

## MEETING AGENDA

**Meeting:** Finance Committee  
**Date:** January 5, 2022  
**Time:** 9:30 AM  
**Location:** online via webinar and teleconference  
**Teleconference:** (844) 740-1264 / Meeting Number: 2463 153 5492 # / Attendee Number: #  
<https://alaskamentalhealthtrust.org/>  
**Trustees:** Anita Halterman (Chair), Verné Boerner, Rhonda Boyles, Chris Cooke, Kevin Fimon, Brent Fisher, John Sturgeon

Wednesday, January 5, 2022

Page No.

<b>9:30</b>	<b><u>Call Meeting to Order (Anita Halterman, Chair)</u></b> Roll Call / Announcements Approve Agenda / Ethics Disclosure Approve Minutes <ul style="list-style-type: none"><li>October 21, 2021</li></ul>	4
<b>9:35</b>	<b><u>Staff Report Items</u></b> CEO Finance Report FY22 Financial Dashboard <ul style="list-style-type: none"><li>Carol Howarth, CFO/Kat Roch, Controller</li></ul> Asset Allocation & Spending Study <ul style="list-style-type: none"><li>Carol Howarth, CFO</li></ul>	13 14
<b>10:30</b>	<b>Break</b>	
<b>10:45</b>	<b><u>Staff Report Items, Continued</u></b> Trust Fund Inflation Proofing Status <ul style="list-style-type: none"><li>Carol Howarth, CFO/Kat Roch, Controller</li></ul> No Surplus/Fund Requirements Process <ul style="list-style-type: none"><li>Carol Howarth, CFO</li></ul>	18 29
<b>12:00</b>	<b>Adjourn</b>	

## Future Meeting Dates

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

(Updated – December 2021)

---

- |                                |                             |                        |
|--------------------------------|-----------------------------|------------------------|
| • Audit & Risk Committee       | January 5, <b>2022</b>      | (Wed)                  |
| • Finance Committee            | January 5, <b>2022</b>      | (Wed)                  |
| • Resource Mgt Committee       | January 5, <b>2022</b>      | (Wed)                  |
| • Program & Planning Committee | January 6, <b>2022</b>      | (Thu)                  |
| • Full Board of Trustee        | January 26-27, <b>2022</b>  | (Wed, Thu) – Juneau    |
|                                |                             |                        |
| • Audit & Risk Committee       | April 20, <b>2022</b>       | (Wed)                  |
| • Finance Committee            | April 20, <b>2022</b>       | (Wed)                  |
| • Resource Mgt Committee       | April 20, <b>2022</b>       | (Wed)                  |
| • Program & Planning Committee | April 21, <b>2022</b>       | (Thu)                  |
| • Full Board of Trustee        | May 25, <b>2022</b>         | (Wed) – TBD            |
|                                |                             |                        |
| • Audit & Risk Committee       | July 26, <b>2022</b>        | (Tue)                  |
| • Finance Committee            | July 26, <b>2022</b>        | (Tue)                  |
| • Resource Mgt Committee       | July 26, <b>2022</b>        | (Tue)                  |
| • Program & Planning Committee | July 27-28, <b>2022</b>     | (Wed, Thu)             |
| • Full Board of Trustee        | August 24-25, <b>2022</b>   | (Wed, Thu) – Anchorage |
|                                |                             |                        |
| • Audit & Risk Committee       | October 19, <b>2022</b>     | (Wed)                  |
| • Finance Committee            | October 19, <b>2022</b>     | (Wed)                  |
| • Resource Mgt Committee       | October 19, <b>2022</b>     | (Wed)                  |
| • Program & Planning Committee | October 20, <b>2022</b>     | (Thu)                  |
| • Full Board of Trustee        | November 16-17, <b>2022</b> | (Wed, Thu) – Anchorage |

## Future Meeting Dates

### Statutory Advisory Boards

(Updated – December 2021)

---

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

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

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

Executive Director: Bev Schoonover, (907) 465-5114, [bev.schoonover@alaska.gov](mailto:bev.schoonover@alaska.gov)

- Executive Committee – monthly via teleconference (Second Tuesday of the Month)
- Winter Meeting: February 8-10, 2022 / Juneau

#### **Governor's Council on Disabilities and Special Education**

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

Acting Executive Director: Myranda Walso, (907)269-8990, [myranda.walso@alaska.gov](mailto:myranda.walso@alaska.gov)

- Winter Meeting: January 31 – February 1, 2022 / location TBD

#### **Alaska Commission on Aging**

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

Executive Director: Lisa Morley, (907) 465-4879, [lisa.morley@alaska.gov](mailto:lisa.morley@alaska.gov)

- Winter Meeting: February 22-24, 2022 / Juneau

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**October 21, 2021**

**10:00 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120  
Anchorage, Alaska**

---

**Trustees Present:**

Anita Halterman, Chair  
John Sturgeon  
Chris Cooke  
Kevin Fimon  
Brent Fisher  
Verne' Boerner  
Rhonda Boyles

**Trust Staff Present:**

Mike Abbott  
Steve Williams  
Carol Howarth  
Miri Smith-Coolidge  
Kelda Barstad  
Luke Lind  
Michael Baldwin  
Katie Baldwin-Johnson  
Jimael Johnson  
Valette Keller  
Allison Biastock  
Kat Roch

**Trust Land Office:**

Jusdi Doucet  
Sarah Morrison  
David MacDonald  
Katie Vachris  
Karsten Eden  
Hollie Chalup  
Jeff Green  
Becky Carpenter  
Chandler Long  
Paul Slenkamp

**Also participating:**

Charlene Tautfest; Josephine Stern; Michele Binkley.

## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with the roll call. She stated that Rhonda Boyles was excused, and that there was a quorum. She asked for any announcements. There being none, she moved to approval of the agenda.

### APPROVAL OF THE AGENDA

CHAIR HALTERMAN asked for a motion.

**MOTION:** A motion to approve the agenda was made by TRUSTEE COOKE; seconded by TRUSTEE FISHER.

CHAIR HALTERMAN noted that Kevin Fimon was not listed as a trustee; otherwise, the agenda looked fine. She asked for a roll-call vote with that adjustment.

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

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to the approval of the minutes of July 29, 2021.

### APPROVAL OF THE MINUTES

**MOTION:** A motion to approve the minutes of July 29, 2021, was made by TRUSTEE FISHER; seconded by TRUSTEE BOERNER.

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

TRUSTEE HALTERMAN recognized Mr. Abbott for the statutory advisor update from the Alaska Permanent Fund Dividend Fund Corporation.

### STATUTORY ADVISOR UPDATE

MR. ABBOTT introduced Angela Rodell and stated that she was a positive partner with her team for the Trust. The Permanent Fund is one of the two major state funds; the other being the Trust; which are managed differently than most modern funds. In addition, he stated the benefit of the amazing investment performance, as well as the benefit of a strong partnership on public policy.

MS. RODELL stated her pleasure in being online with all, and this provides the chance to see how well the investment responsibilities performed. She pointed out that the Trust has been the beneficiary of the same returns and the same growth pattern as the Permanent Fund. She explained the charts and the returns, and stated that the passive index was a simple 60/40 index combination. If invested in that passive index, it returned 28.4 per cent. She added that the Board had a long-term objective in place, which is simply CPI -- or inflation -- plus 5 percent. She noted that return requirement was 10.39 percent for FY21. She continued that inflation was

on the rise, and totaled 5.39 percent. She then talked about how they got to the returns that have come to be expected over the years. The corporation was created in 1980, and we were able to achieve a CPI plus 5 percent with a simple allocation. That was all fixed income or a bond portfolio. Interest rates were high and generated significant income to the Fund. She continued explaining the expansion into private equity and private income, which is the area that generates income that is not real estate. She continued her presentation, explaining as she went through it.

TRUSTEE FIMON stated that he was new to the Board and was at his first meeting with Ms. Rodell. He asked for a brief explanation of what risk parity was.

MS. RODELL replied that it is an allocation. There are two managers in this area, Bridgewater and Panagora. They take the same amount of return and try to achieve the same return target as the rest of the Fund. She stated that if the return target is 5 percent plus CPI, they try to do it in a different risk-adjusted way. They try to hit the same return but take on lower risk. It creates an offset and acts as a hedge. She thanked Trustee Fimon for the question and hoped that it made sense.

TRUSTEE HALTERMAN asked what the percentage was in 2006 for bonds versus 2022.

MS. RODELL replied that it was almost similar at 20 percent allocation. She continued her presentation, showing the contribution to performance of each allocation. She moved on and talked about the Mental Health Trust assets that are managed and how the value has changed over the years. Going back for five years showed that the Trust assets have grown as the Permanent Fund has grown, and the Trust benefited from the significant increase in valuations that happened over the last year. She noted that the Fund value also reflected the fact that the Trust has contributed additional moneys to the Fund over the last couple of years.

A brief discussion ensued on the allocations and performances.

MS. RODELL continued her presentation, moving to the balances as of August 31<sup>st</sup>. She clarified that when the State takes the draw money, Trust funds are not touched at all and that will not affect it in any way. It is kept at the same target asset allocation, which is also the same allocation for the Permanent Fund.

CHAIR HALTERMAN stated that the Fund has done a phenomenal job of managing those assets, and the performance has been pretty phenomenal.

MS. RODELL reminded the trustees that there is a tremendous amount of information on the Permanent Fund's website about the specific assets the Trust is invested in. There are a number of reports, the top 50 stocks, and all kinds of information. She added that the Board meetings are video-archived on the website. She stated appreciation for the confidence the Trust continues to have in what the Fund does, because it is for the beneficiaries. The goal going forward is to work to maintain the balances, to continue to generate income that Alaskans have come to depend on.

CHAIR HALTERMAN asked for any questions.

MR. ABBOTT stated that one area that Ms. Rodell did not really talk about, but bears

acknowledgment, is the fact that the Permanent Fund has achieved these returns and this performance with what is essentially an incredibly low cost to the system as a whole; and the Trust benefits from that. He wanted to acknowledge and recognize the challenge that Ms. Rodell faces and weighed in on the corporation's behalf to secure the support needed, because the Trust is a clear beneficiary of her success in that effort.

CHAIR HALTERMAN thanked Ms. Rodell for her presentation that was very informative. She moved on to the next presentation and asked Ms. Howarth to introduce the next speaker.

MS. HOWARTH stated her pleasure in introducing Steve Sikes, the investment officer for the State who works with the Trust. He has worked with the portfolio management section of the Treasury for more than 20 years, covering fixed income, equity, real estate and the asset portfolio. He is very well versed in terms of the assets. He gives the guidance in an overall perspective of the Trust and what it can do. He also assists with the asset allocation process.

MR. SIKES thanked Ms. Howarth for the introduction and stated that he worked in portfolio management in a variety of roles and hoped his experience could provide some insight to the committee in understanding its portfolio and helping to shape future policy. He continued that his goals were to provide an overview of the Treasury Division, provide a portfolio overview, and performance review of the Trust Authority investments managed by Revenue during fiscal year 2021. Then he talked about the asset allocation process and setting the target asset allocations. He explained that the Treasury Division included all the primary functions in managing the State's finances. That included separate sections for cash management, compliance, accounting and operations, and portfolio management. Investments are managed directly by the portfolio management sections where he works. That section is made up of 15 investment professionals in Juneau. He continued that many of their functions are similar to the Permanent Fund, but they are a separate organization from the Alaska Permanent Fund. They also manage assets for external fiduciaries like the Alaska Mental Health Trust and the Exxon Valdez Oil Spill Council. He added that they help fiduciaries set asset allocation policy, and they understand the risk/return landscape to help them achieve objectives, and then they implement the policy. He moved to the Alaska Mental Health Trust portfolio and stated that as of June 30, 2021, the total assets managed by the Treasury for the Alaska Mental Health Trust totals \$85.3 million. These assets are broken into two separate portfolios, and he explained this in detail. He continued his presentation, explaining the portfolio management in greater detail. He touched on some of the hot-button economic trends and stated that the economy recovered considerably since the initial hit from the pandemic; but the labor force declined around 2 percent since the pandemic onset. The shortage of workers played into a rising inflation environment, which is good; but excessively high levels of inflation could undermine the economy. He reviewed some of the Trust policy statements relevant to the DOR portfolios. He then spent some time on the process for setting asset allocation. A key theme in the Trust investment objectives was defending against inflation with regard to preserving purchasing power and achieving a real rate of return of 5 percent over full market cycle with prudent risk levels. He summarized that based on current capital market assumptions, it appears to be challenging to deliver a 5 percent real return, but a meaningful real return is likely to purchasing power preservation, plus some level of additional return is expected. It is also important to not lose sight of the tremendous increase in the asset base over the last several years, and the lower future returns on a higher expected dollar base may still get to an acceptable result going forward. He added that the future is always hard to predict. Diversification costs and asset

allocation will be key to the success going forward.

CHAIR HALTERMAN thanked him and stated that was very informative and optimistic. She was glad to see the performance for this investment portfolio. She asked for any questions.

TRUSTEE FIMON appreciated the presentation and asked whether the inflation-plus-5 percent is a zero-sum game, or can everyone achieve those gains at some point.

MR. SIKES replied that the question was interesting and that investors do not have the same goals. He stated that expecting to get paid for risk is a valid principle, and it is reasonable to expect compensation.

CHAIR HALTERMAN thanked Mr. Sikes and moved to the next item on the agenda.

### **CEO FINANCE REPORT**

MR. ABBOTT began with an update directly relevant to the two previous presentations. He stated that they were in the process of making sure to have good, solid written expectations of each of the investment managers. The Trust relationship with the Permanent Fund Corporation is guided by a Memorandum of Agreement that was signed in 1995, and has not been changed or even revisited since that time. He continued that there is no problem with the current relationship, but it makes sense to review that language and make sure that it still works now. He added that Carol Howarth will be leading that project. He did not think that would result in a significant change in the Trust's relationship with the Permanent Fund. He continued that the relationship with the Department of Revenue, although incredibly productive, is not guided by a written agreement at this time. The Department has MoAs with other entities that it manages funds for, and it would be wise to go that route. This is not suggesting that a significant adjustment is required. Revisiting those relationships is anticipated in the charter for the Finance Committee, and we would be coming back to the committee for review and potential action at some point in the future.

A brief discussion ensued.

MR. ABBOTT continued to the no-surplus determination. He explained that in the statutes that created the Trust Authority there is a section that requires the Trust to transfer any settlement income that the Trust determines it does not need to serve its beneficiaries. A process to make that determination is needed. The recent Legislative Audit suggested that it should be done annually, which is generally agreed with. The statute does not describe the process that the Trust should use to make that determination, and it is not a determination that is made externally. The determination is to be made by the Trust. This is not something that the Administration or the Legislature can determine. Staff is working on bringing a process to the trustees that can be used annually that will measure in broad terms the needs of the beneficiaries as described in the CompPlan, and then measure that against the assets of the Trust. He was confident that the needs of the beneficiaries will remain greater than the assets of the Trust; but a more formalized process for making that determination makes sense. He moved to the last topic in the report which is generally being described as the spending study. There were three findings in the audit that we agreed to address through a process that would include external consultation support. Staff is in the process of procuring a financial analyst, financial consultant that can help evaluate several issues. The hope is to have that consultant on board before the end of November, early



December. There will be an update on this work at the January committee meetings. He concluded his report and asked for any questions.

CHAIR HALTERMAN asked whether the two issues of inflation-proofing and the surplus issue can be separated from the no-surplus determination.

MS. HOWARTH replied that with regard to inflation-proofing, the simple answer is because what is done is tracking the balance relative to the Consumer Price Index, that question will be resolved from a more comprehensive basis through the asset management review.

A brief discussion ensued.

CHAIR HALTERMAN called a lunch break.

(Lunch break.)

CHAIR HALTERMAN called the Finance Committee back to order, and noted that all trustees were present. She recognized Carol Howarth.

#### **STAFF REPORTS**

MS. HOWARTH began by tying together all the performance in a quick overview of the achievements of this year, which was a remarkable year. The Trust ended the year with investments and operating cash up 22 percent from FY20. She went through the chart, explaining the growth.

TRUSTEE FIMON asked for some clarification on the money transfers. He asked if the money was deposited into the principal before being posted on the graph.

MS. HOWARTH replied that it was a mix. Because the market was doing the rebound, the decision was made to transfer principal last winter. She continued and talked about the record-setting revenue the Trust saw in FY21, broke it down, and compared it to prior years, which was remarkable. She noted that this year's cash management strategy is a priority that she will be working on with Steve Sikes, and this had a huge impact on the beneficiary support. The Juneau Subport sale and the high Department of Revenue and Permanent Fund returns were the core drivers of a 25 percent higher fund basis than FY20. This increase, because of the four-year averaging, will carry this superb performance through to FY25. She stated that there was a lot to celebrate, and she personally sent great thanks to all of the asset managers, Permanent Fund, Department of Revenue, and then the Trust Land Office for all the work they do.

CHAIR HALTERMAN asked for any questions.

TRUSTEE BOERNER acknowledged what important and good news this is, and it is certainly welcomed.

CHAIR HALTERMAN agreed.

A brief discussion ensued.

CHAIR HALTERMAN moved to the financial dashboard.

### **FINANCIAL DASHBOARD**

MS. HOWARTH began by outlining the dashboard, beginning with Trust expenditures, Trust receipts. The last part is the equivalent of the balance sheet that will look at the assets, and then the reserve balances. She stated that Kat Roch, the Trust budget controller, will continue.

MS. ROCH started at the top with Trust expenditures and the administrative activities. They are the agency budgets for both the Trust Authority Office and the Trust Land Office. The total amount of the approved budget is projecting to be spent; but it was still early in the fiscal year, and those numbers may change moving through the fiscal year. She continued going through the dashboard, explaining the activities as she went through them.

MS. HOWARTH went through the receipts coming in. She noted the Trust Land Office revenues and then the investments, the financial assets. She talked about the unrealized earnings on principal. She broke this down and explained the investments and moved to the balances. She talked about the moneys in terms of spendable funds, total investments; these were liquid assets, financial assets, not including the land assets under the settlement agreement. She continued, and then moved to the reserves and payout.

A question-and-answer discussion ensued.

CHAIR HALTERMAN thanked Ms. Howarth on a very informative presentation. She moved to approvals.

### **APPROVALS**

CHAIR HALTERMAN asked for a motion.

**MOTION:** A motion that the Finance Committee recommends that the Full Board of Trustees authorize the transfer of \$26,510,300 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement income account to fund the FY2022 annual payout disbursement calculation. The CFO may execute this motion with one lump sum or multiple transfers was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

CHAIR HALTERMAN asked Ms. Howarth to introduce this motion.

MS. HOWARTH began with a high-level outline on how the revenue for the Trust is calculated. It is outlined in the Asset Management Policy Statement. The majority of the revenue comes from the annual payout, and the rest comes from Trust Land Office spendable income interest that is earned on the General Fund and other nonsegregated accounts, the checking account and the like. The unspent funds from prior budgets were allocated, but not yet expended, for whatever reason. She explained this fully and stated that there should be no issue in using \$26.5 million in support of Trust activities in FY22.

CHAIR HALTERMAN asked for any questions. There being none, she called the roll-call vote.

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

CHAIR HALTERMAN moved to the two different requested motions and began with requested motion No. 1.

**MOTION:** A motion that the Finance Committee recommends the Full Board of Trustees to approve setting a target level for the Trust Authority Development Account funds at \$1,009,500 was made by TRUSTEE COOKE; seconded by TRUSTEE FISHER.

MS. HOWARTH stated that the Trust Authority Development Account, or the TADA account, was established as an intermediate fund where revenue coming from the Trust Land Office principal income flows into this account and then is ultimately transferred into the principal account under management of the Permanent Fund. She added that, at this point, there is roughly \$3 million in that account, and with this authorization, she would be transferring anything over the amount approved into the Permanent Fund.

TRUSTEE COOKE asked whether this TADA Account will be closed once this legacy project commitments are completed.

MS. HOWARTH replied that there would still be an account because the money has to go into something to be transferred to the Permanent Fund. The name of the account will be changed. This account allows staff to distinguish principal income from spendable income.

CHAIR HALTERMAN called the vote.

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

**MOTION:** A motion that the Finance Committee recommends to the Full Board of Trustees to authorize the chief financial officer to periodically transfer TADA funds that exceed the target level to the Mental Health Trust Principal Account managed by the Alaska Permanent Fund Corporation was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MS. HOWARTH stated that this is mechanical and would allow her to make the transfers up to the \$1,009,500 as the funds come in.

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

CHAIR HALTERMAN asked for a motion to adjourn.

**MOTION:** A motion to adjourn the Finance Committee meeting was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

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

(Finance Committee meeting adjourned at 1:25 p.m.)

# Alaska Mental Health Trust

YTD & Projected FY Activity  
As of November 30, 2021

TRUST EXPENDITURES						
Operations	July-Nov	Dec-June	Full Year Projected Total	Approved Budget	Full Year Expected Variance From Plan Above(Below)	Outlook
<b>Administrative Activities</b>						
Trust Authority Office	1,391,800	\$ 2,948,600	\$ 4,340,400	\$ 4,340,400	\$ -	
Trust Land Office	1,560,000	2,990,500	4,550,500	4,550,500	-	Meeting plan
Total Admin. Costs	\$ 2,951,800	\$ 5,939,100	\$ 8,890,900	\$ 8,890,900	\$ -	
<b>Program Activities</b>						
MHTAAR	\$ 2,188,300	\$ 6,069,300	\$ 8,257,600	\$ 8,257,600	\$ -	
Authority Grants	3,187,300	12,332,300	15,519,600	15,519,600	-	Meeting plan
Total Program Costs	\$ 5,375,600	\$ 18,401,600	\$ 23,777,200	\$ 23,777,200	-	
<b>Total Regular Activities</b>	\$ 8,327,400	\$ 24,340,700	\$ 32,668,100	\$ 32,668,100	\$ -	

Capital Projects (Budget Reserves)	Total Investments Through Nov	Investments Expected Dec-June	Projected Total Invested through FY22	Approved Budget	Remaining Budget	
Beneficiary Facilities	\$ -	\$ -	\$ -	\$ 3,655,000	\$ 3,655,000	PRI Funds Available
TLODA Projects	1,267,400	1,562,600	2,830,000	10,000,000	8,732,600	Icy Cape ramp-up
<b>Total Special Projects</b>	\$ 1,267,400	\$ 1,562,600	\$ 2,830,000	\$ 13,655,000	\$ 12,387,600	

TRUST RECEIPTS						
	July-Nov	Dec-June	Full Year Projected Total	Full Year Plan	Full Year Expected Variance From Plan Above(Below)	Outlook
<b>Trust Land Office</b>						
Trust Land Office-Income	\$ 2,018,800	\$ 1,162,800	\$ 3,181,600	\$ 3,181,600	\$ -	Meeting plan
Trust Land Office-Principal	2,997,300	3,179,200	6,176,500	6,176,500	-	
<b>Total Land Office Activity</b>	\$ 5,016,100	\$ 4,342,000	\$ 9,358,100	\$ 9,358,100	\$ -	
<b>Investment Activity</b>						
Unrealized Earnings on Principal at APFC	(7,216,900)					
Statutory Earnings at APFC	24,414,400					
APFC	\$ 17,197,500	\$ 24,099,200	\$ 41,296,700	\$ 41,296,700	\$ -	
DOR	323,200	2,820,800	3,144,000	3,144,000	-	
Commercial Real Estate	803,100	456,200	1,259,300	1,259,300	-	Uncertain with continued market volatility
GeFONSI	3,400	62,400	65,800	65,800	-	
<b>Total Investment Activity</b>	\$ 18,327,200	\$ 27,438,600	\$ 45,765,800	\$ 45,765,800	\$ -	

TRUST RESOURCES	
<b>Trust Cash &amp; Investments</b>	<b>November 30</b>
Mental Health Trust Fund	\$ 524,266,000
APFC-Managed Non-Spendable Reserves	124,809,000
APFC-Managed Spendable Reserves	72,844,500
Total APFC Managed Funds	\$ 721,919,500
Trust Reserves at DOR	61,770,600
Commercial Real Estate Investments	65,871,000
Total Investments	\$ 849,561,100
Trust Authority Development Account	4,253,900
Central Facility Fund	1,503,800
Operating Funds	33,477,600
<b>Total Resources</b>	<b>\$ 888,796,400</b>

RESERVES & PAYOUT	
	<b>November 30</b>
Total Reserves	\$ 259,424,100
<b>Total Available Reserves</b>	<b>134,615,100</b>
TLODA Allocation	(7,170,000)
Beneficiary Facilities Allocation	(3,655,000)
Inflation Proofing Allocation	-
Estimated FY22 Payout	(26,510,300)
<b>Available Reserves</b>	<b>\$ 97,279,800</b>
Reserve Target: 400% Payout	\$ 106,041,200
Available Reserves as a % of Payout	367%
Amount Above (Below) Target	\$ (8,761,400)

# Trust

---

Alaska Mental Health  
Trust Authority

## Upcoming Asset Allocation & Spending Study by Callan LLC

January 5, 2022 Finance Committee

# Callan is engaged as the Trust's advisor to review Trust assets and spending

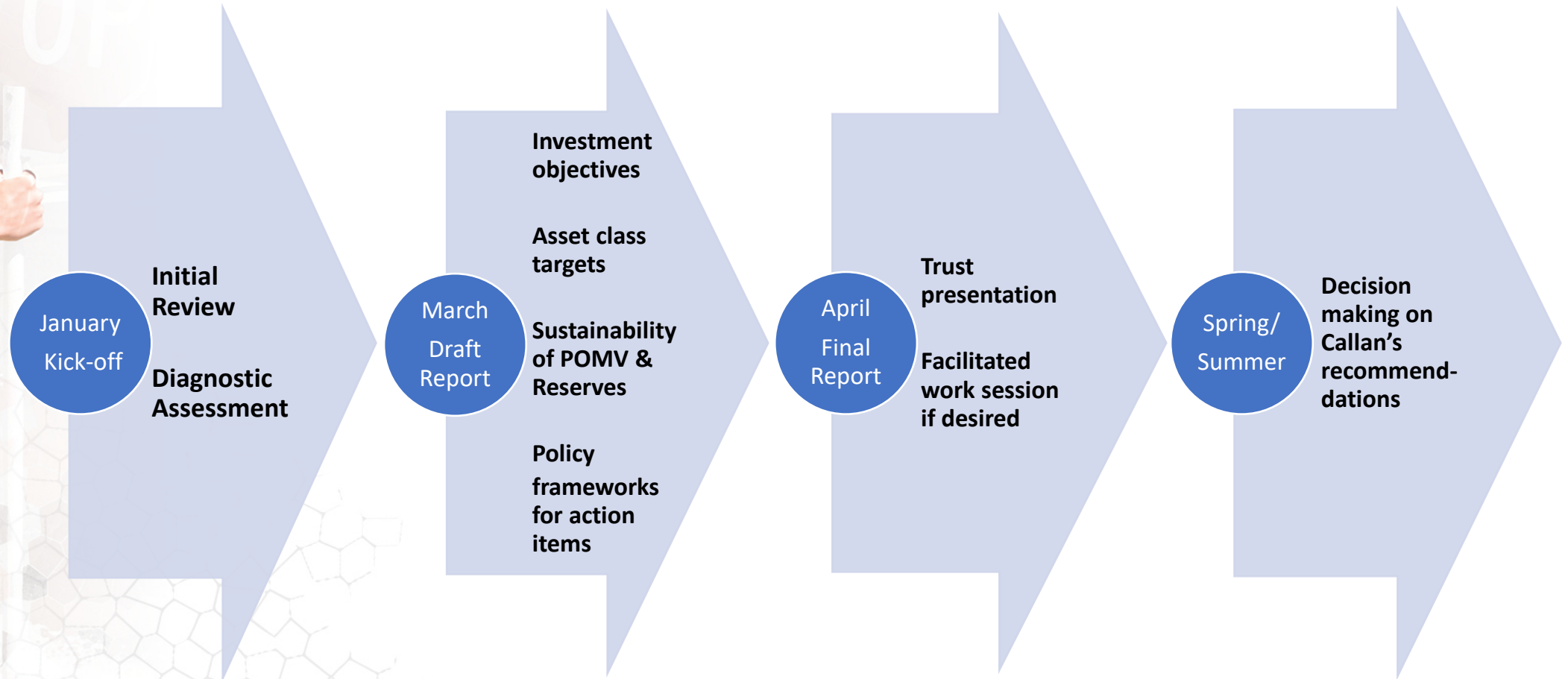
Analysis, evaluations and recommendations on, but not limited to:

- Asset allocation
- Budget reserve sufficiency & POMV spending
- Inflation proofing





# Review Process: January - April





# Trustee Discussion



**To:** Anita Halterman, Chair, Finance Committee  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 22, 2021  
**Re:** Inflation Proofing Update

## Summary

The Trust Authority does not have spendable reserves available to transfer to principal for the purpose of further FY2021 inflation proofing.

- At year-end FY2021, a transfer of \$69,671,600 in earnings to principal was required to achieve parity between the Trust's principal balance and an inflation-adjusted principal balance.
- A \$26,300,000 transfer of earnings to principal was authorized in August 2021. This reduced FY2021 available reserves from 517% of the Trust's FY2021 payout to 408%<sup>1</sup>.
- As of November 2021, available reserves were at 367% of the FY2022 payout, \$11.8MM below the 400% reserve target.

Legislative Audit's August 2021 conclusion that unrealized principal earnings are attributable to principal until realized effectively embeds a layer of purchasing power protection in the principal account.<sup>2</sup>

In 3<sup>rd</sup> quarter FY2022, as part of the Trust's asset allocation study, Callan LLC (Callan) will review Trust inflation proofing policies and potentially make recommendations for the Trust's Asset Management Policy Statement (AMPS).

## Inflation Proofing Expectations and Policy

The Trust strives to provide intergenerational equity, ensuring that the purchasing power of its beneficiary support is maintained over time, regardless of inflation or deflation in the economy. Trustees have discretion regarding how this is done, as is reflected in the following table outlining different policies and amounts of earnings transfers to principal over the past 26 years.

In 1996, Callan Associates provided guidance which established a policy that has been a consistent part of each revision of the Trust's Asset Management Policy Statements (AMPS) since 2004: purchasing power is maintained by using the reserve model.

<sup>1</sup> FY2021 Available Reserves as a Percent of Payout is calculated as Statutory Budget Reserves less Obligations & Commitments divided by the approved FY2021 percent of market value withdrawal, or \$98,628,400/\$24,157,100. As of October 2021 that calculation was \$106,041,200/\$26,510,300.

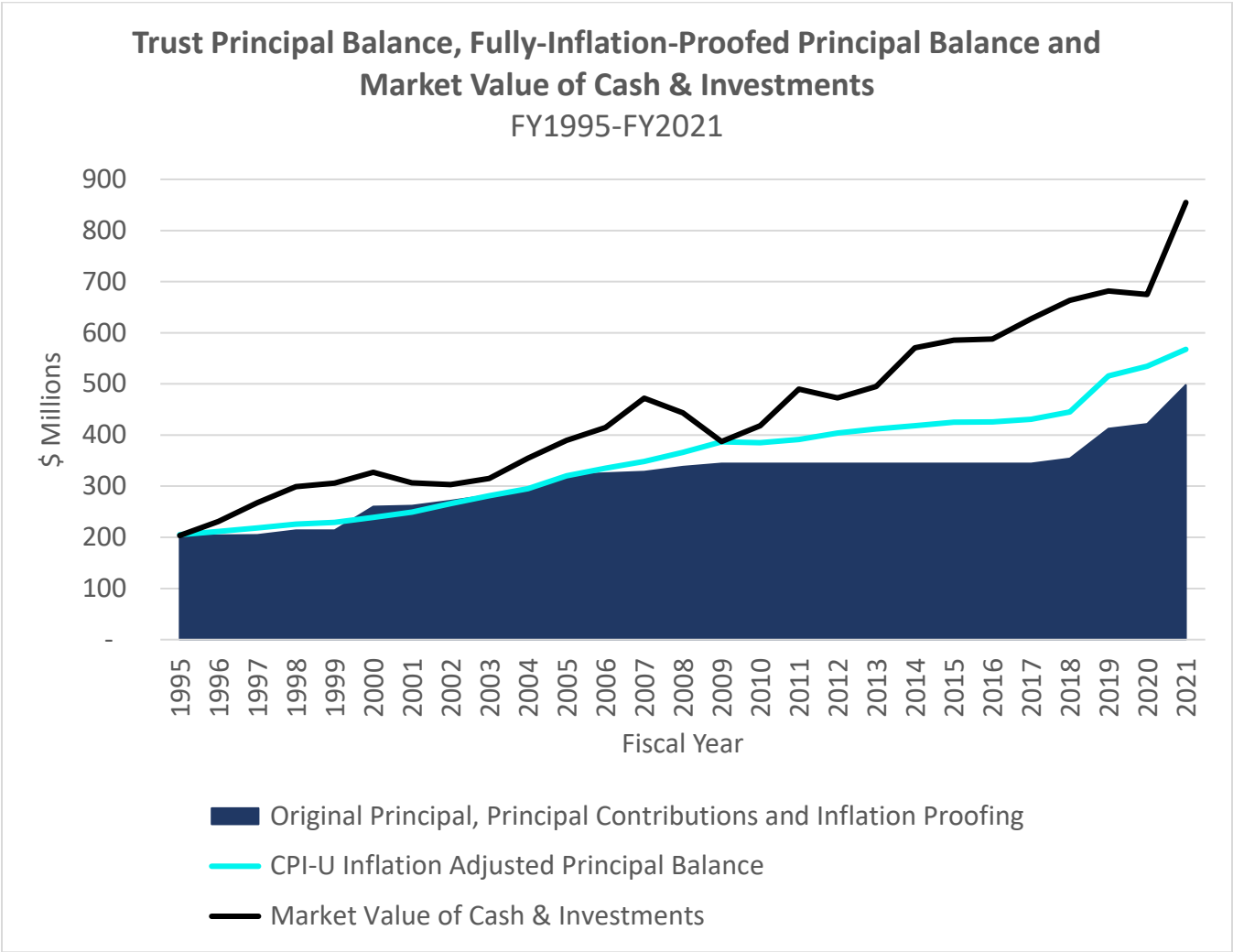
Over time, clarifications to the AMPS and a few revisions have been made (in *italic*). For example, in 2009, the 2004 practice of a mandated transfer of annual earnings in excess of the reserves target was changed to discretionary. In 2019, the ability to assign funds to a budget reserve sub-account beginning in 2011 was eliminated, making all transfers for inflation proofing permanent.

Asset Management Policy	FISCAL YEAR	Transfers
	1995	\$ 3,533,000
Maintain purchasing power, including effects of inflation, by using reserve model, transferring gains exceeding 400% to principal.	1996	Callan Study
	1998	\$ 6,910,543
	2000	\$ 41,544,000
Gains exceeding 400% target <u>will</u> be transferred to principal.	2004	
	2005	\$ 15,337,401
	2008	\$ 2,436,354
Gains exceeding 400% target <u>may</u> be transferred to principal.	2009	
If no provisions for offsetting inflation have been made for a number of years, Reserves may be assigned as an inflation buffer. Trustees may assign inflation proofing to reserves or permanently transfer to Principal.	2011	
<i>No transfer. Assigned reserves</i>	2014	\$ 5,000,000
<i>Removes assignment of reserves as inflation buffer if no provisions have been made for a number of years.</i> Use of earmarked reserves allowed under "draconian market circumstances." Inflation metric: CPI-Urban	2015	
<i>Assigned reserves transferred to principal</i>	2018	\$ 5,000,000
<i>Removes assignment of reserves for inflation proofing.</i>	2019	
	2021	\$ 50,000,000
	2022	\$ 26,300,000

# Inflation Proofing and Health of the Trust

As can be seen in the chart below, in the Trust’s early years, the AMPS policy of transferring excess gains to principal kept the principal balance (solid blue) in relative parity with an inflation (teal line). The difference between the principal balance and an inflation adjusted balance began to grow beginning in 2006 and expand after the 2009 policy change that allowed trustee discretion on transferring earnings gains. The permanent transfers of \$50MM of earnings to principal in FY2021 and \$26.3MM in FY2022 have narrowed this difference.

Nonetheless, the health of the Trust has been strong. Total cash and measurable investments have increased to ensure equitable support of near- and long-term beneficiaries. This is demonstrated by the black line representing the market value of Trust assets. The Trust’s asset health has been achieved by adhering to its reserve and spending policy: by spending less than the real rate of return, trustees have built the Trust’s overall asset value.

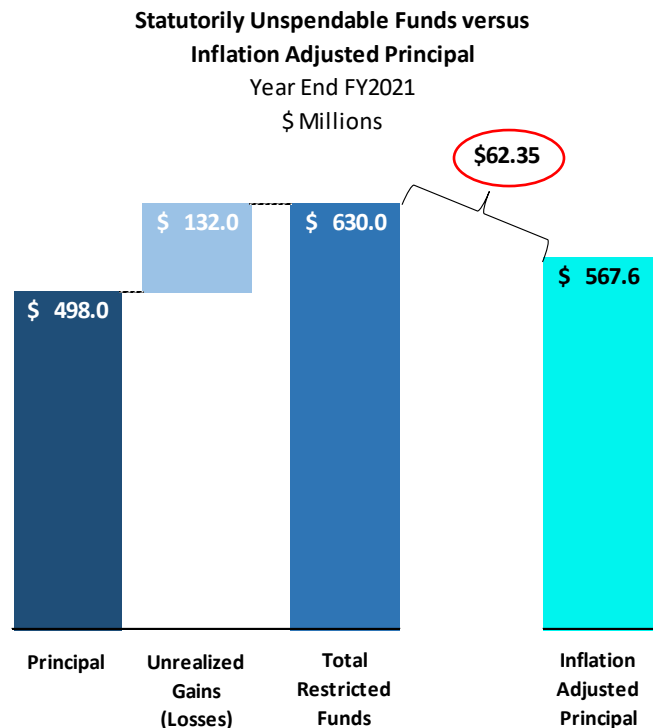


## Statutory Net Income and the Effect on Principal

In August 2021, the State Legislative Auditor observed the Trust should distinguish between total net income and statutory net income (SNI), as is required of the Alaska Permanent Fund Corporation.

By excluding unrealized gains(losses) related to principal from spendable earnings, the combined year-end FY2021 unspendable earnings and principal balances exceed an “inflation-proofed” balance by \$62.35MM. An excess is expected again for FY2022.

With these unrealized gains on principal classed as unspendable, further transfers of realized reserves to principal would diminish trustee spending flexibility and discretion.



## Callan Evaluation

With Callan’s broad and long history of advisory service to endowments, trusts and sovereign wealth funds, the Trust anticipates guidance on a variety of topics related to protecting purchasing power:

1. Best application of inflation proofing methods, be it permanent transfer of reserves to principal, or strict adherence to spending and reserve policies.
2. Perspective on inflation proofing given, statutorily, that unrealized principal earnings are maintained within the APFC-managed principal accounts until realized.

# Trust

---

Alaska Mental Health  
Trust Authority

## Inflation Proofing Update

January 5, 2022 Finance Committee



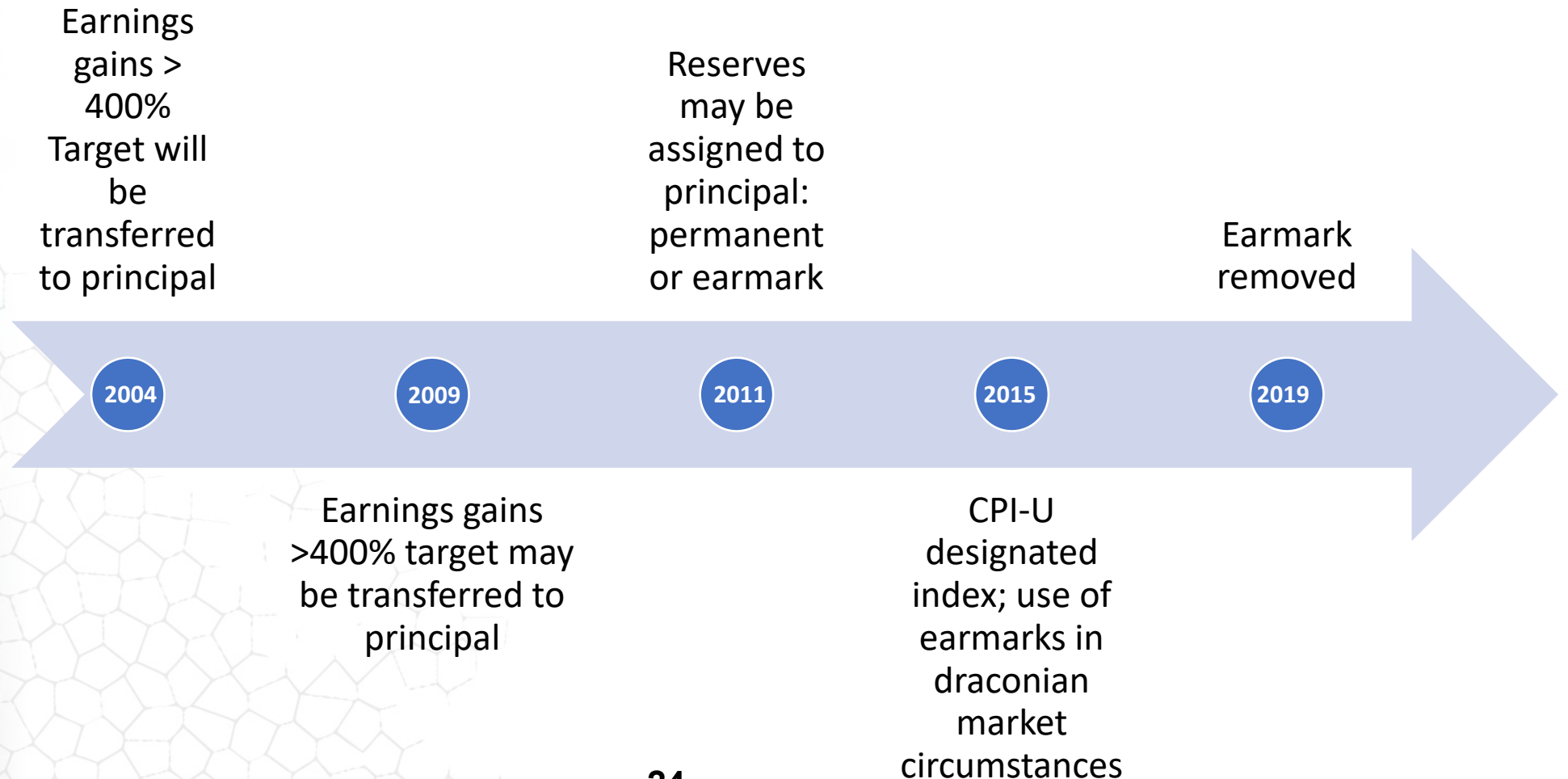
# Additional FY2021 inflation proofing transfers are not recommended

## Status

- Year-end FY2021 difference of \$69.7MM between Principal and Inflation-Adjusted Principal balances
- \$26.3MM fall transfer reduced FY2021 Reserve Target to 408%
- November Reserve Target: 367%



# Policy has varied over time, but consistent thread: use the reserve model to protect purchasing power

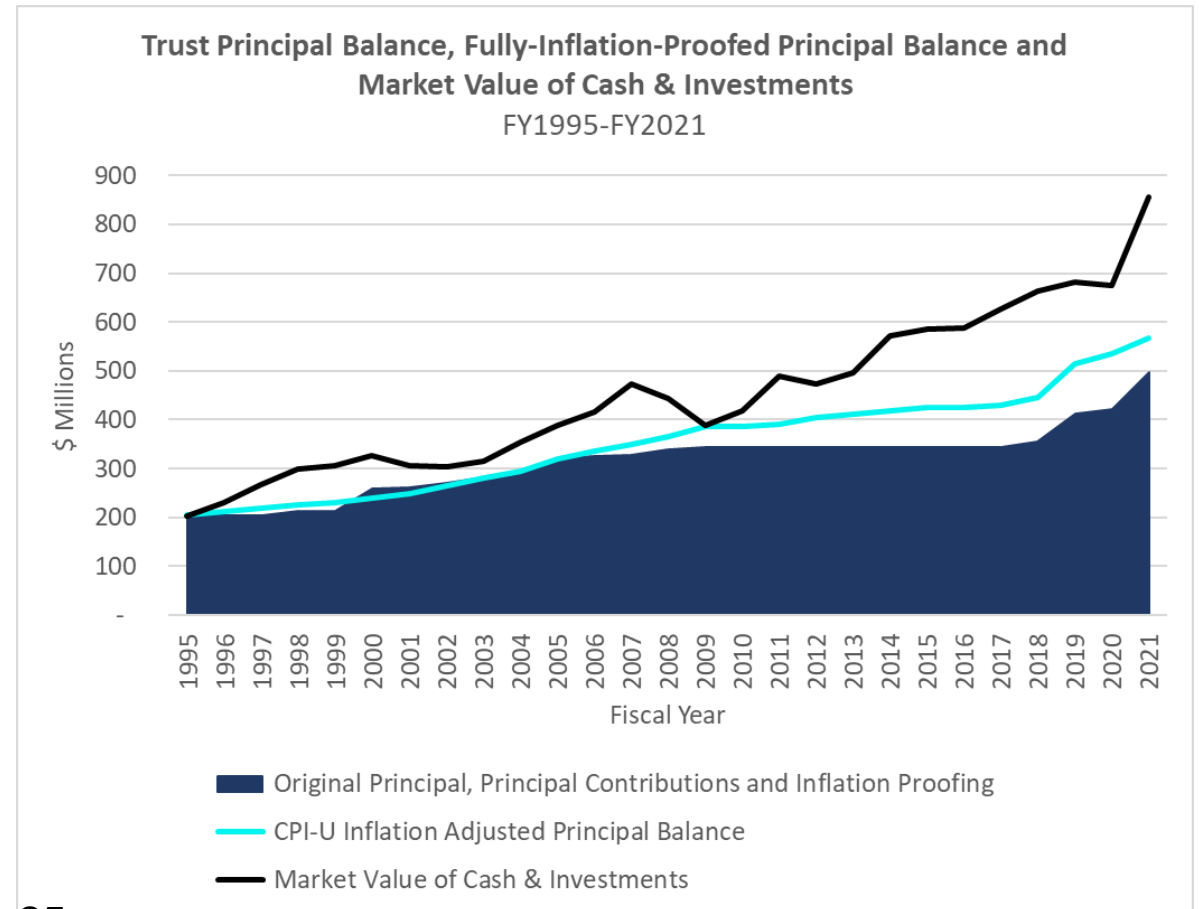




# Trust principal is not in parity with an inflation-adjusted balance, but the Trust Authority is financially strong

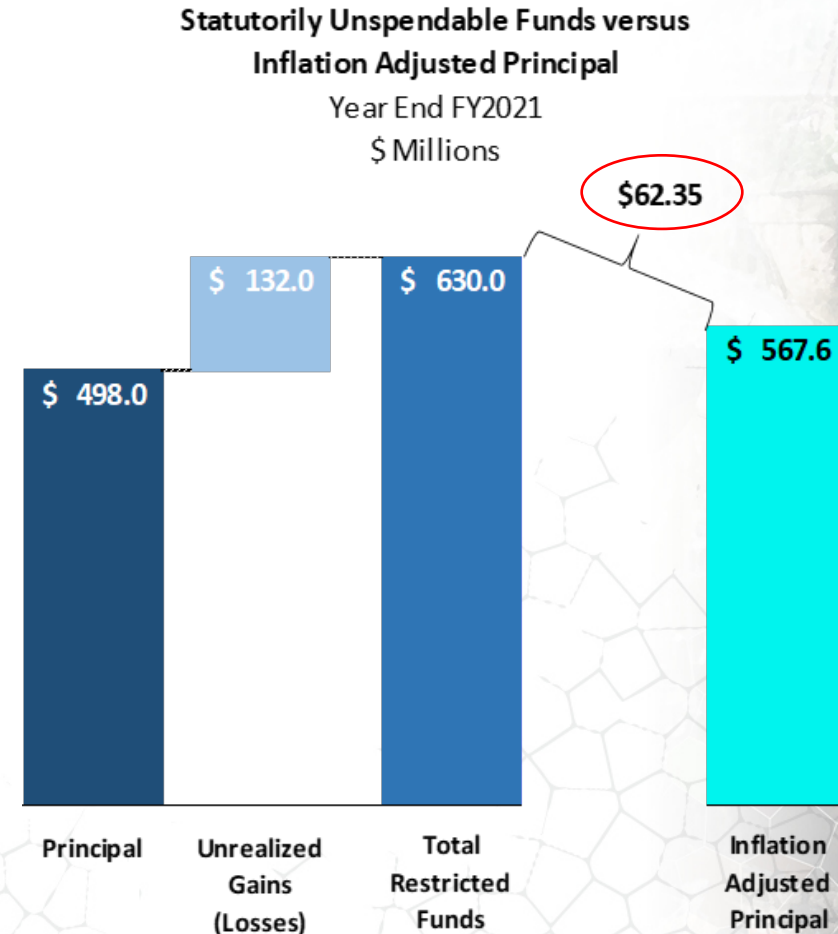
Total cash & investments support:

- Purchasing power
- Reserves
- Current year budget
- Commitments & Obligations



# Statutorily restricted funds embeds a layer of inflation protection

- August 2021 Legislative Audit: account for unrealized gains related to principal within the principal account
- As unspendable earnings, FY2021 restricted funds were \$62.35MM over an inflation adjusted



# Next Steps: Recommendations from Callan

- Callan's 3Q2021 Asset Allocation study will review inflation proofing policies
  - Best practices
  - Perspectives related to Statutory Net Income
  - Trust-specific recommendations





# Discussion



**To:** Anita Halterman, Chair, Finance Committee  
**Through:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** December 22, 2021  
**Re:** No Surplus / Comp Plan Funding Analysis

---

In FY2020, the Trust issued a “no surplus” declaration to emphasize that the Trust had insufficient funds to address the state’s mental health needs and there was no surplus for transfer to the state’s general fund. In July, 2021, the state’s Legislative Auditor recommended that the Trust formalize policies to annually evaluate if Trust income must be transferred to the general fund. Trustees agreed.

This memorandum a) provides background, b) outlines the Trust’s allowable uses of settlement income and c) frames elements for “no-surplus determination.”

### **Background**

AS 37.14.041 (b) states “If money in the mental health trust settlement income account is not needed to meet the necessary expenses of the state’s integrated comprehensive mental health program [Comp Plan], the authority shall transfer the money to the unrestricted general fund for expenditure through legislative appropriation for other public purposes.”

It has been long recognized that

- the Trust has inadequate funding to fully support the Comp Plan, but it is not regularly quantified;
- Trustees manage their fiduciary responsibility to balance support of current and future beneficiary needs through the Trust’s 4.25% spending and 400% target reserve policies; and
- individuals unfamiliar with the Trust’s history and responsibilities may misinterpret the Trust’s principal and earnings balances as “large” and “available” for spending on other mental health and/or general government purposes.

As an example of the latter, at this time last year, the Governor’s FY2022 budget proposed transfer of \$10,297,200 from Trust reserves to a new fund designated for mental health, “with the intent of drawing reserves down over a period of five years.” The \$10.3MM designation for FY2022 was in addition to the 4.25% percent of market value payout approved by Trustees. Had the budget proposal been approved, the effect would have been to reduce the Trust’s ability to provide financial support with equity across future generations.

### **Allowable Uses of Settlement Income (Budget Reserves)**

Alaska statute outlines uses of settlement income in AS 37.14.041:

1. Awarding contracts and grants to ensure a comprehensive mental health program in Alaska;
2. Obtaining state and federal grants, and soliciting gifts and contributions for that purpose;
3. Reimbursement of management cost incurred by the Trust's cash and land managers, Alaska Permanent Fund Corporation and the Trust Land Office;
4. Offsetting the effects of inflation on the Trust's principal; and
5. Meeting the administrative cost of managing the Trust.

Statute also provides for investment use in administration of Trust settlement income. AS37.14.039(b) allows that if the "authority determines that there is a surplus of money in the account above the amount sufficient to meet current and projected cash expenditure needs of the authority, the surplus shall be invested by the authority as provided in [AS 37.10.071](#) [Investment Powers and Duties] for the making of investments by the fiduciary of a state fund. Income earned on investments made under this subsection may be retained by the authority and expended under [AS 37.14.041](#) [Uses of trust settlement income account]."

### **No Surplus Determination Process**

Staff recommend that a no-surplus declaration be framed around:

1. Key question: What are the funding needs the Comp Plan? The amount needed would be updated with each revision of the Comp Plan.
2. Method: Calculation of funding required to achieve all goals "today," in contrast to working within budget limitations over time.
3. Timing: Annually in October. Upon finalization of the prior year's financial statements, a comparison of the Trust's available funds and Comp Plan needs would be made.
4. Approval: Trustee would review and acceptance of the funding requirement/no surplus declaration at the November board meeting, and incorporated in appropriate communication.

# Trust

---

Alaska Mental Health  
Trust Authority

## No Surplus / Comp Plan Funding Requirements Process

January 5, 2022 Finance Committee

# Background

AS 37.14.041 (b) states if monies are not necessary for implementing the Comp Plan, the Trust shall transfer these monies to unrestricted general fund.

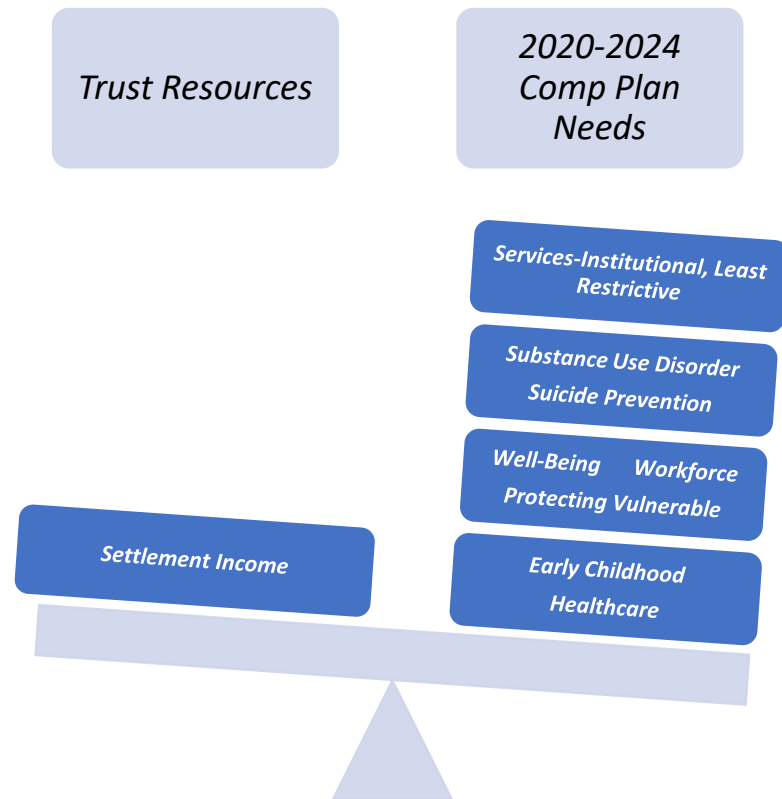
- Potential for misunderstanding Trust funds and fund management
- Alaska's Legislative Auditor recommended formalized policy for annual evaluation
- Objective: FY22 evaluation completed October 2022 Committee Meeting





# How do we address the question?

Are Trust's reserves sufficient to address Alaska's Comprehensive Integrated Mental Health Program Plan?



- Articulate cost to meet Comp Plan goals today
- Compare to available funding
- Update cost needs with each updated Comp Plan

