Estate.

APPROVALS
COMMERCIAL REAL ESTATE
> **MOTION:** The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees authorizes and directs the Trust Land Office to take necessary and prudent steps to a.) earn interest income on cash held at third-party bank accounts opened and managed by the TLO in their role as Operating Manager of the LLCs that own Trust commercial real estate; b.) manage cash balances with an awareness of FDIC limits and maintain cash balances above FDIC limits only when protected by IntraFi, conversion to Treasury bills or other equivalent recommended instruments; and c.) to establish that third-party banks for all commercial-real-estate-related bank accounts will provide monthly bank statements directly to the Trust CFO no later than 10 business days after end of the month. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE HALTERMAN.

TRUSTEE FEIGE had a point of order on the language of this motion. She had a question about whether it was conforming. She asked if it should not be that the Finance Committee is advising the Board to then direct the TLO, which is a housekeeping question that she had earlier on.

CHAIR MORRIS stated appreciation to Trustee Feige for pointing that out before the meeting, and noted that the motion as read incorporated her suggestion about conforming language.

TRUSTEE FEIGE replied that that was different from what she was looking at from the packet previously.

CHAIR MORRIS stated that based on her feedback they were still operating under the 2017 operating agreements for charters and bylaws, which requires voting on everything twice. He did not think there was enough time in this meeting to hash out voting on everything twice and took the path of least resistance to simply agree to vote on things twice, assuming that this is approved on the first vote.

TRUSTEE BOYLES thanked that Chair, and asked who was on the Finance Committee.

CHAIR MORRIS replied all of the trustees.

TRUSTEE BOYLES assumed this motion resulted from a heavy work session behind the scenes, and asked if Ms. Warner was part of that.

E.D. WARNER replied that she saw the motions after she requested them of the Trust Authority and was denied. She then asked Trustee Morris, and CFO Farley and Chair Morris sent them to her a day before the packet was public-noticed.

CHAIR MORRIS replied that it is the product of a work session, and the TLO expressed that they required the direction of the entire Board to take the steps listed in this motion.

TRUSTEE BOYLES asked Ms. Warner if she can live with the changes and still manage the cash flow and the cash-flow needs.

E.D. WARNER replied that there were two things here that needed to be separate for context. Chair Morris was looking for having the TLO utilize sweep accounts for two reasons: One was to ensure that cash balances remain below $250,000, which was FDIC insured; and the other was to generate income from the cash sitting at the property level. She stated that the TLO, under the LLC agreement, has the authority and responsibility to pay out of those accounts for rents and anything else that comes into those accounts. She continued that the TLO was not responsible, nor should they be, and it is not mentioned in the LLC agreement that the TLO should be making money on the cash that sits at the property level. She added that the cash levels should be minor in the property accounts and should be kept to a minimum balance. She stated the need for a strong agreement that the TLO could receive money from the Trust Authority when it is needed to fulfill the obligations under the LLC agreements for those assets themselves. She added that they work hard to minimize cash balance, which is difficult due to capital expenditures that do not come in when they are expected. Separate accounts have been created to make sure there is transparency, and that the FDIC limit is met. She stated that she sent a memo with the overall recommendation from the TLO that as long as there was a strong policy in place that would allow funding to transfer from the Trust in a timely commercial-real-estate-esque manner, where they could uphold their duty in the LLC agreement, that the cash should be sent over to the Trust to manage in ways that may generate more revenue.

TRUSTEE BOYLES stated that she is one member of the Trust and is empathetic to cash-flow management. She is also empathetic to having an old overarching mission to take care of beneficiaries and to manage the money so that legislative audits and risks are addressed. She would like to hear from the chairman of Legislative and Audits & Risk.

TRUSTEE FIMON, chair of the Audit & Risk Committee, replied that they heard, in the work session the needs and timing, and they have tried to reconcile what was looked at from an accounting standpoint versus operations in the real estate management world. He stated that they are trying to bring that all together in a way that is workable from both sides.

The discussion continued.

> **MOTION:** <u>A motion was made to table this requested Motion No. 1. The motion was made by TRUSTEE BOYLES; seconded by TRUSTEE MORAN.</u>
>
> *After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Moran, yes; Trustee Boyles, yes; Trustee Fimon, no; Trustee Feige, yes; Trustee Halterman, no; Chair Morris, no.)*
>
> **MOTION 2:** <u>The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees authorizes and directs the Trust Land Office to distribute excess operating cash above trailing three months' operating expenses held at the Commercial Real Estate bank accounts to the Trust and provide a detailed analysis and reconciliation of property cash flow to this monthly CRE distribution amount to the CFO. Amounts held in property capital reserve bank accounts should not exceed budgeted capital expenditures approved by Trustees, adjusted for any actual expenditures during the fiscal year. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE HALTERMAN.</u>

CFO FARLEY stated that they heard from Mr. Sikes with the Department of Revenue about the ARM Board real estate. He detailed the process to send funds to the owners with a few slides: Three months of expenses as a starting point in prior discussions with him, and it was reduced to one month of expenses as the amount of cash. Allowing of the three months is a generous allowance of cash.

E.D. WARNER stated that regarding the TLO, there is one person working on this, and another one is unable to be hired because it would be a short-term job and there is no one interested in short-term. The TLO can manage the checking accounts to pay the bills, but not for the cash to make money.

The discussion continued.

TRUSTEE BOYLES stated that a lot of work and thought went into this, but she could not support this motion. Philosophically, she agreed with it; there is a fiduciary responsibility, but there is a problem in the process.

> **MOTION:** <u>A motion to table the motion was made by TRUSTSEE BOYLES; seconded by TRUSTEE MORAN.</u>

CHAIR MORRIS pointed out that if this motion were to be tabled, which exists for most of the reasons given to table the first motion, they would have successfully concluded that they would continue to have checking accounts that exceed the FDIC balance earning no interest, and no process for bringing distributions regularly back to the Trust.

TRUSTEE FISHER stated that trustees, and he as Chair, are very much in favor of managing the assets, whether they be real estate, real assets, or cash or cash-equivalent assets. He continued that the question is if this was something the Board needs to get involved with, or if they are operations procedures that should be easily resolved. Several solutions have been heard, and people sound like they are willing to work together in making sure that cash is available to make good management decisions regarding the properties, and to manage the cash when it is available. He added that those procedures need to be fixed, but are not motions that need to be approved at the trustee level.

CHAIR MORRIS agreed entirely. Unfortunately, he noted, in looking at the checking account balances from the past few years, they run a few million dollars, and using the 4.5 to 5 percent risk-free return rate, a few hundred thousand dollars have been left on the table.

The discussion continued.

TRUSTEE HALTERMAN reminded all that she was 1/7th of a vote for the Board. As a trustee, 1 of 7, we do not have the right to give direction to staff on behalf of the entire Board outside of these meetings.

TRUSTEE MORAN asked to call the question.

CHAIR MORRIS called the question to table Motion 2.

> *After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, yes; Trustee Moran, yes; Trustee Boyles, yes; Trustee Fimon, no; Trustee Feige, yes; Trustee Halterman, no; Chair Morris, no.)*

CHAIR MORRIS asked Ms. Warner about the status in lieu of putting the motion forward. He understood that all properties had not been listed, and asked the reason for not listing two of the properties.

E.D. WARNER replied that four properties had been listed. She continued that Amber Oaks has a loan lockout, which is the reason that property had not been listed. Regarding North Park, they were working on getting the tenancy up before listing that property.

TRUSTEE FEIGE asked for an explanation on the loan lockout, and how that was a barrier to listing the property.

MR. MacDONALD replied that the loan could not be paid off prior to September 2026. He stated that it has a low amount of leveraging on it, and we have to wait until the loan lockout period expires.

CHAIR MORRIS asked for any other questions on the topic of the listing. He asked for a trustee to read the amended motion.

MOTION: <u>The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees directs the CEO and the CFO to promulgate a new CFO description which clarifies oversight of CRE-related financial matters. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE FEIGE.</u>

TRUSTEE FIMON read the motion again for clarification.

MOTION: <u>The Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees directs the CEO and CFO to promulgate a new CFO position description which clarifies oversight of commercial-real-estate-related financial matters.</u>

CFO FARLEY stated that her current position description was written for the CFO to serve as a liaison to the Alaska Permanent Fund Corporation, the Department of Revenue, and the Trust Land Office. Her liaison role with the Permanent Fund and the Department of Revenue was one in which information is received on a regular basis, detail is promptly provided when requested, and there is a good working relationship with both. Regarding commercial real estate, requesting the monthly property financials is a long process which was finally received in August, and the requests may have started in May. When she was initially hired, it was made clear by the former CEO and by the executive director of the TLO that the CFO did not have oversight of commercial real estate, which was a reason for the friction with the previous CFO. It was made clear that she did not have oversight. Having this clarity will improve and provide basis and support for her request that it is authorized by the full Board and not just through the Chair of the Finance Committee. She added that currently she is operating solely under the direction of the Chair of the Finance Committee, and this would provide a better clarification of her role.

A discussion ensued.

CHAIR MORRIS called the questions.

After the roll-call vote, the MOTION was APPROVED. (Trustee Fisher, no; Trustee Moran, no; Trustee Boyles, no; Trustee Fimon, yes; Trustee Feige, yes; Trustee Halterman, yes; Chair Morris, yes.)

CHAIR MORRIS asked for a motion to adjourn the meeting.

MOTION: <u>A motion to adjourn the meeting was made by TRUSTEE FIMON; seconded by TRUSTEE FEIGE.</u>

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

CHAIR MORRIS thanked all and adjourned the meeting.

(Alaska Mental Health Trust Authority Finance Committee meeting adjourned at 12:45 p.m.)

Alaska Mental Health Trust Authority

APFC
ALASKA PERMANENT FUND CORPORATION

Risk Management: an introduction

January 8th, 2025

Sebastian Vadakumcherry, Chief Risk & Compliance Officer

1. Goal of Risk Management
2. Risk Management Framework
3. Risk Appetite
4. Volatility and Value at Risk (VaR)
5. Prudence and Process

Most of the slides in this presentation are excerpts from previous presentations to APFC board and other stakeholders. The numerical data in some of the pages are dated and intended for illustrative purposes only

We are in the business of taking risk

- Investors must take risks to achieve return objectives

- The goal of risk management is not to avoid risks, it is to:
  - ✓ know and understand the risks taken,
  - ✓ measure, monitor and report these risks, and
  - ✓ manage risks to acceptable levels, and review whether returns are commensurate

- The risk management effort is not owned by or the responsibility of a single team or department. It is a collective responsibility, including all staff and trustees

- The risk function primarily aims to:
  - ✓ provide a different perspective *(mostly: what can go wrong? How much can we lose?)*,
  - ✓ constructively challenge assumptions,
  - ✓ measure and provide a complete and aggregated 'risk picture' for the whole portfolio

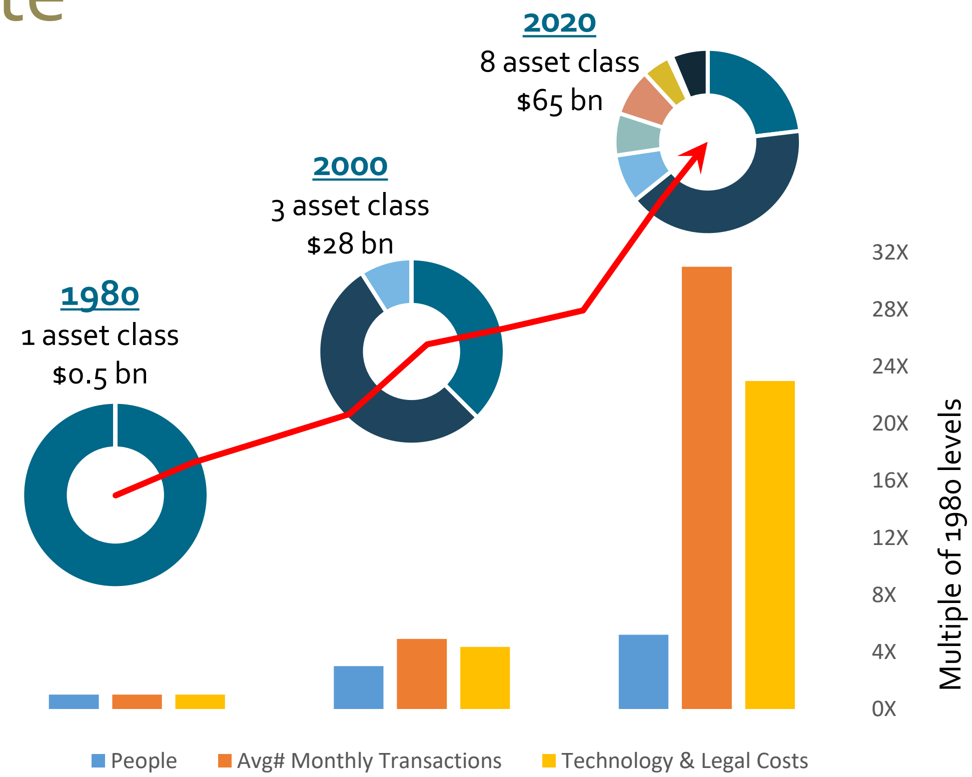
Aligning to future state

- Types, complexity and velocity of risks have significantly increased, due to both internal transformation and external factors. The trend is likely to continue, if not accelerate

- The need to expand resources, mature and strengthen control frameworks, in line with growth, is real

While the chart on the right illustrates the transformation of APFC, this is probably true for most institutional investors

It is vital to recognize the transformation and align to the future



Risk Management Framework

- Risks can be categorized into three main buckets and types as shown below

Investment Risks	Operational Risks	Corporate Risks
Risk of loss due to decline in value of investments relating to obligor and or market factors	Risk of loss due to failed or inadequate processes, people or systems and or external factors	Potential adverse impact due to inadequate corporate functions and or external factors
• Credit • Interest Rate • Equity • FX • Liquidity	• Business Disruption • Transaction Execution • Fraud • Employment Practices • Partners & business practices	• Strategy • Legal & Compliance • Reputational • Other
'Investment' Risks	'Non-Investment' Risks	

Risk can also be categorized in terms of:

- ***Relative*** *(to a benchmark)*
- ***Absolute***

Investment Risk: Definitions

- **Credit Risk**: potential adverse impact due to the obligor(s) failing to meet contractual obligation

- **Market Risk**: potential that the value of a holding or position (on or off balance sheet) is adversely impacted due to changes in markets factors. Key markets factors include:
  - Interest rate
  - Equity prices
  - FX rates

- **Liquidity Risk**: can be of two principal types
  - potential inability to honor financial commitments or to procure funds at reasonable rates and required maturities; and or
  - potential inability to liquidate positions or holdings as desired

Risk: is as important as 'Return' in formulating investment strategy

- Most discussions are usually around defining and achieving a target return. Discussions on the appropriate level of risk are usually limited and poorly defined.
- Defining a performance target in terms of 'returns' alone is not only incomplete but could also lead to inaccurate inferences and undesired outcomes.
- Ignoring or not factoring the risks entailed in generating a return can be a costly a mistake.
- The flaw is more pronounced if comparative performance (say, versus peers) is measured solely in terms of returns. **The same return can be achieved by taking varying levels of risk.**
- The objective should be to: achieve target return by taking the lowest level of risk; or maximize the return for a desired risk level.

APFC Risk Appetite: methodology at APFC

- Risk appetite is defined *primarily* in terms of a 'Risk Tolerance Portfolio' (RTP). The RTP sets risk thresholds in terms of a portfolio comprising of public Equities and Bonds, in defined proportions.
- The allowable maximum risk level or risk appetite would be defined in terms of the following risk metrics (volatility and drawdowns as applied for the RTP):

Volatility

➢ Volatility (VaR): estimated annual standard deviation

Drawdown

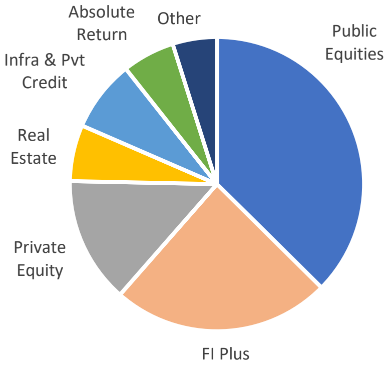
➢ Drawdown: estimated drawdown applying '2008/9 recession' stress scenario

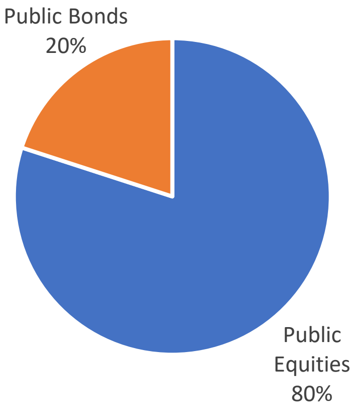
Liquidity

➢ In addition to capturing volatility and drawdown risks, liquidity risk also needs to be addressed. An additional threshold for minimum proportion of liquid assets is defined.

Risk Appetite: how it works

Risk of Actual Portfolio < Risk of RTP





The actual APFC portfolio can have any type and mix of asset classes subject to:

- ✓ Drawdowns <= that of RTP
- ✓ VaR (volatility) <= that of RTP
- ✓ Liquid Assets >= 40% of NAV

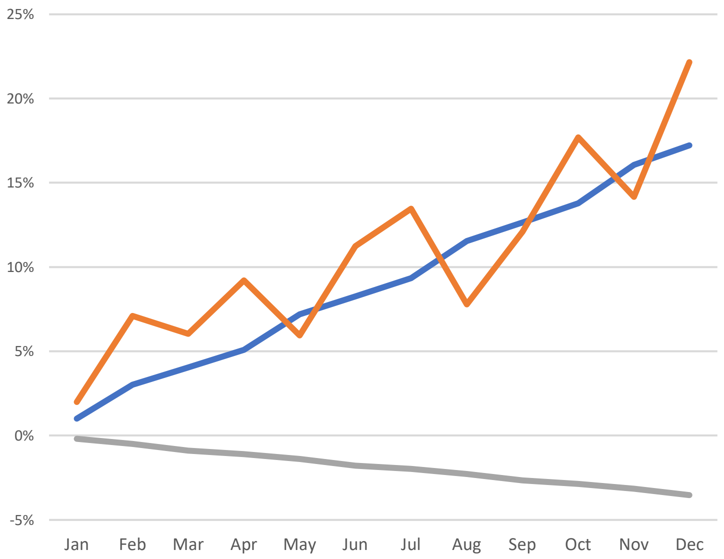
Value at Risk (VaR): assumptions and definition

Key Assumptions
- Risk = Volatility
- Value at Risk ("VaR") is a measure of risk (estimate of future loss in value), calculated based on historical volatility
- Normality of markets/factors

Definition
- VaR is defined in terms of a specified time horizon and confidence level.
- A VaR (1 year, 95%) of $7 on a $100 position means: the estimate of loss in value, if this position was held for a year, is $7, and this estimate has a 95% probability. In other words, there is only a 5% chance of the loss exceeding $7 over a year. It also implies that there is a high likelihood of losing up to $7 over the year.
- When computing VaR for more than one position (a portfolio), in addition to the volatility of individual positions, the **correlation** between the positions is also considered to capture the benefit of diversification

Methodology and Model
- Parametric approach, utilizing BlackRock Aladdin BFRE model

VaR: is one measure of risk (uncertainty)



Investment A
Cumul. Return : 22.2%
Volatility : 3.9%

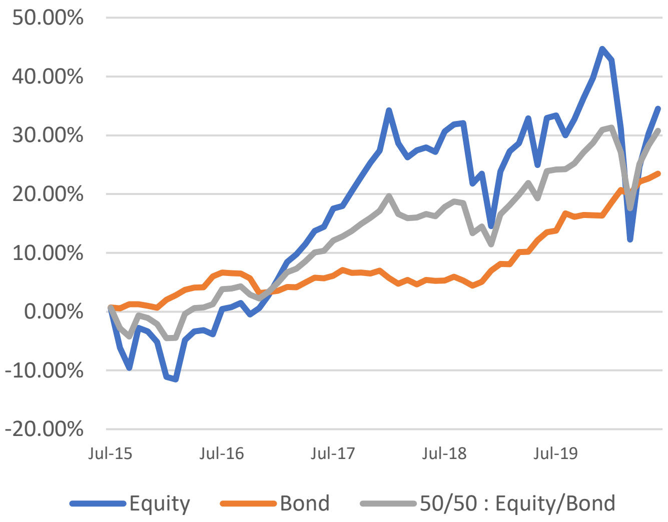
Investment B
Cumul. Return : 17.2%
Volatility : 0.5%

Investment C
Cumul. Return : (3.5%)
Volatility : 0.1%

- While seeking lowest volatility alone may not be most desirable, volatility is **a** reasonably good measure of risk - in terms of uncertainty
- Other forms of risk (like liquidity, credit, operational, etc.) are not always captured within volatility, and are important to consider
- VaR is effective in that it is a standardized measure, that can be aggregated across different asset classes and investment types
- While VaR has several shortcomings and incorporates simplifying assumptions, in the absence of a better alternative, it is a useful measure of risk.

VaR: correlations and diversification benefit

5-year index returns, ending June 2020



Equity: MSCI ACWI
Annualized Return : 10.4%
Volatility : 14.8%

Bond: US Agg
Annualized Return : 7.3%
Volatility : 3.1%

50% Bond + 50% Equity Portfolio
Annualized Return : 9.3%
Volatility : 7.6%

	VaR	
$100 Equity	$	14.8
$100 Bond	$	3.1

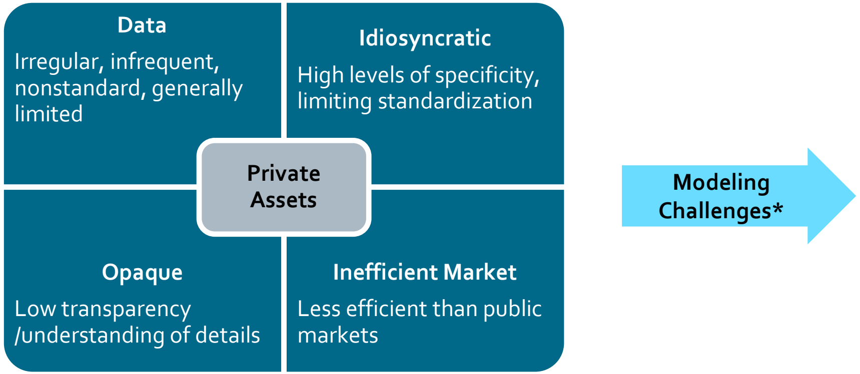
Correlation	
Equity	Bond
1.0	-0.5
-0.5	1.0

$200 Combined	$	15.1
Diversification Benefit	$	2.8

- Correlation is a coefficient that ranges from -1 to +1
- Given that the instances of +1 are rare, diversification almost always leads to lower risk (VaR) levels – possibly, not necessarily, lower returns as well
- Optimization is key

Private Assets: risk measurement challenges

- Most forward-looking risk estimation methodologies utilize information from historical data
- The accuracy of estimates depends on: timely, clean, comprehensive and regularly available data



Difficulty in
- quantifying risk for Private assets
- Aggregating and obtaining a 'complete' multi-asset picture of risk

- Improved modeling techniques, better technology, enhanced data sources and expanded resource allocation has led to significant progress in risk measurement for private assets – an evolving space with much more to come.

** These characteristics possibly contribute to potential return premiums as well, for the differentiated investor*

Risk Management: much more than math, models and even AI

- “Lies, damned lies and statistics”

- "All models are wrong, but some are useful‟

- There is no substitute for common sense, prudence, rigor and importantly, a **robust process**

Risk Management: a robust process helps

What is intuitive may not be true

Elements of a sound process

- Define and document both: return target and risk tolerance
- Bring in multiple perspectives – importantly, from non-promoters
- Challenge assumptions - Trust but verify
- Identify key drivers of return and risk to ensure it fits target
- Build and evaluate multiple scenarios – especially worst-case ones that stress risk drivers
- Articulate a monitoring and reporting framework

seek external expertise if required, it's almost always worth the cost

We are in the business of taking risks

Additional Q&A

December 19, 2024

Alaska Mental Health Trust Authority

Asset-Spending Study – Phase 1

Steve Center, CFA
Fund Sponsor Consulting

Julia Moriarty, CFA
Capital Markets Research

Agenda

- Executive summary
- Background
- Callan's capital market expectations
- Current situation and assumptions
- Analysis
  - Trust investment performance
  - Spend rate
  - Reserve level and risk of depletion
  - Inflation proofing
- Conclusions and recommendations

Executive Summary

- The Alaska Mental Health Trust Authority (the Trust) had approximately $1.0 billion in assets at June 30, 2024 (starting point for the analysis) with assets segregated into five main buckets managed by three different entities
  - Alaska Permanent Fund Corporation (APFC)
  - Department of Revenue (DOR)
  - General Fund and Other Non-Segregated Funds (GeFONSI) – managed by the DOR
  - Trust Land Office (TLO) – manages both lands and Commercial Real Estate (CRE) investments
- The current structure of the Trust is complicated with multiple portfolios managed by different entities, an intricate flow of funds between the various accounts and accounting items within the funds, and a complex spending policy
- The study is broken into two phases
  - Phase 1 presented here analyzes the Trust's investment program from a number of different angles with recommendations made with respect to the spend rate, reserve level, inflation proofing, and cash management, along with a review of the Investment performance and realized risk of the APFC, DOR, and the Commercial Real Estate (CRE) investments managed by the TLO
  - Phase 2 will address AMPS, asset allocation and rebalancing, investment guidelines and monitoring criteria for internal and external managers, and performance measurement for TLO capital projects

Phase 1 recommendations

- Consider raising the spend rate 50-75 basis points to between 4.75% and 5.00%
- Maintain the current reserve policy of 400% of spending split evenly between the APFC and DOR
  - The Trust might consider replenishing the reserves for prior amounts withdrawn to fund the original purchases of CRE
- Absent the APFC adopting an endowment asset/spending model, inflation proofing transactions should be mechanical and automatic so that they are more predictable and understandable

Background

Goal of the Asset-Spending Study

Focus is on the Trust's Investment Program

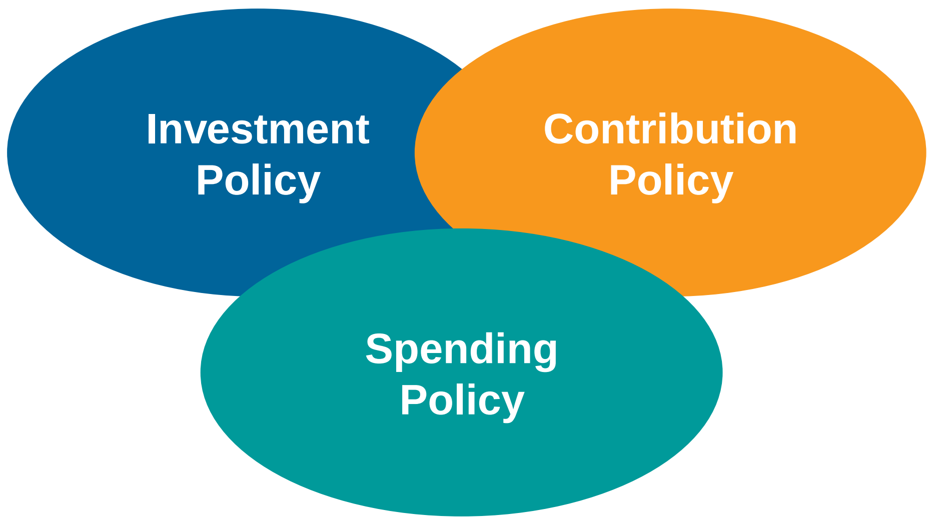
- The goal of this study is to analyze the Alaska Mental Health Trust Authority's investment program from a number of different angles with particular focus on the spending rate
- The spending policy is one of the three key components of a fund (along with the investment and contribution policies)
- Well-engineered spending policies consider:
  - A fund's goals and objectives
  - Intergenerational equity and purchasing power protection
  - Time horizon, rebalancing discipline, liquidity needs and more
- The appropriate spending policy should strike a balance between preservation/growth in the corpus and sustainable, stable distributions that result in intergenerational equity for beneficiaries
- The appropriate policy will vary by each fund's unique circumstances, preferences, and priorities
  - No "one-size-fits-all" solution exists
- The asset-spending study helps the Trust quantify the impact that different policies might have on relevant metrics

Three Key Policies

The best spending policy is determined in the context of the interaction of the three key policies that govern a fund

Investment Policy

- How will the assets supporting the mission be invested?
- How to inflation proof?
- What risk and return objectives?
- How to manage cash flows?



Contribution Policy

- What is the source of contributions?
- What level of contributions can be expected?

Spending Policy

What type of spending policy?

What level of spending?

Callan's Capital Market Expectations

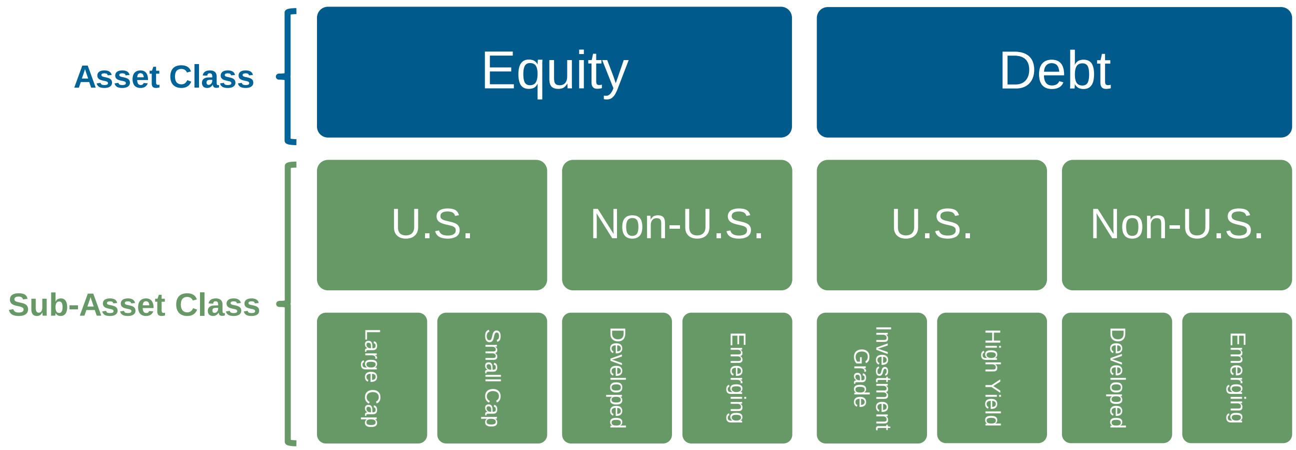
Capital Market Assumptions

Callan Capital Market Projection Process and Philosophy

- Underlying beliefs guide the development of the projections
  - An initial bias toward long-run averages
  - An awareness of risk premiums
  - A presumption that markets are ultimately clear and rational
- Reflect our belief that long-term equilibrium relationships between the capital markets and lasting trends in global economic growth are key drivers to setting capital market expectations
- Long-term compensated risk premiums represent “beta”—exposure to each broad market, whether traditional or “exotic,” with limited dependence on successful realization of alpha
- The projection process is built around several key building blocks
  - Advanced modeling at the individual asset class level (e.g., a detailed bond model, an equity model)
  - A path for interest rates and inflation
  - A cohesive economic outlook
  - A framework that encompasses Callan beliefs about the long-term operation and efficiencies of the capital markets

The Focus is on Broad Asset Classes

- Breakdowns between investment styles within asset classes (growth vs. value, core vs. core plus) are best addressed in a manager structure analysis
- Primary asset classes and important sub-asset classes include:
  - U.S. Stocks
  - U.S. Bonds
  - Non-U.S. Stocks
  - Non-U.S. Bonds
  - Real Assets
  - Private Equity/Debt
  - Hedge Funds
  - Cash



2024 Callan Capital Market Assumptions

Risk and Return

Summary of Callan's Long-Term Capital Market Assumptions (2024 - 2033)

Asset Class	Index	10-Year Geometric Return*	Standard Deviation
Equities			
Broad U.S. Equity	Russell 3000	7.65%	17.40%
Large Cap U.S. Equity	S&P 500	7.50%	17.00%
Small/Mid Cap U.S. Equity	Russell 2500	7.70%	22.00%
Global ex-U.S. Equity	MSCI ACWI ex USA	7.65%	21.40%
Developed ex-U.S. Equity	MSCI World ex USA	7.50%	20.15%
Emerging Market Equity	MSCI Emerging Markets	7.70%	25.60%
Fixed Income			
Short Duration Gov't/Credit	Bloomberg 1-3 Yr G/C	4.25%	2.40%
Core U.S. Fixed	Bloomberg Aggregate	5.25%	4.25%
Long Government/Credit	Bloomberg Long G/C	6.00%	11.70%
TIPS	Bloomberg TIPS	5.05%	5.40%
High Yield	Bloomberg High Yield	6.80%	11.75%
Global ex-U.S. Fixed	Bloomberg Gl Agg xUSD	3.15%	9.80%
Emerging Market Sovereign Debt	EMBI Global Diversified	6.35%	10.65%
Alternatives			
Core Real Estate	NCREIF ODCE	6.00%	14.00%
Private Infrastructure	MSCI Glb Infra/FTSE Dev Core 50/50	6.35%	15.20%
Private Equity	Cambridge Private Equity	8.75%	27.60%
Private Credit	Cambridge Senior Debt	7.40%	15.70%
Hedge Funds	Callan Hedge FoF Database	6.05%	8.20%
Commodities	Bloomberg Commodity	3.90%	18.05%
Cash Equivalents	90-Day T-Bill	3.00%	0.90%
Inflation	CPI-U	2.50%	1.60%

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

– Most capital market expectations represent passive exposure (beta only); however, return expectations for private market investments reflect active management premiums

– Return expectations are net of fees

2024 Callan Capital Market Assumptions

Correlation

Summary of Callan's Long-Term Capital Market Assumptions (2024 - 2033)

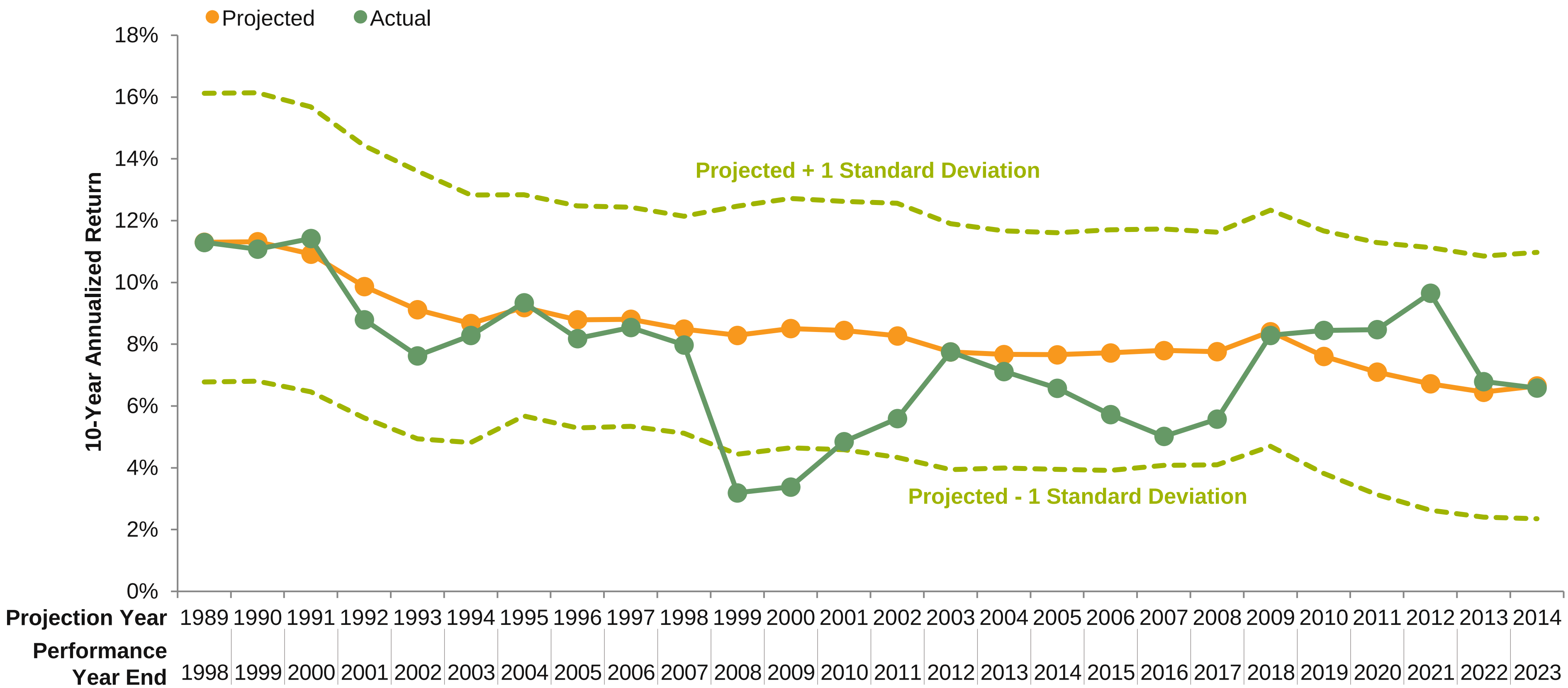
	Correlation Matrix	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1	Broad U.S. Equity	1.00																				
2	Large Cap U.S. Equity	1.00	1.00																			
3	Small/Mid Cap U.S. Equity	0.91	0.87	1.00																		
4	Global ex-U.S. Equity	0.79	0.75	0.86	1.00																	
5	Developed ex-U.S. Equity	0.73	0.70	0.81	0.99	1.00																
6	Emerging Market Equity	0.84	0.81	0.88	0.97	0.92	1.00															
7	Short Duration Gov't/Credit	0.04	0.05	0.01	0.02	0.04	-0.01	1.00														
8	Core U.S. Fixed	0.08	0.09	0.03	0.04	0.06	0.00	0.78	1.00													
9	Long Government/Credit	0.22	0.23	0.19	0.21	0.21	0.19	0.69	0.88	1.00												
10	TIPS	-0.03	-0.02	-0.05	-0.05	-0.04	-0.07	0.55	0.70	0.58	1.00											
11	High Yield	0.75	0.74	0.74	0.73	0.71	0.74	0.13	0.15	0.26	0.06	1.00										
12	Global ex-U.S. Fixed	0.12	0.12	0.11	0.13	0.14	0.10	0.50	0.50	0.52	0.40	0.16	1.00									
13	EM Sovereign Debt	0.61	0.59	0.60	0.63	0.61	0.65	0.17	0.23	0.32	0.11	0.62	0.17	1.00								
14	Core Real Estate	0.34	0.33	0.33	0.34	0.33	0.33	0.17	0.22	0.22	0.12	0.30	0.14	0.22	1.00							
15	Private Infrastructure	0.47	0.47	0.47	0.46	0.45	0.47	0.14	0.18	0.24	0.08	0.34	0.18	0.32	0.65	1.00						
16	Private Equity	0.80	0.79	0.77	0.78	0.76	0.76	-0.04	-0.04	0.11	-0.12	0.55	0.07	0.44	0.46	0.52	1.00					
17	Private Credit	0.68	0.67	0.67	0.67	0.64	0.68	0.04	0.06	0.17	-0.05	0.55	0.11	0.47	0.26	0.27	0.65	1.00				
18	Hedge Funds	0.59	0.60	0.50	0.50	0.50	0.50	0.28	0.39	0.42	0.23	0.50	0.24	0.47	0.24	0.31	0.34	0.47	1.00			
19	Commodities	0.20	0.20	0.20	0.20	0.20	0.20	-0.04	-0.05	-0.03	0.00	0.18	0.05	0.15	0.16	0.15	0.16	0.14	0.17	1.00		
20	Cash Equivalents	-0.03	-0.02	-0.07	-0.08	-0.08	-0.08	0.27	0.16	0.09	0.14	-0.03	0.10	-0.02	0.02	-0.04	-0.04	-0.04	0.00	-0.02	1.00	
21	Inflation	0.00	0.00	0.02	0.01	0.00	0.02	-0.20	-0.22	-0.27	0.25	-0.03	-0.12	-0.04	0.20	0.10	0.04	-0.04	-0.01	0.35	0.02	0.02

- Relationships between asset classes are as important as standard deviation
- To determine portfolio mixes, Callan employs mean-variance optimization
- Return, standard deviation, and correlation determine the composition of efficient asset mixes

Actual Returns versus Callan Projections

Projection Years 1989–2014

Historical Comparison: Actual Returns vs. Callan Capital Markets Projections
Portfolio (60% Equity, 30% Fixed, 10% Real Estate)



- Our projections are generally within one standard deviation of the actual return experienced
- The glaring exceptions are the 10-year periods ended in 2008 and 2009 which contained not one but two major collapses in the equity market: the Dot-Com Bubble in 2001-02 and the Global Financial Crisis in 2008

Current Situation and Assumptions

Current Situation

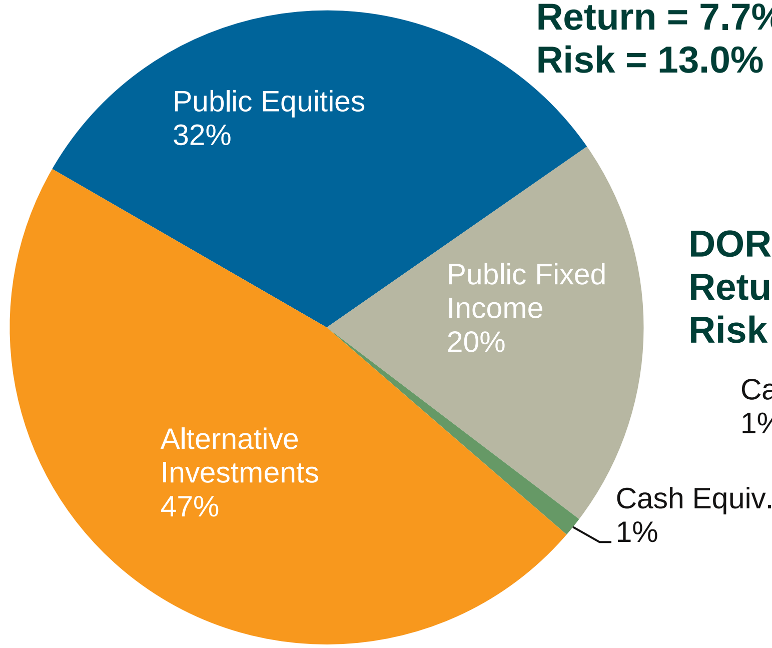
Observations

- The Trust had approximately $1.0 billion in assets at June 30, 2024 (starting point for the analysis)
  – $830 million in liquid assets (APFC, DOR, and GeFONSI) which is the focus of the analysis that follows
- Assets are segregated into five main buckets (APFC, DOR, GeFONSI, Commercial Real Estate, and Lands) managed by three different entities
  – The Alaska Permanent Fund Corporation manages the APFC assets
  – The Department of Revenue manages the DOR investment portfolio and GeFONSI
  – The Trust Land Office manages the Trust's Land investments and Commercial Real Estate holdings
- The spending policy contains six elements – 4.25% of the 4-year average market values at the APFC and DOR, 2-year averages of lapsed funds and spendable income generated by the TLO, interest generated in the GeFONSI accounts, and unobligated prior year funds
- Contributions come in the form of principal and spendable income from TLO-managed assets
- The current structure of the Trust is complicated with multiple portfolios managed by different entities, an intricate flow of funds between the various accounts and accounting items within the funds, and a complex spending policy

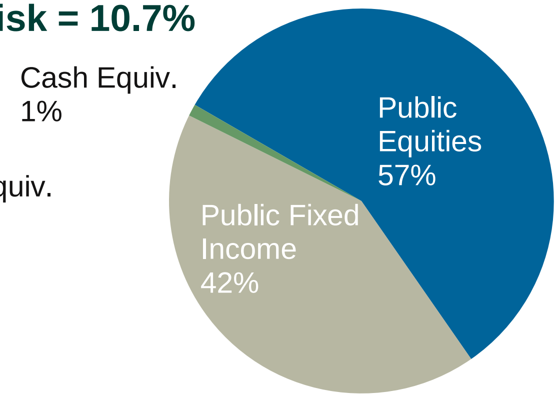
Policy Allocations

- The Trust's assets are shown here along with each portfolio's 10-year return and risk
  - Expected return/risk for APFC, DOR, GeFONSI, and Lands
  - Historical return/risk for CRE
- APFC assets account for 74% of total assets as of June 30, 2024
  - 89% of liquid assets
- APFC's policy allocation is expected to generate a higher return than the other liquid allocations, albeit with greater risk

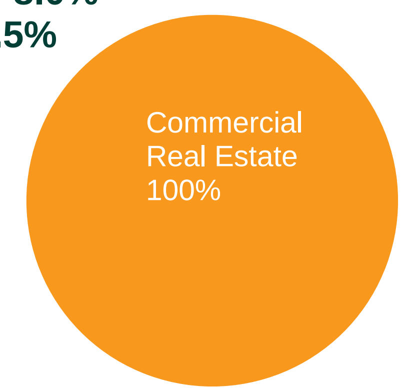
APFC ($735 Million; 73.1%)
Return = 7.7%
Risk = 13.0%



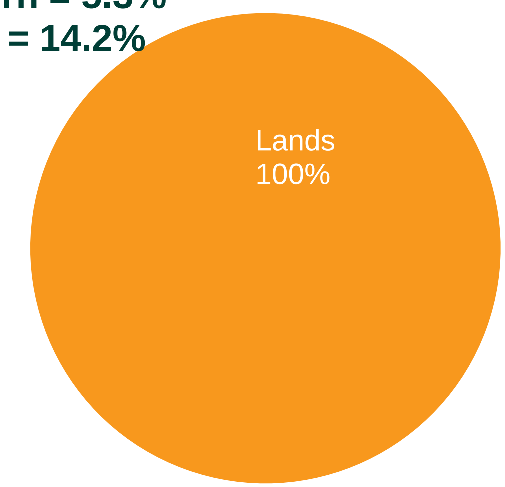
DOR ($54 Million; 5.4%)
Return = 7.2%
Risk = 10.7%



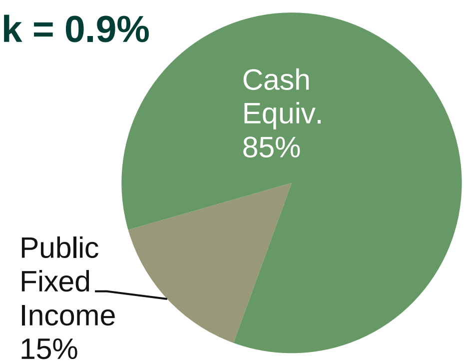
CRE ($60 Million; 6.0%)
Return = 8.0%
Risk = 5.5%



Lands[1] ($115 Million; 11.4%)
Return = 5.3%
Risk = 14.2%

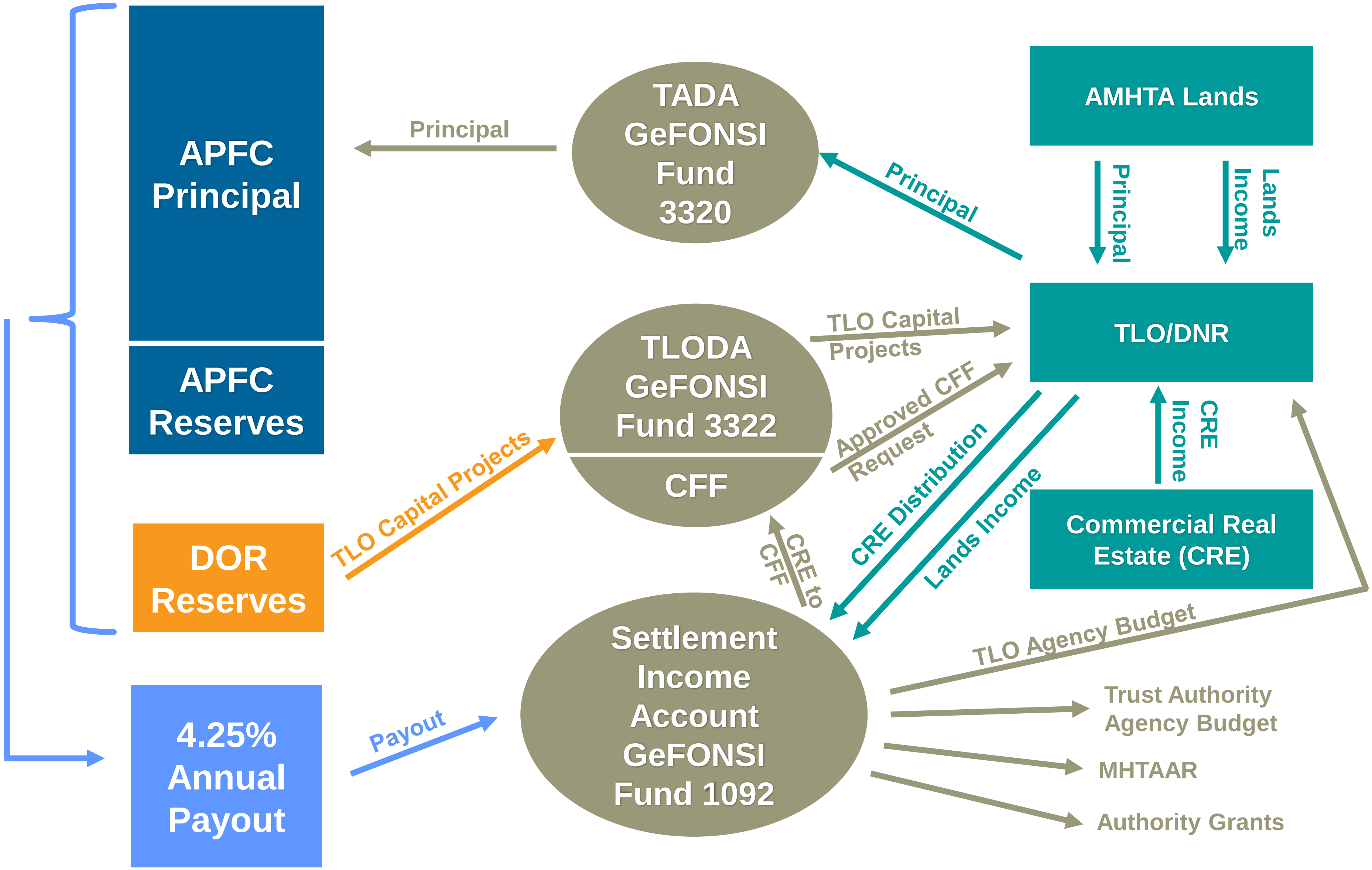


GeFONSI ($42 Million; 4.1%)
Return = 3.2%
Risk = 0.9%



[1]Land valuation and return estimates based upon discounted cash flow analysis utilizing Trust Land Office income projections. Risk shown above reflects Callan's 2024 long-term capital market expectation for institutional real estate investments.

AMHTA Flow of Funds



TADA = Trust Authority Development Account; TLODA = Trust Land Office Development Account; CFF = Central Facility Fund; MHTAAR = Mental Health Trust Authority Authorized Receipts (also known as grants to SOA agencies)

Spending and Reserve Policies

4.25% of the 4-Year Average APFC Market Value ended FY22

+

4.25% of the 4-Year Average DOR BR Market Value ended FY22

+

2-Year Average of Lapsed Appropriations ended FY22

+

2-Year Average of Spendable Income (TLO) ended FY22

+

Interest Income (GeFONSI) FY23

+

Unobligated Prior Year Funds FY24

Available for FY25 Spending

- The funds available for **spending** consist of six elements
  - 4.25% of the 4-year average APFC fiscal year-end market value
  - 4.25% of the 4-year average DOR BR fiscal year-end market value
  - 2-year average of lapsed appropriations (unspent funds from prior funding authorizations)
  - 2-year average of spendable income generated by the TLO
  - One year of interest generated in the GeFONSI accounts
  - Unobligated funds from the prior fiscal year
- The Trust employs a **reserve policy** to ensure funds are available for spending with a reasonable degree of certainty
  - The targeted reserve level equals 400% of current year spending
  - Reserve assets are split equally between the APFC and the DOR
  - Funds are drawn from the APFC reserve first

Contributions: TLO Principal and Spendable Income

Principal Projection					
Fiscal Year	Timber	Minerals & Energy	Surface	PRI	Total
2025	$912,135	$1,500,000	$5,503,000	$0	$7,915,135
2026	$510,000	$1,200,000	$4,253,000	$0	$5,963,000
2027	$1,275,000	$1,200,000	$4,253,000	$0	$6,728,000
2028	$1,275,000	$1,200,000	$4,253,000	$0	$6,728,000
2029	$446,250	$1,200,000	$4,253,000	$0	$5,899,250
2030	$446,250	$1,200,000	$4,253,000	$0	$5,899,250
2031	$446,250	$1,200,000	$4,253,000	$0	$5,899,250
2032	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2033	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2034	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2035	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2036	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2037	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
2038	$21,250	$1,200,000	$4,253,000	$0	$5,474,250
Beyond	**Flat**	**Flat**	**Flat**	**Flat**	**Flat**

Spendable Income					
Fiscal Year	Timber	Minerals & Energy	Surface	PRI	Total
2025	$160,965	$900,000	$2,698,823	$334,000	$4,093,788
2026	$90,000	$900,000	$2,818,323	$334,000	$4,142,323
2027	$225,000	$900,000	$2,818,323	$338,175	$4,281,498
2028	$225,000	$900,000	$2,818,323	$342,402	$4,285,725
2029	$78,750	$900,000	$2,818,323	$346,682	$4,143,755
2030	$78,750	$900,000	$2,818,323	$351,016	$4,148,089
2031	$78,750	$900,000	$2,818,323	$355,403	$4,152,476
2032	$3,750	$900,000	$2,818,323	$359,846	$4,081,919
2033	$3,750	$900,000	$2,818,323	$364,344	$4,086,417
2034	$3,750	$900,000	$2,818,323	$368,898	$4,090,971
2035	$3,750	$900,000	$2,818,323	$373,510	$4,095,583
2036	$3,750	$900,000	$2,818,323	$378,178	$4,100,251
2037	$3,750	$900,000	$2,818,323	$382,906	$4,104,979
2038	$3,750	$900,000	$2,818,323	$387,692	$4,109,765
Beyond	**Flat**	**Flat**	**+Inflation**	**+1/2 Inflation**	**+<Inflation**

Source: Trust Land Office

- Principal and spendable income flows were obtained from the Trust Land Office (TLO)
  - Principal inflows are assumed to remain constant beyond the TLO projection
  - Spendable income projections for Timber and Minerals & Energy are assumed to remain constant beyond the TLO projection while Surface and Program-Related Investments ("PRI") rise by inflation and ½ inflation per year, respectively
  - Proceeds from the sale of Commercial Real Estate ("CRE") properties are excluded from the analysis
- In addition to this base-case projection, a poor TLO outcome was constructed and modeled
  - Created a worse-case scenario for each of the four land categories based on history
  - Timber worse-case equals 25% of base
  - Other categories worse-case equals 50% of base
  - Assuming all four would not experience their worse-case concurrently, poor scenario set equal to 1/3 base-case and 2/3 worse-case
- The TLO projections do not include forecasted revenue or expenditures related to any current or future capital projects

Population Projection

Population Change			
Fiscal Year	Low	Middle	High
2025	-0.51%	0.19%	0.99%
2026	-0.54%	0.17%	0.97%
2027	-0.57%	0.14%	0.95%
2028	-0.60%	0.12%	0.93%
2029	-0.63%	0.09%	0.91%
2030	-0.66%	0.07%	0.89%
2031	-0.70%	0.05%	0.87%
2032	-0.72%	0.02%	0.85%
2033	-0.75%	0.00%	0.83%
2034	-0.78%	-0.02%	0.82%
2035	-0.81%	-0.04%	0.80%
2036	-0.83%	-0.06%	0.79%
2037	-0.86%	-0.08%	0.77%
2038	-0.89%	-0.10%	0.76%
2039	-0.91%	-0.12%	0.74%
2040	-0.94%	-0.14%	0.72%
2041	-0.96%	-0.16%	0.71%
2042	-0.99%	-0.18%	0.70%
2043	-1.01%	-0.20%	0.68%
2044	-1.03%	-0.21%	0.67%

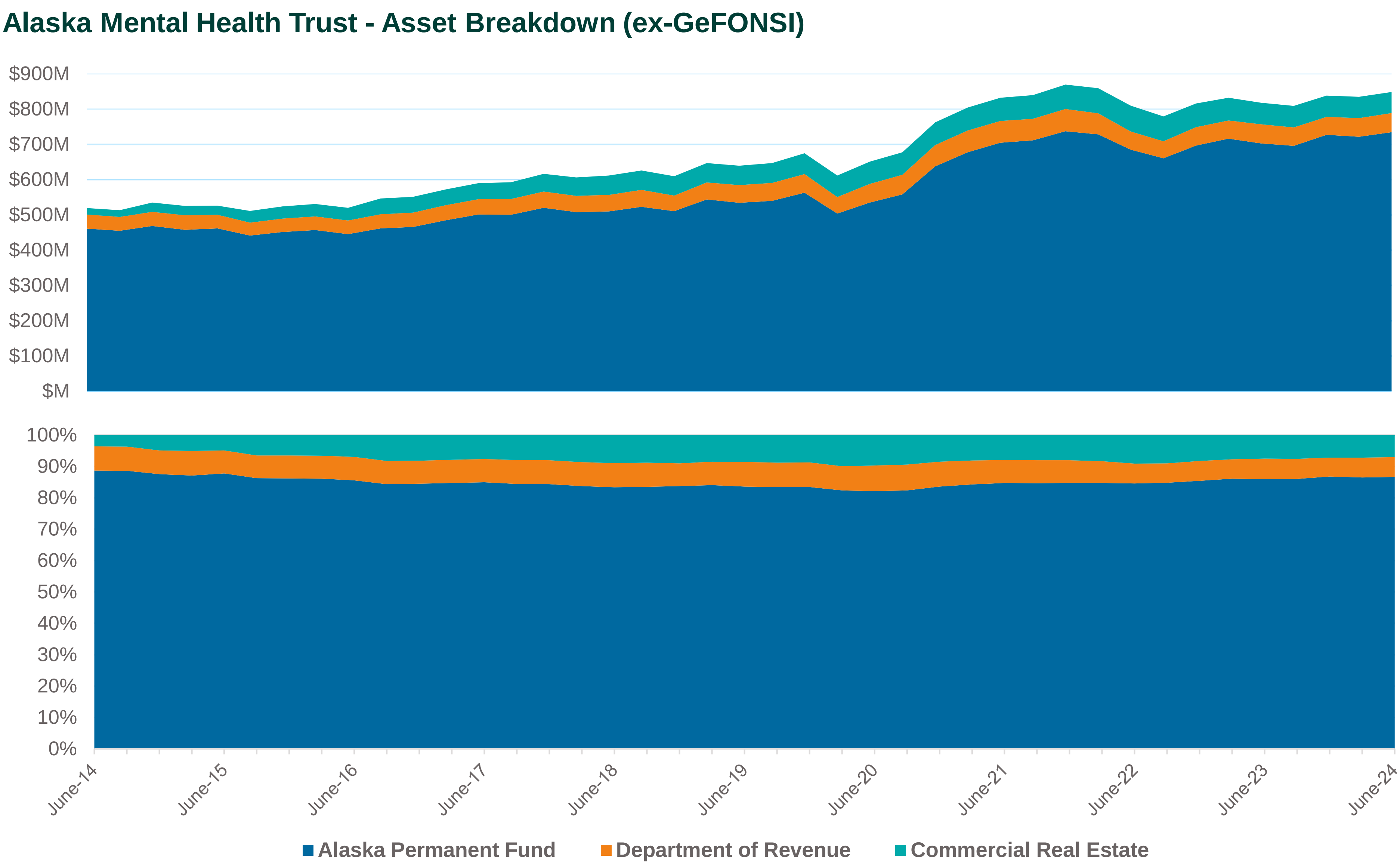
Source: Alaska Department of Labor and Workforce Development

- Population inflation, in addition to price inflation, is required in order to determine whether the Trust is meeting the goal of intergenerational equity
- Population growth rates were obtained from the Alaska Department of Labor and Workforce Development
- The “Middle” path was employed in the modeling

Trust Investment Performance

AMHTA Investment Mix (ex-GeFONSI)

Fiscal Years 2014-2024

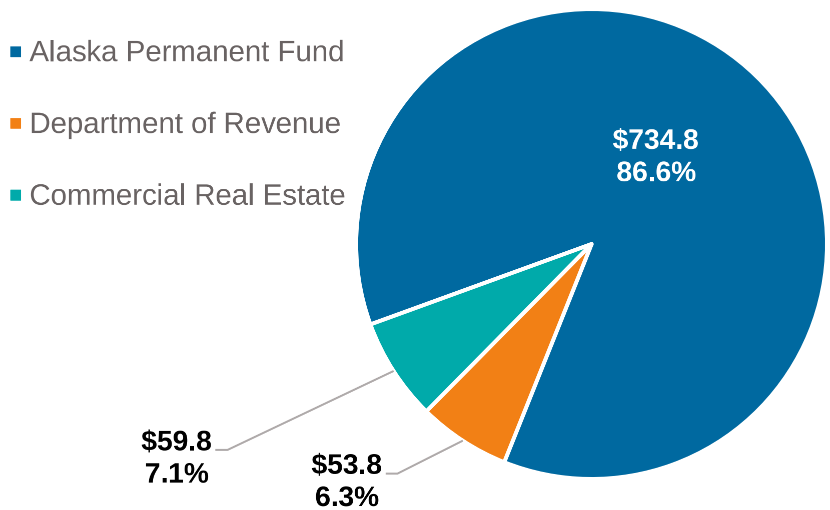


Historical Annualized Performance and Investment Mix

Alaska Mental Health Trust Authority - Historical Investment Performance
As of June 30, 2024

	1 Year	3 Years	5 Years	10 Years
AMHTA Total Fund ex-GeFONSI	7.54%	3.39%	7.79%	7.58%
Alaska Permanent Fund Corporation (net)	7.90%	3.90%	8.24%	7.69%
APFC Performance Benchmark	*9.46%*	*3.89%*	*7.91%*	*6.97%*
Department of Revenue (net)	13.27%	3.12%	7.11%	6.59%
DoR Performance Benchmark	*12.98%*	*2.82%*	*6.81%*	*6.28%*
Commercial Real Estate[1]	-1.35%	-1.89%	3.58%	7.97%
NCREIF Office	*-14.41%*	*-8.17%*	*-3.63%*	*2.11%*
NCREIF Total	*-5.53%*	*2.33%*	*3.39%*	*6.07%*

AMHTA - FY24 Ending Balances (in Millions)



SOURCE: AMHTA Annual Reports, Alaska Permanent Fund Corporation, Alaska Department of Revenue, Callan
Returns over one year are annualized. APFC and DoR Returns are shown net of investment management fees. CRE returns are shown gross of expenses.
[1]Returns are estimated using the Modified Deitz method, assuming mid-year distributions and actual property purchase dates . CRE net distributions used for return calculations.

Fiscal Year Performance

Alaska Mental Health Trust Authority - Fiscal Year Investment Performance

Years Ending June 30

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
AMHTA Total Fund ex-GeFONSI	7.54%	3.68%	-0.88%	26.86%	3.78%	6.17%	11.81%	12.07%	1.52%	5.65%
Alaska Permanent Fund Corporation (net)	7.90%	5.18%	-1.17%	29.73%	2.10%	6.34%	10.84%	12.89%	0.65%	5.44%
APFC Performance Benchmark	*9.57%*	*5.73%*	*-3.12%*	*28.11%*	*2.02%*	*7.41%*	*8.26%*	*11.23%*	*2.05%*	*1.35%*
Department of Revenue (net)	13.27%	11.61%	-13.27%	21.36%	5.96%	6.84%	7.86%	10.92%	1.33%	3.68%
DoR Performance Benchmark	*12.99%*	*11.24%*	*-13.42%*	*21.28%*	*5.42%*	*7.15%*	*7.39%*	*11.36%*	*0.57%*	*2.40%*
Commercial Real Estate[1]	-1.35%	-15.93%	13.87%	6.73%	18.30%	3.78%	26.07%	4.30%	15.82%	14.26%
NCREIF Office	*-14.41%*	*-14.53%*	*5.85%*	*3.25%*	*3.97%*	*6.79%*	*6.55%*	*5.57%*	*9.31%*	*12.85%*
NCREIF Total	*-5.53%*	*-6.60%*	*21.45%*	*7.37%*	*2.69%*	*6.51%*	*7.19%*	*6.97%*	*10.64%*	*12.98%*

SOURCE: AMHTA Annual Reports, Alaska Permanent Fund Corporation, Alaska Department of Revenue, Callan
APFC and DoR Returns are shown net of investment management fees. CRE returns are shown gross of expenses.
[1]Returns are estimated using the Modified Deitz method, assuming mid-year distributions and actual property purchase dates. CRE net distributions used for return calculations.

Commercial Real Estate Performance

Income and Appreciation Return Details – Gross of Expenses

Alaska Mental Health Trust Authority - Commercial Real Estate Investment Performance

As of June 30, 2024

	1 Year	3 Years	5 Years	10 Years
Commercial Real Estate[1]				
Income Return	1.16%	1.33%	1.84%	3.03%
Appreciation Return	-2.51%	-3.14%	1.83%	5.02%
NCREIF Office				
Income Return	5.66%	4.85%	4.68%	4.67%
Appreciation Return	-19.23%	-12.57%	-8.04%	-2.48%
NCREIF Total				
Income Return	4.59%	4.22%	4.25%	4.52%
Appreciation Return	-9.78%	-1.84%	-0.83%	1.51%

Fiscal Years Ending June 30

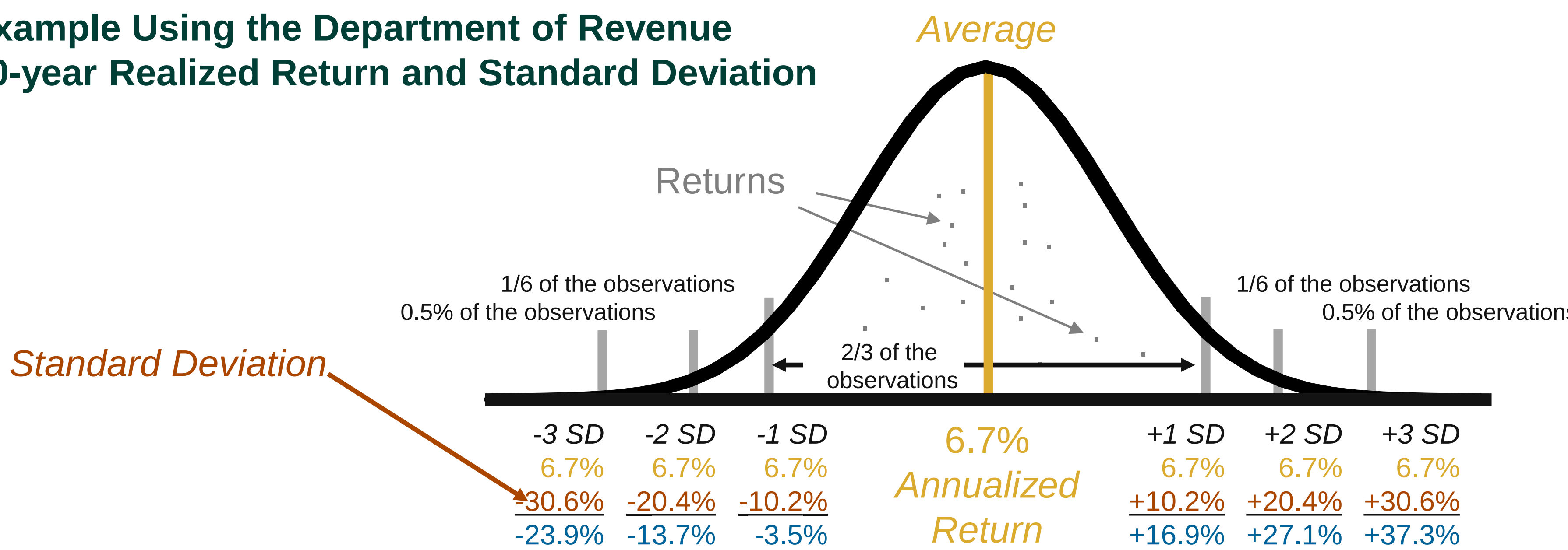
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Commercial Real Estate[1]										
Income Return	1.16%	0.48%	2.35%	2.19%	3.04%	3.78%	4.09%	4.16%	4.28%	4.90%
Appreciation Return	-2.51%	-16.41%	11.52%	4.54%	15.26%	0.00%	21.98%	0.14%	11.53%	9.36%
NCREIF Office										
Income Return	5.66%	4.52%	4.38%	4.47%	4.40%	4.46%	4.64%	4.49%	4.63%	5.03%
Appreciation Return	-19.23%	-18.41%	1.43%	-1.18%	-0.41%	2.25%	1.85%	1.05%	4.52%	7.54%
NCREIF Total										
Income Return	4.59%	3.99%	4.10%	4.19%	4.40%	4.53%	4.64%	4.69%	4.88%	5.20%
Appreciation Return	-9.78%	-10.27%	16.85%	3.08%	-1.65%	1.91%	2.46%	2.20%	5.56%	7.49%

SOURCE: AMHTA Annual Reports,
Returns over one year are annualized. CRE returns are shown gross of expenses.
[1]Returns are estimated using the Modified Deitz method, assuming mid-year distributions and actual property purchase dates . CRE net distributions used for income return calculations.

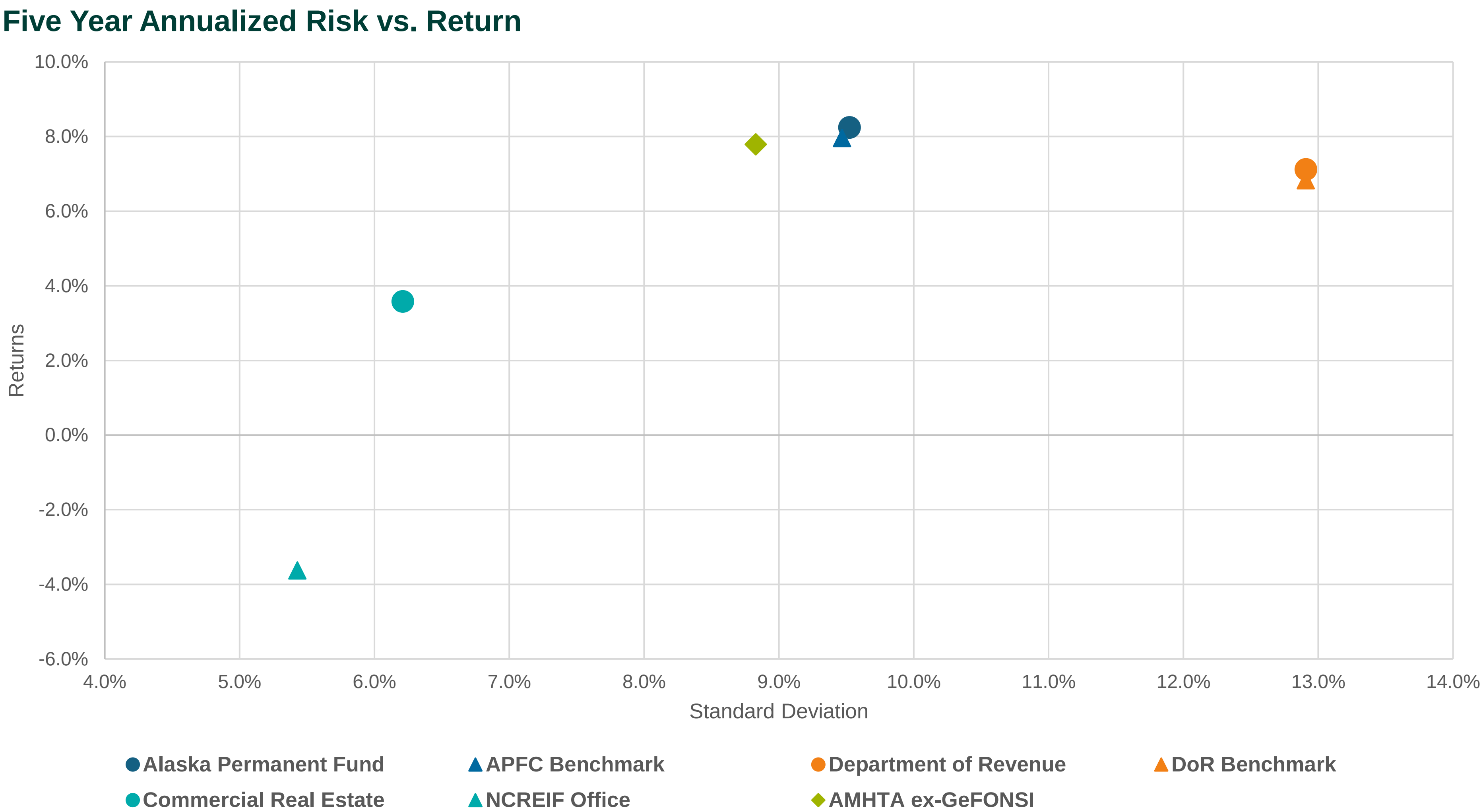
Standard Deviation as a Measure of Risk

- Risk is measured by the standard deviation of returns, which can be thought of as the average difference from the average return over a period of time
  - If there are large deviations from the average, the standard deviation is high—meaning returns have historically been very volatile
- Calculation of standard deviation includes returns both above and below the average

Example Using the Department of Revenue 10-year Realized Return and Standard Deviation

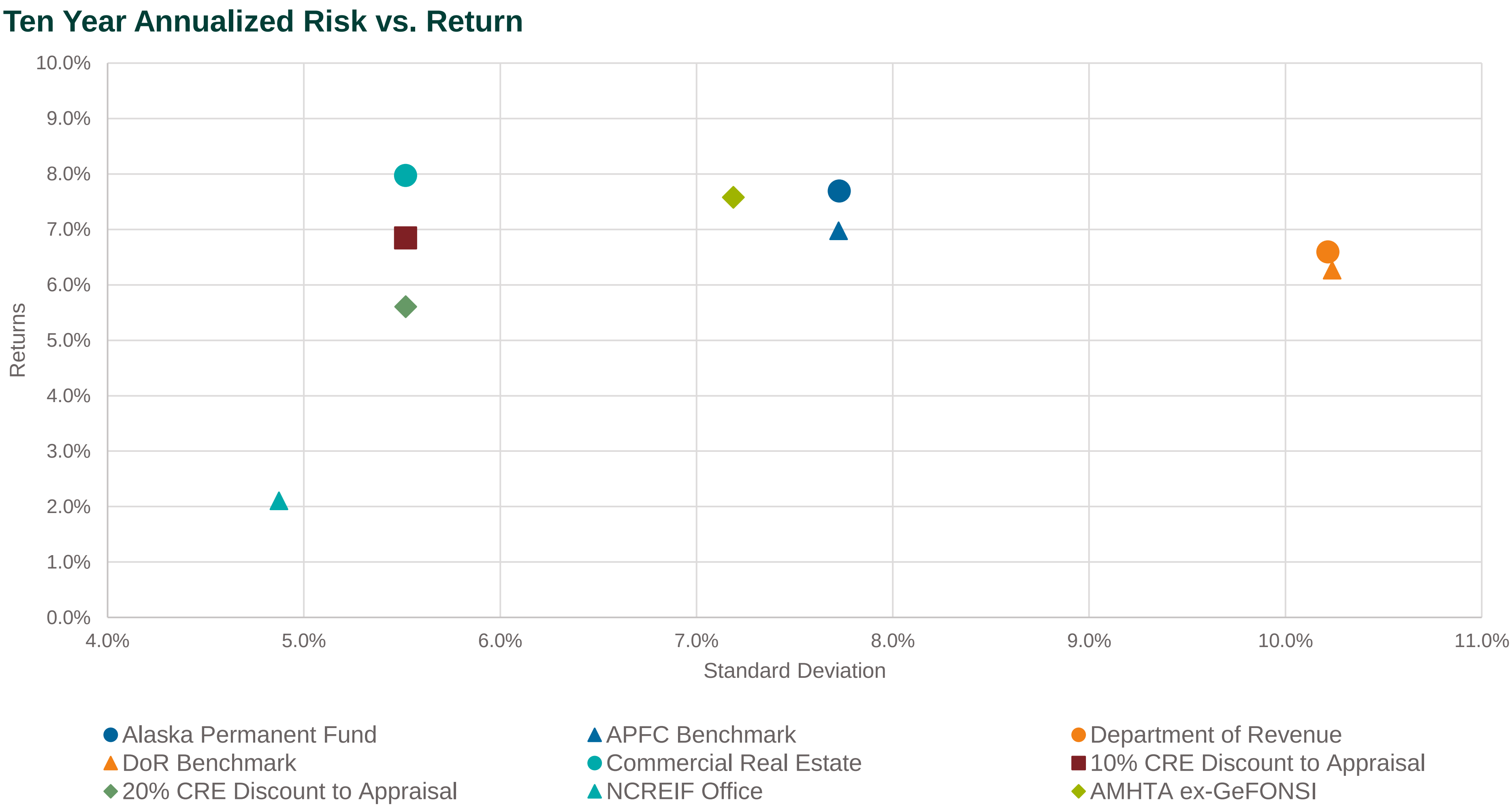


Five Year Risk Analysis



	Alaska Permanent Fund	APFC Benchmark	Department of Revenue	DoR Benchmark	Commercial Real Estate	NCREIF Office	AMHTA ex-GeFONSI
Standard Deviation	9.53%	9.47%	12.91%	12.91%	6.21%	5.43%	8.83%
Return	8.24%	7.96%	7.11%	6.83%	3.58%	-3.63%	7.79%

Ten Year Risk Analysis

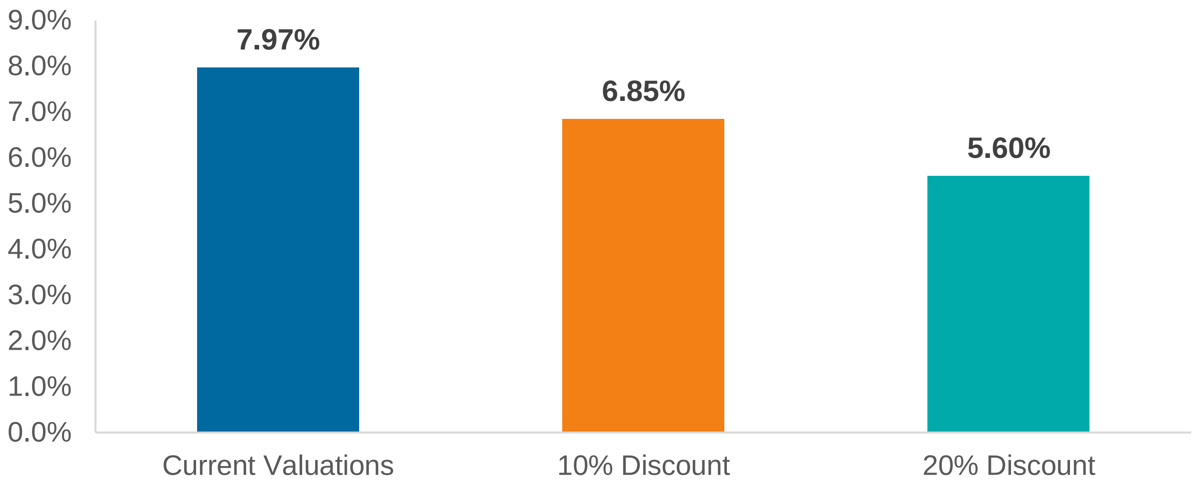


	Alaska Permanent Fund	APFC Benchmark	Department of Revenue	DoR Benchmark	Commercial Real Estate	NCREIF Office	AMHTA ex-GeFONSI
Standard Deviation	7.73%	7.72%	10.22%	10.24%	5.52%	4.87%	7.19%
Return	7.69%	6.97%	6.59%	6.26%	7.97%	2.11%	7.58%

Notes on the Commercial Real Estate Return Calculations

- The performance of the Commercial Real Estate (CRE) investments presented in this analysis is significantly influenced by the annual valuation model used by the Trust Land Office
- Unlike the CRE investments, the APFC and DoR portfolios are valued monthly, providing additional data for accurate time-weighted rate of return calculations
- The annual valuation of the CRE investments also results in lower historical standard deviation figures
- Furthermore, the ultimate performance of the CRE investments will be greatly affected by the final sale prices of any assets sold.
- Currently, the CRE portfolio is valued at approximately $59.8 million, but any asset sales may occur at prices well below this valuation.
  - The table below demonstrates the impact on the 10-year CRE return estimate if the portfolio were to transact at a 10% or 20% discount to the June 30, 2024 portfolio valuation

Impact of Discounted Sales on 10-Year Return



SOURCE: AMHTA Annual Reports, Alaska Permanent Fund Corporation, Alaska Department of Revenue, Callan
Returns over one year are annualized. APFC and DoR Returns are shown net of investment management fees. CRE returns are shown gross of expenses.
[1]Returns are estimated using the Modified Deitz method, assuming mid-year distributions and actual property purchase dates . CRE net distributions used for return calculations.

Spend Rate

Spend Rate

Observations and Recommendation

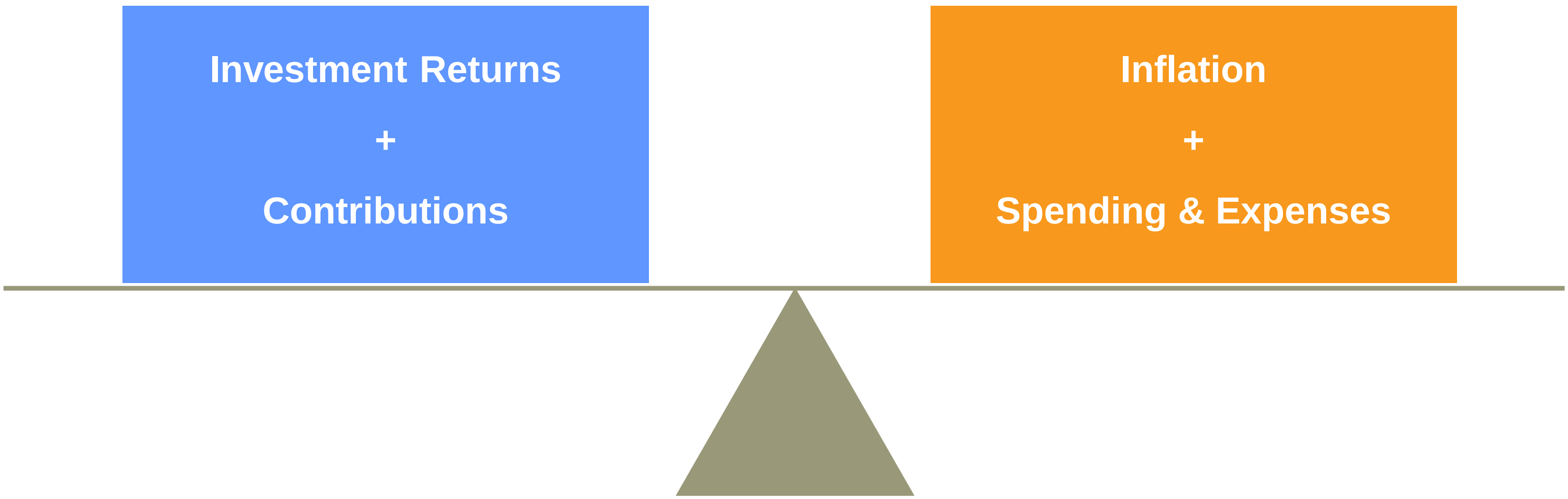
- The current 4.25% spend rate is expected to result in rising real (inflation adjusted) market values and spending levels over time
- Even under a poor TLO contribution scenario with $5 million in annual TLO capital project requests into perpetuity plus the $12 million Trust Authority Building (TAB) capital project funded over the first three years of the projection, a 4.25% spend rate is expected to result in modestly higher spending over the 20-year projection period in today's dollars
- Given the above, only higher spend rates were examined
- A 4.75% to 5.00% spend rate is an appropriate range given the assumptions employed
  - If long-term inflation expectations rise above 2.5% and/or return expectations fall below 7.7%, a lower spend rate would be recommended

Recommendation: Consider raising the spend rate to 4.75% or 5.00%

- The recommended spend rate increased 50-75 basis points since the last study in 2022 due to the following:
  - Expected returns are higher now (increases the recommended spend rate)
  - Price inflation is also higher now (decreases the recommended spend rate), but the increase is less than the return increase
  - Population inflation is lower now (increases the recommended spend rate)
  - TLO inflows are lower now (decreases the recommended spend rate)

“Equation of Balance”

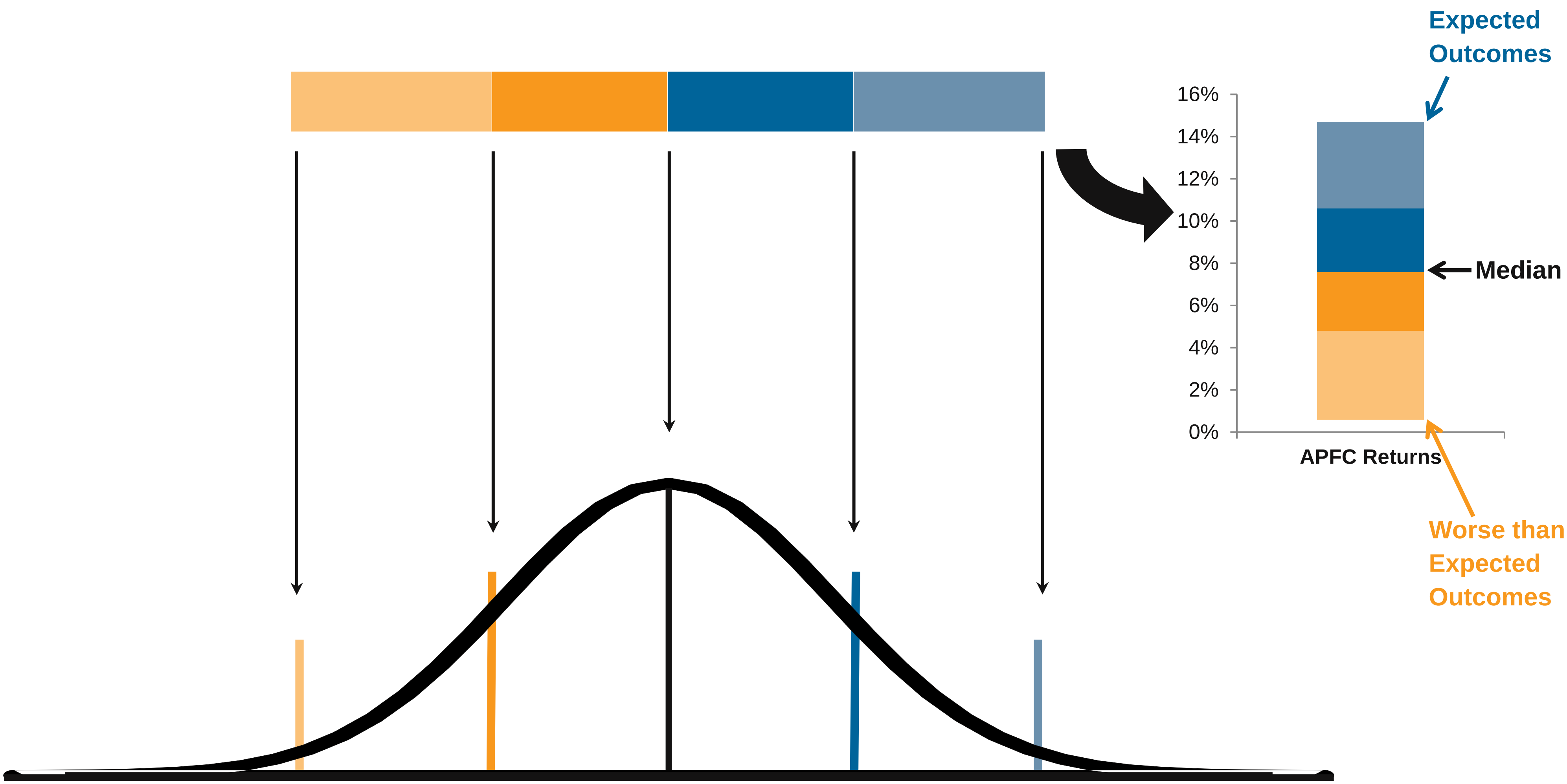
Required to ensure intergenerational equity and preserve the real spending power of the corpus



- Intergenerational equity ensures that current and future beneficiaries of the AMHTA benefit from the Trust to the same degree
  - Overspending today benefits current residents at the expense of future residents
  - Underspending today benefits future residents at the expense of current residents
- Investment returns and price inflation are based on Callan forecasts
- Contributions, spending, and expenses are based on AMHTA and TLO/DNR (Department of Natural Resources) data/forecasts while population inflation is derived from the Alaska Department of Labor and Workforce Development
  - TLO development projects were excluded from the analysis that follows due to the uncertainty surrounding the projections

How to Read a “Floating Bar Chart”

Example: APFC Projected Returns

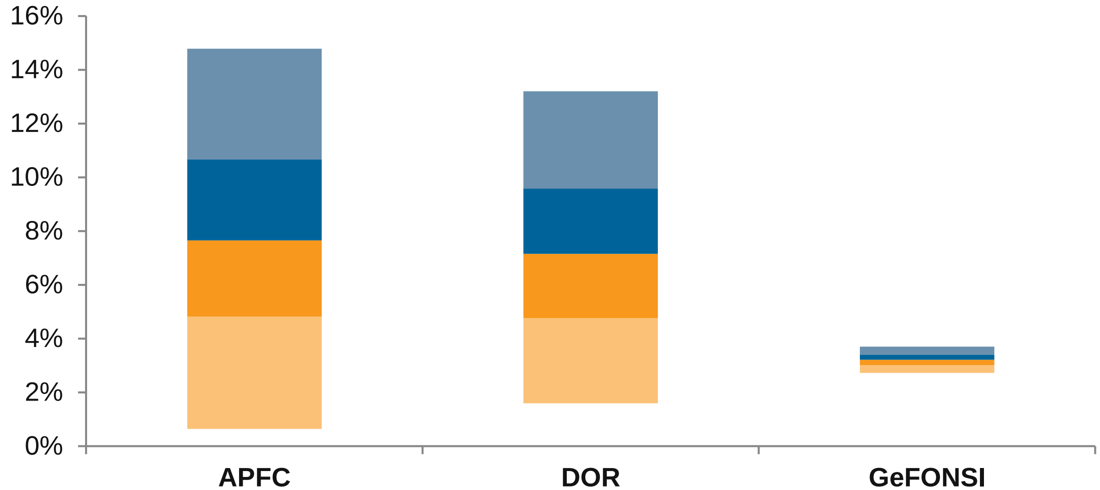


Percentile	95th	75th	50th	25th	5th
Return	0.6%	4.8%	7.7%	10.7%	14.8%

Median (“Expected Outcome”)

Projected Returns

10 Years through June 30, 2034

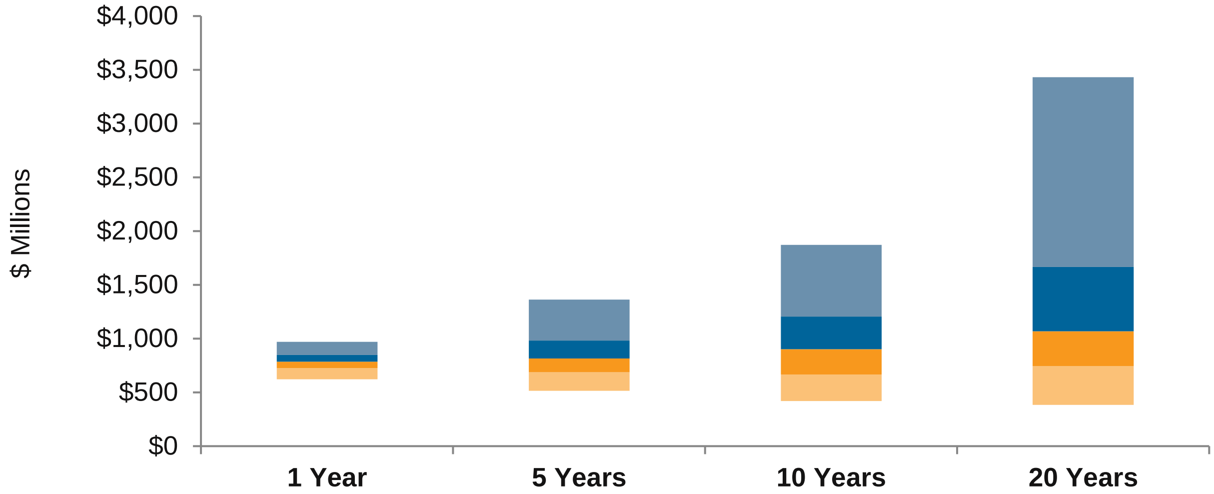


	APFC	DOR	GeFONSI
5th Percentile	14.8%	13.2%	3.7%
25th Percentile	10.7%	9.6%	3.4%
50th Percentile	7.7%	7.2%	3.2%
75th Percentile	4.8%	4.8%	3.0%
95th Percentile	0.6%	1.6%	2.7%

- Formulating expectations of returns and the likelihood of their occurrence - median returns reflect performance in average markets while 95th percentile returns show the performance at the worst 5% of outcomes
- While the APFC portfolio is expected (median outcome) to generate the greatest return over the next 10 years it does so with greater volatility or risk
- The GeFONSI portfolio which is 85% cash has a very narrow range of projected outcomes

Trust Growth: Adjusted for Price and Population Inflation

Real Market Values over Time – 4.25% Spend Rate

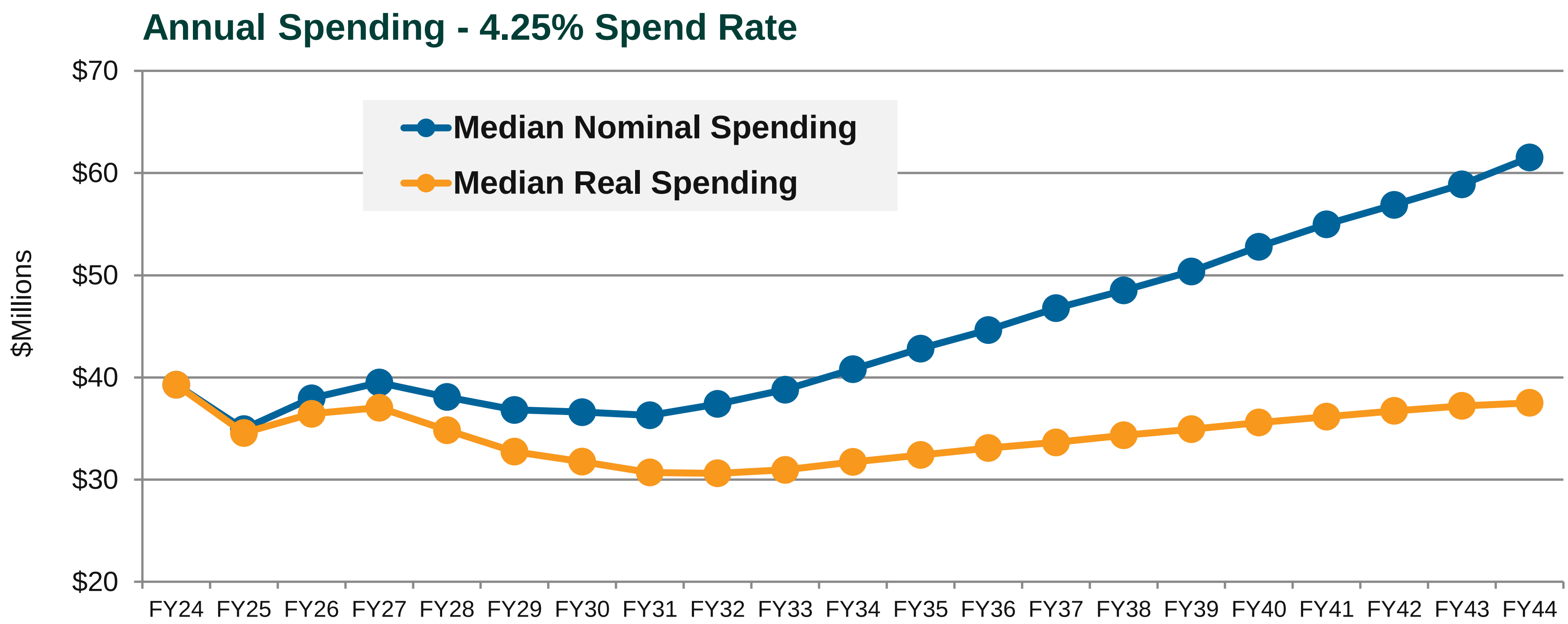


	1 Year	5 Years	10 Years	20 Years
5th Percentile	$970	$1,362	$1,870	$3,431
25th Percentile	$847	$981	$1,206	$1,666
50th Percentile	$785	$816	$902	$1,069
75th Percentile	$726	$686	$665	$742
95th Percentile	$622	$514	$419	$384

Note: Market values do not include lands or the commercial real estate holdings valued at $15 million and $60 million at June 30, 2024, respectively

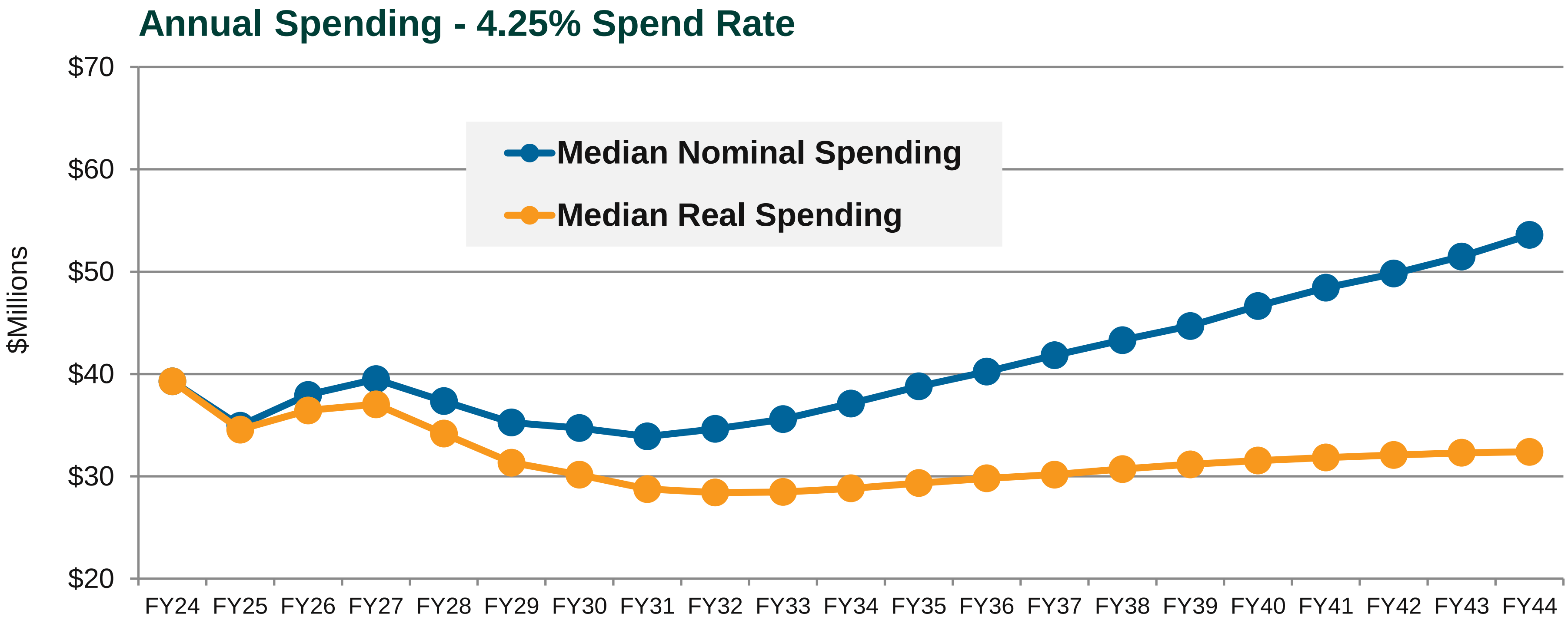
- The above chart shows the projected value of the Trust over time after adjusting for price and population inflation
- The purchasing power of the Trust is expected (median or 50th percentile) to grow in the coming years under the current 4.25% spend rate
- In a worse-case outcome (95th percentile), the Trust is projected to be less than half the starting value in 20 years

4.25% Spending



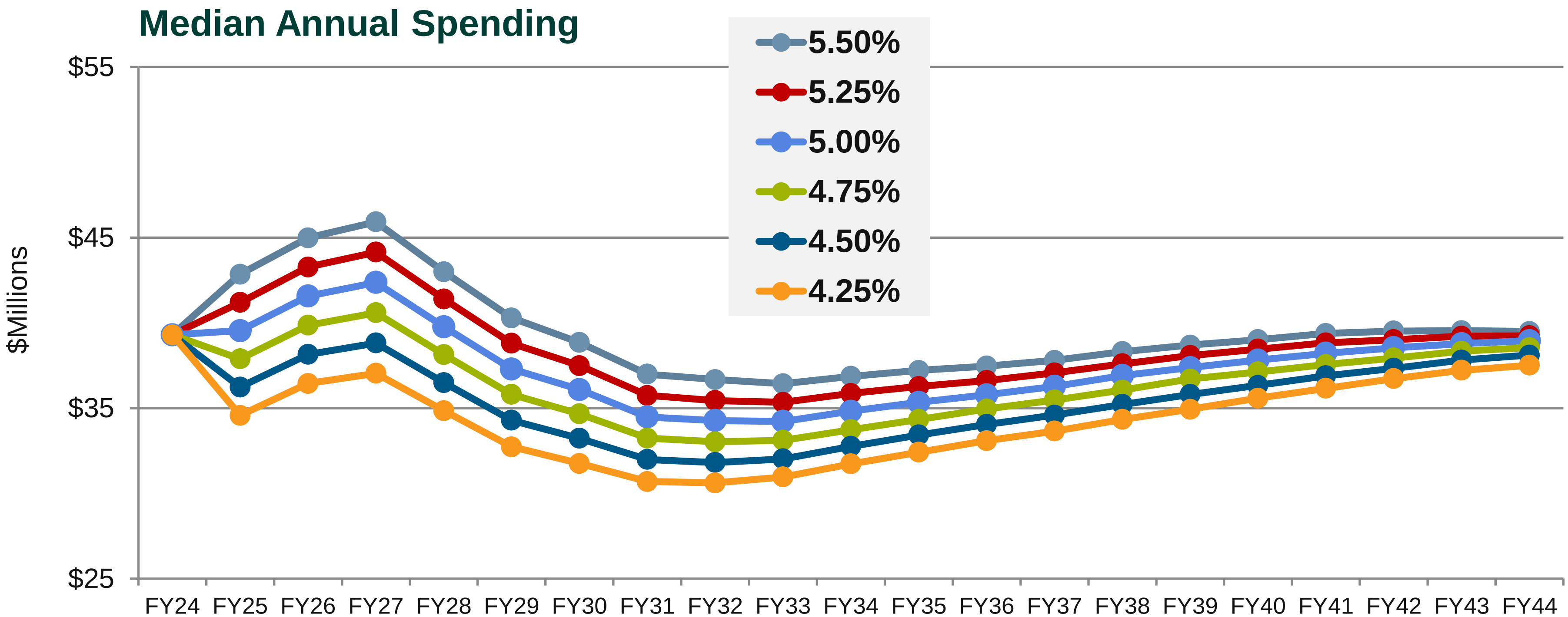
- Nominal spending (blue line) rises steadily over the next 20 years in the median outcome, growing from approximately $39 million in FY24 to over $61 million in FY44
- Inflation-adjusted spending rises over time with the bulk of the assets earning a 5.2% real return (7.7% APFC - 2.5% inflation) and with support from TLO inflows
  - Median real spending rises to over $37 million by FY44 (orange line) after bottoming out in FY32 at just over $30 million
  - A higher spend rate is required to ensure intergenerational equity

4.25% Spending: Poor TLO Outcome + $5m Annual Cap Projects + $12m TAB



- The chart above examines spending under the same 4.25% spend rate assuming a poor TLO outcome, $5 million in annual TLO capital project requests into perpetuity, plus the $12 million Trust Authority Building (TAB) capital project funded over the first three years of the projection
- While the spending levels are necessarily lower than those shown on the previous pages, inflation-adjusted spending is still rises slowly over time

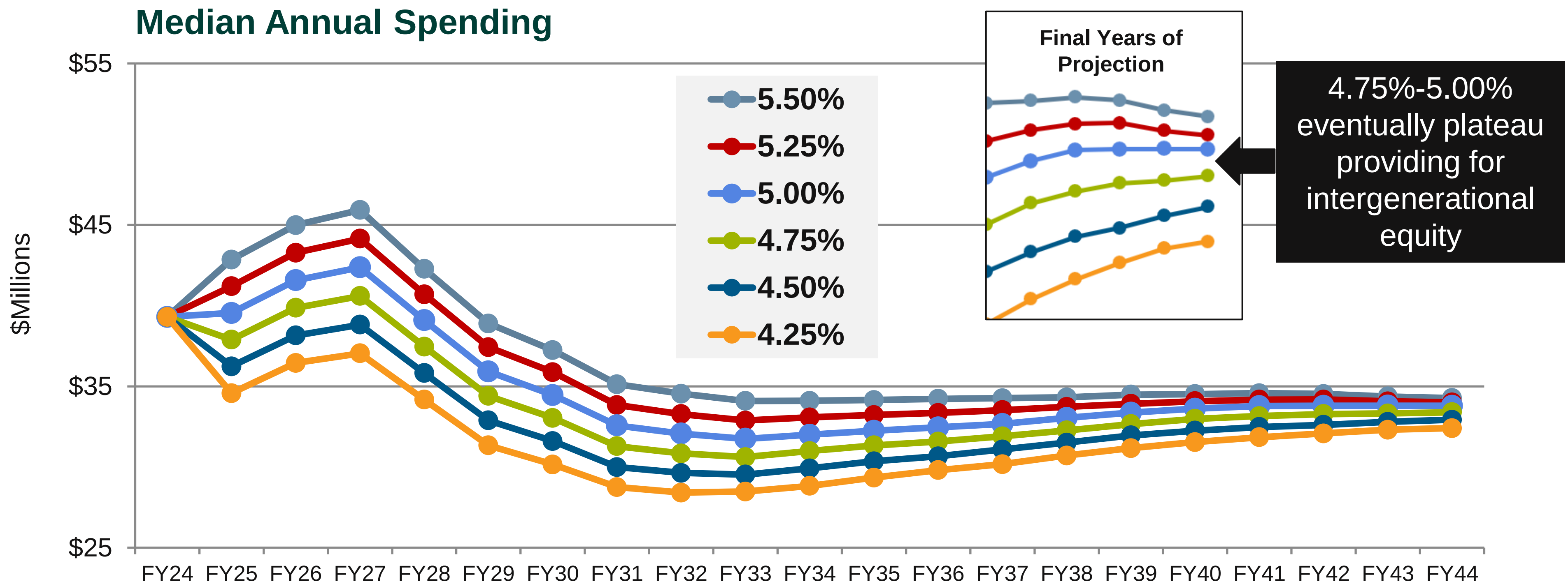
Spend Rates



- The chart above examines median real spending under various spend rates assuming the base-case TLO outcome
- A 5.25% spend rate is expected to eventually provide for intergenerational equity into the future
  - Lower rates lead to rising spending while higher rates result in spending that eventually declines over time

~Return 7.5% + TLO 0.3% - Inflation 2.5% = 5.3%

Spend Rates: Poor TLO Outcome + $5m Annual Cap Projects + $12m TAB

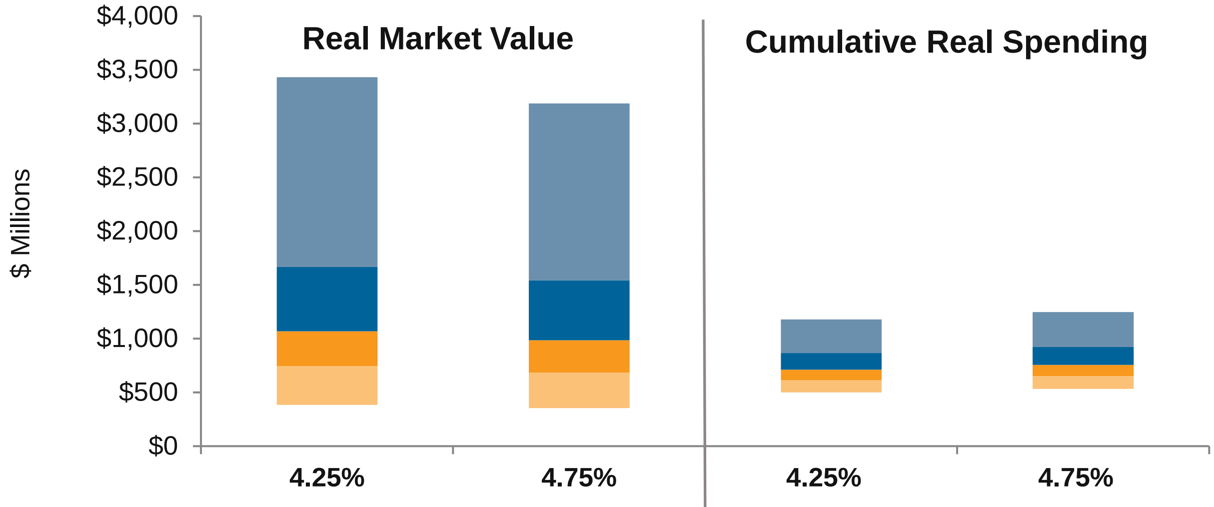


- The chart above examines median real spending under various spend rates assuming a poor TLO outcome, $5 million in annual TLO capital project requests into perpetuity, plus the $12 million Trust Authority Building (TAB) capital project funded over the first three years of the projection
- A 4.75% to 5.00% spend rate is an appropriate range to provide for intergenerational equity given the assumptions employed
  - Eliminating the $5 million annual expenditures for capital projects suggests a 5.00% spend rate

~Return 7.5% - TLO 0.1% - Inflation 2.5% = 4.9%

4.25% and 4.75% Spend Rates

Real Market Values and Cumulative Real Spending through FY44



	Real Market Value 4.25%	Real Market Value 4.75%	Cumulative Real Spending 4.25%	Cumulative Real Spending 4.75%
5th Percentile	$3,431	$3,186	$1,178	$1,248
25th Percentile	$1,666	$1,542	$867	$921
50th Percentile	$1,069	$983	$712	$755
75th Percentile	$742	$683	$613	$652
95th Percentile	$384	$353	$499	$531

Note: Market values do not include lands or the commercial real estate holdings valued at $115 million and $60 million at June 30, 2024, respectively

- The above chart shows the projected value of the Trust and cumulative spending in today's dollars at the end of FY44 (20 years)
- Not surprisingly, a lower spend rate results in greater asset values and lower spending
  - The lower spend rate is expected (50th percentile) to have $86 million more in assets at the end of FY44 and $44 million less in cumulative spending

Reserve Level & Risk of Depletion

Reserve Level

Observations and Recommendation

- Reserve policies between 300-500% of spending are sufficient to ensure spending is met with a greater than 95% probability over the 20-year projection period
- There is a risk of reserve depletion as beginning reserves are well below their targeted amount due in part to the $39.5 million funding of the commercial real estate properties from the DOR reserve
  - A deep market correction resulting in a -15% return for the Trust in FY25 combined with a poor TLO outcome and $9 million in capital project requests ($5 million annual plus $12 million TAB funding) is projected to lead to reserve deficiency in 2 of the first 10 years and 5 of the 20 years

Recommendation: Maintain the current reserve policy which provides a high probability of funding assurance while balancing the higher expected returns generated at the APFC with the marginally higher funding assurance provided by the DOR in worse-case scenarios

- As a reminder, reserve balances will improve or decline based upon market performance, and thus the Trust has limited control regarding the overall reserve level
- Given the increased risk of reserve depletion the Trust might consider replenishing the reserves for prior amounts withdrawn to fund the original purchases of CRE
  - The Trust has few opportunities to increase reserves to achieve a 400% coverage ratio

Reserve Level

- Reserve levels at June 30, 2024 total 333% as a percentage of FY25 dollars available for spending
  - APFC = 193% and DOR = 140%
  - Reserve levels at June 30, 2024 total 197% as a percentage of FY25 available for spending plus other Trustee authorized commitments
- Focusing on the ten and twenty-year time horizons, the table below indicates reserve policies between 300-500% of spending are sufficient to ensure spending is met with a greater than 95% probability
  - The higher the reserve level the greater the probability that actual spending equals the targeted amount
  - In the scenarios where actual spending falls short of the targeted amount, it often occurs more than once over the projection period
  - Spending assurance falls under a poor TLO inflow scenario and/or with $5 million in annual capital project outflows plus TAB funding

Probability Actual Spending = Target Amount			
Projection Period	300% Reserve Level	400% Reserve Level	500% Reserve Level
10 Years	98.80%	98.80%	98.85%
20 Years	97.65%	98.20%	98.25%

- A deep market correction resulting in a -15% return for the Trust in FY25 combined with a poor TLO outcome and $9 million in capital project requests ($5 million annual plus $12 million TAB funding) is projected to lead to reserve deficiency in 2 of the first 10 years and 5 of the 20 years

Inflation Proofing

Inflation Proofing

Observations and Recommendation

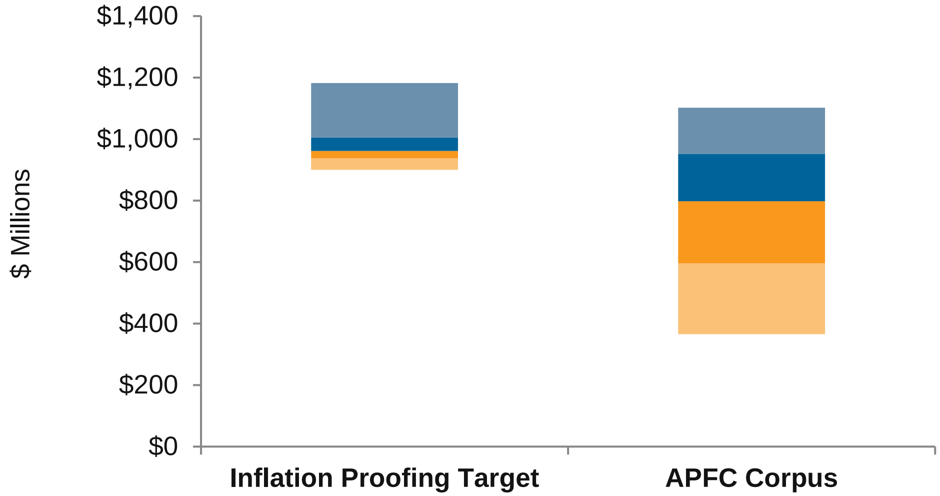
- Under the current inflation-proofing structure which utilizes the APFC mechanics, the Corpus of the Trust is compared to an Inflation Proofing Target in order to determine whether the Trust is maintaining purchasing power over time
  - The Corpus of the Trust grows by TLO principal cash flows and any necessary inflation-proofing deposits
  - The Inflation Proofing Target grows by TLO principal cash flows and is adjusted for inflation (2.5%)
- Given the Corpus is behind the Inflation Proofing Target by $117 million to start, it is not surprising that the Trust falls short of the target across virtually all outcomes over time
  - This is despite inflation-proofing deposits when reserves exceed the targeted amount
- The Trust could simplify the current inflation-proofing mechanism by instead focusing on identifying a long-term asset allocation target with an expected return that keeps pace with spending and inflation assuming the APFC were to adopt such a model

Recommendation: Absent a change at the APFC, all inflation proofing transactions should be mechanical and automatic (not up to a Board approval/direction) so that they are more predictable and understandable

- Inflation proofing the Corpus with the current $117 million deficit would be necessary to meet the current inflation-proofing structure
- Adopting a spend rate in the range of 4.75% to 5.00% would essentially inflation proof the Trust given projected TLO flows, a total return expectation of approximately of 7.5%, and 2.5% inflation

Inflation Proofing

Real Values in 20 Years



	Inflation Proofing Target	APFC Corpus
5th Percentile	$1,182	$1,102
25th Percentile	$1,005	$951
50th Percentile	$962	$798
75th Percentile	$937	$596
95th Percentile	$900	$366

- The goal is for the Authority's APFC Corpus to keep pace with the Inflation Proofing Target
  - The Trust's Inflation Proofing Target grows with inflation and TLO principal inflows
  - The Trust's Corpus grows with TLO principal inflows and inflation-proofing deposits when reserves exceeds the targeted amount
- At 6/30/24 the Corpus is $117 million behind the Inflation Proofing Target
- In 20 years the Corpus is falling short by $163 million in the expected-case (50th percentile) and $534 million in a worse-case (95th percentile) outcome

Observations and Recommendations

Observations and Recommendations

- The goal of this study is to analyze the Alaska Mental Health Trust Authority's investment program from a number of different angles with particular focus on the spend rate
- The current structure of the Trust is complicated with multiple portfolios managed by different entities, an intricate flow of funds between the various accounts and accounting items within the funds, and a complex spending policy

Observations and Recommendations:

- The Commercial Real Estate program has outperformed the NCREIF Office index with a similar risk profile historically, though ultimate sale prices will greatly impact the program's overall performance
- Consider raising the spend rate 50-75 basis points to between 4.75% and 5.00%
  - If long-term inflation expectations rise above 2.5% and/or return expectations fall below 7.7%, a lower spend rate would be recommended
- Maintain the current reserve policy of 400% of spending split evenly between the APFC and DOR
  - The Trust might consider replenishing the reserves for prior amounts withdrawn to fund the original purchases of CRE
  - As a reminder, the Trust has few opportunities to increase reserves to achieve a 400% coverage ratio
- As an inflation-proofing mechanism, adopt a long-term asset allocation target with an expected return that exceeds spending and inflation
  - Absent the APFC adopting an endowment asset/spending model, inflation proofing transactions should be mechanical and automatic so that they are more predictable and understandable
  - Adopting a spend rate in the range of 4.75% to 5.00% would essentially inflation proof the Trust given projected TLO flows, a total return expectation of approximately of 7.5%, and 2.5% inflation
  - The current $117 million inflation-proofing shortfall may not be corrected in the near term, and could impact future Corpus levels

Important Disclosures

Information contained in this document may include confidential, trade secret and/or proprietary information of Callan and the client. It is incumbent upon the user to maintain such information in strict confidence. Neither this document nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose.

The content of this document is particular to the client and should not be relied upon by any other individual or entity. There can be no assurance that the performance of any account or investment will be comparable to the performance information presented in this document.

Certain information herein has been compiled by Callan from a variety of sources believed to be reliable but for which Callan has not necessarily verified for accuracy or completeness. Information contained herein may not be current. Callan has no obligation to bring current the information contained herein.

Callan's performance, market value, and, if applicable, liability calculations are inherently estimates based on data available at the time each calculation is performed and may later be determined to be incorrect or require subsequent material adjustment due to many variables including, but not limited to, reliance on third party data, differences in calculation methodology, presence of illiquid assets, the timing and magnitude of unrecognized cash flows, and other data/assumptions needed to prepare such estimated calculations. In no event should the performance measurement and reporting services provided by Callan be used in the calculation, deliberation, policy determination, or any other action of the client as it pertains to determining amounts, timing or activity of contribution levels or funding amounts, rebalancing activity, benefit payments, distribution amounts, and/or performance-based fee amounts, unless the client understands and accepts the inherent limitations of Callan's estimated performance, market value, and liability calculations.

Callan's performance measurement service reports estimated returns for a portfolio and compares them against relevant benchmarks and peer groups, as appropriate; such service may also report on historical portfolio holdings, comparing them to holdings of relevant benchmarks and peer groups, as appropriate ("portfolio holdings analysis"). To the extent that Callan's reports include a portfolio holdings analysis, Callan relies entirely on holdings, pricing, characteristics, and risk data provided by third parties including custodian banks, record keepers, pricing services, index providers, and investment managers. Callan reports the performance and holdings data as received and does not attempt to audit or verify the holdings data. Callan is not responsible for the accuracy or completeness of the performance or holdings data received from third parties and such data may not have been verified for accuracy or completeness.

Callan's performance measurement service may report on illiquid asset classes, including, but not limited to, private real estate, private equity, private credit, hedge funds and infrastructure. The final valuation reports, which Callan receives from third parties, for of these types of asset classes may not be available at the time a Callan performance report is issued. As a result, the estimated returns and market values reported for these illiquid asset classes, as well as for any composites including these illiquid asset classes, including any total fund composite prepared, may not reflect final data, and therefore may be subject to revision in future quarters.

The content of this document may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. The opinions expressed herein may change based upon changes in economic, market, financial and political conditions and other factors. Callan has no obligation to bring current the opinions expressed herein.

The information contained herein may include forward-looking statements regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties. Actual results may vary, perhaps materially, from the future results projected in this document. Undue reliance should not be placed on forward-looking statements.

Callan is not responsible for reviewing the risks of individual securities or the compliance/non-compliance of individual security holdings with a client's investment policy guidelines.

This document should not be construed as legal or tax advice on any matter. You should consult with legal and tax advisers before applying any of this information to your particular situation.

Reference to, or inclusion in this document of, any product, service or entity should not necessarily be construed as recommendation, approval, or endorsement or such product, service or entity by Callan. This document is provided in connection with Callan's consulting services and should not be viewed as an advertisement of Callan, or of the strategies or products discussed or referenced herein.

Important Disclosures (continued)

The issues considered and risks highlighted herein are not comprehensive and other risks may exist that the user of this document may deem material regarding the enclosed information. Please see any applicable full performance report or annual communication for other important disclosures.

Unless Callan has been specifically engaged to do so, Callan does not conduct background checks or in-depth due diligence of the operations of any investment manager search candidate or investment vehicle, as may be typically performed in an operational due diligence evaluation assignment and in no event does Callan conduct due diligence beyond what is described in its report to the client.

Any decision made on the basis of this document is sole responsibility of the client, as the intended recipient, and it is incumbent upon the client to make an independent determination of the suitability and consequences of such a decision.

Callan undertakes no obligation to update the information contained herein except as specifically requested by the client.

Past performance is no guarantee of future results.

About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional investor with creative, customized investment solutions backed by proprietary research, exclusive data, and ongoing education. Today, Callan advises clients with more than $3 trillion in total assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisers, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

Callan

Corporate Headquarters

One Bush Street
Suite 700
San Francisco, CA 94104

www.callan.com

Regional Offices

Atlanta
Chicago
Denver
Summit, NJ
Portland, OR

Callan

Trust
Alaska Mental Health
Trust Authority

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

To: John Morris, Chair, Finance Committee
Through: Allison Biastock, Acting Chief Executive Officer
From: Julee Farley, Chief Financial Officer
Date: December 26, 2024
Re: Asset Spending Study by Callan, LLC

REQUESTED MOTION:

The Finance Committee recommends that the full board of trustees authorize an annual withdrawal rate of 4.75%. The CFO shall update the Asset Management Policy Statement with this rate and present an updated Asset Management Policy for approval at the next meeting of the Finance Committee.

BACKGROUND

The report from Callan LLC (Callan)*, Alaska Mental Health Trust Authority Spending Study – Phase 1 (December 19, 2024),* is an analysis of the Trust's historical and projected investment returns and forecasted asset values, resulting in a payout recommendation of a 4.75% to 5.00% Percent-Of-Market-Value (POMV). The current payout rate is 4.25% so this represents an increase of .50% to .75%, or approximately $3 million $5 million annual payout increase. Callan is also recommending certain practices for the Trust to sustain this spending level over the long term.

Phase 2 of Callan's work will include a comprehensive review and recommendation of the Trust's Asset Management Policy Statements (AMPS) to include investment guidelines and monitoring criterial for investment managers and capital projects, and a cash management policy. This is scheduled to be presented at the next Finance Committee meeting.

Spending Rate Methodology:

Callan's work was framed by guidelines established in the Trust's Asset Management Policy Statement, revised 2024 (AMPS), on investments objectives, investment horizon and risk tolerance for Trust assets. Using Callan's Capital Markets Projections and financial modeling of Alaska Permanent Fund Corporation (APFC), Callan integrated the Trust's historical spending and earnings, the investment allocation of the Trust's Budget Reserves managed by the State of Alaska Department of Revenue (DOR), and Trust Land Office revenue forecasts. Modeling probable performances (poor to excellent), Callan then projected asset growth and spending to develop a sustainable spending rate. Core to this analysis was maintaining beneficiary support— including projected inflation and Alaska population growth —now and into the future.

Callan Recommendations:

1) Given expected returns and inflation, long term Alaska population trends, and expected TLO revenue, the Trust can consider raising the spend rate to 4.75% - 5.00% to provide intergenerational equity for beneficiaries.

Staff Recommendation: Concur with the lower end of Callan's recommended range.

Investment Performance

As of June 30, 2024, APFC managed 87% of Trust assets, while DOR and CRE represented 6% and 7%, respectively.

Callan reported the below performance for the Trust's combined investment portfolio, and by asset manager for various time periods.

Alaska Mental Health Trust Authority - Historical Investment Performance
As of June 30, 2024

	1 Year	3 Years	5 Years	10 Years
AMHTA Total Fund ex-GeFONSI	7.54%	3.39%	7.79%	7.58%
Alaska Permanent Fund Corporation (net)	7.90%	3.90%	8.24%	7.69%
APFC Performance Benchmark	*9.46%*	*3.89%*	*7.91%*	*6.97%*
Department of Revenue (net)	13.27%	3.12%	7.11%	6.59%
DoR Performance Benchmark	*12.98%*	*2.82%*	*6.81%*	*6.28%*
Commercial Real Estate[1]	-1.35%	-1.89%	3.58%	7.97%
NCREIF Office	*-14.41%*	*-8.17%*	*-3.63%*	*2.11%*
NCREIF Total	*-5.53%*	*2.33%*	*3.39%*	*6.07%*

Budget Reserves

Callan reviewed the balances of the Trust's Budget Reserve accounts that are separately managed by APFC and DOR. The APFC's statutory net income (SNI) calculation determines the earnings that are used to increase the APFC Budget Reserve account while the annual payout is withdrawn from this account. The account balance of the DOR Budget Reserves is based on growth of investments, adjusted for any Trustee authorized withdrawals.

The current reserve policy outlined in AMPS sets a target of 400% of the current year payout. Actual coverage at June 30, 2024, was 208% due in part to the transfer of Budget Reserves to Principal to restore principal originally used for the purchase of commercial real estate, inflation-proofing transfers to principal, and continued withdrawals from Budget Reserves to fund Trustee-approved TLO capital projects. A lower than target reserve ratio affects the risk the reserve balances will not be sufficient to fund annual spending should the reserves decline in value due to market fluctuations.

Callan Recommendations:

1) Continue to maintain the current reserve policy with a target reserve of 400% of the annual payout to ensure funds are available for spending with a greater than 95% probability.
2) Consider using a portion of any proceeds from the sale of commercial real estate into reserves to replace previously withdrawn funds used for commercial real estate (CRE) purchases.

Staff Recommendation: Concur and recommend that net proceeds from the sales of CRE be used to replenish the Budget Reserves to increase the Budget Reserve balance to get closer to the 400% of the targeted annual withdrawal in the Asset Management Policy and recommended by Callan. The sale of CRE represents a rare opportunity to increase the Budget Reserve balance which was reduced when the CRE properties were purchased by the Trust.

Inflation Proofing

Since inception, Trustees have made discretionary, irrevocable transfers of Budget Reserves to the Trust's corpus for "inflation proofing." Callan was asked to review the status of the Trust's inflation proofing practices. Using actual historical inflation, the Corpus is behind the inflation proofing target by $117 million at June 30, 2024, and this continues across nearly all possible outcomes.

Recommendations:

1. Continue to maintain an asset allocation that keeps pace with spending and inflation. The current asset allocation is expected to generate a long-term return 7.5%. With inflation expected at 2.5% this expected return is sufficient to meeting annual spending needs and inflation proof.
2. Absent a change in accounting structure at APFC, inflation proofing transactions should be automatic so that they are more predictable.

Staff Recommendation: Concur and recommend that a path toward "inflation proofing" be developed, including a plan to catch up on the shortfall of $117 million as of June 30, 2024.

Conclusion

This study supports Trustee responsibilities as set forth in the Trust's Charters and the Trust's Asset Management Policy Statement. Staff supports the implementation of the Callan recommendations as listed above and included in the attached report. It is recommended that a similar allocation and spending study be conducted on a regular 3-year basis.

The next phase of the project will include a comprehensive review of AMPS. Callan will present Phase 2 of the report at the April 23, 2025, Finance Committee.

Trust
Alaska Mental Health
Trust Authority

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

To:	John Morris, Chair, Finance Committee
Through:	Allison Biastock, Acting Chief Executive Officer
From:	Julee Farley, Chief Financial Officer
Date:	December 31, 2024
Re:	Net Proceeds of Commercial Real Estate

REQUESTED MOTION:

The Finance Committee recommends that the full board of trustees approve the transfer of Commercial Real Estate net proceeds into the Budget Reserves.

BACKGROUND

In FY24, Trustees authorized the TLO Executive Director to proceed with disposal of the Commercial Real Estate properties. The first property sale closed in November 2024, resulting in net proceeds of approximately $11.5 million. With this first sale of a CRE property, Trustees must now determine how to allocate the net proceeds relating to the sale of CRE.

When Trustees decided to restore the Principal of the Trust after using Principal for the original purchase of the properties, the Trust utilized Budget Reserves totaling $41,300,000 to do so. When the transfer from Budget Reserves to Principal was authorized on May 8, 2019, Trustees approved the following motion as recommended by the Finance Committee:

> *The Finance Committee recommends that the full board of trustees authorize the transfer of $41,300,000 from the Budget Reserve to the Mental Health Trust Fund. In combination with this transfer, the seven properties identified as real estate investments will be designated as long term investments within the Budget Reserve. Proceeds from any subsequent sale of these properties will flow into the Budget Reserve.*

Trust counsel has advised on the use of CRE net proceeds in separate memo.

<u>Budget Reserve levels</u>:

The Budget Reserves are reduced annually to fund the Trustee authorized payout. Additionally, over the last 5 years Budget Reserves have been reduced by $41.3 million to restore principal for the original purchase of commercial real estate, $76 million in inflation-proofing transfers to principal, and $14.5 million withdrawals to fund TLO capital projects. The Asset Management Policy sets the Budget Reserves at 400% of the annual withdrawal. The Callan report of December 19, 2024, calculates that maintaining this level of Budget Reserves provides a 99% probability that funds would be available fund the Trust annual budget.

At November 30, 2024, after adjusting for Trustee authorized commitments, the Budget Reserves coverage ratio is at 278%, which is $40 million below the 400% target.

Staff Recommendation: Consistent with the original Trustee approved motion and the advice of counsel, staff recommends the CRE net proceeds be transferred to Budget Reserves. This transfer will provide financial strength to the Trust by increasing the Reserve coverage ratio closer to the target of 400% of the annual payout as outlined in the Trust's Asset Management Policy and most recently recommended by Callan, LLC.

Trust
Alaska Mental Health
Trust Authority

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

To: John Morris, Chair, Finance Committee
Through: Allison Biastock, Acting Chief Executive Officer
From: Julee Farley, Chief Financial Officer
Date: December 31, 2024
Re: Commercial Real Estate Investment Manager

REQUESTED MOTION:

The Finance Committee recommends that the full Board of Trustees authorize staff and counsel to prepare a Request for Proposal for a Commercial Real Estate Investment Manager for all remaining Commercial Real Estate held by the Trust.

BACKGROUND

The Trust currently holds title to 5 properties as commercial real estate investments. The properties have been managed by the Trust Land Office over the past several years. The Board of Trustees, by motion, approved the disposal of these investments so long as the sales can be completed under commercially reasonable returns. The properties are owned by separate limited liability companies and the TLO is the designated manager of the properties. It is prudent for the Trust to explore whether it is in the best interests of the Trust to obtain a Commercial Real Estate Investment Manager to manage the remaining commercial real estate properties through the ultimate disposal, and to perform the necessary analysis of the properties for sale or as continued investment properties.

Staff Recommendation: Staff recommends the Board pursue this RFP so the Trust can weigh its options on the CRE properties as the Trust moves to dispose them.

Trust Settlement Income Account: Funding Sufficiency

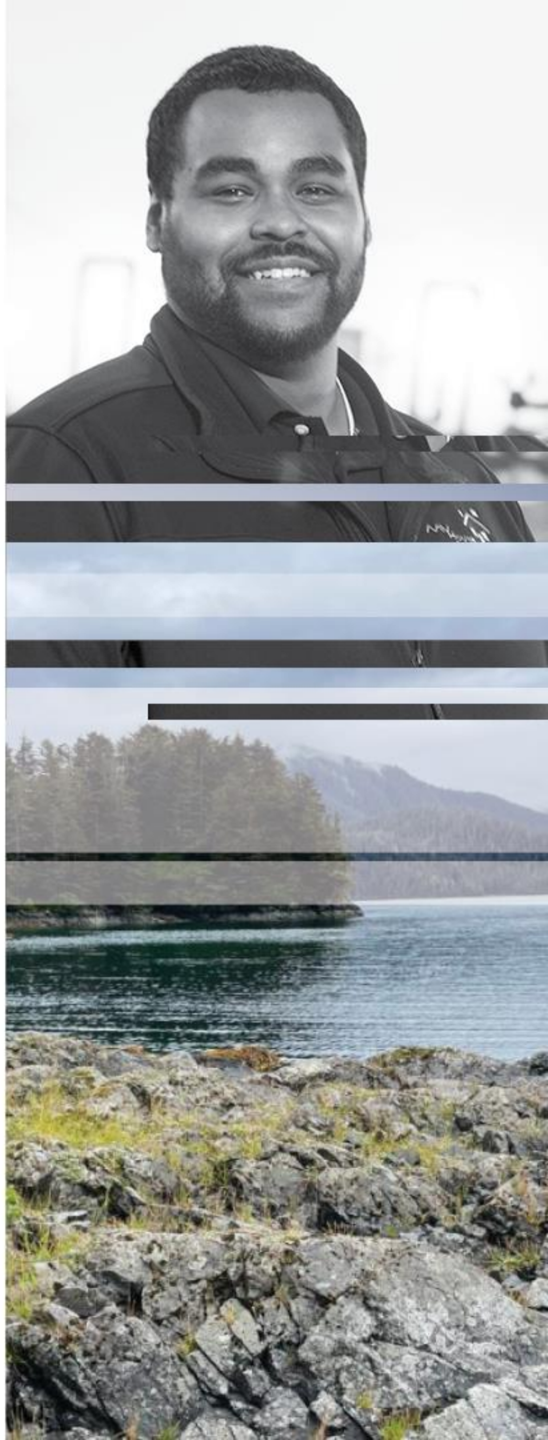
Finance Committee update
January 8, 2025

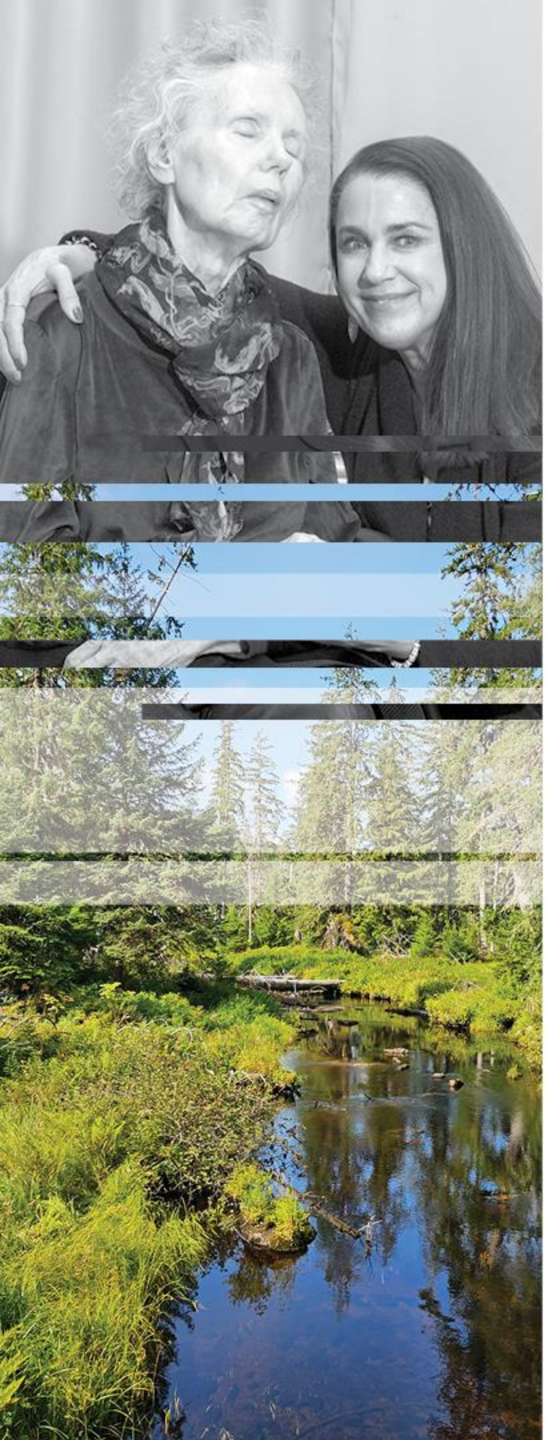
Trust
Alaska Mental Health Trust Authority

AS 37.14.041
Use of Trust Settlement Income Account

1) Statute outlines money in the Income Settlement Account may be used for specific purposes
2) Statute states the authority shall transfer money to the unrestricted general fund….for other public purposes, ***only if money in the Account is not needed*** to meet the necessary expenses of the state's integrated comprehensive mental health program

Leg Audit FY21 Recommendation:
Develop a policy for annual determination of excess funds





Annual determination addresses two questions:

Does the Trust have sufficient funds to meet its current commitments?

→ *Are spendable assets sufficient to support our budget and existing commitments?*

Does the Trust have sufficient funding to equitably support the Comp Plan for present and future beneficiary needs?

→ *Will investments generate enough earnings each year to enable the Trust to draw a payout each year, in perpetuity?*

The Trust does not have excess spendable income.

Spendable Assets at Year-End FY24		
Cash Balances	$	32,100,844
Commercial Real Estate	$	59,846,000
Budget Reserves	$	125,341,800
Total Spendable Assets	**$**	**217,288,644**
Commitments at Start of FY25		
FY25 Operations and PY Obligations	$	50,367,300
400% Reserve Target	$	129,594,400
Maintenance Reserves	$	1,756,300
Capital Project Allocations	$	5,928,000
Inflation Proofing Transfer to Corpus	$	70,280,300
Total Commitments	**$**	**257,926,300**

Challenge

- Trust assets must equitably support current and future generations
- Financial snapshots in time do not reflect future funding needs or funding sources to support those needs
- The Trust must manage for fluctuations in asset value over time

Does the Trust have sufficient investments to generate a payout for continued support of the Comp Plan?

- Asset allocation and spending policy drive the balance between future fund availability and current spending
- The FY25 Revenue includes $32.4MM generated from Trust investments managed by APFC and DOR, and income generated from the TLO. Current spendable assets should be sufficient for continued payout support of this level, with Budget Reserves at 400% of the annual payout

DISCUSSION