

**ALASKA MENTAL HEALTH TRUST AUTHORITY
FINANCE COMMITTEE MEETING
HYBRID/WEBEX
January 8, 2025
12:30 p.m.**

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

Trustees Present:

John Morris, Chair
Anita Halterman
Kevin Fimon
Brent Fisher, Ex-officio

Other Trustees Present:

Agnes Moran
Corri Feige (Virtual)
Rhonda Boyles (Virtual)

Trust Staff Present:

Allison Biastock
Katie Baldwin-Johnson
Shannon Cochran
Valette Keller
Julee Farley
Luke Lind
Carrie Predeger
Mike Baldwin
Eric Boyer
Kat Roch
Kelda Barstad
Tine Voelker-Ross
Eliza Muse
Debbie DeLong
Heather Phelps

Trust Land Office staff present:

Jusdi Warner
Jeff Green
Sarah Morrison
Brittany Williams
Blain Alfonso
Cole Hendrickson
Pam Cawley
Katie Vachris
Ashley Olen

Also participating:

Gene Hickey; Sebastian Vadakumcherry; Julia Moriarty; Josie Stern; S.H.; Steve Center; Steph Hopkins; Mary Wilson; Teri Tibbett; Christopher Orman.

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 asked for a motion to approve the agenda.

APPROVAL OF AGENDA

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

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

CHAIR MORRIS asked for any ethics disclosures. There being none, he moved to the approval of the minutes from October 16, 2024.

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from October 16, 2024, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

INTRODUCTION TO RISK

CHAIR MORRIS stated that the first item on the agenda was an Introduction to Risk from Sebastian Vadakumcherry, APFC Chief Risk and Compliance Officer.

MR. VADAKUMCHERRY stated that Ms. Farlee invited him to present shared thoughts and ideas on how the APFC, in general, looks at risk and risk management. He highlighted that risk is not a bad thing and that we are in the business of taking risk. He stated that every time a return is generated, a risk is taken, which risk drives the Fund; and risks should be taken when in the investment business. It is also important to understand what generates the return and what the risks are. Internally, at APFC, they try to provide different perspectives, and they challenge assumptions, another important aspect. He spoke about how institutional investors changed the world over time. He continued that the first step in identifying risk is to make sure to name them and then to socialize them across the organization and with all stakeholders. They look at it from an absolute perspective, stating how much risk the Fund entails when going about achieving their target returns. They also look at how their peers perform, measuring risk, and they develop it to the benchmark. He stated that there were three types of risks: credit, market, and liquidity. He explained that the complexity arises when the types of risks entailed in a particular investment are unknown. He then spoke about risk appetite and defined it in terms of a Risk Tolerance Portfolio. Also looked at regularly is volatility or standard deviation, called value at risk. He then highlighted some of the challenges faced in terms of assessing risk for private assets. He

added that process and rigor are super important in the investment decision-making process. The essential elements in any process is first to define and document the return, and the risk targets or tolerances; importantly bringing in multiple perspectives. He stated that they are in the business of taking risks, and for all to try to embed a risk management aspect within the investment decision-making process.

TRUSTEE FIMON stated appreciation for the presentation because he thinks that it is truly one of the most important things of investing.

CHAIR MORRIS thanked Mr. Vadakumcherry and moved to the Asset Spending Study. He introduced Steve Center and Julia Moriarty from Callan.

ASSET SPENDING STUDY BY CALLAN, LLC

MR. CENTER stated that Callan was retained by the Trust to conduct an asset allocation management and spending study; a multifaceted study. He began with the executive summary and focused on the spending policy that is in place for the Alaska Mental Health Trust Authority. He touched on the reserve level, inflation-proofing, cash management, and a review of the investment performance for both the Permanent Fund, the Department of Revenue investments, and the commercial real estate investment managed by the Trust Land Office. He focused solely on Phase 1 and the recommendations. He recommended that the Finance Committee and trustees consider raising the spending rate approximately 50 to 75 basis points to the 4.75 to 5 percent range. He also recommended maintaining the 400 percent reserve policy of 400 percent of the spending, of which that reserve is split between the Permanent Fund and the assets managed by the Department of Revenue. He stated that inflation-proofing is mandated by the Legislature. He did recommend that inflation-proofing transactions be done in a mechanical and automatic fashion where inflation-proofing transactions are done no matter what the overall health of the Fund is. He stated that the goal of an asset spending study is to help trustees and the Finance Committee to make a decision around what the spending rates for the asset pool as a whole should be. A well-engineered spending policy should take into account the overall goals and objectives of the Trust. It is important to remember that there is no simple one-size-fits-all solution for every endowment or trust, which is why these studies are done. This asset spending study will help the Trust quantify the impact of what different policies might have by looking at some various relevant metrics.

MS. MORIARTY went over the current standing, which is the starting point, and the assumptions employed in the model. She stated that the current structure is complicated with multiple portfolios managed by multiple entities. There is an intricate flow of funds between the various accounts and accounting items within the funds. There is a complex spending policy. She moved to the details of the spending and reserve policies and then continued to the two-year average of lapsed appropriations and the lagged spendable income. She added that the interest income from the cash accounts also lagged, and then the prior year's unobligated funds. The reserve policy is there to insure the spending could be made with a reasonable degree of certainty. She talked about the contributions to the Trust from the TLO lands, and also created a core TLO outcome as a conservative way of looking at the Trust. The population inflation is required in order to determine whether the Trust is providing for intergenerational equity. This is the concept of insuring the current and future residents of Alaska benefit from the Trust to the same degree.

MR. CENTER moved to a 10-year lookback of the asset allocation for the Trust, excluding the GeFONSI portfolio. The snapshot is to recognize that the Permanent Fund makes up about 85 percent of the mix over time, and that the combined assets are a little under \$900 million as of fiscal year end 2024. He then looked at performance and spoke about standard deviation. One level of standard deviation from a plus or minus standpoint would capture about two thirds of the observations of a return pattern over time.

MS. MORIARTY focused on the Trust spend rate and went through the observations and recommendations upfront. She also explained some of the floating bar charts. She concluded that a higher spend rate is required to achieve intergenerational equity.

CHAIR MORRIS stated appreciation for the definition of the term, but treating Alaskans tomorrow the same as they are treated today is not an appropriate goal for the Trust for a couple of big reasons. He hoped that they should be able to do a better tomorrow than what they did today. Second, he continued that the center of the bell curve is the goal for taking spending aside just to consider investing. By definition, if we target to stay the same in the investment would mean that they have just as much of a risk of losing money and having less money next year than of having more money. But if the target is to grow the portfolio each year, the chances of having more money or at least the same amount of money is shifted too. He submitted that their goal should not be intergenerational equity, but it should be to do better and to constantly grow the portfolio investment and, if possible, grow the ability to spend it. He hoped that they would be smarter tomorrow than today and would be able to make better choices with the money they have available.

MS. MORIARTY went through the different spend rates which compared the value of the Trust in 20 years in today's dollars. She turned her attention to the reserve level and risk of depletion, and noted that there is a risk of reserve depletion given that beginning reserves were well below their target amount. She explained that that was due in part to the \$39.5 million going out to fund the commercial real estate property purchases.

TRUSTEE FIMON asked about the payment for the commercial real estate purchase, and if that was reflected therein.

MS. BIASTOCK replied that, when the real estate properties were originally purchased, they were purchased using principal. The decision was made a few years ago to repay the principal, and that repayment came from reserves. The principal was made whole, but funds were from the reserves.

MS. MORIARTY stated that those were captured in the values and used in the study. She continued that the recommendation is to maintain the current reserve policy of 400 percent, equally divided between APFC and DOR. She reminded the committee that the reserve balances only improve or decline based on market performance, and the Trust has limited control regarding the overall reserve level.

MR. CENTER stated that the goal of this study was to analyze the Trust and its investment program from a number of different angles, with a particular focus on the spending rate. He reiterated the observations and recommendations. He continued that their recommendation is not something that can be easily changed, but they feel it is necessary to make these

recommendations every chance that they get in a public forum in the state of Alaska.

CHAIR MORRIS asked for any questions. There being none, he thanked Mr. Center and Ms. Moriarty, and called a break.

(Break.)

CHAIR MORRIS stated that they were back in session and asked that the requested motion be read.

MOTION: The Finance Committee recommends that the Full Board of Trustees authorize an annual withdrawal rate of 4.75 percent. The CFO shall update the Asset Management Policy Statement with this rate and present an updated Asset Management Policy for approval at the next meeting of the Finance Committee. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

TRUSTEE HALTERMAN stated that some interesting observations were brought up about the fact of having a deficit in reserves at a time when they were asking to increase the amount of money to spend. She continued that it would be helpful if Callan could help explain the obligations with regard to the two different issues. There is a reserve that is falling short and appears to be deficient no matter how much is deposited to it from a commercial real estate portfolio at a time where they have a recommendation to increase the rate of payout.

CHAIR MORRIS stated that they can get an answer to that question before the next Full Board Meeting. He asked for any further discussion.

TRUSTEE FIMON stated that there is a delicate balance in looking at the amount made and being behind on the reserves, the whole inflation-proofing, the idea of meeting expectations and the intergenerational equity. He added that he would like to hear more and get further help from Callan or others before he could support the motion.

CHAIR MORRIS asked for any questions from the trustees online.

TRUSTEE BOYLES stated that it will be a hard sell. They will need Callan to help position it very simplified and to understand why it has to be done, but it needs a bigger picture.

TRUSTEE MORAN agreed, and stated that she would like help to clean up the house before moving forward with this.

CHAIR MORRIS asked Trustee Halterman if she had an opinion on tabling this to get some further information.

TRUSTEE HALTERMAN replied that it would be worth considering tabling it. This motion will move forward to the Full Board for consideration. If trustees have questions, it would behoove them to put this back in front of the Full Board with some additional insight from Callan to help explain the obligations for the increase and the withdrawal rate versus the obligations for the reserves.

CEO BIASTOCK had a procedural note and directed the question to Mr. Hickey. She stated that there is a motion on the table for the committee to make a recommendation to the Full Board. She asked, if the trustees want to consider this in February, would it need to be a different motion because it would not be a committee recommendation. She asked how they should proceed.

MR. HICKEY replied that there was a motion made and a motion to table, and there were questions before voting on whether to table or not. He continued that there would be a need to vote to table. If it is tabled, it would not go with any recommendation to the February Full Board meeting.

After the roll-call vote, the MOTION was TABLED. (Trustee Halterman, yes; Trustee Fimon, yes; Chair Morris, yes.)

MOTION: The Finance Committee recommends that the Full Board of Trustees approve a transfer of commercial real estate net proceeds into the budget reserves. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

MS. FARLEY stated that the trustees authorized the TLO executive director to proceed to disposal of the commercial real estate portfolio at the appraised value or better. The first sale was made, and the net proceeds were received. These properties were purchased initially with principal funds and subsequently from the budget reserves. This motion is to reconstitute, replenish, those budget reserves for the amount of this sale. This motion, as written, would cover future sales, as well.

CHAIR MORRIS clarified that proceeds of sale for commercial real estate is one of the few mechanistic means available to replenish the reserves. He asked for further discussion.

TRUSTEE FIMON asked what the restrictions were once the transfer is made.

MS. FARLEY replied that there is an analysis, a memo from the Department of Law, covering what she directed to the Chair.

CHAIR MORRIS called the question.

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

MOTION: The Finance Committee recommends that the Full Board of Trustees authorize staff and counsel to prepare a request for proposal for commercial real estate investment managers for all remaining commercial real estate held by the Trust. The motion was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

SURPLUS DETERMINATION

MS. FARLEY stated that this is an annual report provided to trustees that came about subsequent to the Legislative Audit of fiscal year '21 recommendation to annually look at Trust funds

available to meet the Trust obligations. It is a fairly straightforward report. One of the questions answered is are there sufficient funds to meet the commitment; the other is if there is sufficient funding to equitably support the comp plan for present and future beneficiary needs. She went through the report and the numbers.

CHAIR MORRIS moved to the Financial Update and recognized Ms. Farley.

FINANCIAL UPDATE

MS. FARLEY began with the June 30th dashboard and followed up with final numbers and any changes. The only item that changed was the amount of the agency budgets that were spent. She also talked about the November 30th dashboard and turned it over to the Trust Land Office.

MS. MORRISON stated that about 40 percent was spent so far this fiscal year and noted that there were several vacancies ongoing at the TLO which resulted in being a bit behind for this time of year. She moved to revenue and spoke about those numbers. She clarified that any funds not utilized for the land exchange can be redeployed, and added that there were no more encumbrances against the TADA. She continued through the revenue.

MS. FARLEY stated that investments were going great and explained in detail.

TRUSTEE FEIGE asked for an explanation of the difference of \$35 million in the total reserves.

MS. FARLEY replied that in November the trustees approved a payout for FY25 that was not reflected on the June 30th dashboard in the reserve calculation. It is reflected at the end of the November dashboard.

TRUSTEE FEIGE asked if the figures come from Department of Revenue in terms of what is anticipated, or if they are taken from the projections on the benchmark.

MS. FARLEY replied that those numbers come directly from the Department of Revenue when they forecast the asset allocation that was approved by trustees in FY24. They propose an asset allocation and present a new expected return every year to trustees, and this information comes directly from their numbers.

CHAIR MORRIS asked for any other comments or questions. There being none, he asked for a motion for adjournment.

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 Halterman, yes; Trustee Fimon, yes; Chair Morris, yes.)

(Alaska Mental Health Trust Authority Finance Committee meeting adjourned at 3:07 p.m.)