Trust
Alaska Mental Health Trust Authority

3745 Community Park Loop, Suite 200
Anchorage, AK 99508
Tel 907.269.7960
www.mhtrust.org

MEETING AGENDA

Meeting: Finance Committee
Date: April 23, 2025
Time: 8:30 am
Location: Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference: Zoom Link; Meeting ID: 842 6183 9319; Passcode: 907
Call-in number +1 669 444 9171; alaskamentalhealthtrust.org
Trustees: John Morris (Chair), Kevin Fimon, Anita Halterman, Brent Fisher (ex-officio)

Wednesday, April 23, 2025

		Page
8:30am	**Call Meeting to Order (John Morris, Chair)** Roll Call Announcements Approve Agenda Ethics Disclosure Approve Minutes – January 8, 2025	4
8:35am	**Financial Update** Julee Farley, CFO, Trust Investments and Trust Authority Dashboard report	handout
9:15am	**Callan Presentation** Steve Center and Julia Moriarty, Senior Vice President, Callan LLC Motion to recommend annual payout to full board	12
10:00am	**BREAK**	
10:15am	**Department of Revenue Presentation for Reserve Allocation** Steve Sikes, Investment Officer, Department of Revenue Motion to recommend DOR Reserve investment allocation to full board	42
11:00	**Adjourn**	

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Future Meeting Dates

Full Board of Trustees / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – April 2025)

• Finance Committee	April 23, 2025	(Wed)
• Resource Mgt Committee	April 23, 2025	(Wed)
• Program & Planning Committee	April 24, 2025	(Thu)
• Full Board of Trustees	May 21-22, 2025	(Wed, Thu) - Fairbanks
• Audit & Risk Committee	July 31, 2025	(Thu)
• Finance Committee	July 31, 2025	(Thu)
• Resource Mgt Committee	July 31, 2025	(Thu)
• Program & Planning Committee	Aug 1, 2025	(Fri)
• Full Board of Trustees	August 27-28, 2025	(Wed, Thu) – Anchorage
• Audit & Risk Committee	October 15, 2025	(Wed)
• Finance Committee	October 15, 2025	(Wed)
• Resource Mgt Committee	October 15, 2025	(Wed)
• Program & Planning Committee	October 16, 2025	(Thu)
• Full Board of Trustees	November 19-20, 2025	(Wed, Thu) – Anchorage
• Program & Planning Committee	January 21, **2026**	(Wed)
• Finance Committee	January 22, **2026**	(Thu)
• Resource Mgt Committee	January 22, **2026**	(Thu)
• Audit and Risk Committee	January 22, **2026**	(Thu)
• Full Board of Trustees	February 18-19, **2026**	(Wed, Thu) – Juneau

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Future Meeting Dates

Statutory Advisory Boards

(Updated – April 2025)

Alaska Commission on Aging

ACOA: https://aging.alaska.gov
Executive Director: Martin Lange, (907) 465-4793, martin.lange@alaska.gov

- Quarterly Meeting: May 6, 2025 / Virtual

Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse

AMHB: http://health.alaska.gov/amhb/Pages/default.aspx
ABADA: https://health.alaska.gov/abada/Pages/default.aspx
Executive Director: Kermit Wilson, (907) 465-4650, kermit.wilson@alaska.gov

Governor's Council on Disabilities and Special Education

GCDSE: http://health.alaska.gov/gcdse/Pages/default.aspx
Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Triannual Meeting (spring): May 28-29, 2025 / Anchorage

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

Department of Law:
Gene Hickey

Also participating:
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 CFO Farley 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 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, measure risk, and 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 recommended 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 prior year interest income and unobligated funds are also included. 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.

ACTING CEO 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. Callan has long recommended to the

Legislature the need for the Permanent Fund to adopt an endowment-like structure with a sustainable spending rate. 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 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:** <u>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.</u>

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.

ACTING 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:** <u>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.</u>

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:** <u>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.</u>

> *After the roll-call vote, the MOTION was APPROVED. (Trustee Halterman, yes;*

Trustee Fimon, yes; Chair Morris, yes.)

SURPLUS DETERMINATION

CFO 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

CFO 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.

CFO 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.

CFO 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.

CFO 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:** <u>A motion to adjourn the meeting was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.</u>
>
> *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.)

Callan

April 23, 2025

Alaska Mental Health Trust Authority

Asset-Spending Study – Phase 2

Steve Center, CFA
Fund Sponsor Consulting

Julia Moriarty, CFA
Capital Markets Research

Introduction

Presenters

Steve Center, CFA

- 15th year with Callan, 27th Year in the industry
- Senior Vice President, West Coast Consulting Team
- Callan Shareholder
- Manager Search Committee Member
- MBA, University of Washington

Julia Moriarty, CFA

- 35th year with Callan, 35th Year in the industry
- Senior Vice President, Co-Manager of Capital Markets Research
- Callan Shareholder
- MBA, UC Berkeley

Agenda

- Executive summary
- Background
- Asset Management Policy Statement review
  - Trust Land Office Development Account performance measurement metrics
  - Investment guideline monitoring process
  - Cash management strategy
- Asset Allocation and Rebalancing
  - DOR Budget Reserve asset allocation and rebalancing
- Allocation of Budget Reserve between APFC and DOR
- Phase 1 Review
  - Spend rate
- Conclusions and recommendations

Executive Summary

- The Alaska Mental Health Trust Authority (the Trust) had approximately $1.0 billion in assets at June 30, 2024 (starting point for the analysis) with assets segregated into five main buckets managed by three different entities
  - Alaska Permanent Fund Corporation (APFC)
  - Department of Revenue (DOR)
  - General Fund and Other Non-Segregated Funds (GeFONSI) – managed by the DOR
  - Trust Land Office (TLO) – manages both lands and Commercial Real Estate (CRE) investments
- The current structure of the Trust is complicated with multiple portfolios managed by different entities, an intricate flow of funds between the various accounts and accounting items within the funds, and a complex spending policy
- The study is broken into two phases
  - Phase 1 analyzed the Trust's investment program from a number of different angles with recommendations made with respect to the spend rate, reserve level, inflation proofing, and cash management, along with a review of the Investment performance and realized risk of the APFC, DOR, and the Commercial Real Estate (CRE) investments managed by the TLO
  - Phase 2, presented here, will address the Asset Management Policy Statement (AMPS), asset allocation and rebalancing, investment guidelines and monitoring criteria for internal and external managers, and performance measurement for TLO capital projects

Phase 2 recommendations

- Review proposed revisions to the Asset Management Policy Statement
  - Guideline and monitoring criteria for internal and external managers, performance monitoring criteria for projects funded by the TLODA, cash management best practices
- Consider a revised optimized asset allocation for the DOR Budget Reserves of 50% equities/50% fixed income
- Review Callan's proposal from Phase 1: Even split of 400% annual payout reserve policy between APFC & DOR
  - Consider updating the split from 50%/50% to 75% DOR/25% APFC as a diversification and derisking measure
- Review Callan's spend rate proposal from Phase 1: Consider a payout between 4.25% and 4.50%

Asset Management Policy Statement

Recommended Revisions/Additions

Asset Management Policy Statement

Recommended “Best Practices” for Structure

- An investment policy statement should reflect each organization’s legal requirements and their particular approach to the investment program
- Length can vary greatly; it should say what your Board/Committee wants to communicate to its intended audience
- Avoid “thou shalt” statements to give the committee flexibility to apply a set of beliefs to changing circumstances
- Multiple intended audiences
  - Managers
  - Consultants
  - Trustees
  - Staff
  - Beneficiaries
  - Regulatory authorities
- Qualified legal counsel should review the investment policy statement

Recommendations for Investment Policy Statement Sections

What to Define and Include

- The asset pool
- The relevant parties (board, investment committee, staff, managers, consultants, custodians, etc.) and their respective responsibilities
- The risk/return/target allocation goals and objectives, as well as the process and timing for reviewing those objectives
- General investment guidelines where applicable
- Oversight/monitoring process
- Hire/fire process
- Special sections—spending policies, permitted or prohibited investments, etc.
- Review/oversight/approval process for investment policy statement changes
- **Most important:** Recognize that the investment policy statement should be an honest appraisal of what is required to effectively manage the asset pool of YOUR organization
- The worst thing to do is to build an overly complex, aspirational investment policy statement that doesn't reflect your process and then **NOT** follow it

Proposed Revisions to the Asset Management Policy Statement

High-Level Formatting and Structure

Callan recommends the following high-level structural revisions to the AMPS:

- Capitalizing all entities that are treated as proper nouns in the AMPS (such as “Board of Trustees,” “Executive Committee” and “Finance Committee”)
- Defining all acronyms used in the AMPS
- Updating some benchmark naming conventions
- Correcting footnote formatting to simplify any future revisions

Proposed Additions to the Asset Management Policy Statement

Trust Land Office Development Account Investment Review

Callan recommends adding language to the AMPS regarding the evaluation of potential projects funded through the Trust Land Office Development Account (TLODA), per the fiduciary responsibility of the Board of Trustees:

- When evaluating potential TLODA projects, the proposals should be expected to generate increased value for the Trust and should compare favorably with the projected long-term total rate of return of the Alaska Permanent Fund Corporation.
- The overall risk of potential TLODA projects should be considered, including a thorough due diligence assessment of each proposed project. This includes legal, operational, and macroeconomic risk factors. Such reviews may involve engaging a third-party expert.
  - Legal reviews should focus on any regulatory or compliance constraints.
  - Operational risk factors may include a review of management quality, process efficiency, and overall market expertise.
  - Macroeconomic factors may include interest rate fluctuations, commodity price risk factors, market cycle positioning, and a review of any geopolitical risks.
  - Additional risks to consider include overall use of leverage, concerns around potential liquidity/exit strategies, and reputational risk factors for the Trust.

Proposed Additions to the Asset Management Policy Statement

Trust Land Office Development Account Investment Performance Metrics

Callan recommends adding language to the AMPS regarding ongoing performance measurement for the projects funded through the Trust Land Office Development Account (TLODA), per the fiduciary responsibility of the Board of Trustees:

- Regarding ongoing performance measurement and review, the use of private equity-style investment metrics such as internal rate of return (IRR), total value to paid-in capital (TVPI), and multiple on invested capital (MOIC) should be employed to evaluate TLODA projects on an ongoing basis. While different from the time-weighted rate of return calculations used by APFC, DOR, GeFONSI and the CRE portfolio, these metrics are better suited for the evaluation of illiquid investments.

Illustration of performance metrics for a project with a $100 outlay, year one payout of $5, year two payout of $6, year three payout of $8 and a $95 valuation at end of year three:

- IRR: 4.7% - Calculates in Excel, goal is for this to exceed the required rate of return (APFC)
- TVPI: (Gross Distributions + Residual Value)/ Capital Invested = ($5 + $6 + $8 + $95)/$100 = 1.14
  - TVPI > 1.0 represents a project has thus far yielded a positive return on invested capital
- MOIC: Gross distributions / Capital Invested = ($5 + $6 + $8)/$100 = 0.19
  - Anticipation is for a project to have a MOIC > 1.0 once it has been sold

Proposed Revisions to the Asset Management Policy Statement

Investment Guideline Monitoring

Callan recommends adding language to the AMPS regarding ongoing investment guideline monitoring for both internal and external mandates, including:

- Investment guideline and performance reviews conducted at least annually
- Any material deviations noted and monitored until corrected – no requirement to immediately correct a deviation caused by sudden market movements
- AMPS includes internet links for external mandate guidelines (APFC and GeFONSI)
- DOR Budget Reserve guidelines are summarized
- TLODA funded projects and CRE portfolio guidelines are fluid and based upon each project/investment, but require the TLO to present to the Board at least annually

Proposed Revisions to the Asset Management Policy Statement

Cash Management Procedures

Callan recommends adding language to the AMPS regarding formalizing a cash management process within the Trust in an effort to minimize “cash drag” on performance:

- Limits established for the various accounts utilizing GeFONSI:
  - Trust Authority Development Account (TADA) capped at $2 million
  - Trust Land Office Development Account/Central Facility Fund (TLODA/CFF) capped at $2 million
  - Settlement Income Account (SIA) capped at the current year’s withdrawal plus $1 million
- Additional language should be added to permit excess cash from the annual withdrawal to be moved from SIA to the DOR Budget Reserve account in order to improve potential performance and risk metrics

Asset Allocation and Rebalancing

Focused Solely on the DOR Budget Reserves

Asset Allocation – DOR Budget Reserves Portfolio

Observations and Recommendation

The Alaska Mental Health Trust Authority (the Trust) had approximately $1.0 billion in assets at June 30, 2024 (starting point for the analysis) with assets segregated into five main buckets managed by three different entities

- Alaska Permanent Fund Corporation (APFC)
- Department of Revenue (DOR) Budget Reserves
- General Fund and Other Non-Segregated Funds (GeFONSI) – managed by the DOR
- Trust Land Office (TLO) – manages both lands, land improvement projects and Commercial Real Estate (CRE) investments

The Board does not have control over how the APFC and GeFONSI portfolios are invested, though the Board is responsible for reviewing each portfolio on at least an annual basis. However, the Board does dictate the asset allocation of the DOR Budget Reserves portfolio and controls the CRE and TLODA project investments managed by the TLO.

This review focuses on the overall asset allocation and rebalancing methodology of the DOR Budget Reserves portfolio

Recommendation: Consider lowering the public equity allocation of the DOR Budget Reserves portfolio to 50%

The DOR Budget Reserves portfolio currently invests approximately 57% in public equity. Reducing this allocation to 50% will:

- Slightly lower the median expected return of the DOR Budget Reserves portfolio (7.15% to 6.98%) but greatly reduce the risk (standard deviation drops from 10.7% to 9.5%)
- Downside risk of performance in poor market environments is improved with a lower equity allocation
- This results in a higher Sharpe ratio (improved implementation of risk within the portfolio)
- Alongside a proposal to increase the amount invested in the DOR Budget Reserves portfolio relative to APFC and the GeFONSI Assets, this lower risk profile is prudent (less in cash, more in DOR Budget Reserves)

DOR Budget Reserves – Asset Mix Alternatives

Four Alternative Asset Mixes

Asset Mix Alternatives - DOR Budget Reserves Portfolio

Portfolio Component	Current DOR Portfolio	50% EQ	55% EQ	60% EQ	65% EQ
Broad US Equity	32.0	28.1	30.9	33.7	36.5
Global ex-US Equity	25.0	21.9	24.1	26.3	28.5
Core US Fixed	40.7	47.5	42.7	37.8	33.0
High Yield	1.3	1.5	1.3	1.2	1.0
Cash Equivalents	1.0	1.0	1.0	1.0	1.0
Totals	100.0	100.0	100.0	100.0	100.0
10 Yr. Geometric Mean Return	7.15%	6.98%	7.11%	7.22%	7.33%
Projected Standard Deviation	10.69%	9.54%	10.36%	11.19%	12.03%
10 Yr. Simulated Sharpe Ratio	0.38%	0.41%	0.38%	0.37%	0.35%

Four potential asset allocation mixes are examined alongside the current DOR Budget Reserve allocation, shown at the leftmost column

The current DOR Budget Reserve portfolio has a 57% allocation to public equity

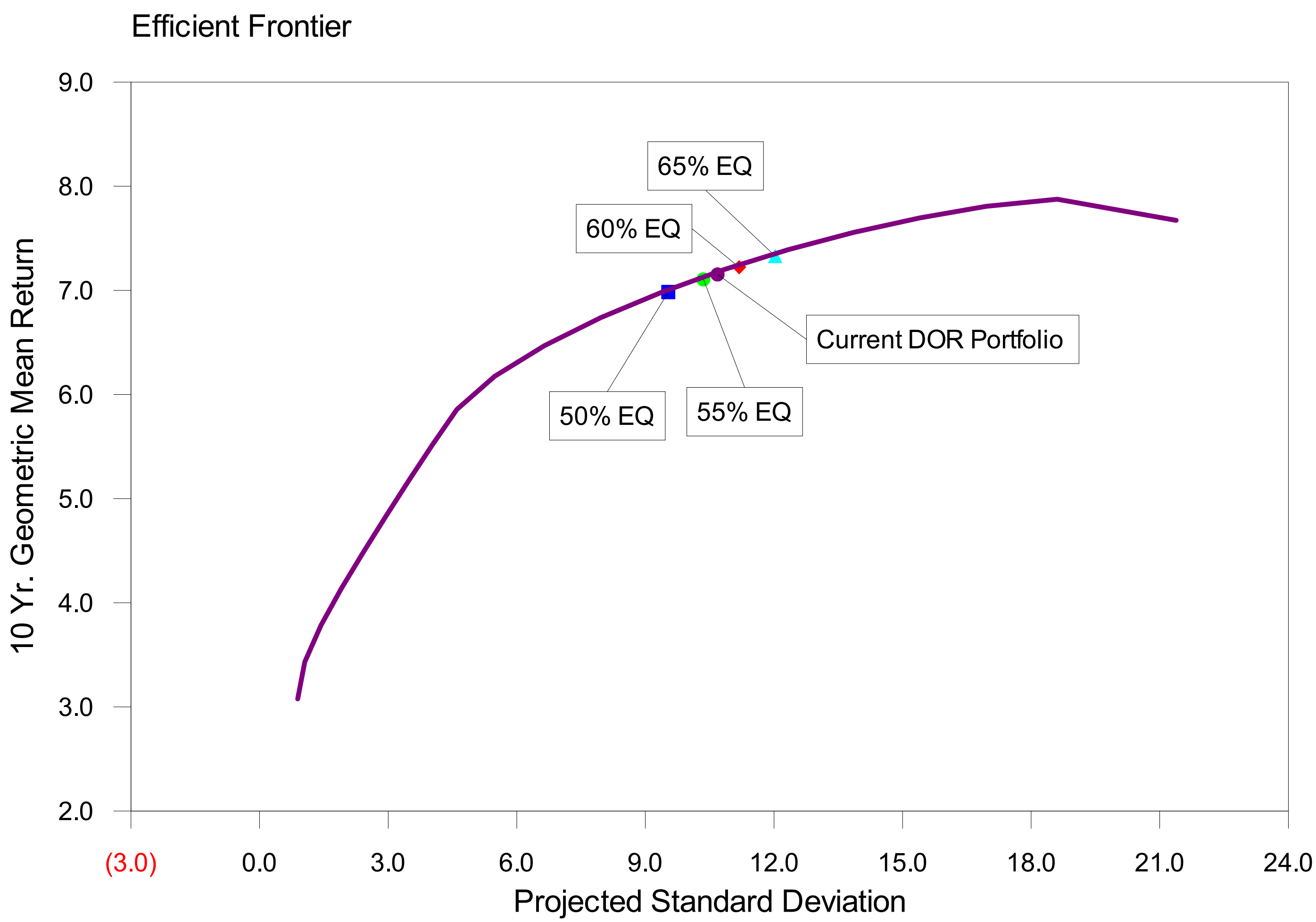
While increasing the allocation to public equity results in slightly higher projected outcomes over the next ten years, it does so with an uptick in risk (standard deviation)

A 50% equity/50% bond allocation results in the highest projected Sharpe ratio

The “High Yield” allocation represents the DOR Budget Reserve portfolio allocating 20% of fixed income to the Fidelity Tactical Bond strategy, of which 15% is considered “High Yield”

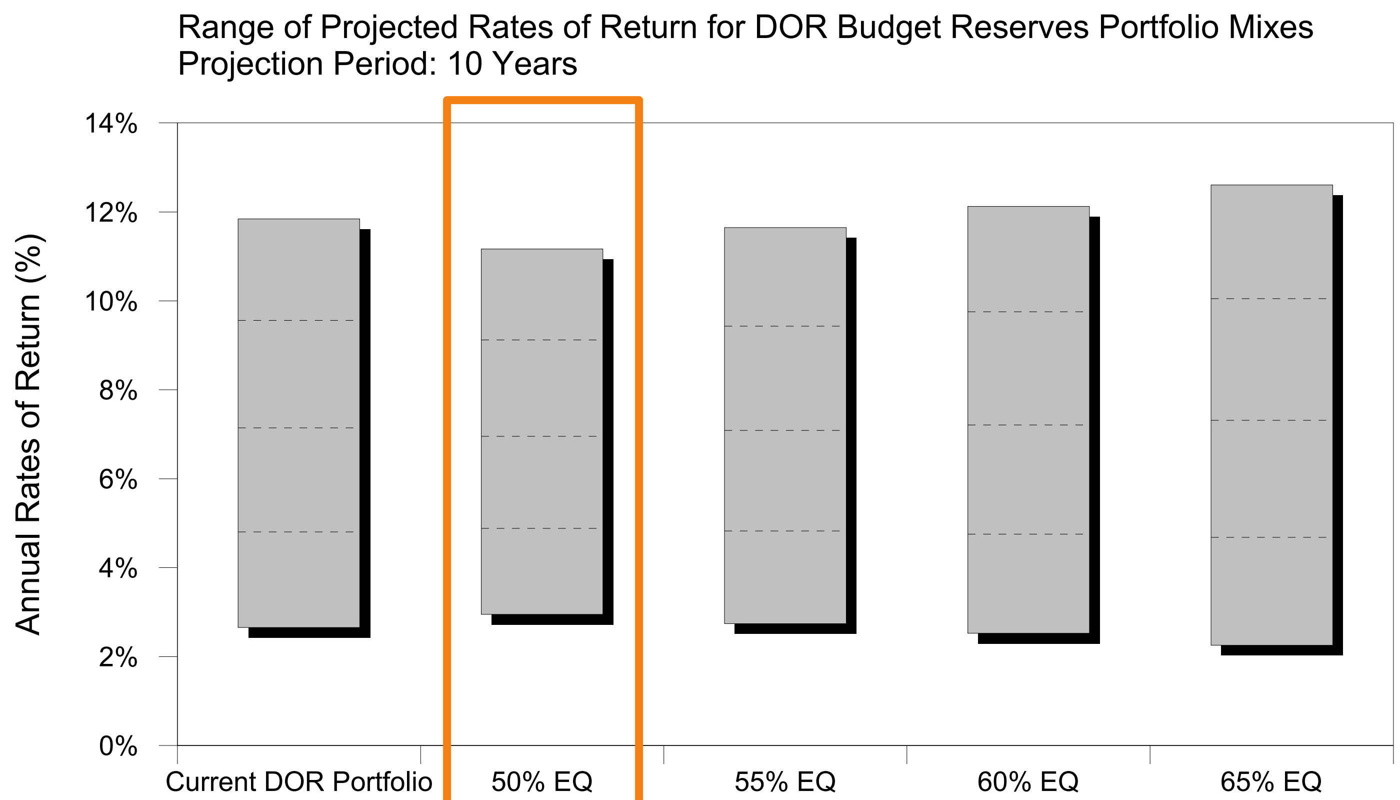
For reference: APFC has a 10-year projected mean return of 7.7%, projected standard deviation of 13.0%, and a projected Sharpe Ratio of 0.35%

DOR Budget Reserves – Efficient Frontier Analysis



Slightly altering the split between public equity and public fixed income can result in substantially more risk (standard deviation) with only a slight enhancement on projected returns

DOR Budget Reserves – Range of Projected Rates of Return

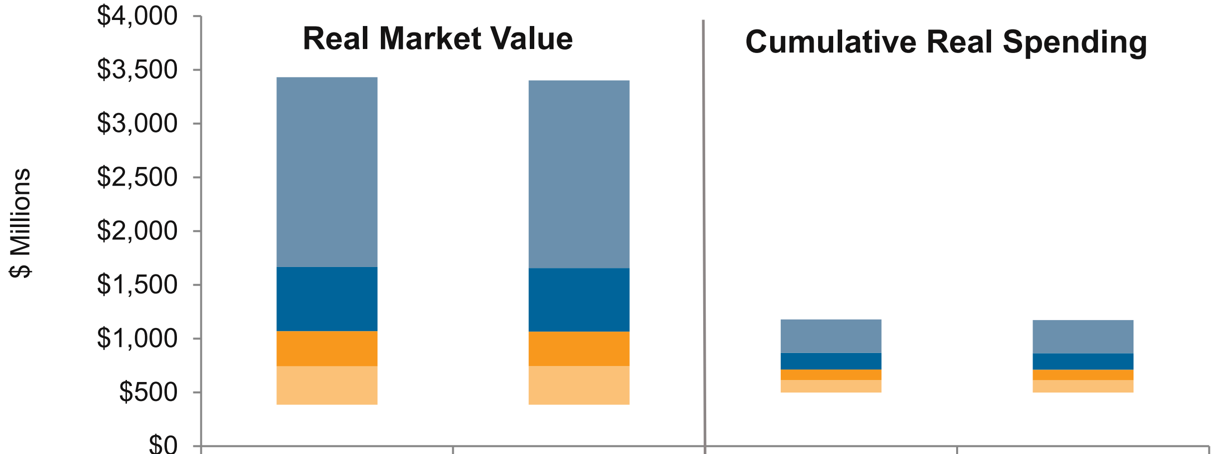


	Current DOR Portfolio	50% EQ	55% EQ	60% EQ	65% EQ
10th Percentile	11.8%	11.2%	11.6%	12.1%	12.6%
25th Percentile	9.6%	9.1%	9.4%	9.8%	10.1%
Median	7.1%	7.0%	7.1%	7.2%	7.3%
75th Percentile	4.8%	4.9%	4.8%	4.8%	4.7%
90th Percentile	2.7%	2.9%	2.7%	2.5%	2.3%

A 50% public equity allocation only reduces the projected 10-year median outcome by 0.1% while also lowering projected volatility

DOR Current (57% Equity) vs DOR 50% Equity

Real Market Values and Cumulative Real Spending through FY44



	Current (57%)	50%	Current (57%)	50%
5th Percentile	$3,431	$3,400	$1,178	$1,172
25th Percentile	$1,666	$1,656	$867	$865
50th Percentile	$1,069	$1,066	$712	$711
75th Percentile	$742	$743	$613	$613
95th Percentile	$384	$386	$499	$498

Note: Market values do not include lands or the commercial real estate holdings valued at $115 million and $60 million at June 30, 2024, respectively

- The above chart shows the projected value of the Trust and cumulative spending in today's dollars at the end of FY44 (20 years)
- Reducing the DOR's equity allocation results in lower expected and better-case asset values but higher worse-case values
- Spending is marginally lower under a 50% equity allocation at the DOR

Rebalancing – DOR Budget Reserves Portfolio

Observations and Recommendation

Rebalancing investment portfolios around a target asset allocation enforces the strategic asset allocation by avoiding policy drift. The most common rebalancing techniques are range-based (asset allocation targets with permissible ranges or bands), calendar-based (monthly, quarterly, or annually), and tactical.

The Board does not have control over how the APFC and GeFONSI portfolios are rebalanced.

- APFC uses a range-based asset allocation process where the portfolio is rebalanced back to targets when permissible ranges are breached, though it can be tactically rebalanced within stated guideline ranges
- GeFONSI portfolio is rebalanced on a calendar basis (at least quarterly).

Callan tends to favor range-based rebalancing as best practice, and we recommended the DOR Budget Reserves portfolio adopt a range-based rebalancing practice in our 2022 study. The Department of Revenue currently rebalances the DOR Budget Reserves portfolio on a calendar basis (at least quarterly, but often monthly).

Recommendation: Continue to permit the DOR Budget Reserves portfolio to rebalance on a calendar basis (at least quarterly)

The DOR Budget Reserves portfolio currently rebalances its investments on a calendar basis (at least quarterly):

- The underlying investments in the DOR Budget Reserves portfolio are fully liquid, permitting low-cost transactions as needed
- Cash flows in and out of the DOR Budget Reserves are often sufficient for funding rebalancing transactions in normal markets
- DOR strives to minimize tracking error relative to its performance benchmark, and monthly rebalancing aids in this practice

Reserve Balances

Review of Size and Split Between APFC & DOR

Reserve Level and Balances

Observations and Recommendation

This analysis reviews the recommendation of maintaining a reserve balance equal to 400% of the annual spending rate by first reviewing the impact of either raising or lowering the overall size of the reserve balance. The overall size of the reserve balance has little impact – as long as it is maintained between 300% and 500%, the probability of being able to meet spending always remains above 95%. A reserve balance equal to 400% of the annual spending rate remains prudent.

Additionally, we explore altering the allocation of the reserve balance from an equal split between APFC and the DOR Budget Reserves account by examining various alternate mixes. Again, there is little difference overall spending assurance with a variation in allocation between APFC and the DOR Budget Reserves. However:

- The DOR Budget Reserves account is highly liquid and can easily handle potential cash needs
- There are potential limitations inherent in the APFC Earnings Reserve Account (ERA) calculations which could result in APFC balances being unable to be drawn

These two factors support moving from an equal split to one where ¼ is held at APFC and ¾ is held in the DOR Budget Reserves account.

Recommendation: Maintain a 400% reserve balance, and alter the allocation from an equal split to 100% invested in APFC and 300% invested in the DOR Budget Reserves

Reserve Level

- Focusing on the ten and twenty-year time horizons, the table below indicates reserve policies between 300-500% of spending are sufficient to ensure spending is met with a greater than 95% probability
  - The higher the reserve level the greater the probability that actual spending equals the targeted amount
  - In the scenarios where actual spending falls short of the targeted amount, it often occurs more than once over the projection period

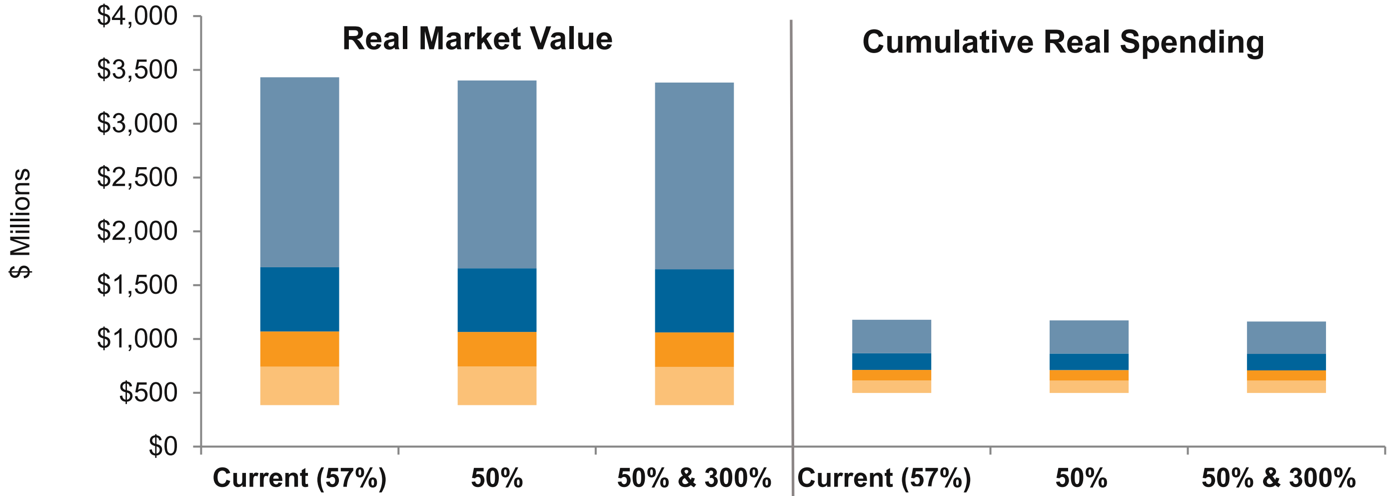
Probability Actual Spending = Target Amount			
Projection Period	300% Reserve Level	400% Reserve Level	500% Reserve Level
10 Years	98.80%	98.80%	98.85%
20 Years	97.65%	98.20%	98.25%

- Focusing on the same time periods as above and a 400% total reserve level, the table below indicates there is little difference in spending assurance depending on where reserves are held
  - Moving reserves from the APFC to the DOR leads to a greater the probability that actual spending equals the targeted amount

Probability Actual Spending = Target Amount			
Projection Period	300% APFC / 100% DOR	200% APFC / 200% DOR	100% APFC / 300% DOR
10 Years	98.65%	98.80%	99.05%
20 Years	97.50%	98.20%	98.30%

DOR Current (57% Eq.), DOR 50% Eq., and DOR 50% Eq. & 300% Reserves

Real Market Values and Cumulative Real Spending through FY44



	Real Market Value: Current (57%)	Real Market Value: 50%	Real Market Value: 50% & 300%	Cumulative Real Spending: Current (57%)	Cumulative Real Spending: 50%	Cumulative Real Spending: 50% & 300%
5th Percentile	$3,431	$3,400	$3,381	$1,178	$1,172	$1,162
25th Percentile	$1,666	$1,656	$1,647	$867	$865	$861
50th Percentile	$1,069	$1,066	$1,061	$712	$711	$708
75th Percentile	$742	$743	$741	$613	$613	$612
95th Percentile	$384	$386	$386	$499	$498	$498

Note: Market values do not include lands or the commercial real estate holdings valued at $115 million and $60 million at June 30, 2024, respectively

- The above chart shows the projected value of the Trust and cumulative spending in today's dollars at the end of FY44 (20 years)
- Reducing the DOR's equity allocation and moving a majority of reserves to the DOR leads to lower spending and lower ending asset values except in a worse-case scenario

Phase 1 Review: Spend Rate

Spend Rate – Phase 1 Recommendation

Observations and Recommendation

Phase 1 of Callan's Asset Allocation and Spending Study recommended the Trust consider raising the spend rate from the current 4.25% rate to a range of 4.75% to 5.00%. This recommendation was driven by multiple factors, including:

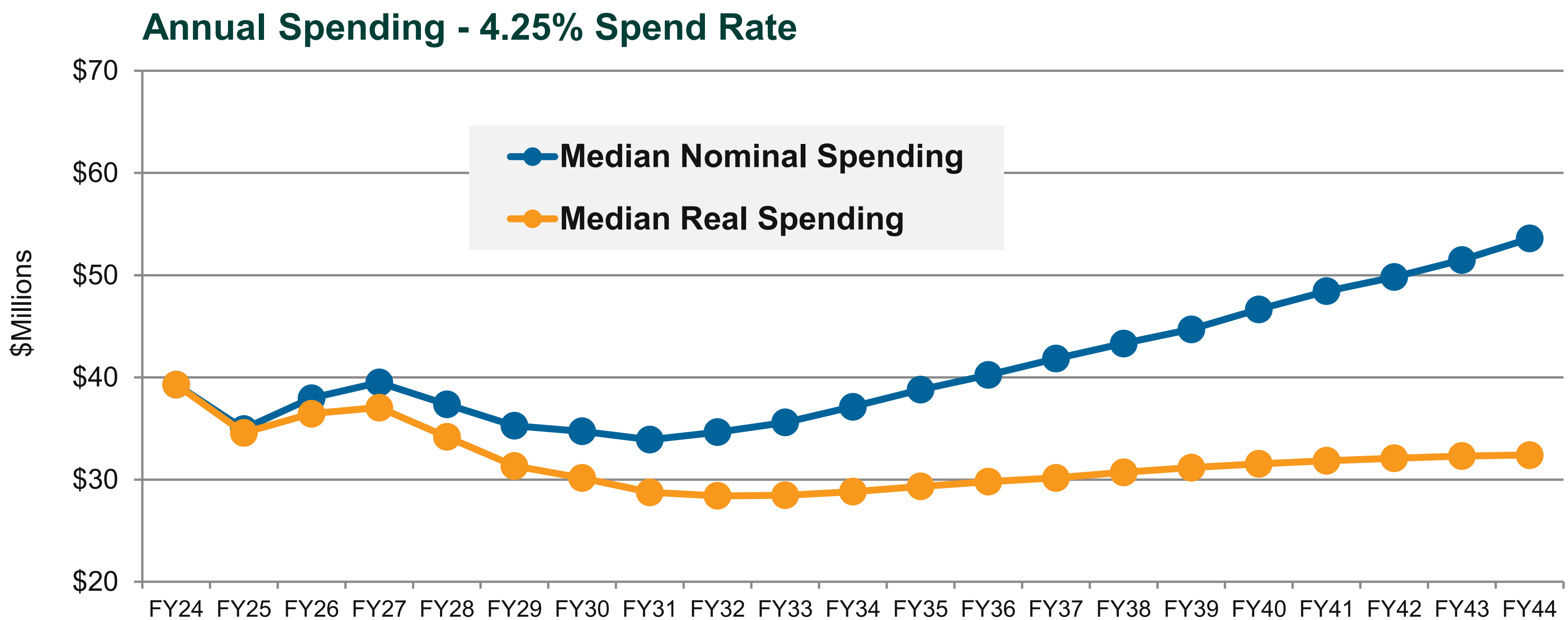
- The current spending rate is expected to result in rising real (inflation adjusted) market values and spending levels over time
- Even under a poor TLO contribution scenario with $5 million in annual TLO capital project requests into perpetuity plus the $12 million Trust Authority Building (TAB) capital project funded over the first three years of the projection, a 4.25% spend rate is expected to result in modestly higher spending over the 20-year projection period in today's dollars
- If long-term inflation expectations rise above 2.5% and/or return expectations fall below 7.7%, a lower spend rate would be recommended

Recommendation: Consider maintaining the current 4.25% spend rate or raising the rate to 4.50%

While Callan believes the Trust can easily continue to grow with a 0.25% increase in spend rate given the current capital markets, we are reducing our Phase 1 recommendation for multiple reasons, including:

- Expected returns for 2025 are slightly lower than 2024 expectations, which were used in the Phase 1 study
- Callan is recommending a slightly lower return/risk profile for the DOR Budget Reserves account, marginally lowering expected returns for the Trust
- Inflation-proofing needs are stull under review
- Uncertainty regarding the Commercial Real Estate portfolio exit values and cash needs

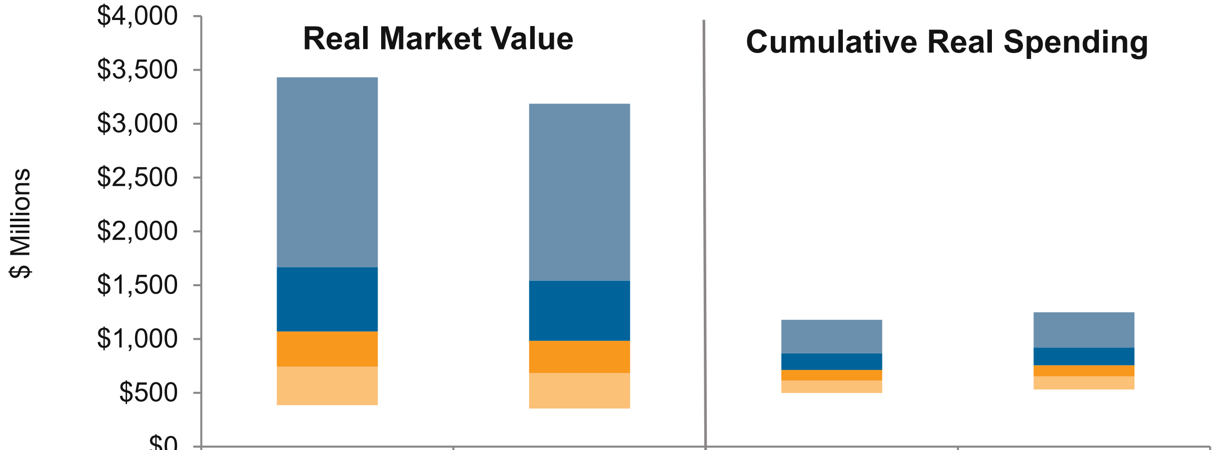
4.25% Spending: Poor TLO Outcome + $5m Annual Cap Projects + $12m TAB



- The chart above examines spending under the same 4.25% spend rate assuming a poor TLO outcome, $5 million in annual TLO capital project requests into perpetuity, plus the $12 million Trust Authority Building (TAB) capital project funded over the first three years of the projection
- While the spending levels are necessarily lower than those shown on the previous pages, inflation-adjusted spending is still rises slowly over time

4.25% and 4.75% Spend Rates

Real Market Values and Cumulative Real Spending through FY44



	4.25%	4.75%	4.25%	4.75%
5th Percentile	$3,431	$3,186	$1,178	$1,248
25th Percentile	$1,666	$1,542	$867	$921
50th Percentile	$1,069	$983	$712	$755
75th Percentile	$742	$683	$613	$652
95th Percentile	$384	$353	$499	$531

Note: Market values do not include lands or the commercial real estate holdings valued at $115 million and $60 million at June 30, 2024, respectively

- The above chart shows the projected value of the Trust and cumulative spending in today's dollars at the end of FY44 (20 years)
- Not surprisingly, a lower spend rate results in greater asset values and lower spending
  – The lower spend rate is expected (50th percentile) to have $86 million more in assets at the end of FY44 and $44 million less in cumulative spending

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Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional investor with creative, customized investment solutions backed by proprietary research, exclusive data, and ongoing education. Today, Callan provides advisory services to institutional investor clients with more than $3 trillion in total assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisers, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

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THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Alaska Mental Health Trust Authority

Department of Revenue
Fiscal Year 2026 Budget Reserve Asset Allocation

April 2025

Steve Sikes, CFA, CPA
State Investment Officer
State of Alaska, Department of Revenue

AMHTA Assets Managed by the Department of Revenue

Alaska Mental Health Trust Budget Reserve Investments:

- The asset allocation is approved by Alaska Mental Health Trust Authority on an annual fiscal year basis based on the investment policy established in its Asset Management Policy Statement (AMPS).

- As stated in AMPS, the Alaska Mental Health Budget Reserve Fund has a moderate risk tolerance with a medium-term time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth.

GeFONSI (General Fund and Other Non-Segregated Investments):

- Alaska Mental Health Trust Authority short-term assets are pooled with other state funds in the GeFONSI. The Asset allocation is set by the Commissioner of Revenue on an annual fiscal year basis.

AMHTA Assets Managed by Department of Revenue	
as of March 31, 2025	$ millions
Budget Reserve	75.1
GeFONSI	63.2
Total	138.3

Asset Allocation Process

<u>Alaska Mental Health Trust Authority Budget Reserve Investments:</u>

- Asset Allocation is approved by Alaska Mental Health Trust Authority Board.
- Reviewed annually for July 1 adoption.
- For Fiscal Year 2026, review and recommendation was prepared by Callan as part of a spending study analysis.
- Process uses Callan's 10-year capital market assumptions for risk, return and correlation. Solution seeks optimal asset mix based on risk tolerance.

<u>GeFONSI (General Fund and Other Non-Segregated Investments):</u>

- Asset Allocation approved by the Commissioner of Revenue as of July 1, fiscal year basis.
- GeFONSI has a short time horizon and is therefore invested conservatively. The current, Fiscal Year 2025 asset allocation, is 85% short-term fixed income and 15% medium-term fixed income.

<u>Callan Recommended Fiscal Year 2026 Alaska Mental Health Trust Budget Reserve Asset Allocation:</u>

DOR Budget Reserves – Asset Mix Alternatives

Four Alternative Asset Mixes

Asset Mix Alternatives - DOR Budget Reserves Portfolio

Portfolio Component	Current DOR Portfolio	50% EQ	55% EQ	60% EQ	65% EQ
Broad US Equity	32.0	28.1	30.9	33.7	36.5
Global ex-US Equity	25.0	21.9	24.1	26.3	28.5
Core US Fixed	40.7	47.5	42.7	37.8	33.0
High Yield	1.3	1.5	1.3	1.2	1.0
Cash Equivalents	1.0	1.0	1.0	1.0	1.0
Totals	100.0	100.0	100.0	100.0	100.0
10 Yr. Geometric Mean Return	7.15%	6.98%	7.11%	7.22%	7.33%
Projected Standard Deviation	10.69%	9.54%	10.36%	11.19%	12.03%
10 Yr. Simulated Sharpe Ratio	0.38%	0.41%	0.38%	0.37%	0.35%

Four potential asset allocation mixes are examined alongside the current DOR Budget Reserve allocation, shown at the leftmost column

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While increasing the allocation to public equity results in slightly higher projected outcomes over the next ten years, it does so with an uptick in risk (standard deviation)

A 50% equity/50% bond allocation results in the highest projected Sharpe ratio

The "High Yield" allocation represents the DOR Budget Reserve portfolio allocating 20% of the total fixed income asset class to the Fidelity Tactical Bond strategy

Callan

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Budget Reserve Asset Allocation History

Alaska Mental Health Trust Reserve – Asset Allocation History

	Short-Term Fixed Income	Intermediate-Term Fixed Income	Broad Market Fixed Income	Domestic Equity Pool	International Equity Pool	Equity/Fixed Income
2003		100%				
2006	10%		30%	45%	15%	60%/40%
2008	10%		29%	40%	21%	61%/39%
2019	0%		44%	33%	23%	56%/44%
2022	1%		30%	43%	26%	69%/31%
2023	1%		32%	39%	28%	67%/33%
2024	1%		42%	32%	25%	57%/43%
Rec 2025	1%		49%	28%	22%	50%/50%

Rebalancing Process

- Goal of rebalancing is to return portfolio asset class weights to targets from performance and cash flow related drifting that may occur during the quarter.

- Rebalancing occurs on a quarterly basis.

- More frequent rebalancing may occur if there are large external cash flows.

- Rebalancing may occur on a monthly basis to effect gradual implementation of changes to asset allocation targets.

- Department of Revenue uses a pooling structure to create management efficiency across state funds. This structure aggregates the net demand of all funds for investment exposure which may reduce market transaction costs by providing natural offsets across state funds.

- Department of Revenue reports rebalancing transaction to the Alaska Mental Health Trust Authority CFO when it occurs.

Questions?

Appendix

AMHTA DOR Assets - Investment returns for quarter ending March 31, 2025:

	FYTD	1 Year	5 year	10 year
GeFONSI (1)	4.01%	5.39%	2.40%	1.93%
GeFONSI Benchmark	3.73%	5.04%	2.12%	1.72%
Difference	0.28%	0.35%	0.28%	0.21%
Alaska Mental Health Trust Reserve (2)	4.88%	6.58%	9.42%	6.73%
Alaska Mental Health Reserve Benchmark	4.78%	6.41%	9.14%	6.47%
Difference	0.10%	0.17%	0.28%	0.26%
Cash Equivalents (3)	3.86%	5.29%	2.78%	2.06%
Core U.S. Fixed Income (3)	4.88%	5.09%	0.14%	1.76%
Tactical Bond (2)	5.01%	5.03%		
Domestic Equity (2)	3.85%	7.19%	18.21%	
International Equity (2)	5.13%	6.25%	10.94%	

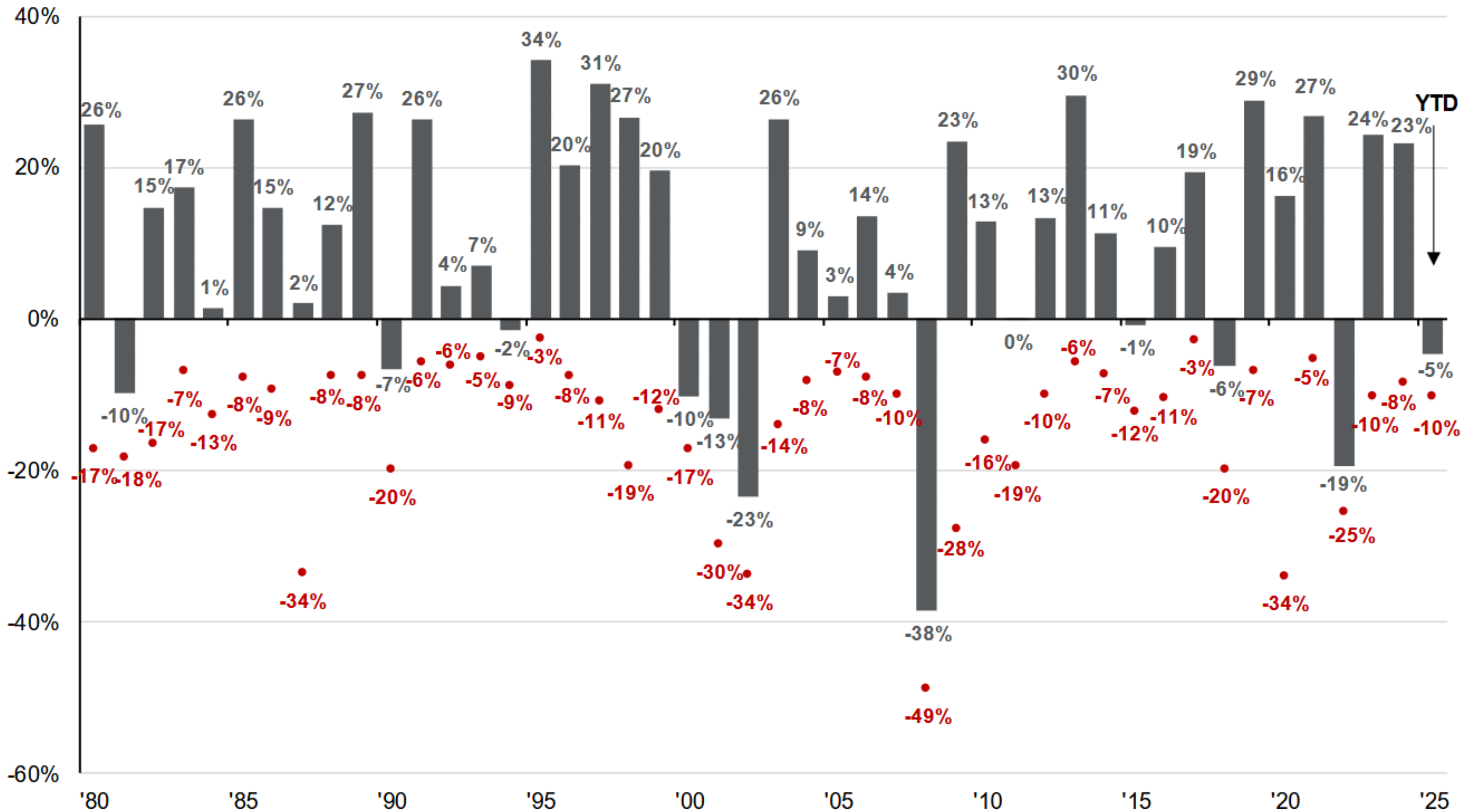
(1) - Net Performance. No fees are assessed on GeFONSI assets.
(2) - Net Performance
(3) - Gross Performance. Fees are assessed as part of a .10% administrative fee on total account net asset value.

Stock Market Returns

Stocks have produced strong results over time for long term investors who can tolerate higher short-term volatility.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which the average annual return was 10.6%.
Guide to the Markets – U.S. Data are as of March 31, 2025.

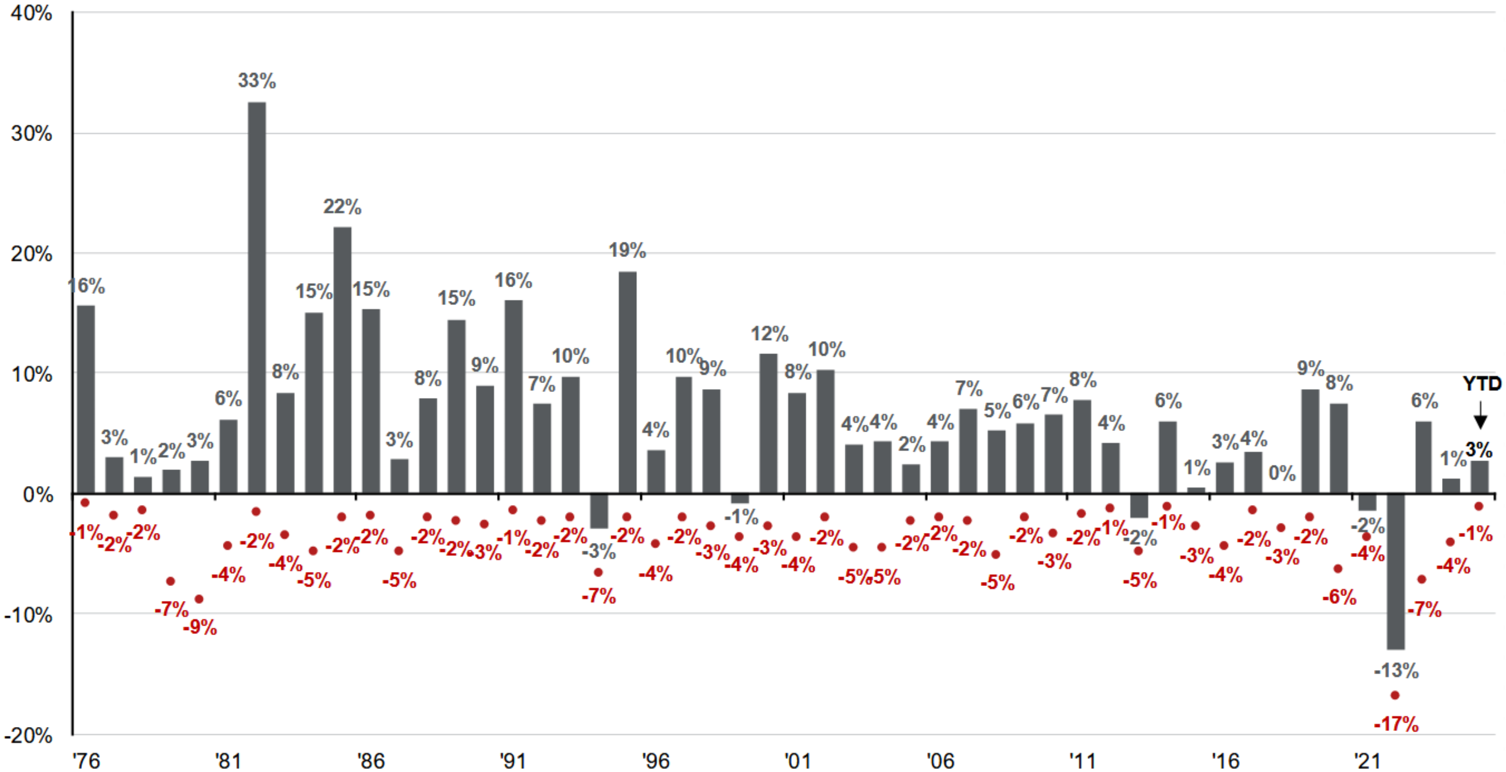
J.P.Morgan
ASSET MANAGEMENT

Bond Market Returns

Bonds have a track record of producing positive, lower volatility returns. 2022 was an outlier.

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.5%, annual returns were positive in 44 of 49 years



Source: Bloomberg, FactSet, J.P. Morgan Asset Management.
Returns are based on total return. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2024, over which time period the average annual return was 6.5%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterward.
Guide to the Markets – U.S. Data are as of March 31, 2025.

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