

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

January 7, 2021

8:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

3745 Community Park Loop, Suite 120

Anchorage, Alaska

Trustees Present:

Anita Halterman, Chair
Rhonda Boyles
John Sturgeon
Ken McCarty
Chris Cooke
Annette Gwalthney-Jones
Verne' Boerner

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:

Wyn Menefee
Sarah Morrison
Jusdi Doucet
David MacDonald
Katie Vachris
Hollie Chalup

Also participating:

Angela Rodell, Steven Sikes; Zachary Hanna; Beverly Schoonover; Kristin Vandagriff; Becky Carpenter; Sheila Harris.

PROCEEDINGS

CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and called the roll. Waiting on Trustee Sturgeon, she then asked for any announcements. There being none, she moved to the approval of the agenda.

TRUSTEE McCARTY stated that he had an ethical question about his understanding from the AG consultant that the board has to meet like we do. His concern was about deferring questions to the Chair and to the CEO to be disseminated at a later time. He believed that violated rules of what the AG advised because it made a kind of back-door meeting about the information, dialogue and decisions.

CHAIR HALTERMAN asked Mr. Abbott for any comments on Trustee McCarty's observations.

MR. ABBOTT replied that there is no prohibition on using e-mail to ask questions and receive information from staff or others. He stated that as long as the information is shared with all of the trustees and is available should there be a records request or some other form of public information request, then it is allowable. He continued that what is not allowable is active deliberations between more than three trustees at a time outside of a public meeting that has been properly noticed. But simply sharing questions and receiving information back does not constitute prohibited activity. He stated that the possibility of convening a special board meeting to include Stuart to discuss matters related to the Governor's proposed budget was discussed. He added that he would be happy to seek guidance related to the concerns that Trustee McCarty expressed, if that is the will of the group. He continued that Stuart could provide potentially written advice. He asked Trustee McCarty to send a note describing the specific request and concern he had, and we will work to get something which then could be shared with the trustees.

CHAIR HALTERMAN moved to the approval of the agenda.

APPROVAL OF AGENDA

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

ETHICS DISCLOSURES

CHAIR HALTERMAN stated that the agenda was approved and asked for any ethics disclosures. Hearing none, she moved to the approval of the minutes.

APPROVAL OF MINUTES

MOTION: A motion to approve the October 21, 2020, minutes was made by TRUSTEE COOKE; seconded by TRUSTEE GWALTHNEY-JONES.

MR. ABBOTT stated that both the agenda and the minutes needed to be voted on.

CHAIR HALTERMAN called a roll-call vote for the approval of the agenda.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, not present; Trustee Halterman, yes.)

CHAIR HALTERMAN called a roll-call vote for approval of the minutes.

After a roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, not present; Trustee Halterman, yes)

STATUTORY UPDATE

CHAIR HALTERMAN asked Mr. Abbott to introduce the speaker for the statutory update.

MR. ABBOTT stated that at least once a year there is an opportunity to hear from the agencies that help manage the Trust's invested assets. That is an expectation that is built into the Asset Management Policy Statement and into the agreement with both the Permanent Fund and the Department of Revenue. He continued that he was pleased and honored to introduce Angela Rodell, the chief executive officer of the Alaska Permanent Fund Corporation. He added that Ms. Rodell and the team at the Permanent Fund Corporation are not just investment managers, but also great partners.

MS. RODELL thanked Mr. Abbott and the members of the committee and stated her pleasure in being there virtually. She continued that there is a lot going on both within the state and throughout the country, and she looked forward to answering a lot of questions about the markets, investment opportunities, and Alaska in general. She began with the asset allocation and stated the importance of how it changed over time. She gave a short history of asset management when the Permanent Fund Corporation was created and how it changed over time, explaining how the asset classes grew. She stated that in 2021 there are eight asset classes with the largest being public equities or stocks. 39 percent of the assets are intended to be invested in those stocks, and 21 percent are in fixed income bonds, comprising the highly liquid, public market aspect of the asset allocation. In addition, there is 7 percent allocated to real estate; 15 percent to private equity; and 9 percent to private income, which is directed at infrastructure type of investments. There is also a small allocation to cash, given market volatility. She explained that private income is the debt instruments that were entered into on a private-market basis between various groups. She moved to understanding the allocation versus the returns to those allocations, which she explained in detail and then talked about diversification from different asset classes and from global diversification. She added that global diversification contributes both from a return and a risk perspective in benefiting the fund growth going forward. She looked at how the fund values and returns have correlated over time and explained how the fund managed to grow. She continued her presentation, explaining the fund performance and answering questions as she went along. She stated her pride in what has been achieved at the corporation and added that they are a really diverse entity with a really diverse board that has generated really good returns for Alaskans. She added that there is a tremendous amount of information on the corporation's website about the investments and their performance and how those things are done.

CHAIR HALTERMAN thanked Ms. Rodell and stated appreciation for her presentation. She asked Carol Howarth to introduce the next speakers with the Department of Revenue for the

Treasury update.

TREASURY UPDATE

MS. HOWARTH introduced Zachary Hanna and Steve Sikes with the Department of Revenue Treasury. Mr. Hanna was promoted to the chief investment officer this past fall and was deputy investment officer for over three years. He has been with Treasury for almost 20 years. He earlier managed private equity. She stated that Steven Sikes was the investment officer over at DOR which plays an important role for the Trust in managing the cash assets, as well as the budget reserves.

MR. SIKES began with some more of his background, stating that with Mr. Hanna being named the new CIO, he was asked to become more involved with the Alaska Mental Health Trust portfolio. He continued that they look forward to helping the Trust with its asset allocations and the financial policymaking going forward. He added that his goal was to provide an overview and background of the Treasury division; provide a portfolio overview and performance review; talk about the process in setting asset allocation, and provide some insight into the upcoming annual process that is being undertaken now. He explained that the Treasury division includes all the primary functions in estate finance organizations, including cash management, compliance, accounting, operations, and portfolio management. He stated that investments are managed directly by the portfolio management section, which is made up of 15 investment professionals located in Juneau, Alaska. He added that while many of the functions are similar, it is a separate organization from the Alaska Permanent Fund Corporation. He continued that most of the funds are under the fiduciary responsibility of the Alaska Retirement Management Board, with experts across all major asset classes. There are also experts that manage several fixed income and equity portfolios internally. He then moved into the Alaska Mental Health Trust portfolio and stated that the pieces managed are the short-term piece and the medium-term piece. There are three accounts managed as part of the GeFONSI pool. GeFONSI stands for the General Fund and Other Segregated Investments. This pool holds accounts that require a minimal exposure to principal loss and is always to maximize current income with moderate risk tolerance. The second portfolio is the Alaska Mental Health Trust reserve account; the larger of the funds. This asset allocation is designed around a medium-term time horizon reflecting funds that may be needed over a five- or seven-year time period. He continued that these funds are to balance the goals or preservation of capital and asset growth. He moved to performance and reviewed the assets invested in GeFONSI. He then continued to the budget reserve portfolio which is invested more aggressively with a medium-term horizon. The asset allocation of this portfolio is established by the Alaska Mental Health Trust Board and implemented by the Treasury division. The Trust has been compensated for taking more risk over the trailing 10-year period; and the account fared well through the pandemic, earning a 13 percent return over the trailing one-year period. He then explained a graphical representation of the growth of the account since inception. He went over the challenging times for investors because return expectations are declining. He stated that the Commissioner of Revenue established an independent advisory committee to review and provide some independent feedback on decisions and approaches. This committee will meet regularly with the Commissioner and CIO to review State investments. He continued his presentation and explained as he went along. He stated that Treasury staff looks forward to assisting the Alaska Mental Health Trust Authority in its work in managing its asset allocations. Diversification, cost and asset allocation will be keys to success going forward. He concluded his prepared remarks and moved to the questions.

MR. HANNA filled in answering questions after Mr. Sikes developed technical difficulties. He explained that the assumptions were used last year to come up with the asset allocation used for the Alaska Mental Health Trust and for other funds that are managed for the State. He continued that the expectation is those would come down materially looking forward as the process is gone through this year. He explained in greater depth and detail.

CHAIR HALTERMAN asked for any other questions. There being none, she asked Mr. Abbott if he had anything before the break. She also stated, for the record, that Trustee Sturgeon had joined the meeting.

MR. ABBOTT stated that, unless he is contacted by a trustee with new information, a meeting would be noticed for next Thursday at 2 p.m.

CHAIR HALTERMAN called a break.

(Break.)

CHAIR HALTERMAN called the meeting back to order and began with a roll call. She moved to the staff report items, the financial dashboards, and inflation-proofing conversation. She recognized Carol Howarth.

FINANCIAL DASHBOARD

MS. HOWARTH began with the November dashboard, noting that the December financials would not be available until later in the month. She thanked Katie Vachris, Kat Roch, Valette Keller, the folks at the Department of Revenue and Jackie Mallinger from the Permanent Fund Corporation for their contributions to this quarterly report. She went through the Trust expenditures, then the revenue, and then the asset base in her presentation, explaining as she went along

MR. ABBOTT stated that the discussion highlighted that three different policies or components were contemplated in the development of the Asset Management Policy Statement and strategy being used. The first is the 4.25 percent; second is the 400-percent reserve target; and the third is inflation-proofing. He clarified that shifting money between reserves and the Trust Fund would not affect the payout which is currently 4.25 percent of the combined reserves and Trust Fund.

INFLATION PROOFING

MS. HOWARTH reminded the trustees that a year ago we were discussing inflation-proofing, and it was on the April Finance Committee agenda. In March there was a market downturn, and we were below the 400 percent target; so the issue was moot and set aside. She framed the discussion by first reviewing the Trust statute and policy; then seeing how inflation-proofing could be managed; looked at inflation-proofing activities to date; the trustee guidelines; looked at the actual inflation-proofing needs we have; and wrapped up with the requirements and discretion before moving into a discussion about inflation-proofing. The discussion continued.

MR. ABBOTT suggested either continuing this conversation at a subsequent Finance Committee meeting, or a special meeting, or the next meeting in April. He stated that there are four action items on the committee agenda that the trustees need to address.

CHAIR HALTERMAN stated that she would be interested in moving this discussion to a special meeting because there are votes to take up in April.

MR. ABBOTT recommended that he and Ms. Howarth talk with the Chair after the meeting and work on a plan for a special meeting and the materials necessary to support that.

CHAIR HALTERMAN agreed, and stated the conversation over inflation-proofing will continue at the next meeting.

MR. ABBOTT clarified that there was no motion proposed on inflation-proofing at this time.

CHAIR HALTERMAN moved to the approval of the motions on the agenda.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees authorize the transfer of \$24,157,100 from the Alaska Permanent Fund Corporation Budget Reserve Account to the Mental Health Settlement Income Account to finance the FY21 base disbursement payout calculation, and that the CFO may fulfill this motion with one lump sum or multiple transfers was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

TRUSTEE McCARTY asked about the need to transfer funds.

MR. ABBOTT explained that this transfers money from the reserves to the operating account to help pay for the FY21 operations, grant-making, and administrative functions. He continued that this is taking the 4.25 percent out and spending it as it was done every year.

CHAIR HALTERMAN stated that this does not prohibit coming back with a new motion at some point to transfer additional funds for a program if needed.

TRUSTEE COOKE explained that this is the annual draw from the Permanent Fund to fund the operations and programs.

CHAIR HALTERMAN called the question and called the roll.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

CHAIR HALTERMAN moved to the next motion.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees authorize the expenditure of \$295,000 from the Central Facility Fund for the second year renewal of the RFP20-013M real estate adviser contract was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT explained that every year the trustees approve a budget for the Central Facility Fund, which is used to cover expenses associated with the commercial real estate investments. He stated that when the FY21 budget for the Central Facility Fund was approved, the costs of the Alaska Mental Health Trust Authority

real estate consultant were intentionally not included because there was an expectation of renegotiating the price of that contract. He added that, at that time, the trustees were told that staff would come back and bring forward a request like this to fund that contract. He stated that this is for the Harvest Capital Partners contract, the real estate consultant that was hired a little more than a year ago. The original contract was \$380,000 per year. Ms. Howarth and the TLO were able to secure a contract with Harvest for Year 2 that is approximately 20 percent less expensive. The funding for that contract is the motion before the trustees.

CHAIR HALTERMAN called the question with a roll call.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

CHAIR HALTERMAN moved to the next motion.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees determine that no Trust funds exist above the current and projected needs of the beneficiaries of the Alaska Mental Health Trust was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT explained that this motion is similar to a motion made last year, endorsed by the Full Board at the end of the month, that addresses the issue related to a trustee determination of a surplus. The settlement specifically provides that if the Trust accumulates assets that are in excess of what is necessary to meet the needs of beneficiaries, that those funds would be transferred to the Alaska General Fund. He continued that this was an opportunity for the trustees to determine that no such surplus exists. Later in the memo it describes the expectations for beneficiary requirements that lead to that conclusion.

CHAIR HALTERMAN stated that the purpose of this memo is to stress what statutorily is allowed. She continued that this in no way binds any actions of the Board any further and will not restrict in any way. It puts the Legislature and the Administration on notice that no surplus funds were received and do not exist within the budget.

A discussion ensued.

MR. ABBOTT suggested tabling the motion at this time. There is an executive session currently scheduled for next week, and it can be brought back for the Full Board to consider in late January. There is no ultimate requirement that this have a Finance Committee recommendation.

MOTION: A motion to table the requested motion was made by TRUSTEE BOYLES; seconded by TRUSTEE GWALTHNEY-JONES.

CHAIR HALTERMAN explained that the motion before the board is being tabled; therefore, no action needs to be done on the original motion. She called the question.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

CHAIR HALTERMAN moved to the final motion.

MOTION: A motion that the Finance Committee recommend that the Full Board of Trustees authorize the incorporation into the principal loan balances of commercial real estate, refinancing the costs required to complete the refinancing transactions. These include costs related to financial and legal review, closing and due diligence, commercial brokerage fees, prepayment fees, legal fees related to the portfolio creation, and any other usual and customary mortgage costs was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

MR. ABBOTT apologized and stated this motion will address something that was inadvertently omitted from the authorization to refinance the commercial real estate debt that the trustees acted on a couple of months ago. At that time, an allowance should have been made for the refinancing, in addition to the principal amounts of the debt and the other costs related to it. That is the typical approach in refinancing and is the one recommended here. He clarified that the models were presented for the costs of refinancing and included those costs in the examples. Explicit authority to include the costs in the refinancing was not done. He added that, in order to complete the process, clear authorization from the trustees that these additional fees and costs can be covered with the refinancing is needed. He went through the transactional expense in more detail.

A discussion ensued.

CHAIR HALTERMAN called the vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

MOTION: A motion to adjourn the meeting was made by TRUSTEE COOKE; seconded by TRUSTEE BOYLES.

After the roll-call vote, the MOTION was APPROVED. (Trustee Boerner, yes; Trustee Boyles, yes; Trustee Cooke, yes; Trustee Gwalthney-Jones, yes; Trustee McCarty, yes; Trustee Sturgeon, yes; Trustee Halterman, yes.)

(Finance Committee meeting adjourned at 12:32 p.m.)