

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

April 20, 2022

8:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

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

Trustees Present:

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

Trust Staff Present:

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

Trust Land Office staff present:

Jusdi Warner
Sarah Morrison
David MacDonald
Marisol Miller
Hollie Chalup
Jeff Green
Becky Carpenter
Chandler Long

Also participating: Agnes Moran; Steve Center.

PROCEEDINGS

CALL TO ORDER

CHAIR FISHER called the meeting to order and began with a roll call. He moved to the agenda.

APPROVAL OF AGENDA

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

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

CHAIR FISHER asked for any ethics disclosures. There being none, he moved to the approval of minutes.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from the previous meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

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

CHAIR FISHER introduced Agnes Moran, whose name was submitted as another member of the Board of Trustees at the Alaska Mental Health Trust Authority. He asked her to introduce herself.

MS. MORAN stated that she was born and raised in Ketchikan with a background in electrical engineering. In 2017, she took over Women in Safe Homes and has been working directly with Trust beneficiaries since that time. She continued that she is passionate about homelessness and chronic inebriates and anyone that has been subjected to violence. She added that she had been on the board of directors of First Bank since 2003 and has some fiduciary background. She was very excited to be here.

CHAIR FISHER thanked Ms. Moran and stated that it was nice to learn a bit about her, and he looked forward to getting to know more once everything goes through the process.

CEO FINANCE REPORT

CEO WILLIAMS stated that Carol Howarth had a personal emergency and Kat Roch would be filling in. He began the update and reflected on the fact that the two-year mark of the pandemic is coming up. Trustees have seen both the impacts to the operations of the Land office, as well as the Authority office. He highlighted the ability to adequately adjust and adapt with the ability to carry out the mission without missing a step. There is a more robust engagement with folks in Rural Alaska in many of the activities, focus areas and initiatives. The Zoom technology has allowed for that. The ability to adapt to the unanticipated pandemic with costs that were not built

into budgets caused the organization to contract and really try and focus on the immediate things. He stated that Julia Moriarty and Steve Center from Callan will present on asset allocation and the Trust's assets and how the trustees should view those assets. It will be positive and something that should be noted.

CHAIR FISHER noted that Trustee Boyles was present.

MS. ROCH stated that she is the budget controller. She walked the trustees through the dashboard, explaining and answering questions as she went along.

CEO WILLIAMS highlighted a few things for Agnes who was not familiar with the dashboard and provided a bit of a refresher for trustees. The Mental Health Trust Fund is the corpus of the Trust; that is the principal. Those are the funds that, by statute, have to be managed and are invested at the Alaska Permanent Fund. He commented on the reserve target and stated that they were 15 percent above the target.

MS. ROCH continued her presentation until it was finished.

CHAIR FISHER thanked Ms. Roch for stepping in at the last minute. He moved to the next agenda item.

ASSET ALLOCATION

CEO WILLIAMS introduced Steve Center and Julia Moriarty from Callan. He stated that one of the core responsibilities of the trustees and the Trust was to look at the asset allocation periodically, review it, and identify where there may be opportunities for change that would have the most impact for the beneficiaries currently and into the future. He continued that the Trust put out an RFP, and Callan was the successful contractor.

MR. CENTER thanked the trustees for trusting Callan with this project. He stated that he is an investment consultant with Callan. He has been with Callan for 12 years, and in the institutional investment consulting industry for just under 25 years. Callan is an investment consulting firm that works with just over three trillion in assets; primarily, with public pension plans, endowments, foundations, corporate pension plans and defined contribution plans. Callan helps institutional investors with things like asset allocation, manager selection and oversight. He continued that he has worked directly with the Permanent Fund for the last seven-plus years, and the Alaska Retirement Management Board for the last six years.

MS. MORIARTY stated that she co-managed the capital markets research group which conducts studies such as this for Callan's clients. She has been with the firm for 32 years; her first job out of college. This was her second trip to Anchorage. Her last time here was when she conducted the study about 10 years ago.

MR. CENTER began with a brief high-end summary of what the project entailed, and then talked about Callan's capital market expectations, how those are formulated, how they are used in all their projections; and how they are the engine that runs the simulations that have been conducted to analyze a couple of different asset allocation decisions, spending policy decisions, and things of that nature. Ms. Moriarty will talk about the assumptions that were used

underlying the Trust as a whole. He stated that Callan was retained by the Trust to look at inflation-proofing, the spending rate, reserve policies, the overall asset allocation within the Department of Revenue reserves portfolio, rebalancing policies, and the overall incorporation of the Trust Land assets into the asset allocation and spending work. He continued that all of the analysis is based upon fiscal year-end numbers, so that included about a \$9 billion overall balance. This is all based on June 30, 2021, data. He added that the Trust is made up of four primary investment buckets. The first is the corpus held at the Alaska Permanent Fund, the Department of Revenue reserve portfolio, the GeFONSI portfolio or the General Fund and other nonsegregated fund's portfolio, and then the assets held at the Trust Land Office. Callan conducts asset spending studies primarily for endowment funds, and the Trust is structured like a traditional endowment fund. The focus on these studies is to look at asset allocation, what dials can be turned from an asset allocation standpoint to change the risk/return profile of the investable assets, but also to look at decisions related to spending policies. The other thing looked at was investment policies. The goal is, No. 1, to maintain the corpus of the Trust on an inflation-adjusted basis; No. 2, benefit existing beneficiaries and future beneficiaries in a similar way. This is the concept of intergenerational equity. The goal in the study is to create an intergenerational equity spending policy where future beneficiaries are benefited as much as current beneficiaries, and vice versa. He continued his slide presentation, describing and answering questions as he went along. This goal is to invest or create a portfolio that is diversified across multiple asset classes with the hope of lower correlation around the various asset classes over time. He asked for any questions about Callan's capital market expectations and how they were derived. He asked Ms. Moriarty to continue and talk about the assumptions used for the Trust.

MS. MORIARTY reviewed the starting point for the analysis and the assumptions underlying the results. She talked about the schematic that gave an overview of how the Trust was structured and walked the trustees through it. She moved on to the current inflation-proofing structure, which used the same mechanics as the APFC: the corpus of the Trust is compared to an inflation-adjusted target to determine if the Trust is maintaining purchasing. The actual corpus of the Trust grows by TLO principal inflows and any inflation-proofing deposits. She stated that the recommendation is to attempt to identify a long-term asset allocation policy that meets spending, expenses and inflation, and to consider possibly moving to a simplified percentage of market value spend.

A brief discussion and explanation ensued which led back to inflation.

MS. MORIARTY explained the asset allocation policies for the three main funds along with their expected return and risk levels. She noted that while the APFC has the highest expected return, it also has the highest risk level. The only asset allocation where there is control is the DOR. She continued to the spending policy and then the projected principal and spendable income. She moved to the analysis and stated that the first is the spend rate. She looked at the Trust growth over the next 40 years and showed that it was projected to grow dramatically over that time. She illustrated the impact of inflation and continued the presentation.

CHAIR FISHER called a 15-minute break.

(Break.)

CHAIR FISHER called the meeting back to order and continued the great presentation from Callan. He stated his appreciation for all the detail and all the answers to questions from the members of the Board of Trustees.

MS. MORIARTY moved to asset allocation and stated that they were tasked with looking at the funds that were available at the DOR that are currently not being utilized. There is a refund, but given the commercial real estate portfolio and the real estate at APFC and the fact that REITs are in the equity indices it did not make sense to include it here. They did look at the impact of adding the Fidelity Tactical Bond Fund and added it at 20 percent of the fixed income allocation or 8.8 percent of the total fund. She then showed the resulting impact on assets and spending. There was a brief overview of the fund now used at ARMB. It provided a diversified exposure to the fixed income market. It is a very core-plus or opportunistic-type fund and seeks to outperform the aggregate index with a 3 to 6 percent volatility level. The team demonstrated success in generating alpha primarily through security selection and sector rotation. There has been consistency in the implementation process in generating excess returns. This would be recommended for inclusion as a suitable investment to a broad fixed-income portfolio. She went through the outcomes and came to the conclusion that it would be reasonable to include Fidelity in the fixed income portfolio at the DOR. She continued through her presentation.

MR. CENTER talked about rebalancing, which was another variable that was tweaked in the model. He added that there were many different ways to look at rebalancing, and he went through some of them. Selecting a rebalancing policy would have an impact in the long-term returns to the Trust as a whole. The final is called tactical asset allocation, which is thinking that you know what the best asset class is and you overinvest in that asset class. It is hard to do and not recommended. The recommendation is to have a strategic asset allocation and have a solid rebalancing policy. He recommended that the Trust consider moving to a range-based rebalancing policy with the caveat that the recommendation came from Callan.

A question-and-answer discussion ensued.

MS. HOWARTH elaborated on the question of the DOR appetite and found the recommendation of Callan very intriguing because they manage so many funds. It is not something that can be implemented quickly.

The discussion continued.

MR. CENTER moved to the recommendations related to land. The first is that they did not recommend incorporating the land assets into the asset allocations and spending framework. Most of the work in this report did not integrate the land outside of the income generation that the land assets generated. Also not included is the valuation of the real estate within the overall Trust. The second recommendation was that the Trust continues to work with Harvest, the third-party advisor, and in accordance with the Asset Management Policy Statement, to review the opportunities to sell the commercial real estate properties as they arise over time with the proceeds transferred to the Alaska Permanent Fund.

CEO WILLIAMS underscored the recommendation with the discussion around Harvest. He

reminded the trustees that was the reason Harvest was under contract on an annual basis, which will happen midsummer.

MR. CENTER stated that was the final recommendation from the study, and we have a summary of all of the observations and recommendations. He opened the floor up to questions about the recommendations that came out of the asset allocation and spending study.

A brief question-and-answer discussion ensued.

CHAIR FISHER stated his appreciation to for the presentation. He called a five-minute break.

(Break.)

CHAIR FISHER stated that all of the presenters were in place and asked all to take their seats. He asked Ms. Warner to introduce the presenters.

COMMERCIAL REAL ESTATE

MS. WARNER introduced David MacDonald, senior commercial real estate manager, and Marisol Miller, a commercial real estate asset manager. Mr. MacDonald would do the bulk of the presentation.

MR. MACDONALD began with a chart that showed 150 years of the equity markets and stated that it was the S&P composite index, which is about 90 percent of the U.S. capital markets on the equities side. He stated that Amber Oaks and North Park experienced vacancies through the pandemic. Amber Oaks is back up to 93 percent occupancy, and there are two new leases with two new prospective tenants which will take that to 100 percent. North Park was lagging behind, but it is a high-quality asset that had performed well historically and provided a good stable cash flow to the Trust. He provided a framework to the supply and demand for the office markets on a national basis. He continued his presentation to Austin, which is a unique market because of the exodus out of California, particularly Silicon Valley, and became a very strong financial center and tech hub. It is being called Silicon Hills. It is unique because there is no other market like it in the U.S. He continued his presentation, explaining as he went through the slides. He added that caution is the best key word to keep in mind as they go forward with the portfolio. He asked for any questions.

A brief question-and-answer discussion ensued.

MR. MACDONALD stated that the market is active right now, and we want to capitalize on that and not miss out on the opportunity.

CHAIR FISHER thanked him and called for a lunch break.

(Lunch break.)

CHAIR FISHER welcomed all back and moved to the next portion of the meeting which would be about motions. He began with the commercial real estate. He asked Ms. Warner to explain the two motions with regard to the commercial real estate.

CEO WILLIAMS recommended putting the first motion on the table, and then moving to the explanations.

MOTION: A motion that the Finance Committee recommends that the Alaska Mental Health Trust Authority Board of Trustees approve the incremental building expenditures, totaling \$12,291,087 budgeted for the fiscal year 2023 to be paid by the property manager from rents, cash reserve, other income collected from the properties and the Central Facility Fund was made by TRUSTEE FIMON; seconded by TRUSTEE HALTERMAN.

MS. MILLER stated that every year the TLO presents the annual budget for both the commercial real estate and the program-related real estate budget to the Board for approval. She continued that the incremental spending included the capital and operating expenses for each of the assets in the commercial real estate and program-related investments. She went through the budget and explained as she went along.

CHAIR FISHER called the motion and the roll-call vote.

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

CHAIR FISHER moved to Motion No. 2.

MOTION: A motion that the Finance Committee recommends that the Trust Authority Board of Trustees approve funding and instruct the CFO to transfer up to \$31,311 to the third-party property manager, as requested by the TLO, for operating expenses and capital expenses for the noninvestment/program-related real estate and REMP real estate properties from the Central Facility Fund for the fiscal year 2023, which appropriation shall not lapse was made by TRUSTEE STURGEON; seconded by TRUSTEE BOYLES.

MS. MILLER stated that the Board previously created a Central Facility Fund as an avenue for assets that could not meet their financial requirements. The Trust Authority Building is inhabited by predominantly the Trust Authority and also program-related beneficiaries. The request is \$5,002 for the Trust Authority Building for operating expenses due to a shortfall. Also requested was \$26,300 for Amber Oaks, which was significantly impacted during COVID due to a loss of tenancy. There are reserves in the building, but we anticipated this shortfall as a one-time lease-up cost that will be included in this year's expenses.

CHAIR FISHER called the vote.

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

CHAIR FISHER moved to the next motion, the third-party real estate adviser budget.

MOTION: A motion that the Finance Committee recommends the Full Board of Trustees' approval authorizing the spending of \$265,000 from the Central Facility Fund for FY2023 independent third-party real estate advisory services was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

MS. HOWARTH gave a bit more historical background on the motion. When the legislative audit occurred there were three categories of options that were looked at for the commercial real estate. One was to transfer these assets into the Permanent Fund for management; another was to have it independently managed; thirdly was to have the Trust Land Office to continue managing the assets. The recommendation by the legislative auditors was to have an external third-party adviser involved in this, and that was an action that the Trust took. Harvest was awarded that contract at \$380,000 a year. It was subsequently reduced to \$295,000 in the second year, and is now at \$265,000.

CHAIR FISHER called the vote.

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

CHAIR FISHER moved to the Department of Revenue budget reserve asset allocation.

MOTION: A motion that the Finance Committee recommends that the Full Board of Trustees approve the following asset allocation for Budget Reserves managed by the State of Alaska Department of Revenue effective July 1, 2022: Asset allocation, broad U.S. equity target holding 43 percent, target range, plus or minus 5 percent; international equity target holding 26 percent target range, plus or minus 5 percent; core U.S. Fixed Income, 30 percent target holding, plus or minus 5 percent target range; cash equivalents, 1 percent, target range minus 1 percent over 2 percent was made by TRUSTEE BOYLES; seconded by TRUSTEE HALTERMAN.

MS. HOWARTH stated that Callan made some recommendations with regard to the asset allocation. One was to shift the equity holding up to 70 percent with regard to the DOR-managed budget reserves, and also to add into the fixed income the Fidelity Tactical Fund. The Department of Revenue has fiduciary responsibility and authority to make changes in asset allocation, but they prefer to ask clients for approval, which is why this motion is on the floor.

TRUSTEE BOYLES stated that she was conflicted on this and did not like seeing investments not be more cash strong. She liked the idea of keeping cash. She was going to vote against this because she was nervous about what the next 12 to 24 months would bring.

A brief discussion ensued

MR. SIKES clarified the cash equivalent number and rebalancing interests across State funds. He stated that the Mental Health Budget Reserve is the only fund that does not have a cash target. This would satisfy the rebalancing mechanism and expected the cash balance in the Budget Reserve to be closer to zero than one.

The discussion continued.

TRUSTEE BOYLES asked Ms. Howarth if she agreed with this move if it was her money.

MS. HOWARTH replied that she agreed on two factors: One was that Callan made the recommendation; and second, the Department of Revenue analyzed this and made their recommendation.

TRUSTEE BOERNER stated that she was comfortable with that, but also said that this is a recommendation to the Board, and we can still revisit it at the next meeting.

TRUSTEE COOKE concurred and stated that it was a Finance Committee recommendation and if approved would go to the Board at the next meeting in May. This would still allow time to be implemented by the Department as of July 1st or if, on reflection, the trustees thought that the matter deserved study, it could occur at a later time.

The discussion continued.

TRUSTEE BOYLES called the vote.

After the roll-call vote, the MOTION was APPROVED. (Trustee Sturgeon, yes; Trustee Halterman, yes; Trustee Fimon, yes; Trustee Cooke, yes; Trustee Boyles, no; Trustee Boerner, yes; Chair Fisher, yes.)

CHAIR FISHER stated that the motion passed and would go to the Board at the next meeting. He thanked all for the good discussion. He suggested that Trustee Boyles get together with Mr. Williams or Ms. Howarth and give them a list of things to be clarified. He moved to the next item, TADA transfer limit.

MOTION: A motion that the Finance Committee recommends the Full Board of Trustees authorize the CFO to periodically transfer the Trust Authority Development Account funds to the Mental Health Trust principal account managed by the Alaska Permanent Fund Corporation, maintaining a minimum balance of \$699,279 until the USFS land exchange is permanently closed. Thereafter, the balance may reach zero. This authorization does not lapse and was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

MS. HOWARTH stated that, since inception, the Trust Land Office would task principal income to do improvements on land. In 2019, the Asset Management Policy Statement was changed to say land improvements would come from the reserves or spendable income rather than principal income. At the beginning of the year, there were three legacy projects: Icy Cape '18; Icy Cape '19; and U.S. Forest Service land exchange. This is the TADA account, the Trust Authority Development Account, and is basically a throughput account where principal goes into that account for ultimate transfer to the Permanent Fund which is outside the Department of Revenue system. There is one project left, and that is the U.S. Forest Service land exchange project.

A brief discussion ensued.

CHAIR FISHER called the vote.

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

CHAIR FISHER stated that was the last item for the agenda and asked for any other comments or questions.

MOTION: A motion to adjourn the meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

(Finance Committee meeting adjourned at 1:39 p.m.)