

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

April 19, 2023

12:45 p.m.

Hybrid Meeting

Originating at:

**Alaska Mental Health Trust Authority
3745 Community Park Loop, Suite 200
Anchorage, Alaska 99508**

Trustees Present:

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

Trust Staff Present:

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

Trust Land Office staff present:

Marisol Miller
Sarah Morrison
Blain Alfonso
Katie Vachris

Also participating:

Steve Sikes; Gene Hickey; Erin O'Boyle; Kathy Craft; Patrick Reinhardt.

PROCEEDINGS

CALL TO ORDER

CHAIR FISHER called the meeting to order and began with a roll call. All board members were present. He asked for any announcements. There being none, he moved to the approval of the agenda.

APPROVAL OF AGENDA

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

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

CHAIR FISHER asked for any ethics disclosures. There being none, he moved to the approval of the January 6, 2023, minutes. He asked for any amendments or changes.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from January 6, 2023, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE STURGEON.

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, yes; Chair Fisher, yes.)

CEO FINANCE REPORT

CEO WILLIAMS stated that this is all about looking at the financial outlook of the Trust, in the best interest of the Trust beneficiaries. He continued that the work of the TLO, the approvals that were made, will generate and strengthen the position in the future so that the Trust can continue to do that work and build upon the improvements of the system that were needed. Last year there was some high volatility in the financial markets, and high rates of inflation. The pandemic produced stress when organizations had to adapt to a different model of service delivery that, at times, involved unexpected costs. He added that, from a Trust perspective, we were flexible and adaptable and were able to use Trust resources to help organizations try and weather that storm. He stated that being in a strong financial position allowed the Trust to be able to do that to help the organization-serving beneficiaries. It also reminded all of the need to be focused on the strength of the financial assets, the work of the TLO to maximize revenue of the lands, and to adhere to a strong spending policy that is in place so that in times of uncertainty that we stay the course to the fullest extent, because there was strength in where we went in terms of the financial position and the strategies to maintain that. He moved to the topic of inflation which has been part of the conversation over the last year. He stated that, fortunately, those rates were coming down, but, still, the high inflation rates have had impacts on the beneficiaries. He added that the financial interests, the assets were strong and the overall financial position, in terms of assets, was over \$840 million. This corpus is due to the previous and current trustees being really diligent in making sure the financial, prudent decisions had allowed the growth over time. It was also due to the Trust Land Office generating revenue that

got deposited into the principal that allowed that growth. It was also attributable to trustees making decisions to deposit additional income into the corpus for inflation-proofing. That financial strategy allowed the strength for not only today, but for future beneficiaries. It is anticipated that would grow over the next year with additional principal coming from the TLO and their work being deposited into the corpus of the Trust. He gave a brief outline for the rest of the meeting and moved to his final comment, which was a recognition and appreciation from the Governor, as well as staff, for ten years of service with the State of Alaska to Kat Roch. He stated that Ms. Roch came to the Trust in 2015 and had been at the Trust eight of her ten years of service for the State of Alaska. He continued that Ms. Roch is an example of a very seasoned, tenured, professional staff. He added that she is a marathoner and an extreme mountain biker, and has engaged in other extreme sort of athletic activities, which all have benefited from. He presented her with a certificate and pin and thanked her for the work and contribution she makes to the Trust.

(Applause.)

MS. ROCH stated that she enjoys working for the Trust for a number of reasons, one of which was the ability to ride her bike there, and it has been the longest she had ever worked in any one office. She added that there must be something right going on.

CHAIR FISHER thanked Kat, and stated appreciation for her contributions. He moved to the financial update which was next on the agenda, and recognized Carol Howarth.

FINANCIAL UPDATE

MS. HOWARTH stated that she was happy to be joined by Kat Roch to present the financial dashboard. She continued that this dashboard is a February dashboard and has all the financial information from the sources except for the Permanent Fund, which should be coming tomorrow or the day after. They were able to do a February dashboard with an outlook that was comprehensive from the perspective through March. She added that they would go through the Trust expenditures, the revenues, and the equivalent of the balance sheet, the resources. She asked Ms. Roch to continue.

MS. ROCH stated that they were not overspent and had pretty small projected lapses in the budgets. They were getting back to normal business operations post COVID; spending levels were starting to go up. She attributed that to the budgets being managed more carefully and being able to absorb some increased costs from the State due to inflation and everything costing more. She talked about the program activities and projected that it would be expended, but it was a bit early to know. She moved to the Authority Grants with another relatively small lapse compared to last year's \$400,000. This lapse took into account grant proposals that would be presented to trustees tomorrow, and the number could change based on the grant activity in the final months of the fiscal year. The capital projects had only the current Icy Cape project, which was presented earlier. The only change with the numbers was the recently encumbered additional \$3.3 million for the project. She continued to Trust Receipts where the Land Office had a really strong performance from the projected to be above goal in of all the asset classes. Materials and coal had been significantly higher than planned, which was a bright spot in the overall being above plan for the money coming in.

MS. HOWARTH moved into the investment activity earnings. She continued that since February the Permanent Fund generated a 2.33 percent return year to date, and she explained that more fully. She added that there were four months of reporting that would need to be seen. There was also the recognition of the principal earnings and then the earnings that were spendable. Through February, there was \$13 million of spendable income coming to the Trust. She forecasted out March through June, basically, \$11 million, which was keeping on a low plan where they were. She had a good feeling with regard to the revenue generated by the Department of Revenue on the budget reserves, and anticipated that they cleared and would make their target despite market volatility. She moved to the commercial real estate which had a strong performance, and she had a good feeling for the contributions. She continued to GeFONSI and stated that they had worked to decrease the balance in the three operating accounts. Those are the TADA, the Trust Authority Development Account, which is a transit account for TLO principal income; the Central Facility Fund, which is a set-aside fund for reinvestments into the commercial real estate and the program-related real estate when there was a cash shortfall at those assets; then there is the operating amount, which she explained. The first draw from the Permanent Fund was authorized by the trustees for \$28 million in a payout, which she also described.

TRUSTEE STURGEON asked if the Central Facility Fund is supposed to be \$2 million, per the motion passed by the Board.

MS. HOWARTH replied that it was an authorization of up to \$2 million. She continued with the Trust Resources. She started at the bottom of the Trust Resources and highlighted the question asked by Trustee Sturgeon. She continued with the \$5 million operating income that supports grants and agency budgets. She moved to the Central Facility Fund where the trustees authorized the establishment of this fund-to-fund requests when a program-related asset or a commercial real estate asset is short of funds. The \$2 million is a target, and required both the allocation of earnings from gross income to net income, and also looked at a replenishment rate or funding rate, that was to be agreed upon by the executive director and the CFO. She explained how it had been working.

TRUSTEE STURGEON stated that the way it read was that it was maintained at a total balance of \$2 million, and was not a target.

MS. HOWARTH replied that they could maintain it at \$2 million and explained that this was the accounting, and if it was maintained at the \$2 million the TLO spendable income would be reduced by the amount of funds going into the Central Facility Fund. It was a tradeoff, and she explained about it in more detail. There is discretion allowed between the executive director and the CFO, and she looked forward to having the discussion on a proposed new structure. She continued that Ms. Roch had put some thought into it and was pleased with the recommendation that will be coming out in May.

TRUSTEE STURGEON stated that the motion passed by the Board in 2018 needed to be changed.

CEO WILLIAMS looked forward to doing that and having a recommendation at the May Board meeting.

MS. HOWARTH continued her presentation highlighting inflation and dove a bit deeper on what was being done with the dashboard. She then moved to the PowerPoint on Asset Allocation. She pointed out that the trustees had two points of responsibility: one was at the Finance Committee where the asset allocation was reviewed annually and adjusted; the other was an annual review of performance risk liquidity. She stated that the trustees were a committee of the whole and had traditionally done this in the Finance Committee after the financials were reported and audited by BDO. She continued through her presentation. She introduced Steve Sikes, an investment manager with the Department of Revenue Investment Division, to present the recommendations from the Department of Revenue on the asset allocation and give some background on what was behind that recommendation.

CHAIR FISHER recognized Trustee Boyles to read the motion.

MOTION: The Finance Committee recommends the Full Board of Trustees make the following asset allocation for budget reserves managed by the State of Alaska Department of Revenue, effective July 1, 2023: Asset allocation, broad U.S. equity, target holding 39 percent, target range, plus or minus 5; international equity, target holding 28 percent, plus or minus 5; core U.S. fixed income, 32 percent, plus or minus 5; and cash equivalents, 1 percent, minus 1, plus 2 percent was made by TRUSTEE BOYLES; seconded by TRUSTEE HALTERMAN.

CHAIR FISHER recognized Steve Sikes.

MR. SIKES stated that he is part of the team in Revenue that manages about \$50 billion in investments, mainly for the retirement system, but for other State funds like the Mental Health Trust. He continued that the purpose of his presentation was to provide background for the FY24 asset allocation for the budget reserve funds that are managed for the Trust. He added that they manage approximately \$60 million for the Trust. The majority of that was rounding up about \$54 million in the budget reserve, and the remainder in the GeFONSI. He stated that the Board sets the asset allocation, and they recommend that the Board visit this annually, which is the cycle used for other State funds. For GeFONSI, because those assets are commingled with other State funds, the Commissioner of Revenue approves that asset allocation. The Board's AMPS document establishes the investment objectives for the account. He then provided some historical market context. He noted that setting asset allocation is one of the more important actions in managing a portfolio. It recognized the objectives and constraints of the funds to solve for an optimal risk/return profile. Their asset allocation process uses 10-year forward-looking capital market assumptions developed by Callan to generate efficient portfolio mixes. The inputs were expected returns; expected standard deviation, which is the risk; and the correlation between the assets. In developing this year's recommendation, the primary guiding factor was Callan's Asset Allocation and Spending Study last year, which recommended the asset allocation move to a 60 to 70 percent equity exposure from the 56 percent level it was before last year. This was done to achieve a real spending objective over the long term. He continued through his explanation and mentioned that the investments that the Trust has through Treasury are very liquid, which is one of the objectives of the budget reserve funds. He added that the investments provided are very cost effective. He concluded his prepared remarks and asked for any questions.

CHAIR FISHER asked for any questions, and then moved to the roll-call vote.

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, yes; Chair Fisher, yes.)

COMMERCIAL REAL ESTATE NET PROCEEDS

CHAIR FISHER thanked Mr. Sikes for a great presentation, and recognized CEO Williams.

CEO WILLIAMS began with an introduction and stated that Gene Hickey is with the Department of Law and is the attorney for the Trust Authority. He was online to go over a draft opinion which was a lead-in into the commercial real estate guidelines. He stated that they would need to go into Executive Session for discussion.

MOTION: The motion is per AS 44.62.310(c) 1, 2, and 3. A motion that the Finance Committee move into Executive Session to receive legal counsel regarding the commercial real estate net proceeds and conflict of interest. No decisions will be made in the Executive Session. The motion 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, yes; Chair Fisher, yes.)

CHAIR FISHER moved into Executive Session.

(Executive Session from 1:52 p.m. until 2:25 p.m.)

CHAIR FISHER stated they were back from Executive Session.

TRUSTEE HALTERMAN stated, for the record, that herself, her fellow trustees and the CEO of the Trust Authority returned to the Finance Committee from Executive Session. No decisions were made during the Executive Session.

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, yes; Chair Fisher, yes.)

CHAIR FISHER called a break.

(Break.)

CHAIR FISHER called the meeting back to order and recognized CEO Williams.

CEO WILLIAMS stated that the working draft of a set of guidelines that had been in process for development since the August 24-25 Board meeting when Trustee Boyles put a motion on the

table asking for the CEO, the Finance Chair, the TLO Executive Director, the CFO and Harvest to put together a process for how recommendations would be coming forward to trustees in regard to the potential sale of one of the commercial real estate assets. The guidelines are the product of that group that met several times to pull together information from the TLO staff, TAO staff, and then the resource at Harvest. This document and process is to try and be clear as to what the process is, and to have a process that was flexible, not rigid. He asked CFO Howarth to begin.

CFO HOWARTH highlighted the elements and the process that she would take. She commented that the foundational document was drafted last fall by Harvest, and then an internal team began working on it to bring it to some of the characteristics that were deemed critical and clearly understandable. She went through the purpose, the governance documents, fiduciary standards, background, compliance, planning, reporting investment evaluations, process for sale and recommendation, and potential appendices. She gave a quick statement of the purpose and continued through answering questions and comments as she explained in detail.

A discussion ensued.

CHAIR FISHER commented that the documents were evaluated, and the intent was for a document that allowed staff to come to the trustees as rapidly as a public meeting could allow and take appropriate action within a time frame that would allow a good sale to happen. A long bureaucratic process was not wanted. This would come up again when a third-party adviser is talked about; the one that was selected was a portfolio manager.

TRUSTEE BOYLES stated that she understood portfolio investments and also understood selling them, all in Los Angeles. That would not be done with a realtor in Alaska. She continued that the TLO office was fabulously talented and suggested a position that would fly to the Lower 48 periodically, and to maintain their education with and their exposure to the commercial real estate in the Lower 48. She added that she would not want to make her decision based on the commercial real estate in the Lower 48 simply with the Alaskan objectives or advisories in mind.

TRUSTEE MORAN agreed with Trustee Boyles 100 percent. She stated that there were enough evaluation points so there should not be any surprises unless there was a major movement in the market, like COVID.

CFO HOWARTH highlighted two other elements that were part of that process. One was an investment benchmark establishing the investment benchmark against which looked at the financial return against the financial benchmark. The other was where those proceeds would initially be invested.

The discussion continued.

CFO HOWARTH concluded the document.

MS. WARNER stated that she had some comments just for context. The TLO's statutory mandate is to maximize revenue, and that is done for every asset class on a regular basis. This is

reported monthly to the CEO and DNR. Commercial real estate is seen as no different. The concern is about the expertise that might not exist outside of Alaska. She added that they were happy to provide that information and the qualifications of the team at the TLO. She added that brokers and property managers in the Lower 48 are employees, and we go to the Lower 48 and tour other buildings that are present in these submarkets. She added a bit of context to think about in moving forward on the document.

CHAIR FISHER thanked Ms. Warner for the valuable input and stated that concluded the Finance Committee meeting. He asked for a motion to adjourn the meeting.

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

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, yes; Chair Fisher, yes.)

(Finance Committee meeting adjourned at 3:29 p.m.)