

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**FINANCE COMMITTEE MEETING**

**October 20, 2023**

**8:30 a.m.**

**Originating at:**

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

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**Trustees Present:**

John Morris, Chair  
Anita Halterman (virtual)  
Kevin Fimon  
Brent Fisher  
John Sturgeon  
Rhonda Boyles  
Agnes Moran

**Trust Staff Present:**

Steve Williams  
Katie Baldwin-Johnson  
Miri Smith-Coolidge  
Michael Baldwin  
Kelda Barstad  
Carrie Predeger  
Autumn Vea  
Debbie DeLong  
Valette Keller  
Luke Lind  
Julee Farley  
Doreen Schenkenberger

**Trust Land Office staff present:**

Jusdi Warner  
Jeff Green  
Blain Alfonso  
Sarah Morrison  
Tracy Salinas

**Also participating:**

Deven Mitchell; Stephanie Hopkins; Charlene Tautfest.

## PROCEEDINGS

### CALL TO ORDER

CHAIR MORRIS called the meeting to order and began with a roll call. He asked for any announcements. Hearing none, he moved to the approval of the agenda.

### APPROVAL OF AGENDA

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

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

CHAIR MORRIS asked for any ethics disclosures. There being none, he moved to the approval of minutes from June 22, 2023, and July 25, 2023.

### APPROVAL OF MINUTES

**MOTION:** A motion to approve the minutes from June 22, 2023, and July 25, 2023, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

### STAFF REPORTS

#### CEO REPORT

CEO WILLIAMS introduced and welcomed Julee Farley, the Trust's new chief financial officer, who joined staff in September. He stated that she was doing a great job trying to understand and get a solid footing for the complexities of the Trust from all of the financial positions and also, programmatically, as well as the activities of the Trust Land Office. He set the stage for the morning and afternoon, and stated that it is all about finances of the Trust. He explained that we are in a strong financial position with the need to meet the programmatic and the agency needs of the organization, and all that means is to improve the lives of the beneficiaries. He continued that the Trust Land Office plays an important role in this because they are charged with generating and maximizing revenue from the lands. He acknowledged Ms. Warner and her team for their first-quarter work and performance in terms of generating principal and income for the Trust and the beneficiaries. He asked Ms. Farley to continue.

CFO FARLEY thanked the CEO for the introduction, and stated that it is a complex organization from a financial aspect and that she is loving it. She began with a backdrop to the markets and the economy, and explained that the hot topic is inflation. She also talked about the rising interest rates, and the 10-year Treasury hitting 4.99 percent. She added that consumer spending has been strong. She shared a paper explaining performance of the investment holdings. She noted that the audit was nearly complete.

CHAIR MORRIS asked about the real estate performance of the value of the property and if it excluded rents. He commented that he was less concerned that the Permanent Fund missed their

benchmark by half a percent and is still being positive more than he was about the commercial real estate beating their benchmark by half a percent.

CFO FARLEY stated that the income from the commercial real estate properties will offset that sum and will turn position. There is not enough income to make that number positive.

TRUSTEE FIMON welcomed Ms. Farley and stated that he was a bit less concerned on that but that it always came down to generating the revenue and what is done next. He stated his appreciation for the report.

CHAIR MORRIS stated that Ms. Farley has some good ideas on presenting things graphically which brings it to his level of understanding. He asked for any other questions, and then continued to the dashboard.

### **FINANCIAL DASHBOARD & FORECASTS**

CFO FARLEY noted that they were looking at possibly presenting some of this information graphically and will work with Chair Morris on that presentation. She continued that the document was updated and showed actuals for July and August. She began with the Trust Authority Office expenditures and continued to the Trust Land Office. She went through the program activities and then the capital projects.

CHAIR MORRIS complimented Ms. Farley for not adopting the stereotypical government view of spending their entire budget, and he hoped that would continue.

CFO FARLEY thanked Chair Morris and moved to the Trust receipts and the Trust Land Office income and rents receivable. She continued through her presentation, explaining as she went through.

CHAIR MORRIS asked if the Trust Land Office activity would be front-loaded, meaning was there a reason to think there would be more money made in July and August than in the other months.

MS. WARNER stated the it was front-loaded, and that would be seen every fiscal year. Folks pay in FY23 for FY24, and the numbers would look higher at the end of the fiscal year. Usually, about \$1 million is deducted out of that, and that automatically puts the next fiscal year a million ahead.

CEO FARLEY thanked the trustees for not throwing any curve balls, and noted that she would be ready next time.

### **DEPARTMENT OF REVENUE/TREASURY UPDATE**

CFO FARLEY stated that Shane Carson from the Department of Revenue was online, and she turned the meeting over to him.

MR. CARSON noted that Steve Sykes is the primary person at the Department of Revenue that monitors the funds; evaluates investment performance; looks at the asset allocation; and also communicates to trustees, but he had a prior commitment. He began with a quick market update and then moved to investment performance. He continued through his presentation, explaining

as he went through the organizational overview of the Treasury Division and portfolio management. He added that the Treasury Division strives to be a resource for State fiduciaries in developing investment objectives, understanding investment risks, writing investment policy, and then implementing that investment policy as described. The key takeaway is the due diligence on managers, and he stated that the organization has been very solid. None of the key people have left the organization, and it is very stable.

CHAIR MORRIS stated that REITs had been excluded from the portfolio, and he asked how they performed over the past year in general.

MR. CARSON replied that from December 31<sup>st</sup> to yesterday, the REITs were down 8.8 percent.

CFO FARLEY asked for the FY23 returns on REITs.

MR. CARSON replied that from 6/30/2022 to 6/30/2023, the NAREIT index was down about 4.4 percent. He added that the NPNCRE was down 6.6 percent. That was the NCREIF product index. He continued through his presentation and performance.

CHAIR MORRIS thanked Mr. Carson, and stated that it was very informative. He called a break.

(Break.)

CHAIR MORRIS called the meeting back to order. He introduced Deven Mitchell, executive director of the Alaska Permanent Fund Corporation, to talk about the Permanent Fund and the management of the Trust's assets. He added that Mr. Mitchell is a long-time public servant with 30-some years in Alaska. He thanked him for taking the time to come and talk to the board.

#### **STATUTORY ADVISOR UPDATE**

MR. MITCHELL stated that there are a lot of commonalities between the Permanent Fund and the Trust, with a desire to be the best in their space and to provide the most value possible. The vision is to deliver outstanding returns; not just for today, but for today and tomorrow for all Alaskans. Then, as a fiduciary, to ensure the Permanent Fund is managed and invested as provided for in statutes and the Constitution. The prudent investor rule is a big part of that, with the primary objective being to keep the assets safe, and to maximize return within that framework. The missions follow in line with that. He continued that the corporation manages funds for a number of entities, and he talked about some of them.

TRUSTEE FIMON asked if Mr. Mitchell would talk about the term "buying power."

MR. MITCHELL explained the ability to participate in real estate investments with a \$500 million price tag, which is, obviously, difficult for a smaller fund. The same things hold true with a private equity portfolio that is \$17 - \$20 billion with a self-fulfilling pipeline of opportunities to invest. The Permanent Fund does have a reputation, and it is given opportunities that smaller funds would not get. He moved on to a historical portfolio performance review. He continued that the Permanent Fund has a two-account structure that was based on an antiquated, endowment-style statute framework that was based on the time when endowments bought fixed-rate securities and then received coupons every month, quarter or year. That was the income

stream and the investment strategy. They have something similar in some ways to the Trust where there is a principal account and an earnings reserve account. Money flows into the earnings reserve account only when there is realized income. In 2023, they had gap income of around \$4.5 billion, but had statutory net income or realized income of around \$2.5 billion. That \$2.5 billion is what became available to spend in the earnings reserve account for the year. He explained in more detail. He added that this will be discussed in the next legislative session, and in the strategic planning process. They also have a trustee paper being developed. He stated that, as Alaskans, everyone should be interested and thinking about what should be done. Should this be modernized; make it more like an endowment. He hoped all of that will be discussed.

CHAIR MORRIS asked about the Mental Health earnings chart and the decision to make sure that the principal is always reserved.

MR. MITCHELL replied that those were not annualized, but is an annual snapshot of assets rather than revenue. That was not income for the year. He continued with his presentation and talked about the cumulative earnings and draws. He continued explaining the asset classes again, and talked about the companies bought and then divested. Selling to someone else is when you get your money back. He stated that it is important for people to be aware of a lot of “black boxiness” to private equity. It is an asset class to be in, but there is a need to be very careful.

TRUSTEE BOYLES asked if there is staff in the Permanent Fund Division that works with the trustees representing all these categories, or is it strictly with contractual agencies, money managers that come to the trustees.

MR. MITCHELL replied that the public equity section consists of three folks. They have a lot of managers that they rely on. The managers are picked based on the strategies that he explained. The fixed-income team is a team of seven, and they do not rely on managers at all; it is all direct investing in the fixed income space. There are seven team members in private equities. They have a gateway consultant that does a lot of the heavy analytics on the opportunities that come before the managers. The complication is when the wrong manager is chosen. He noted that absolute return is one guy, and that a tactical ops team was initiated this year. The investment policy and asset allocation adjustment created the tactical ops, which is 2 percent of the total portfolio. He continued through his presentation, answered questions, and then concluded his presentation.

CHAIR MORRIS thanked Mr. Mitchell for his time and for his service to Alaska. He stated that there was one more item of business, and he entertained a motion regarding the disbursement.

## **APPROVAL FY24 PAYOUT**

**MOTION: The Finance Committee recommends that the Full Board of Trustees authorize the transfer of \$30,240,200 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement Income Account to finance the fiscal year 2024 base disbursement payout calculation. The CFO may fulfill this motion with one lump sum or multiple transfers. The motion was made by TRUSTEE FIMON; seconded by TRUSTEE FISHER.**

TRUSTEE BOYLES shared a point of information that the five-year average is the five-year

average. There is the good and bad.

CHAIR MORRIS asked for any further discussion. There being none, he called the vote.

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

CEO WILLIAMS stated that the May board meeting days are scheduled for May 22 and 23, a Wednesday and Thursday. The May board meeting is held outside of Anchorage, and the plan is for it to be in Ketchikan. He noted this issue because it will require a day or a day and a half extra on those two days for travel. Staff has been reaching out to folks in Ketchikan in terms of accommodating space for the meeting, as well as hotel accommodations. He explained that the updated commercial real estate investment guidelines were handed out. It was updated from the version presented to the trustees in April, under the review of CFO Julee Farley.

CHAIR MORRIS thanked CEO Williams and asked for any other discussion or comments. He asked for a motion to adjourn.

**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 Boyles, yes; Trustee Moran, yes; Trustee Fimon, yes; Trustee Sturgeon, yes; Trustee Halterman, yes; Trustee Fisher, yes; Chair Morris, yes.)*

(Finance Committee meeting adjourned at 11:42 a.m.)