

MEETING AGENDA

Meeting: Finance Committee
Date: October 19, 2022
Time: 11:25 AM
Location: online via webinar and teleconference
Teleconference: (844) 740-1264 / Meeting Number: 2453 203 2405 # / Attendee Number: #
<https://alaskamentalhealthtrust.org/>
Trustees: Brent Fisher (Chair), Verné Boerner, Rhonda Boyles, Kevin Fimon,
Anita Halterman, Agnes Moran, John Sturgeon

Wednesday, October 19, 2022

Page No.

11:25	<u>Call Meeting to Order (Brent Fisher, Chair)</u> Roll Call / Announcements Approve Agenda / Ethics Disclosure Approve Minutes <ul style="list-style-type: none"> July 26, 2022 	4
11:30	<u>Staff Report Items</u> CEO Report FY22 Trust Performance Review – Carol Howarth, CFO	11
12:00	Lunch	
12:45	<u>Staff Report Items (continued)</u> FY23 Q-1 Financial Dashboard <ul style="list-style-type: none"> Carol Howarth, CFO Blain Alfonso, TLO Administrative Manager 	hand-out
1:00	<u>Statutory Advisor Update</u> <ul style="list-style-type: none"> Valerie Mertz, Acting Executive Director Alaska Permanent Fund Corporation 	17
1:45	<u>Dept of Revenue / Treasury Update</u> <ul style="list-style-type: none"> Shane Carson, State Investment Officer, Department of Revenue 	29
2:30	Break	
2:45	<u>Approval</u> FY23 Payout – Carol Howarth, CFO	53
3:00	<u>Staff Report Items (continued)</u> Commercial Real Estate Policy Discussion	hand-out
4:00	Adjourn	

Future Meeting Dates

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

(Updated – October 2022)

- Audit & Risk Committee October 19, 2022 (Wed)
 - Finance Committee October 19, 2022 (Wed)
 - Resource Mgt Committee October 19, 2022 (Wed)
 - Program & Planning Committee October 20, 2022 (Thu)
 - Full Board of Trustee November 16-17, 2022 (Wed, Thu) – Anchorage
-
- Audit & Risk Committee January 5, **2023** (Thu)
 - Finance Committee January 5, **2023** (Thu)
 - Resource Mgt Committee January 5, **2023** (Thu)
 - Program & Planning Committee January 6, **2023** (Fri)
 - Full Board of Trustee January 24-25, **2023** (Tue, Wed) – Juneau
-
- Audit & Risk Committee April 19, **2023** (Wed)
 - Finance Committee April 19, **2023** (Wed)
 - Resource Mgt Committee April 19, **2023** (Wed)
 - Program & Planning Committee April 20, **2023** (Thu)
 - Full Board of Trustee May 24-25, **2023** (Wed, Thu) – TBD
-
- Audit & Risk Committee July 25, **2023** (Tue)
 - Finance Committee July 25, **2023** (Tue)
 - Resource Mgt Committee July 25, **2023** (Tue)
 - Program & Planning Committee July 26-27, **2023** (Wed, Thu)
 - Full Board of Trustee August 29-30, **2023** (Tue, Wed) – Anchorage

Future Meeting Dates Statutory Advisory Boards (Updated – July 2022)

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

AMHB: <http://dhss.alaska.gov/amhb/Pages/default.aspx>

ABADA: <http://dhss.alaska.gov/abada/Pages/default.aspx>

Executive Director: Bev Schoonover, (907) 465-5114, bev.schoonover@alaska.gov

- Executive Committee – monthly via teleconference (Second Tuesday of the Month)
- Fall Meeting: October TBD / Fairbanks

Governor’s Council on Disabilities and Special Education

GCDSE: <http://dhss.alaska.gov/gcdse/Pages/default.aspx>

Acting Executive Director: Patrick Reinhart, (907)269-8990, patrick.reinhart@alaska.gov

- Fall Meeting: October 13-15, 2022 / Girdwood & via Webinar

Alaska Commission on Aging

ACO: <http://dhss.alaska.gov/acoa/Pages/default.aspx>

Executive Director: Jon Haghayeghi, (907) 465-4879, jon.haghayeghi@alaska.gov

- Fall Meeting: October 3-5, 2022 / TBD
- Winter Meeting: December 5-6, 2022 / TBD

ALASKA MENTAL HEALTH TRUST AUTHORITY

FINANCE COMMITTEE MEETING

July 26, 2022

9:30 a.m.

WebEx Videoconference/Teleconference

Originating at:

**3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508**

Trustees Present:

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

Trust Staff Present:

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

Trust Land Office staff present:

Jusdi Warner
Karsten Eden
David MacDonald
Hollie Chalup

Also participating: Blain Alfonso; Erin O'Boyle; Genia Demetriades; Pam Cawley; Patrick Reinhardt; Lesley Thompson; John Walker; Kathy Craft; Beverly Schoonover; Lisa Cauble; Josephine Stern; Adam Rutherford.

PROCEEDINGS

CALL TO ORDER

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

APPROVAL OF AGENDA

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

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

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

APPROVAL OF MINUTES

MOTION: A motion to approve the minutes from April 20, 2022, was made by TRUSTEE HALTERMAN; seconded by TRUSTEE FIMON.

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

CHAIR FISHER stated that the first item on the agenda was the financial dashboard and staff reports. He recognized Carol Howarth.

STAFF REPORTS

MS. HOWARTH stated that she was joined by Kat Roch, the budget controller for the Trust. She explained that the financial dashboard was a summary of the expenditures, the revenue and the assets; an equivalent of an income statement and a balance sheet. She continued that the financials will be formally closed at the end of August. Reflected here are the expenditures, the money going out the door relative to the budget established for the fiscal year. The numbers will be finalized at the end of September when the audit is completed. She added that an important part of financial health was related to the assets, and the Permanent Fund Corporation is currently closing their books. The hope is that the preliminary numbers will be sent by day-end. She asked Ms. Roch to present and review the expenditures of the Trust.

MS. ROCH began with the agency budgets which were expected to close by the end of August. She continued that there had been vacancies, and a lot of travel was postponed or done virtually because of COVID, which is a big reason for the lapses in the agency budgets. She went through the expenditures and then moved to capital projects which were related to large projects with the allocation that trustees approved for program-related investment. She continued to the Trust Land Office Development Account, TLODA, which were capital projects from the Trust Land Office. She explained that the current project is Icy Cape Mineral Development project which a

number of trustees visited recently. She moved to Trust receipts and stated that the Trust Land Office had a stellar year, with the largest planned contributors being the land category followed by forest management, oil and gas, and then minerals. She explained the revenue losses which reflected the volatility.

A brief discussion ensued.

MS. HOWARTH noted that she would provide at the next Finance Committee meeting a performance review of the long-term investment strategy which will provide an historical perspective.

CHAIR FISHER asked for any questions.

TRUSTEE MORAN stated that the Permanent Fund had quite a bit of high-level employee turnover and asked if that would have any impact on the Trust. She asked if that was monitored.

MS. HOWARTH replied that there was the ability to have an open dialogue with the Permanent Fund. Her relationships at her level had been with the chief financial officer, who is currently the acting CEO. There could also be a dialogue with the chief investment officer. She stated that there had been no reason to contact them at this point.

TRUSTEE MORAN stated that she did not have any concerns at this stage, but if that level of instability continued, it may become concerning.

TRUSTEE HALTERMAN noted that point should be noted for Audit & Risk policies, and the impact of inflation on the budget.

MS. HOWARTH moved to Trust resources and did a cursory review of the numbers. The most significant part of this was the Permanent Fund investments, and those numbers have not been updated. She concluded the dashboard review. She continued to the revenue forecast and focused on the FY23 revenue estimate, and then the FY24 revenue estimate. She stated that the revenue forecast is driven by three primary components: The amount of money that is invested in the Trust fund; the budget reserves managed by the Permanent Fund; and the budget reserves managed by the Department of Revenue. She explained that a four-year average was used, and the estimate was that there would be about \$28.5 million available to draw using the 4.25 percent draw rate. That is expected to go up to about \$30 million for FY24. She continued to the next three components incorporated that also have a four-year average: The lapsed appropriations, funds not used; Trust Land Office spendable income; and cash management interest.

CHAIR FISHER called a break.

(Break.)

CHAIR FISHER welcomed all back to the Finance Committee meeting and asked Ms. Howarth to introduce Harvest Capital, the next presentation.

MS. HOWARTH stated that Harvest Capital was engaged in October 2019 as the Trust's

independent commercial real estate adviser. She continued that the trustees chose to have an advisor since 2019. The Trust is heavily involved in large-scale real estate. She explained that Harvest is an SEC-registered financial advisor, based in Boston. She asked Mr. Williams to continue.

MR. WILLIAMS stated that he looked forward to having Erin and her team present on the portfolio as a whole. He explained that this portfolio is part of the overall financial picture and provides some durable income to help mitigate some of the peaks and valleys in what was going on in the fiscal environments which allows the maintaining of some steady, reliable income for the beneficiaries and the programs served.

MS. HOWARTH introduced Erin O'Boyle, the managing partner for Harvest, and Genia Demetriades. She stated that Ms. O'Boyle has a career-long experience in operations and investments of commercial real estate, and her clients range from pension funds to trusts. She continued that there were two additional team members, Joshua Kahr, who is involved in the forecasting, and Ms. Demetriades, who brings perspective in office and industrial asset management and in investment advisory.

MS. O'BOYLE stated that she was the founder and managing partner of Harvest Capital Partners, SEC-registered investment advisors. She stated appreciation for the opportunity to present the annual report on the commercial real estate holdings. She began her presentation with good news: good performance and good income. The assets are well-located and predominantly office. The tenancy went from a 14 percent vacancy to a 10 percent this year. She emphasized the importance of a significant tenant credit in the portfolio at 54 percent. The investment characteristics were strong for current income, future appreciation. She moved to risk management and stated that the benchmark performance continued improving. She asked Ms. Demetriades to continue.

MS. DEMETRIADES discussed some of the important elements in creating a strong and well-balanced real estate portfolio. She highlighted the importance of strong credit tenants which result in fewer delinquencies and more favorable debt terms. She moved to the advantages of staggered lease expirations which minimizes vacancy risk and capital outlays. Another important element of a well-balanced portfolio is staggered debt, and the TLO did an excellent job of managing the portfolio's loan expirations. She detailed Harvest's change in property valuations and talked about the increases in interest rates impacting cap rates that are beginning to rise. She discussed the change in net market value as well as durable income available for distribution year over year.

MS. O'BOYLE moved to the benchmark. The NCREIF index was selected, which was an unlevered property index, diversified by product type and by geography. She explained the detail where industrial outperformed at almost a 52 percent return, which had never been at this level. She explained the index thoroughly. She also looked at net returns to compare on a net return basis. She stated that a significant accomplishment was the significant refinancing. In April of 2020, Harvest recommended refinancing the real estate portfolio to market-rate debt. The trustees had the wisdom and vision to approve a motion to refinance. The TLO did a great job of refinancing three assets at a very favorable rate, which provided \$5 million more of cash flow. She added that was a significant accomplishment, and that there was the opportunity,

depending on the longer-term strategy on holding and selling, to refinance Washington Parks. That is a very good asset with a very unfavorable loan with a high interest rate, and a significantly high amortization. She stated that it was important to highlight the accomplishments as well as the challenges.

MS. DEMETRIADES focused on sector performance which was ranked from best to worse, and then talked about multifamily, which is the second-best sector. She moved to the office sector and stated that office occupancy is slowly recovering, with still a lot of uncertainty. She added that the retail outlook was still out of favor.

MS. O'BOYLE stated that Harvest prepared its recommendations based upon the information received from the TLO and worked closely with the team over the last three years and visiting the assets. She jumped into the hold/sell and explained what it was exactly. She highly recommended having the team review constantly and try to take advantage of shifts in capital markets or shifts in the asset fundamentals. She moved to the summary recommendation which she explained and suggested strategies. She continued that all the assets are valued above what they were acquired for, with the exception of North Park and Cordova. She added that Rulon was a strong asset with a long-term IRS Class A tenancy, and explained the recommendation.

MS. DEMETRIADES discussed the challenges facing the portfolio in the next year and stated that Harvest would continue making best practice and strategic recommendations, and would continue providing support to the TLO. She then summarized the value creation opportunities that Harvest helped identify and that the TLO successfully completed over the past couple of years. Also identified were some value creation opportunities that are believed to still exist, and they recommended implementing an occupancy agreement at Cordova. Also recommended were creating standardized requirements for appraisal and broker opinions of value for consistency and easier reviews. She pointed out the great leasing accomplishment at Amber Oaks and turned it back to Ms. O'Boyle for final comments.

MS. O'BOYLE concluded the presentation and added that there were a lot of supporting documents. She stated appreciation for the time and opportunity to serve the Trust.

CHAIR FISHER asked for any questions. There being none, he stated appreciation for the presentation and the detail that it went into. He stated that David MacDonald was next on the agenda. He asked Ms. Warner to do the introduction.

MS. WARNER stated that there was an update following up on Harvest's discussion, specifically to the building located in Ogden, Utah, which houses the IRS. She introduced David MacDonald, the lead real estate asset manager.

MR. MacDONALD stated that there were some particular matters to discuss regarding the Rulon White property, which is 100,000 square feet of rentable industrial space located in Ogden, Utah. He continued that it was 100 percent occupied by the IRS who had been a tenant since 2002. The asset had been owned since 2013, and the TLO would like to have further conversations about it.

MS. WARNER explained that there is additional information on financial matters that may

impact the Trust if discussed publicly.

MR. WILLIAMS stated that, in order for the conversation to continue, it should be considered in Executive Session because it could have a negative impact on the future assets of the building and the sale of it. He recommended the motion in the packet.

CHAIR FISHER asked for a motion to go into Executive Session.

MOTION: A motion that the Alaska Mental Health Trust Authority Finance Committee move into Executive Session to discuss confidential matters pertaining to finances and potential negotiations for the commercial real estate improvements located at 1973 North Rulon White Boulevard, Ogden, Utah, 84404, regarding potential disposal of the asset. This motion is made pursuant to Alaska Statute 44.62.310B, and Alaska Statute 44.62.310C1, as the matters to be discussed in Executive Session would have an adverse effect on the finances of the Alaska Mental Health Trust Authority. Motion was made by TRUSTEE BOYLES; seconded by TRUSTEE STURGEON.

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

CHAIR FISHER stated that the trustees and preselected members of the Trust staff would move into Executive Session.

(Executive Session from 11:36 a.m. until 12:31 p.m.)

TRUSTEE BOYLES stated that she and her fellow trustees and members of the Trust Land Office and Trust Authority Office returned to the Finance Committee from the Executive Session. During the Executive Session, the Finance Committee only discussed the items identified in the motion and did not take any action.

CHAIR FISHER thanked Trustee Boyles and moved to the lunch break.

(Lunch break.)

CHAIR FISHER called the meeting back to order and moved to the Trust Authority Office Agency Budget for FY24. He recognized Mr. Williams.

MR. WILLIAMS stated there was a motion related to the FY2024 Trust Authority Agency Budget.

MOTION: A motion that the Finance Committee recommended that the Full Board of Trustees approve the FY2024 Trust Authority Office Mental Health Trust Agency Budget of \$4,624,370 was made by TRUSTEE HALTERMAN; seconded by TRUSTEE MORAN.

MR. WILLIAMS stated that the narrative around the 2024 Trust Authority Agency was in the memo. He continued that it was outlined in the charters that both the Trust Authority and the Trust Land Office agency budgets for the upcoming fiscal year get brought before the Finance Committee which then takes action to recommend the budget to the Full Board meeting in August. He explained as he went through a high-level overview.

CHAIR FISHER called the vote.

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

CHAIR FISHER moved to the next motion.

MOTION: A motion that the Finance Committee recommended that the Alaska Mental Health Trust Authority Board of Trustees approve the Trust Land Office Agency Budget for FY2024 in the amount of \$5,019,100 was made by TRUSTEE HALTERMAN; seconded by TRUSTEE MORAN.

MS. WARNER gave a high-level overview of the TLO budget.

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

CHAIR FISHER stated that the agenda was concluded.

MOTION: A motion to adjourn was made by TRUSTEE HALTERMAN; seconded by TRUSTEE BOYLES.

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

(Finance Committee meeting adjourned at 1:27 p.m.)

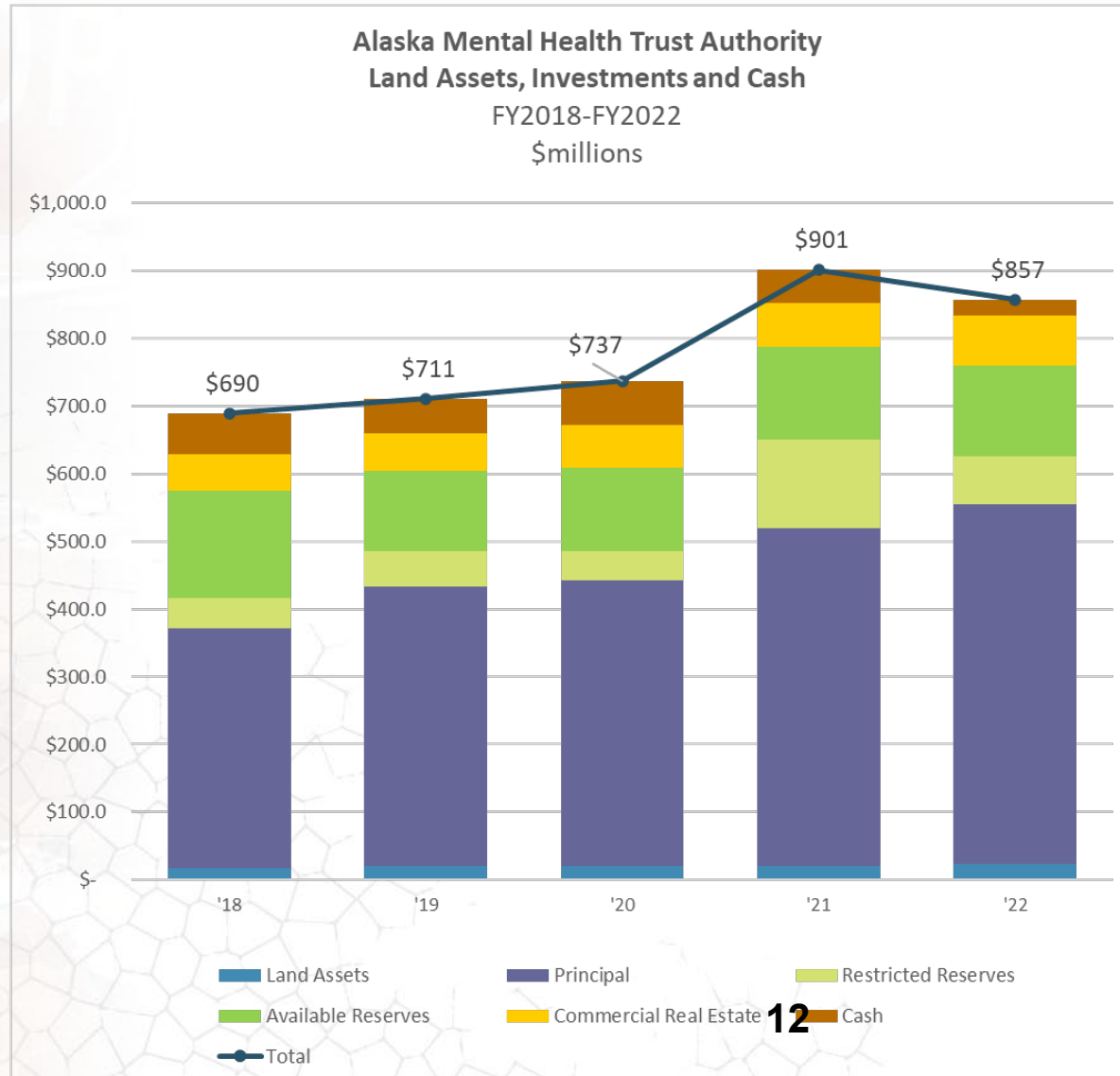
Trust

Alaska Mental Health
Trust Authority

Trust Authority FY2022 Performance Review

October 19, 2022 Finance Committee

FY22 assets under management declined 5% after record FY21 returns.



\$857mm assets under management, of which \$531mm cash principal and \$23mm land assets

FY2022 Highlights

\$(35.1)mm financial investment earnings

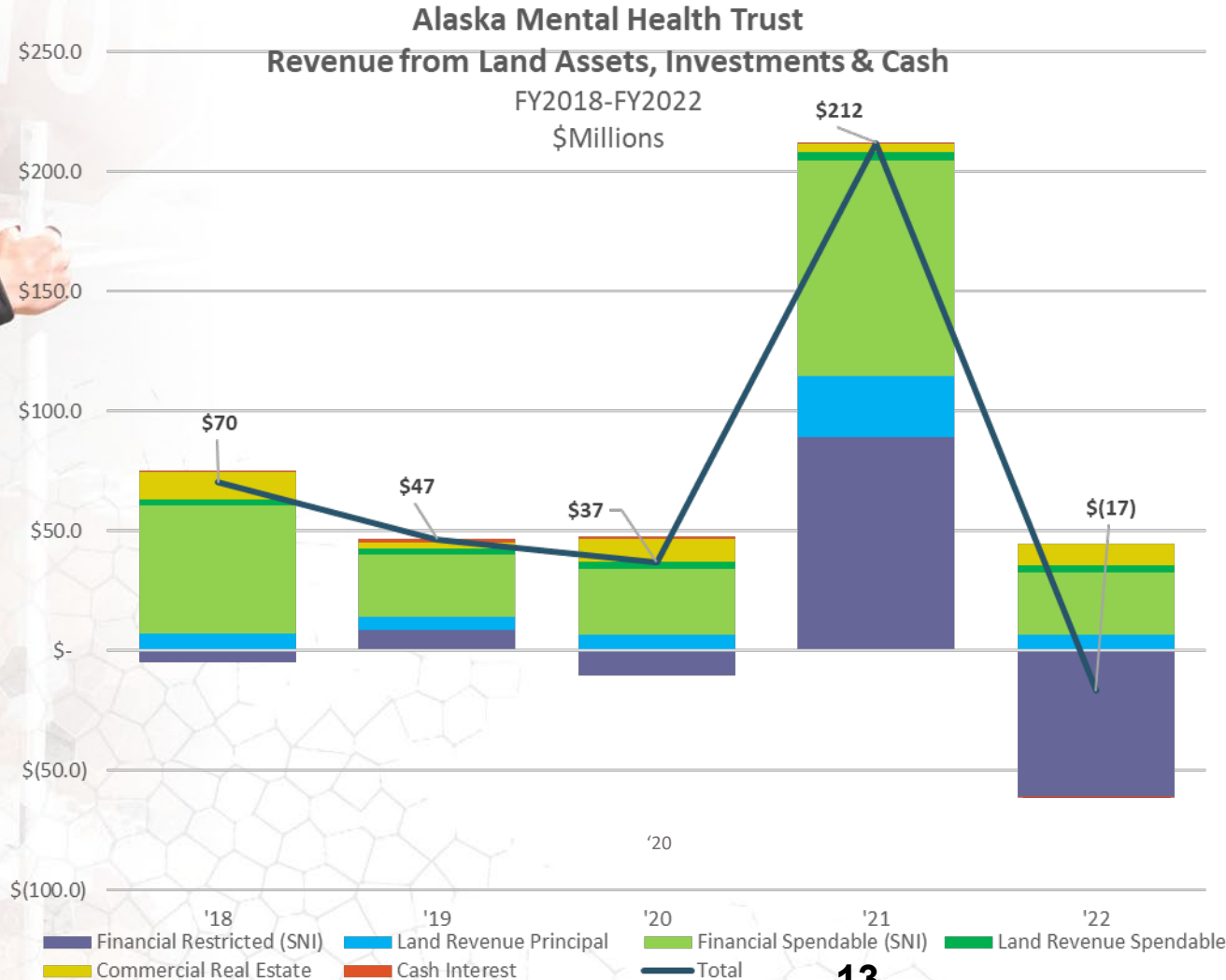
\$2.8mm investments in Land

\$7.5mm CRE equity gain

\$33.5mm transfers to principal

\$(23.7)mm reduction in large cash-on-hand balance

The Trust's decline in FY22 net position was due to investment losses in financial assets under management



Note: Audited financials. Commercial Real Estate=Distributions + unrealized gains

Total Revenue was \$(13mm), of which \$(17mm) was from core revenue sources

Average investment revenue over time remains strong despite volatility in public financial markets

FY2022 Highlights

Revenue:

APFC \$(27mm)

DOR \$(9mm)

TLO \$10mm

CRE \$9mm

The Trust's investment managers generally beat benchmarks in a tough investment environment

Asset Management	Return	Initial Target	Benchmark
APFC Trust & Reserves	-1.32%	-1.45% Lo 5.86% Mid 14.68% Hi	Passive: -14.64% Performance: -3.24% Return Objective, CPI + 5%: 14.06%
DOR Reserves	-13.27%	5%	-13.41%
GeFONSI	-1.47%	0.27%	-1.44%
CRE			
Earnings	5.18%		4.20%
Distributions	2.33%		
Asset Appreciation	13.7%		17.2% (6.8% Office)
TLO Land (excludes CRE)	5.01% over Plan	\$9.4MM	



FY22 performance reflects strong management in volatile markets

- Despite volatile markets, the Trust's long-term performance is upward trending
- FY23 sees a \$1.9mm increase in payout compared to FY22 due to four-year averaging



Trustee Comments & Discussion





APFC

ALASKA PERMANENT
FUND CORPORATION

Alaska Mental Health Trust Authority
Finance Committee Meeting
October 19, 2022



ALASKA PERMANENT
FUND CORPORATION

Mission

To manage and invest the assets of the permanent fund and other funds designated by law in accordance with AS 37.13.010-37.13.190.

Vision

To deliver outstanding returns for the benefit of all current and future generations of Alaskans.

Fiduciary Duty

APFC operates as a separate state entity under the oversight of an independent Board of Trustees who serve as fiduciaries of the Alaska Permanent Fund.

Alaska Permanent Fund

Principal – Constitution & AS 37.13.010
Earnings Reserve Account - AS 37.13.145 (a)

Amerada Hess Settlement

AS 37.13.145 (d)
AK Capital Income Fund - AS 37.05.565

Alaska Mental Health Trust Fund
AS 37.13.300
Alaska Mental Health Trust Authority

Alaska Statutes Section 37.13.300.

Corporation to manage certain assets of the mental health trust.

(a) The corporation shall manage the mental health trust fund.

(b) The corporation shall

(1) hold and invest the mental health trust fund subject to [AS 37.13.120](#);

(2) at least quarterly, prepare, publish, and distribute to the Board of Trustees of the Alaska Mental Health Trust Authority a financial report showing investment revenue and expenditures, including the allocation of the cash assets of the mental health trust fund among investments;

(3) annually prepare, publish, and distribute to the Board of Trustees of the Alaska Mental Health Trust Authority financial statements prepared in accordance with generally accepted accounting principles consistently applied, and an audit report prepared by a certified public accountant;

(4) periodically advise the Board of Trustees of the Alaska Mental Health Trust Authority when revisions to long-range investment policy, including asset allocation changes, are contemplated, and provide an opportunity for consultation and comment on the changes before they are implemented; and

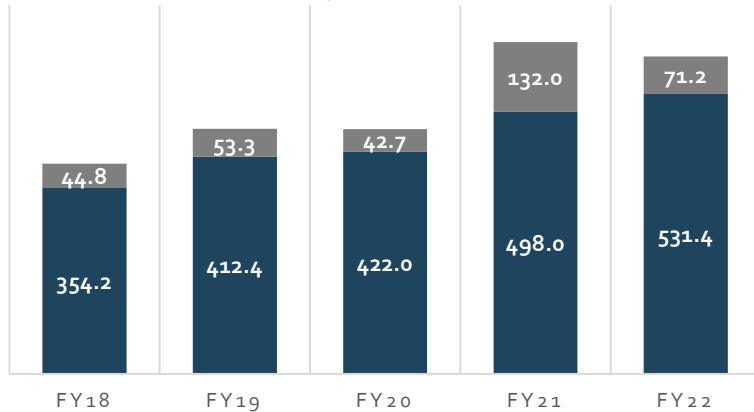
(5) transfer to the mental health trust settlement income account the net income available for distribution attributable to the mental health trust fund at the end of each fiscal year.

(c) Net income from the mental health trust fund may not be included in the computation of net income or market value available for distribution or appropriation under [AS 37.13.140](#).

Alaska Mental Health (AMH) Fund Values millions

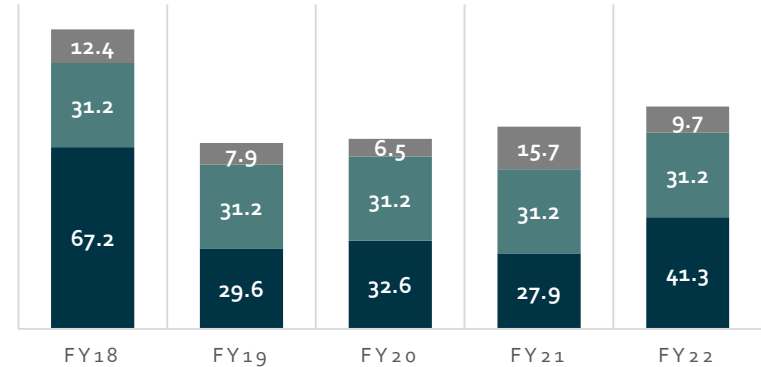
AMH PRINCIPAL

- Principal
- Principal Unrealized G/L



AMH EARNINGS

- Realized Earnings Not Drawn
- Earnings Deposits
- Earnings Unrealized G/L



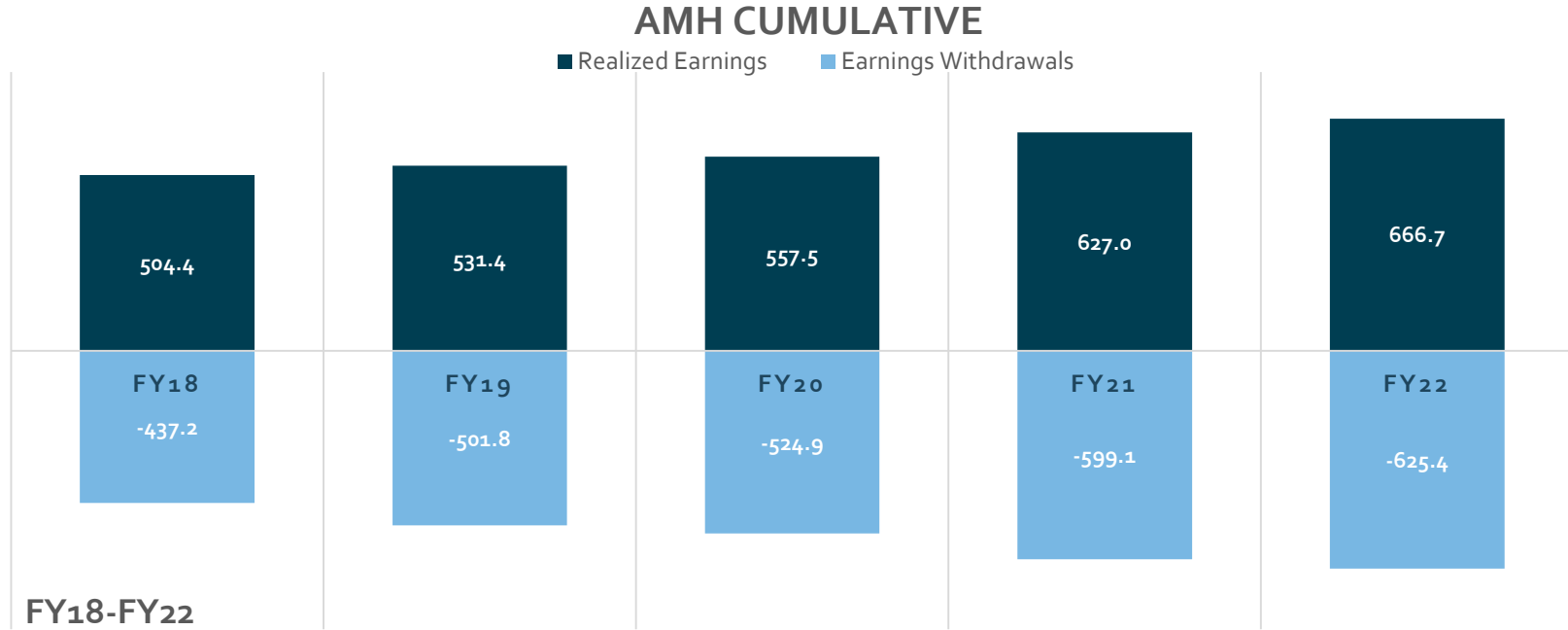
FY18-FY22

\$ 177.2 m Principal Growth

\$ 59.6 m in AMHTA deposits

\$ 117.6 m in AMH Realized Earnings transfers

Cumulative Realized Earnings and Draws millions



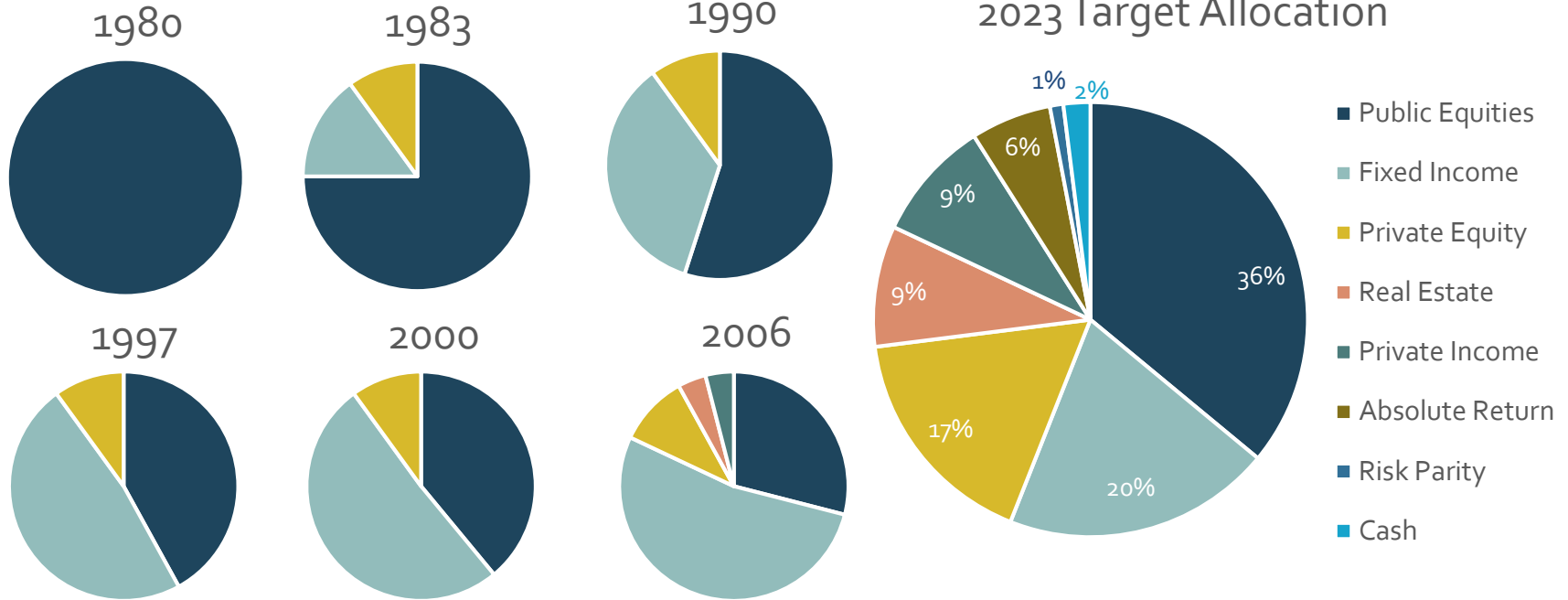
FY18-FY22

\$ 188.2 m drawn from AMH Realized Earnings

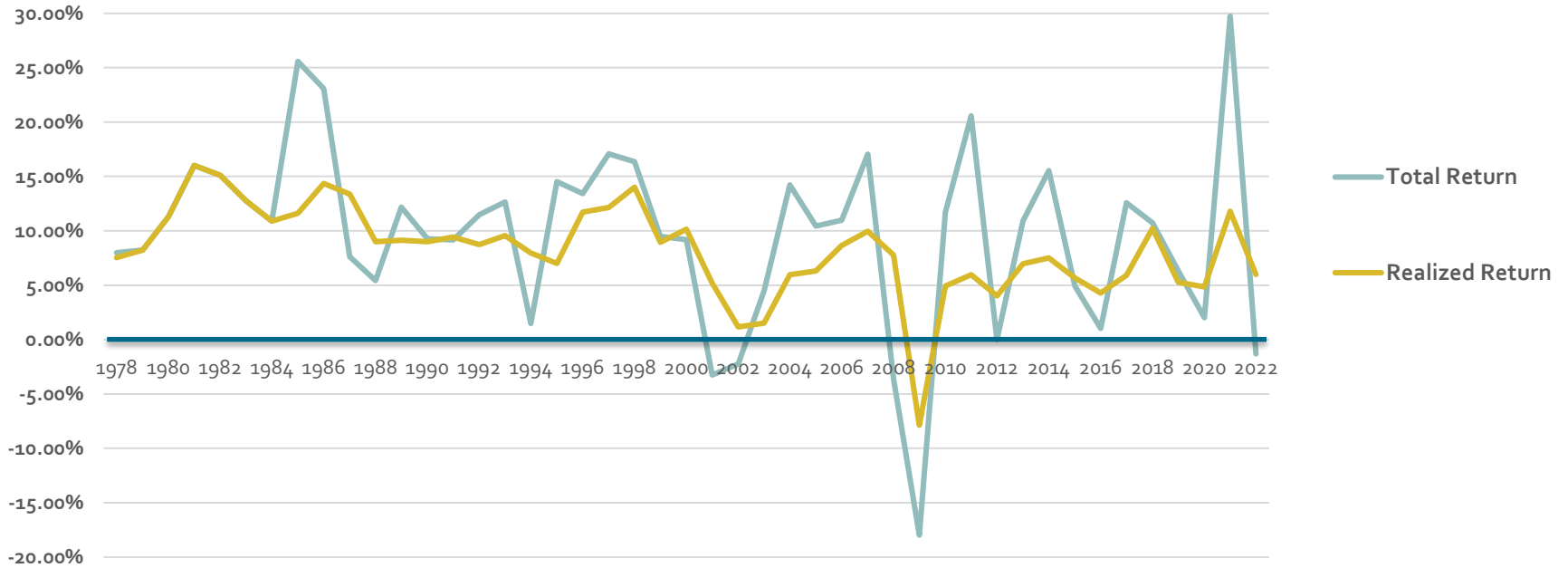
\$ 70.6 m transferred out to AMHTA

\$ 117.6 m transferred to AMH Principal

Asset Allocation



Total vs Realized Return



Performance

as of June 30, 2022 (Fiscal Year-end)

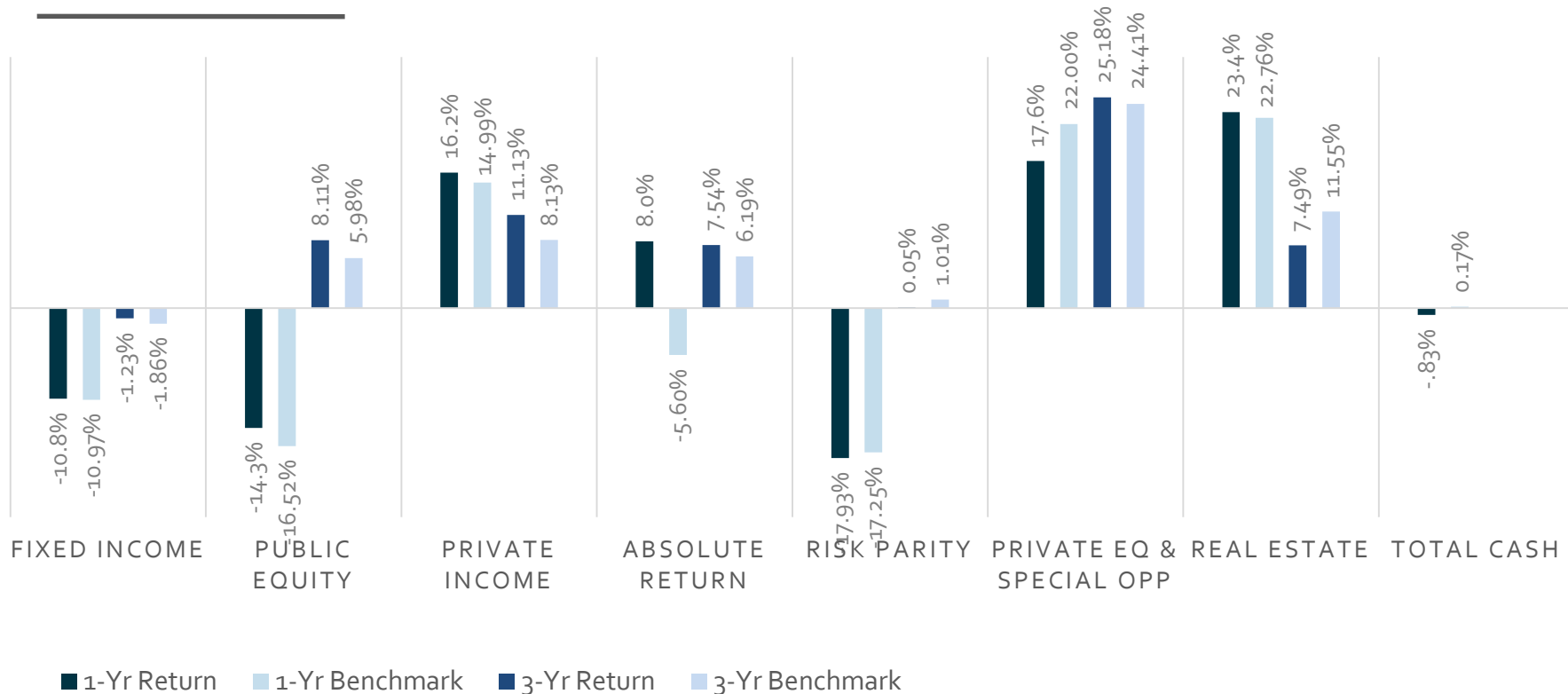
	FY 20	FY 21	FY 22	3 Years	5 Years
Total Fund	2.01%	29.73%	-1.32%	9.33%	9.03%
Passive Index Benchmark <small>(60 Stocks 20 Bonds 10RE 10 TIPs)</small>	1.28%	28.44%	-14.64%	3.55%	4.80%
Performance Benchmark	2.05%	27.75%	-3.24%	8.08%	7.98%
Total Fund Return Objective CPI+5%	5.65%	10.39%	14.06%	9.98%	8.89%

AMH - Value Added Over the Passive Index

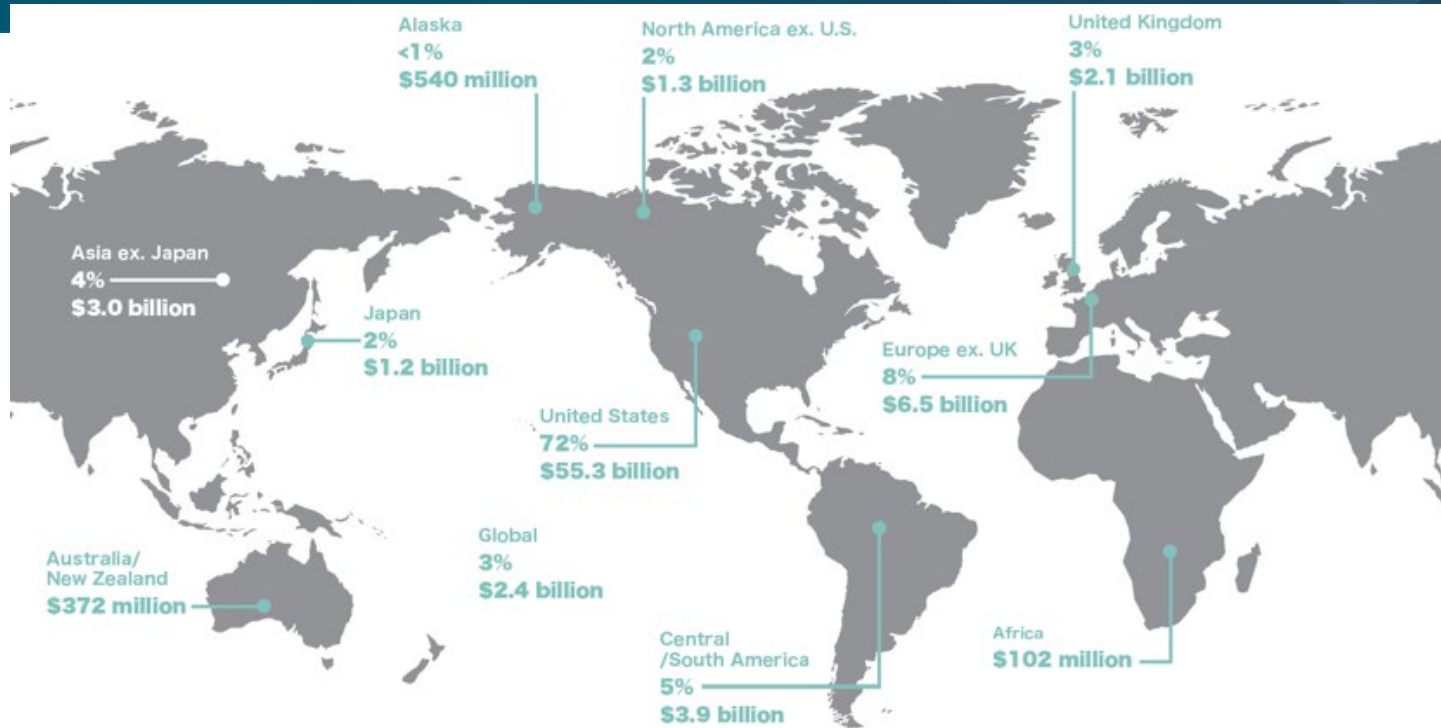
FY22: \$91.2 m | 13.32%

10 year: \$157.1 m | 2.99%

Portfolio Asset Class Performance as of June 30, 2022

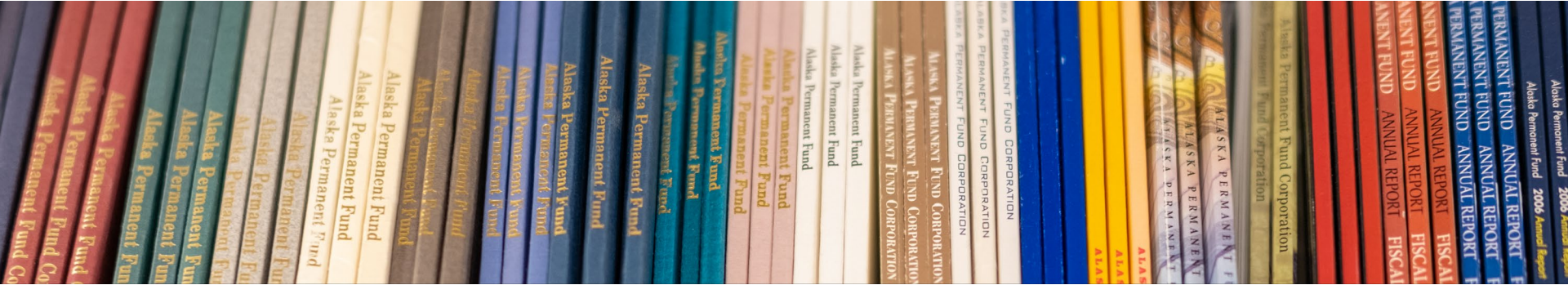


Global Diversification as of June 30, 2022



Accountability

In our commitment to Alaskans, APFC publishes accurate and timely information on the work we do investing the Fund.



Statutory Disclosures

AS 37.13.170

Annual Report

Audited Financial Statements

General Election Pamphlet

Publicly Available Information

Monthly Financial Statements

Monthly performance

Daily Fund Value

Fees & expenses

Securities by region

Public equities holdings

Private markets commitments

Board Meeting Packets, Minutes & Videos



APFC

Integrity - Stewardship - Passion



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Alaska Mental Health Trust

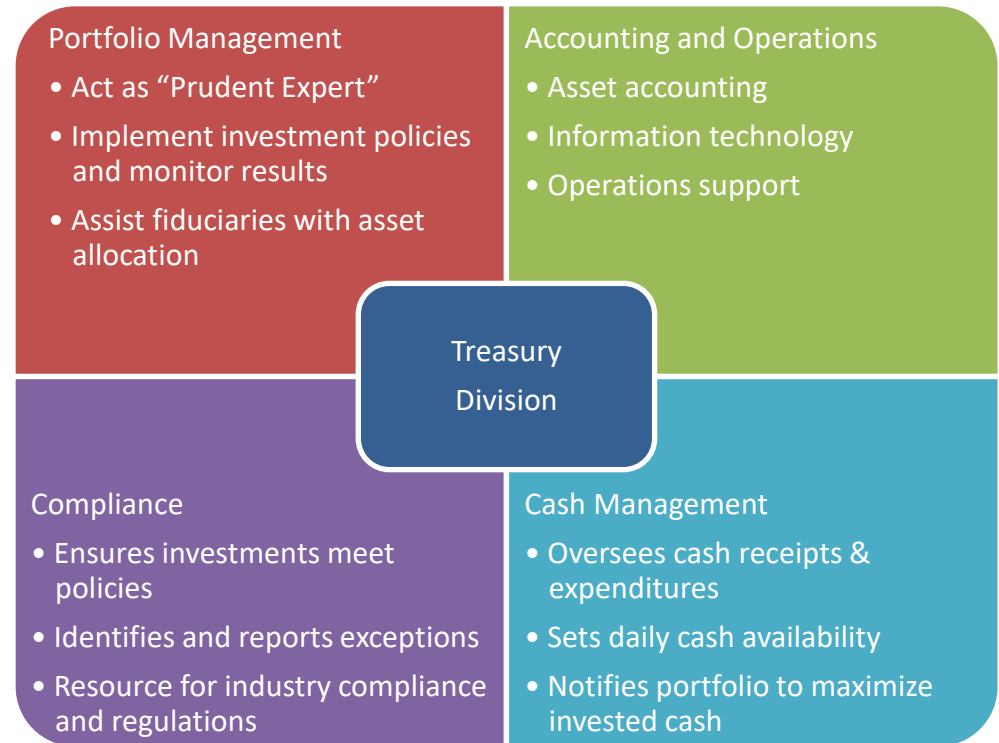
October 2022

Shane Carson, CAIA, CFA
State Investment Officer
State of Alaska, Department of Revenue

Department of Revenue – Treasury Division

Treasury functions supporting the Alaska Mental Health Trust:

- Portfolio management is run by 13 investment professionals based in Juneau, Alaska.
- The Treasury Division has additional professionals in accounting, operations, compliance, and cash management.
- \$48.2 billion in assets managed as of June 2022:
 - Alaska Retirement Management Board (ARMB): \$38.8 billion
 - Funds under Commissioner of Revenue: \$9.1 billion
 - Other Fiduciaries: \$278 million
- The Division is a resource to help state fiduciaries achieve investment objectives and understand risks.
- Treasury implements investment policy and produces results.



Alaska Mental Health Trust Assets

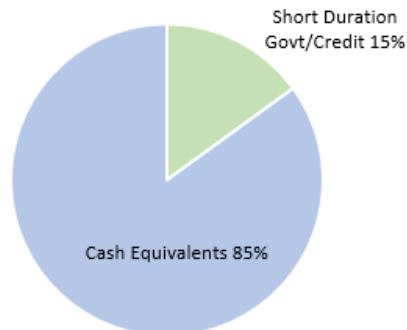
Asset Management for Alaska Mental Health Trust:

- As of June 30, 2022, Department of Revenue managed \$75.7 million of AMHTA assets:

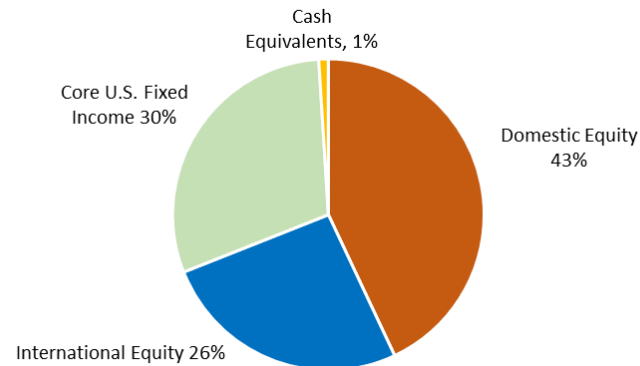
Alaska Mental Health GeFONSI Assets:	
Mental Health Deferred Maintenance	1,357,445
Mental Health Trust Fund	792,499
Mental Health Settlement Account	22,107,989
Total Alaska Mental Health GeFONSI Assets	24,257,933
Alaska Mental Health Trust Reserve	51,503,690
Total AMHTA assets managed by DOR:	\$ 75,761,623

- Current Target Asset Allocations (effective July 1, 2022):

GeFONSI Asset Allocation



AMHTR Asset Allocation



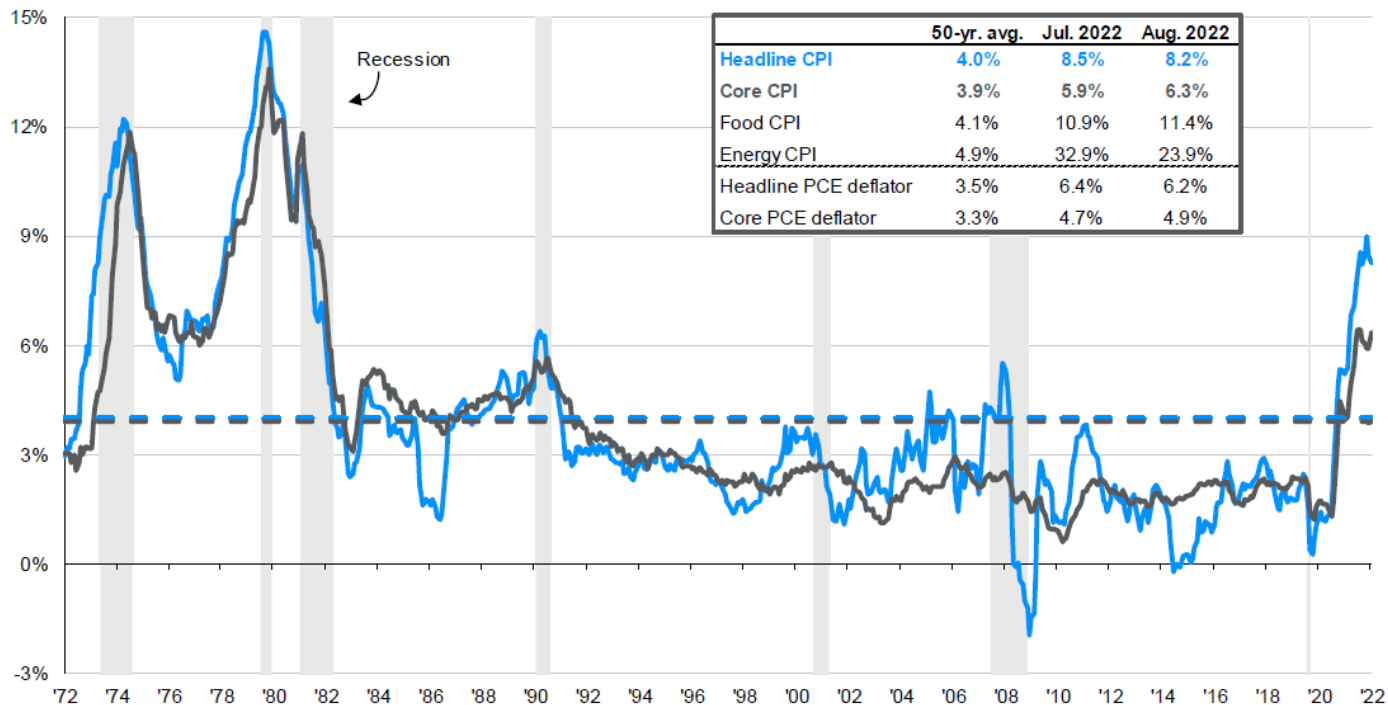
Market Update

Inflation

- Market performance in 2022 has been primarily driven by inflation, the monetary policy response to inflation, and the expected outcomes from those policy actions.
- Inflation is at its highest level since the early 1980s. It has been almost 40 years since the market has dealt with inflation at this magnitude.

CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

Guide to the Markets – U.S. Data are as of September 30, 2022.

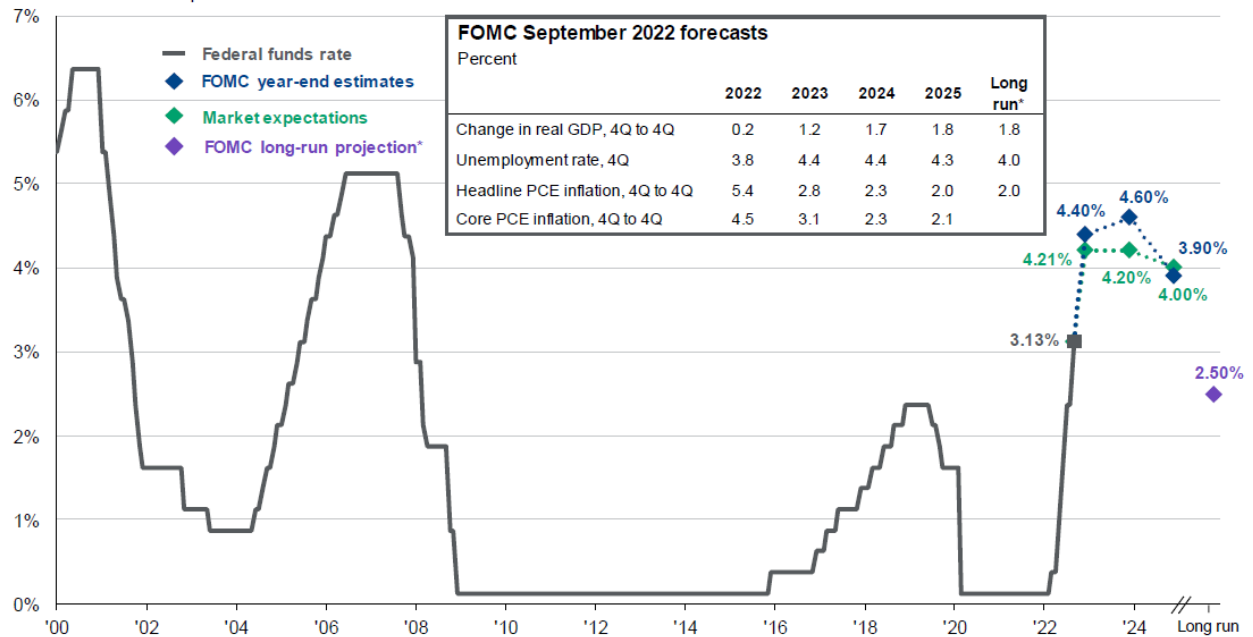
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Inflation Response

- The Federal Open Market Committee has raised the federal funds target rate aggressively in 2022 to fight inflation.
- The overnight rate has been increased from 0-.25% to 3.00%-3.25% during 2022 through September 30 with more interest rate increases expected.
- The Federal Reserve has also begun a process to reduce its balance sheet which is likely to pressure longer term interest rates higher.
- The Chair of the Federal Reserve has made it clear that getting inflation back to target is the number one priority and acknowledges there will be economic pain associated with this goal. A U.S. recession is a possibility.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

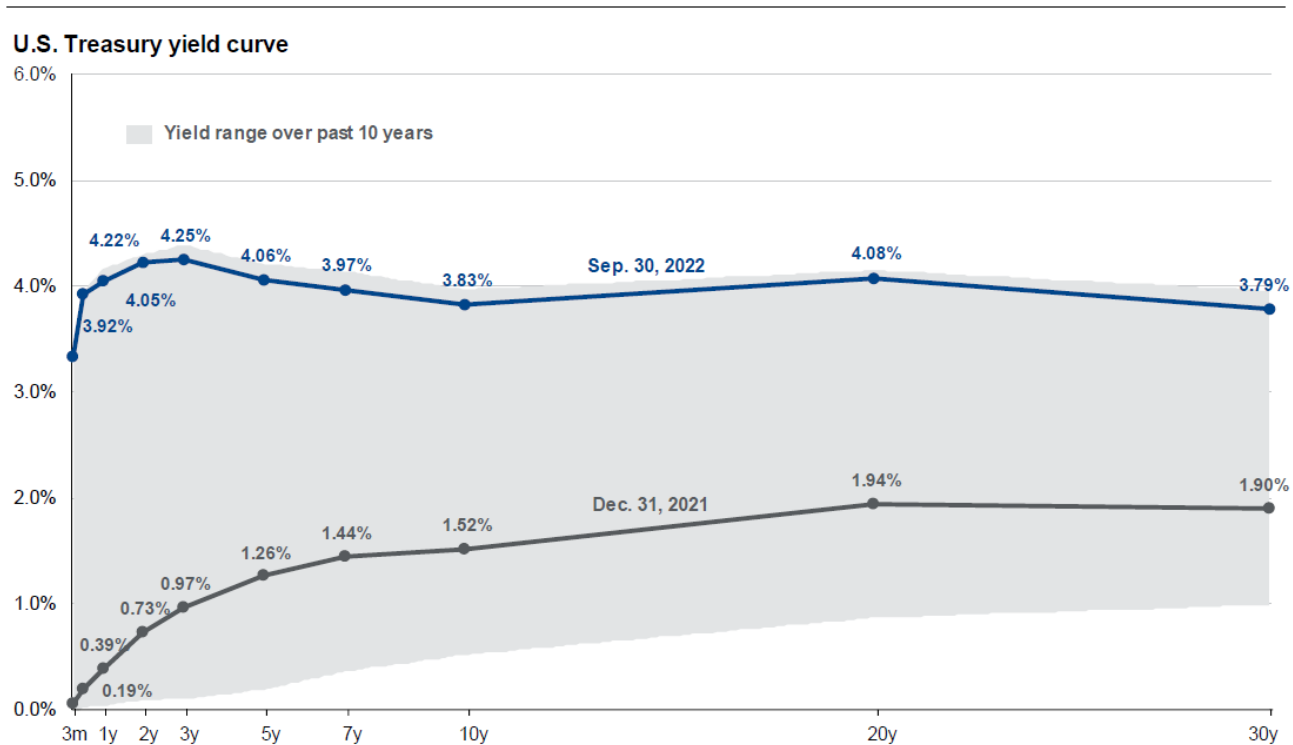


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of September 30, 2022.

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U.S. Treasury Yield Curve

- During the first 9 months of 2022 interest rates across the U.S. Treasury curve have gone from very low levels to the top of the range over the last 10 years.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2022.

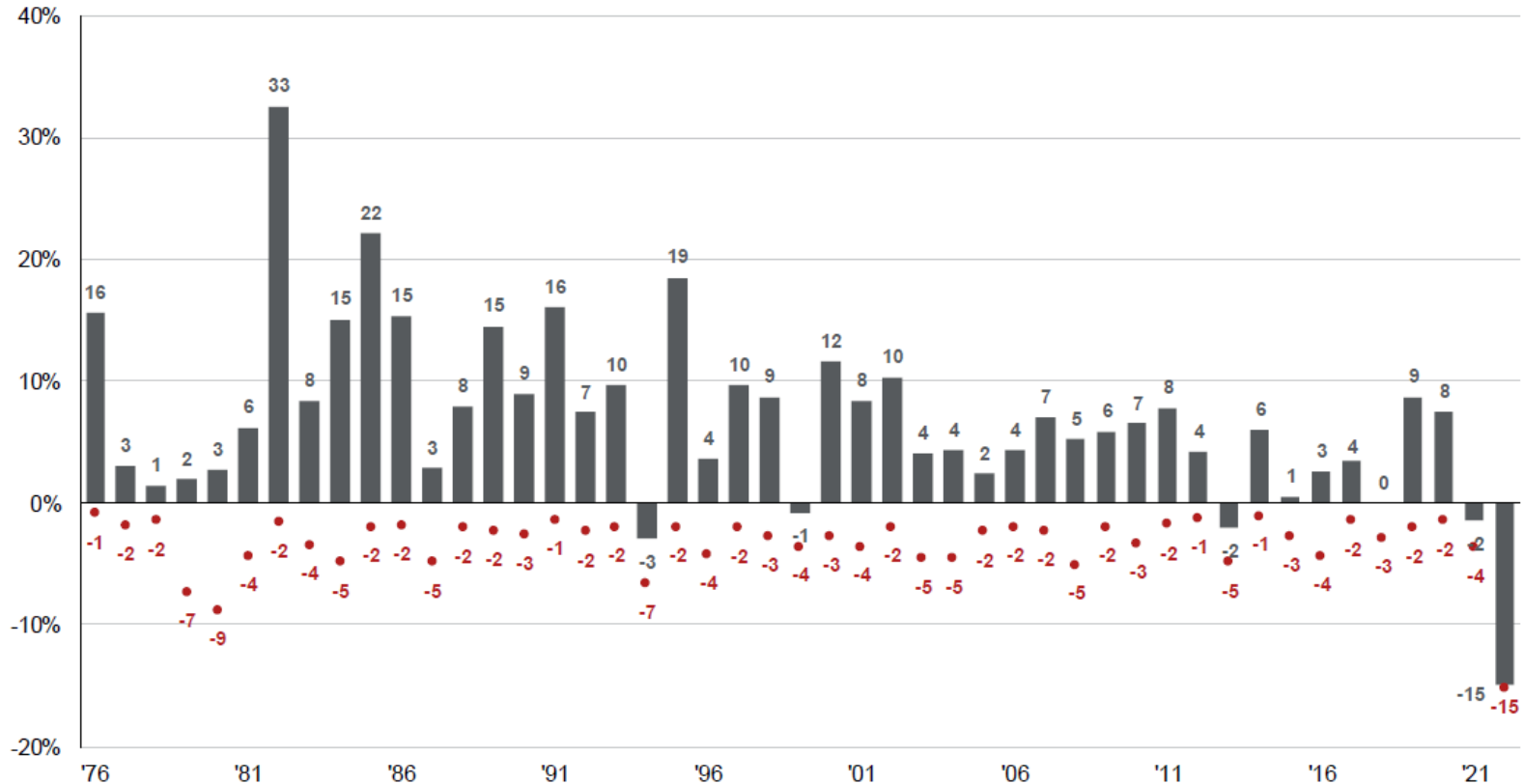
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Bond Market Returns

- During 2022, as a result of rising interest rates, the fixed income market has produced historically very poor results

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

Despite average intra-year drops of 3.1%, annual returns positive in 42 of 46 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 2021, over which time period the average annual return was 7.1%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterwards. *Guide to the Markets – U.S.* Data are as of September 30, 2022.

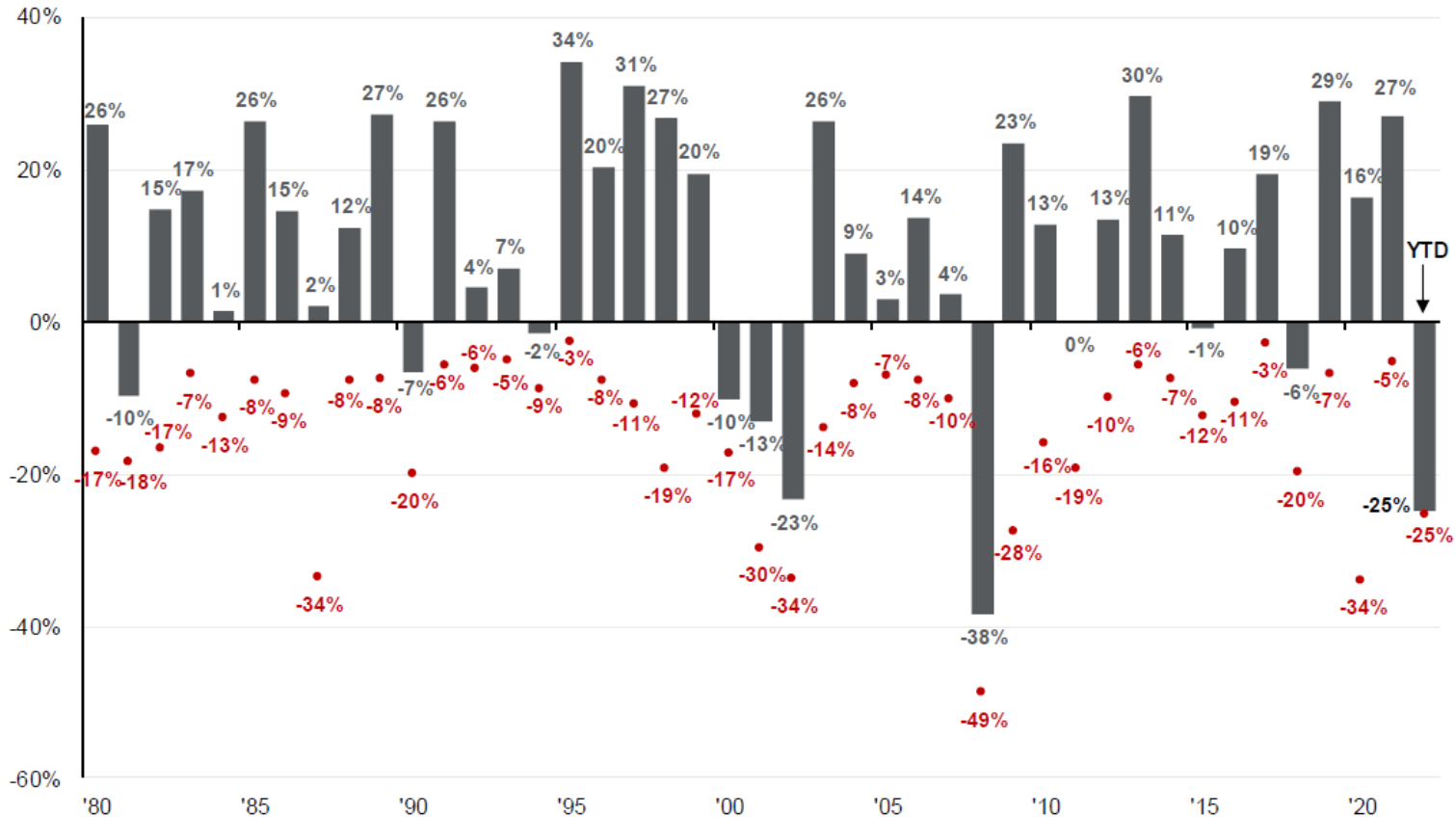
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Stock Market Returns

- After a decade plus of strong results, stock returns have also performed poorly during 2022.

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

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 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 2021, over which time period the average annual return was 9.4%.

Guide to the Markets – U.S. Data are as of September 30, 2022.

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FY13 – FY22 Market Returns

Callan Periodic Table of Investment Returns – Trailing Fiscal Years

Fiscal Year Returns – Ending June 30									
06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019	06/2020	06/2021	06/2022
Small Cap Equity 24.21%	Large Cap Equity 24.61%	Large Cap Equity 7.42%	Real Estate 11.58%	Small Cap Equity 24.60%	Small Cap Equity 17.57%	Large Cap Equity 10.42%	U.S. Fixed Income 8.74%	Small Cap Equity 62.03%	U.S. Fixed Income -10.29%
Large Cap Equity 20.60%	Dev ex-U.S. Equity 23.83%	Small Cap Equity 6.49%	Global ex-U.S. Fixed Income 11.24%	Emerging Market Equity 23.75%	Large Cap Equity 14.37%	U.S. Fixed Income 7.87%	Large Cap Equity 7.51%	Emerging Market Equity 40.90%	Large Cap Equity -10.62%
Dev ex-U.S. Equity 17.07%	Small Cap Equity 23.64%	U.S. Fixed Income 1.86%	U.S. Fixed Income 6.00%	Dev ex-U.S. Equity 19.49%	Emerging Market Equity 8.20%	Real Estate 7.68%	Global ex-U.S. Fixed Income 0.71%	Large Cap Equity 40.79%	High Yield -12.81%
Real Estate 13.50%	Emerging Market Equity 14.31%	Real Estate -0.36%	Large Cap Equity 3.99%	Large Cap Equity 17.90%	Dev ex-U.S. Equity 7.04%	High Yield 7.48%	High Yield 0.03%	Dev ex-U.S. Equity 33.60%	Real Estate -13.45%
High Yield 9.49%	Real Estate 13.55%	High Yield -0.40%	High Yield 1.62%	High Yield 12.70%	Real Estate 5.64%	Global ex-U.S. Fixed Income 4.10%	Emerging Market Equity -3.39%	Real Estate 33.55%	Dev ex-U.S. Equity -16.76%
Emerging Market Equity 2.87%	High Yield 11.73%	Emerging Market Equity -5.12%	Small Cap Equity -6.73%	Real Estate 0.21%	Global ex-U.S. Fixed Income 2.78%	Dev ex-U.S. Equity 1.29%	Dev ex-U.S. Equity -5.42%	High Yield 15.37%	Global ex-U.S. Fixed Income -18.78%
U.S. Fixed Income -0.69%	Global ex-U.S. Fixed Income 9.42%	Dev ex-U.S. Equity -5.28%	Dev ex-U.S. Equity -9.84%	U.S. Fixed Income -0.31%	High Yield 2.62%	Emerging Market Equity 1.22%	Small Cap Equity -6.63%	Global ex-U.S. Fixed Income 4.60%	Small Cap Equity -25.20%
Global ex-U.S. Fixed Income -3.40%	U.S. Fixed Income 4.37%	Global ex-U.S. Fixed Income -13.19%	Emerging Market Equity -12.05%	Global ex-U.S. Fixed Income -3.80%	U.S. Fixed Income -0.40%	Small Cap Equity -3.31%	Real Estate -16.25%	U.S. Fixed Income -0.33%	Emerging Market Equity -25.28%

Sources: ● Bloomberg Aggregate ● Bloomberg Corp High Yield ● Bloomberg Global Aggregate ex US ● FTSE EPRA Nareit Developed
● MSCI World ex USA ● MSCI Emerging Markets ● Russell 2000 ● S&P 500

Expectations

- The high level of global uncertainty suggests market volatility will remain elevated for the foreseeable future. Investment performance will be challenging until the market is able to gain confidence around inflation and monetary policy expectations.
- For conditions to improve, inflation needs to stabilize toward the Federal Reserve's long-term target of 2%. This may take time as the housing and labor markets are in overheated conditions. Some inflation factors, like supply chain issues and energy prices are not as easily influenced by monetary policy.
- Other wildcards add to uncertainty:
 - War in Ukraine and related energy/economic impact on Europe.
 - Strength of the U.S. Dollar and impact global trade and economies as the default global currency.
 - Impact of rising interest rates on the global economy. Central banks around the globe are responding to inflationary threats with similar actions like the Federal Reserve's decisions this year.
 - Impact of credit contraction on markets and economy. Debt will be less available and more expensive.
 - Recession? If yes, length? Depth?

Investment Performance

Alaska Mental Health Trust - GeFONSI

GeFONSI Investments:

- GeFONSI assets are invested internally by DOR staff.
- GeFONSI asset allocation is recommended by DOR staff and approved by the Commissioner of Revenue annually, effective as of July 1.
- GeFONSI is designed to be conservative with low exposure to principal loss and a high liquidity requirement given the short-term time horizon.
- Returns are in-line with the benchmark for Fiscal Year 2022 and slightly above the benchmark over the longer term. Returns have been low on an absolute basis as a result of U.S. monetary policy keeping short-term interest rates low.

Performance as of June 30, 2022	<u>1 Year</u>	<u>5 year</u>	<u>10 year</u>
GeFONSI	-1.47%	0.96%	0.75%
GeFONSI Benchmark	-1.44%	0.86%	0.61%
Difference	-0.03%	0.10%	0.14%

Alaska Mental Health Trust Reserve

Alaska Mental Health Trust Reserve Investments:

- Alaska Mental Health Trust Reserve assets are invested internally by DOR staff and externally in passive commingled funds managed by State Street Global Advisors and in the Fidelity Tactical Bond fund.
- The asset allocation is approved by Alaska Mental Health Trust Authority 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.

Performance as of June 30, 2022	<u>1 Year</u>	<u>5 year</u>	<u>10 year</u>
Alaska Mental Health Trust Reserve	-13.27%	5.15%	6.96%
Alaska Mental Health Reserve Benchmark	-13.41%	4.96%	6.65%
Difference	0.14%	0.19%	0.31%
Cash Equivalents	0.11%	1.13%	0.79%
Core U.S. Fixed Income	-10.12%	1.07%	1.69%
Domestic Equity	-13.69%	10.58%	
International Equity	-19.25%	2.60%	

Asset Allocation

Alaska Mental Health Trust Reserve

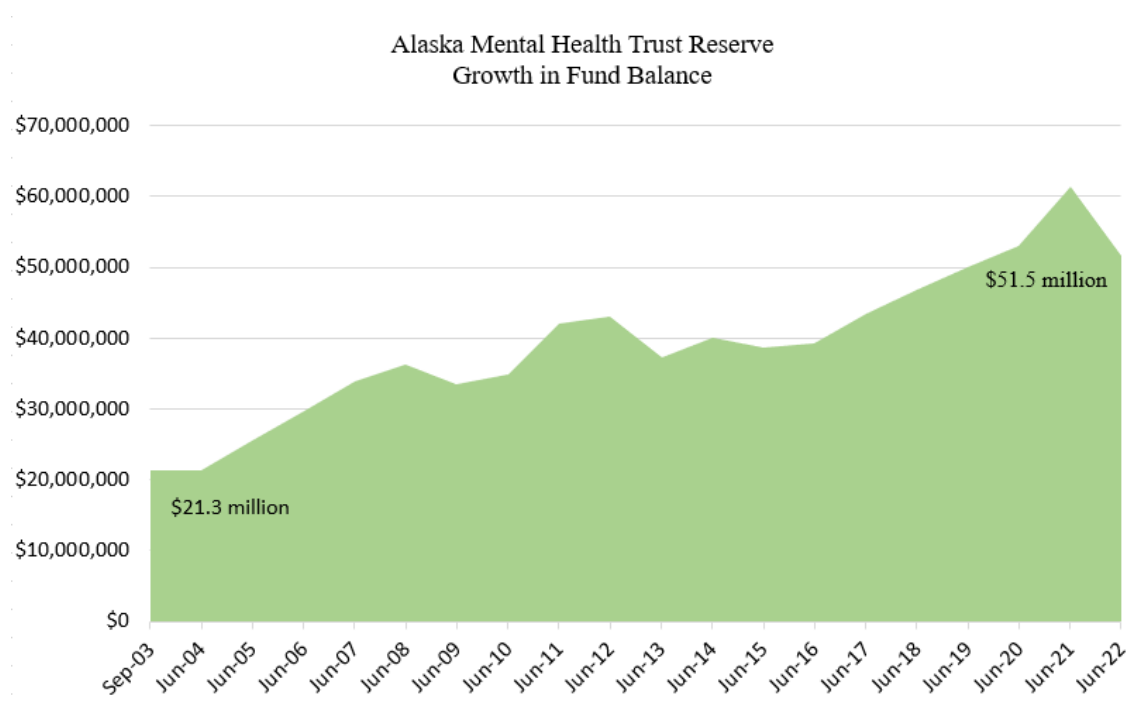
Alaska Mental Health Trust Reserve History

- April 2003: Alaska Mental Health Trust Authority (AMHTA) staff met with DOR staff to discuss possibility of Treasury investing some of the trust settlement income account.
- May 2003: AMHTA Board approved motion to invest in DOR Treasury's Intermediate-Term Fixed Income Investment Pool. AMHTA remains fiduciary.
- September 2003: the Alaska Permanent Fund Corporation transferred \$20,963,600 to DOR for investment in the Intermediate-Term Fixed Income Investment Pool.
- August 2006: AMHTA adopted an asset allocation consisting of 30% Broad Market Fixed Income, 45% Domestic Equity Pool, 15% International Equity Pool and 10% Short-Term Fixed Income Pool.
- November 2008: AMHTA adopted an asset allocation consisting of 29% Broad Market Fixed Income, 40% Domestic Equity Pool, 21% International Equity Pool and 10% Short-Term Fixed Income Pool.
- March 2019: AMHTA adopted an asset allocation consisting of 44% Broad Market Fixed Income, 33% Domestic Equity Pool, 23% International Equity Pool and 0% Short-Term Fixed Income Pool.
- July 2022: AMHTA adopted an asset allocation consisting of 30% Broad Market Fixed Income, 43% Domestic Equity Pool, 26% International Equity Pool and 1% Short-Term Fixed Income Pool.

Alaska Mental Health Trust Reserve

Change in balance over time:

- Fund balance has grown at a 5.45% annualized rate of return since inception.
- The Alaska Mental Health Trust Reserve benefited from moving to a more aggressive asset allocation in 2006 to include equity investments.



Alaska Mental Health Trust

Asset Management Objectives (AHMTA Investment Policy Statement, August 29, 2019):

Liquid Asset Management Objectives

Specific liquid asset management objectives are to:

- preserve and enhance the purchasing power of the Trust's cash principal and the income generating capacity of the Trust's non-liquid asset portfolio;
- achieve a real rate of return (above inflation) of five percent (5%) over a full market cycle with reasonable and prudent levels of risk; and
- provide a steady, reliable payout stream to ensure funding of program spending goals while maintaining sufficient liquidity in all market environments.

Alaska Mental Health Trust

Guidelines and Investment Policy (AHMTA Investment Policy Statement, August 29, 2019):

Time Horizon

The investment time horizon, also referred to as duration, is one of the major factors in achieving positive investment results. In order to appropriately balance investment decisions and spending decisions, the Trust considers several time horizons:

Short-Term: The Trust invests funds that are held temporarily, pending use by Trust programs or other investment decisions. These investments have an approximate time horizon of two years with an emphasis on preservation of capital rather than growth. Investments in this area include the funds held in the General Fund and Other Non-Segregated Investment (GeFONSI) pool managed by the Department of Revenue. **The GeFONSI pool is intended to produce moderate returns with low levels of risk**; accordingly it holds a mix of high quality, short term securities and holds the regular operating funds used by the Trust. The Trust's GeFONSI accounts include the following

- Trust Settlement Income Account (Fund 1092)
- Trust Authority Development Account (Fund 3320)
- Central Facilities Fund (Fund 3322)

Medium-Term: The Trust invests funds that may be needed in the future for use by Trust programs. These investments have an **approximate time horizon of five to seven years with an emphasis on balancing preservation of capital while still achieving growth**. Investments in this area include:

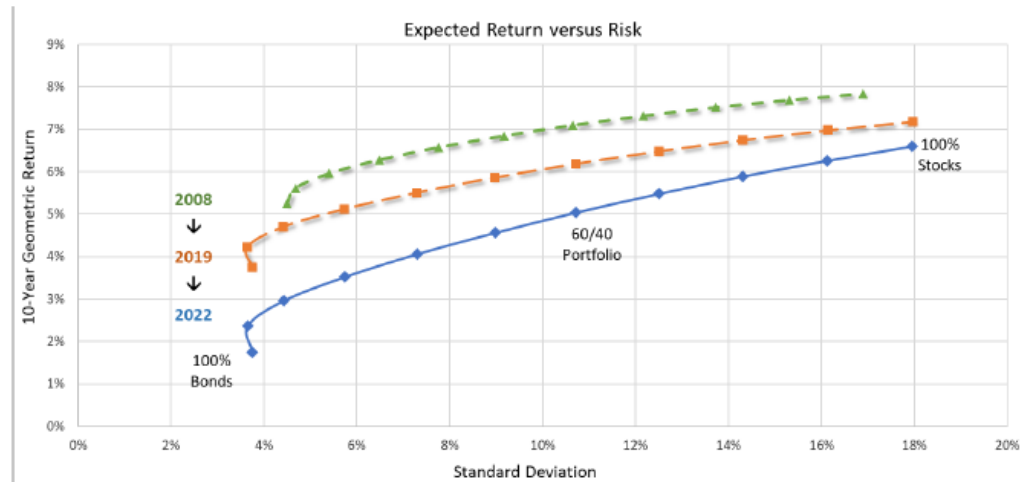
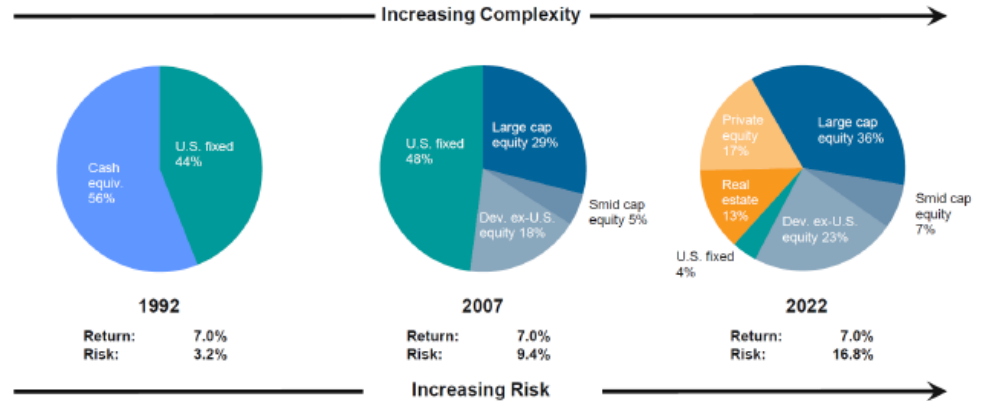
- Budget Reserves

Asset Allocation

Asset Allocation Process:

- Callan LLC, develops annual 10-year capital market assumptions for risk, return, and correlations using a building block approach.
- Return expectations have steadily declined over time due largely to lower growth and inflation expectations caused by global trade, technology, and the transition toward a service economy.
- Staff evaluates Callan's capital market assumptions and current market conditions to develop an asset allocation approach for each State fund.
- The goal is generally to maximize return or minimize risk consistent with investment objectives and risk tolerance using a combination of Modern Portfolio Theory and investment judgment.

7% Expected Returns Over Past 30 Years



2022 Capital Market Assumptions

Capital Market Assumptions:

- In January, Callan released their 10-year capital market assumptions (CMAs) for 2022. Risk and correlation assumptions were largely unchanged from 2021. Long-term inflation expectations did increase which impacts real return forecasts.
- Staff selects a subset of these asset classes for use in state funds based on risk, return, diversification, complexity, and cost.
- For FY23, staff recommends continuing with the use of Broad U.S. Equities, International Equities, Core U.S. Fixed Income U.S. REITs, and Cash Equivalents for state funds.
- In Fiscal Year 2022, staff incorporated up to 20% of the fixed income allocation in a tactical bond portfolio that can opportunistically invest in high yield, TIPS, and other fixed income asset classes in a risk-managed fashion. For FY23, staff recommends targeting 20% to this strategy with a 25% maximum.
- Staff is also evaluating additional improvements to both fixed income and equities.

Asset Classes	2022 1-Year Arithmetic Return	2022 10-Year Geometric Return	Return Change	2022 Standard Deviation	2022 Correlation to Domestic Equity	2022 Real Return
Broad U.S. Equity	8.0%	6.6%	0.0%	18.0%	1.00	4.4%
Large Cap U.S. Equity	7.9%	6.5%	0.0%	17.7%	1.00	4.3%
Small/Mid Cap U.S. Equity	8.8%	6.7%	0.0%	21.3%	0.93	4.5%
International Equity	8.7%	6.8%	0.0%	20.7%	0.82	4.6%
Developed ex-U.S. Equity	8.3%	6.5%	0.0%	19.9%	0.78	4.3%
Emerging Market Equity	9.8%	6.9%	0.0%	25.2%	0.80	4.7%
Cash Equivalents	1.2%	1.2%	0.2%	0.9%	-0.06	-1.1%
Government 1-3 year Bonds	1.6%	1.5%	0.2%	3.5%	-0.25	-0.8%
Core U.S. Fixed Income	1.2%	1.8%	0.0%	3.8%	-0.10	-0.5%
TIPS	1.4%	1.3%	-0.5%	5.1%	-0.08	-1.0%
Emerging Market Sovereign Debt	4.0%	3.6%	0.1%	9.5%	0.56	1.4%
High Yield	4.4%	3.9%	-0.5%	10.8%	0.72	1.7%
Core Real Estate	6.6%	5.8%	0.0%	14.2%	0.64	3.5%
REITs	8.2%	6.2%	-0.1%	20.7%	0.80	4.0%
Private Equity	11.5%	8.0%	0.0%	27.6%	0.77	5.8%
Hedge Funds	4.4%	4.1%	0.1%	8.2%	0.79	1.9%
Inflation		2.3%	0.3%			
60/40 Portfolio		5.0%	0.0%			

AMHT DOR Assets - FY23 Asset Allocation

- For FY23, the GeFONSI asset allocation was adjusted by changing the 15% fixed income allocation from Core U.S. Fixed Income to Short Duration Govt/Credit in light of higher yields now available and lower duration risk.
- A new Budget Reserve asset allocation was implemented effective July 1, 2022. The asset allocation was developed from the Callan Asset Allocation and Spending Study review completed in April 2022. The asset allocation was approved by the board of trustees at its April 2022 meeting.
- REITs were excluded from the Budget Reserve asset allocation due to real estate exposure in other areas of the AMHT portfolio. The Core Fixed income allocation includes up to 7% in a tactical fixed income portfolio managed by Fidelity.
- The risk profile of the Budget Reserve assets is a higher risk asset allocation similar to longer term 70/30 “endowment model” state funds DOR manages.

State of Alaska FY2023 Asset Allocation

Asset Classes	GeFONSI	AMHTR	70/30
Broad U.S. Equity		43%	70%
Global ex-U.S. Equity		26%	0%
Short Duration Gov't/Credit	15%		
Core U.S. Fixed Income		30%	30%
Cash Equivalents	85%	1%	0%
Total	100%	100%	100%

Optimization Results:

Expected Return - Long-Term	2.51%	5.60%	5.48%
Risk - Standard Deviation	0.90%	12.42%	12.50%
Sharpe Ratio	0.14	0.35	0.34

Risk Statistics:

10% Probable Annual Loss (10% cVaR)	0.9%	-15.9%	-16.1%
5% Probable Annual Loss (5% cVaR)	0.7%	-19.7%	-19.9%
Probability of Loss - 1 Year	0.3%	31.6%	32.0%
Prob. Return < -1%	0.0%	28.8%	29.2%
Prob. Return < -2%	0.0%	26.1%	26.5%
Prob. Return < -3%	0.0%	23.6%	24.0%
Prob. Return < -5%	0.0%	18.9%	19.3%
Prob. Return < -10%	0.0%	10.0%	10.3%
Prob. Return < -20%	0.0%	1.8%	1.9%
Probability of Loss - 10 Year	0.0%	7.7%	8.3%
Asset Time Horizon Estimate	0.5	5.9	6.0

Dollars: (\$Millions)

Assets	21.3	51.5	52.5
Expected Annual Earnings	0.5	2.9	2.9
10% Probable Annual Loss (10% cVaR)	0.2	(8.2)	(8.5)

Alaska Mental Health Trust

Questions?

Appendix

Investment returns for quarter ending September 30, 2022:

Performance as of September 30, 2022	<u>FYTD</u>	<u>1 Year</u>	<u>5 year</u>	<u>10 year</u>
GeFONSI	0.25%	-1.25%	0.95%	0.75%
GeFONSI Benchmark	0.19%	-1.27%	0.85%	0.60%
Difference	0.06%	0.02%	0.10%	0.15%
Alaska Mental Health Trust Reserve	-5.79%	-17.72%	3.21%	5.84%
Alaska Mental Health Reserve Benchmark	-5.92%	-17.96%	3.00%	5.54%
Difference	0.13%	0.24%	0.21%	0.30%
Cash Equivalents	0.54%	0.62%	1.18%	0.83%
Core U.S. Fixed Income	-4.60%	-14.28%	-0.05%	1.04%
Tactical Bond	-2.70%			
Domestic Equity	-4.45%	-17.47%	8.61%	
International Equity	-9.93%	-25.02%	-0.66%	

MEMO

To: Brent Fisher, Finance Committee Chair
Through: Steve Williams, Chief Executive Officer
From: Carol Howarth, Chief Financial Officer
Date: October 11, 2022
Re: Annual payout transfer
Fiscal Year: 2023

REQUESTED MOTION:

The Finance Committee recommends that the full board of trustees authorize the transfer of \$28,420,500 from the Alaska Permanent Fund Corporation Budget Reserve account to the Mental Health Settlement Income Account to finance the FY2023 base disbursement payout calculation. The CFO may fulfill this motion with one lump sum or multiple transfers.

BACKGROUND

The revenue determination for supporting the Trust's annual budget is outlined in the Asset Management Policy Statement. The Trust's primary funding is based on a "spending policy" that allows the Trust to draw 4.25% of the four-year average net asset value (NAV) of 1) principal and budget reserve year-end investment balances managed by the Alaska Permanent Fund Corporation (APFC) and 2) the budget reserve year-end investment balance managed by the Department of Revenue. The spending policy establishes that this withdrawal (or "payout") comes from APFC budget reserves.

The calculation for the FY23 payout and drawdown from APFC budget reserves is as follows:

	<i>FY Ending NAV</i>
FY 2019	\$584,419,400
FY 2020	587,908,300
FY 2021	766,169,400
FY 2022	736,377,000
Average NAV:	\$ 668,718,500
	<u>x 4.25%</u>
Payout disbursement calculation (<i>rounded</i>):	\$28,420,500

This requested payout is \$1,910,200 above that authorized in FY2022. Budget reserves under APFC management are sufficient to support this FY2023 payout.