

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

October 19, 2022

11:25 a.m.

WebEx Videoconference/Teleconference

Originating at:

**Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska**

Trustees Present:

Brent Fisher, Chair
Verne Boerner
John Sturgeon
Anita Halterman
Agnes Moran
Rhonda Boyles
Kevin Fimon

Trust Staff Present:

Steve Williams
Katie Baldwin-Johnson
Carol Howarth
Miri Smith-Coolidge
Kelda Barstad
Luke Lind
Michael Baldwin
Valette Keller
Autumn Vea
Allison Biastock
Eric Boyer
Debbie DeLong
Travis Welch
Jimael Johnson
Carrie Predeger

Trust Land Office staff present:

Jeff Green
Sarah Morrison

Also participating:

Val Mertz; Shane Carson; Patrick Reinhart; Lesley Thompson; Beverly Schoonover; Josephine Stern; Blain Alfonso; Jacki Mallinger.

PROCEEDINGS

CALL TO ORDER

CHAIR FISHER called the meeting to order and began with a roll call. He stated that Trustee Boerner was excused, and Trustee Moran may step out around noon. He asked for any announcements. There being none, he moved to the agenda and asked for a motion.

APPROVAL OF AGENDA

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

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

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

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from July 26, 2022, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

CHAIR FISHER stated that the first item on the agenda was the CEO report.

CEO REPORT

CEO WILLIAMS began with a brief introduction about the external financial audit. He stated that the information from the State system related to the payroll information had caused the delay. The goal is to have the presentation of the financial audit at the November board meeting. He also updated the trustees on the first quarter of the FY23 performance. There was a lot of market volatility impacting the Trust, and we have the fortune of having a budget reserve should that volatility impact the overall performance of the assets. He continued that the projection for FY23 was that it would come out ahead, and we are not looking to have to access those reserves to maintain the grant-making obligations. He stated that Valerie Mertz, the acting executive director of the Alaska Permanent Fund Corporation, would do a presentation a bit later, and he reminded all that they would be working off of the September numbers in the presentations. He acknowledged the Trust Land Office and their work with a deposit of \$700,000 of revenue into the corpus of the Trust which will impact the future beneficiaries positively. There is also another \$900,000 deposit anticipated later this month. He acknowledged the work of the Trust Land Office's impact on the work of the Trust Authority Office and its ability to partner with community organizations, beneficiaries, and the State to improve the system of care overall. He moved to an update on Kat Roch, the budget controller, who was accepted into the Government Financial Officer's Association Leadership Academy, and will be going to a week-long training to build her senior government finance leadership skills. He asked Carol Howarth to go into the FY22 Trust performance review.

FY22 TRUST PERFORMANCE REVIEW

CFO HOWARTH noted a correction on the 2022 performance review: The number is \$7.2 million; not \$33 million. She stated that the invested assets would be reflected in the financial statement, and she focused on those looked at on a quarterly basis. The land assets are financial assets managed by the Department of Revenue and the Permanent Fund; the commercial real estate investments are managed by the Trust Land Office. She noted that there was a large cash balance being held, and we are working to get that down because cash is not earning revenue income. She added that a transfer from the Permanent Fund was not taken this past fiscal year, to keep that money earning over the long term. She then focused on the budget reserves and trying to target the 400 percent, plus the payout, which were still strong despite the volatility of the market. She continued through her presentation and stated that, overall, the performance of the asset managers exceeded plan across the board, and that a .03 percent differential in GeFONSI was tough for everyone managing cash across the U.S. economy.

TRUSTEE BOYLES commented that she had expected worse and was pleased with the report.

CFO HOWARTH summarized that it was important to focus on the returns from a long-term perspective; as Callan reminded us to look at the asset allocation. Because of the spending policy averaging over the four years, despite the decline in FY22, there was still a \$1.9 million increase in the payout as compared to FY21. This was an increase in terms of the ability to support beneficiary needs.

CHAIR FISHER broke for lunch.

(Lunch break.)

CHAIR FISHER called the Finance Committee back in session, and recognized Ms. Howarth for financial information.

CFO HOWARTH introduced Blain Alfonso who would join in presenting the dashboard. She continued that Mr. Alfonso had joined the Trust Land Office in April as the administrative manager and came with a depth of experience in operations and administration. He will work through the Trust expenditures and capital projects, and he will highlight what was going on in terms of the Trust Land Office revenue. She pointed out that the September year-to-date, first quarter Permanent Fund revenue, or the asset balance sheet, is the basis for this report. The first quarter is reflected on all other reports, and an updated dashboard should be available by the end of Thursday.

CHAIR FISHER stated that Trustee Boerner is now in attendance, and that Trustees Sturgeon and Moran are excused and not in attendance.

MR. ALFONSO stated that this financial dashboard is forecasted to plan based off the Quarter 1 actuals. He began with the Trust expenditures under operations for the administrative activities. He then moved to program activities and Mental Health Trust Authority Authorized Receipts, MHTAAR. There were grant funds to governmental agencies, and they were fully expected to be deployed. There will be a midyear update in January from the Departments regarding this funding status. He talked about Authority Grants, which were also expected to be fully deployed

by the Trust Authority throughout the fiscal year. He continued through the capital projects and then the Trust receipts section for the Trust Land Office. He stated that the first quarter was projected to plan, and it was currently on plan at the Trust Land Office for the revenue stream.

CFO HOWARTH focused on the investment activities and the plan; the full-year projected was at \$43 million, which was based on the Permanent Fund's midlevel forecast. She added that the returns were highly volatile.

A brief explanation and discussion ensued.

CHAIR FISHER thanked Mr. Alfonso and recognized Acting Executive Director Valerie Mertz of the Alaska Permanent Fund Corporation.

CFO HOWARTH introduced Valerie Mertz, the acting executive director and chief financial officer of the Alaska Permanent Fund Corporation. She joined the Permanent Fund in 1993 and stepped away for ten years while running her own accounting and consulting business. She rejoined as the CFO in 2012. Reflecting the respect that she earned from staff and trustees of the Permanent Fund, she was appointed as acting executive director in December of last year. Ms. Howarth thanked Ms. Mertz and her staff, publicly, for their continued support to the Trust.

MS. MERTZ stated appreciation for that amazing introduction. She introduced Jack Mallinger, the senior accountant on the finance team at APFC, who is responsible for the monthly reports received, as well as overseeing the audit. She also conveyed appreciation for Ms. Howarth and working with her, all virtual to this point. She looked forward to the in-person meetings someday. She gave a brief bit about herself and was very honored to be presenting in this capacity. She stated admiration for the work of the Trust over the years, both through the Permanent Fund relationship and through family and friends as beneficiaries. She began with the mission of the Alaska Permanent Fund Corporation, which is set in statute: to manage and invest the assets of the Permanent Fund and other funds designated by law. The Mental Health Trust Fund is currently the only other fund being managed besides the Amerada Hess Settlement money. The vision for the corporation was collectively set by staff: to deliver outstanding returns for the benefit of all current and future generations of Alaskans. APFC operates as an independent State entity under the oversight of a board of trustees who serve as fiduciaries of the Permanent Fund, as well as any other funds that were managed by the corporation. She went through a number of requirements that APFC was statutorily obligated to fulfill on behalf of the Trust fund. She also showed the evolution of the asset allocation of the Permanent Fund, and the Trust fund when it entered the scene. In 1980, at the inception of APFC, the fund was entirely invested in fixed income securities. She went through the changes, explaining and answering questions as he went along.

CHAIR FISHER thanked Ms. Mertz and recognized Shane Carson.

CFO HOWARTH introduced Shane Carson, the state investment officer over at the Department of Revenue, Treasury Division. He has oversight of multi-asset classes for the Alaska Retirement Management Board's Defined Benefit Plan, and also provides assistance in the asset allocation for funds, including the Trust's and nonretirement accounts. She continued that he was a Fairbanks-educated investment officer with a Master's in capital markets, and has a

chartered alternative investment analyst certification, as well as a chartered financial analyst designation.

MR. CARSON expanded a bit on his background and added that he was also Alaska born and raised in the small town of Tok, Alaska. He talked about the Department of Revenue Treasury Division which was staffed with about 13 investment professionals and backed up by additional professionals in accounting, operations, compliance, and cash management. He noted that, as of June, there was about \$48.2 billion of assets under management; the bulk of which is for the Alaska Retirement Management Board. He talked about inflation, which was driving a lot of market volatility. The market was not reacting well to inflation, and policymakers continue pumping liquidity into the economy, which increased inflation.

(No audio.)

(Break.)

CHAIR FISHER called the meeting back and stated that the connection was back.

MR. CARSON continued that inflation was driving a lot of market volatility, and the Fed was responding to that inflation with increasing interest rates, which was increasing volatility. He talked about the impact of different areas of the economy, and noted that the goods sector will be impacted more than the services sector. He moved to the bond returns and stock returns and stated that 2022 was a rough year for stocks and bonds, which will continue being volatile. It will continue being rough until markets come to terms with the idea that recession is almost a given at this point, resulting in a lot of volatility. He continued that in order for the market to stabilize, investors need to be convinced that inflation will come under control, which would mean that the Fed will be less aggressive in its response. He added that investors are also extremely skittish, and, if a recession is entered into, that causes increased sensitivity to any changes in any exogenous events. The good news is that short-term fixed income investments are expected to yield a return, which has not been that historical in recent years. He then talked a bit about performance and stated that the target allocation as of July 1, 2022 reflected a moderate tolerance for risk and a five-to-seven-year time horizon on the assets. He then walked through the asset allocation process and asked for any questions.

A discussion on the amount of cash that should be on hand followed.

CHAIR FISHER noted that Trustee Moran had returned to the meeting since 1:10. He asked for the motion.

MOTION: The Finance Committee recommends that the Full Board of Trustees authorize the transfer of \$28,420,500 from the Alaska Permanent Fund Corporation Budget Reserve Account to the Mental Health Settlement Income Account to finance the fiscal year 2023 base disbursement payout calculation; the CFO may fulfill this motion with one lump sum or multiple transfers, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE BOERNER.

CFO HOWARTH explained that every year the Board of Trustees approves the annual

withdrawal from the Permanent Fund to cover a large portion of the approved budget. About \$28.4 million is drawn from a four-year average of the net asset value of both budget reserves at the Department of Revenue and principal and budget reserves managed by the Alaska Permanent Fund Corporation. From that average, a calculation of 4.25 percent is made to determine the amount of the payout for the fiscal year that we are in. This is a traditional calculation, approved by the Board of Trustees in November. She asked for any questions.

A brief discussion followed.

CHAIR FISHER called the vote.

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

CHAIR FISHER called a break.

(Break.)

CHAIR FISHER called the Finance Committee back in session, and moved to a staff report regarding the commercial real estate policy.

STAFF REPORT

COMMERCIAL REAL ESTATE POLICY AND DISCUSSION

CEO WILLIAMS stated that the trustees and staff had conversations about commercial real estate in July and August. It was requested at the August board meeting by motion of Trustee Boyles to continue to do work on this. This involved himself, Chair Fisher, Harvest, CFO Howarth, and the TLO to look at the portfolio in terms of the current parameters in the AMPS, and other policy statements about the purpose, and how those assets are being managed and/or potentially disposed of; but to also look at and come up with other options and recommendations to bring back to the trustees for consideration for looking forward and making decisions on the portfolio, either as a collective or as individual assets. He asked Ms. Howarth to continue.

CFO HOWARTH began with a brief update on the historical perspective for the three of the seven current trustees that were not present for the presentation in 2020, to establish an understanding of how the policies came about and where they are currently. The Trust Land Office also recognizes that the timber harvest and land sales are going to be declining in the future, which has been the easiest land to sell since inception of the Trust. The majority of assets coming in the future will be more volatile and will take more resources to develop.

CEO WILLIAMS clarified that when talking about the work at the TLO, it is managing, monitoring, and then developing resources from the land assets. Time is required to generate revenue off of the land assets.

CFO HOWARTH continued that the Real Estate Management Plan focuses on an amended strategy and goals; and management focus came out of that. It was revised to include commercial real estate for three purposes: to diversify and stabilize spendable income to the

Trust, and to produce a market rate return. Commercial real estate was looked at as something that would do that, also offsetting declines in financial markets because commercial real estate is generally viewed as an inflation hedge with a stability and predictability of income coming in regardless of what the economy does because of those lease contracts. She continued that the goal was to establish this mechanism to increase the predictability of TLO-sourced, spendable income. It diversifies the Trust holdings, and is a kind of damper to the ups and downs of stock-market volatility. She highlighted the specific guideline outlined in the AMPS revision of 2019 and how it was managed. As a team, an objective was made in a collective statement that was developed as a framework that aligns with the intent of the motion and results in the development and presentation of a concise, cohesive, overall strategy. The policy should state the goals and the purpose of the Trust's commercial real estate and should be outlining the pathways that would be followed, depending upon the stated overall goals. There is a lot of flexibility in there. This policy should become an adopted framework that ultimately provides the direction for action items for how the commercial real estate assets are to be managed. The trustees, the Trust Authority, and the Trust Land Office should all be in consensus on what will go forward, and those will be presented to trustees as a recommendation; and, if necessary, the Asset Management Policy Statement will be updated. She added that the next challenge will be to look at these standard industry practices and policies and metrics; identify if there is a need to improve what we have; and then make sure there are the best-in-class procedures outlined for presentations to trustees.

CEO WILLIAMS appreciated the opportunity to keep the conversation moving forward. He stated that they will come back to the committee and the board with a set of recommendations that will be solid, and that he looks forward to the discussion.

CHAIR FISHER stated that there has been a lot of really good discussion, and that would give the trustees more opportunity for some tools as decisions are made regarding the fiduciary responsibility, and specifically regarding the commercial real estate.

TRUSTEE HALTERMAN stated appreciation for the work done.

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

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

(Finance Committee meeting adjourned at 2:46 p.m.)