

To: Brent Fisher, Chair
Through: John Morris, Finance Committee Chair
From: Julee Farley, Chief Financial Officer
Date: February 18, 2026
Re: Finance Committee Report – January 22, 2026

Meeting Summary

The Finance Committee met on January 22, 2026. The meeting was attended by Committee Chair John Morris (via telephone), members Anita Halterman, Kevin Fimon and Board Chair Brent Fisher (ex-officio, via telephone). Other Trustees in attendance included Josie Hickel (via telephone) and Agnes Moran.

Commercial Update and Investment Returns

Mr. Steve Center, Callan, presented updated Commercial Real Estate portfolio returns through June 30, 2025. This was an update to information presented in October after adjusting for the value of the property that sold in November 2025 to align with the Trust's audited FY25 financial statements. This increased valuation resulted in an upward revision for the FY25 CRE portfolio return to -14% and Total Trust performance for the year to 8.1%. Looking back at the 10 year returns, the CRE outperformed the NCREIF Office benchmark by almost 4% with the income returns behind the benchmark and the appreciation return ahead of the benchmark.

Mr. Center provided an overview of the risk associated with Trust investments, and noted that riskier assets typically expect higher returns than lower risk assets, and CRE assets are not considered low risk assets.

The Committee then went into executive session to discuss the Trust's remaining commercial real estate holdings and the potential sale of the Commercial Drive property in Anchorage.

Investment Risk Discussion

Mr. Steve Sikes, Investment Officer with the Department of Revenue, presented educational information on risk management as it relates to assets managed for the Trust by DOR, and how risk could be considered in Trust processes and procedures. Risk is the uncertainty of investment return outcomes and the possibility that an investment's actual performance will deviate negatively from expectations, losing some or all of the capital invested. Risk management is the process of identifying, assessing, and then mitigating risks that could negatively impact an investment. The goal is not to avoid risk, but to manage it and be compensated for it through higher returns, and not to take on more risk than is necessary to meet investment objectives and risk tolerance. An investment policy statement is an important part of the risk management process as it establishes a roadmap to achieve investment return objectives while managing risk. DOR reviews this process annually and makes an annual presentation to Trustees. Mr. Sikes noted that the Budget Reserves managed by DOR has gone through a de-risking process to increase the amount allocated to bonds as interest rates have risen.

Investment in private assets imposes a lot of judgment. DOR has resource development projects that are a part of the assets managed by DOR at the state level. Mr. Sikes noted the importance of having policies and procedures to promote a disciplined due diligence process for development projects, and of having a financial model to use for stress testing, payback period, and as a comparison as the project is developed. Entering into a joint venture agreement with an operating partner to bring expertise and investment to the project so they are motivated to participate in the upside of returns and limit losses is a way to lower risk.

Proposed Update – Trust's Asset Management Policy (AMPS)

Mr. Steve Center of Callan reported that Callan was retained by the Trust to review the AMPS and recommend revisions. In addition to clarifying roles and responsibilities, Mr. Center will be looking to review the process for evaluating potential land and natural resource development investments managed by the TLO that require capital investment from the Trust, and to monitor such investments. Mr. Center noted that AMPS should be reviewed annually by Trustees, and in Callan's opinion the AMPS is overdue for a review.

Mr. Gene Hickey, Trust counsel, advised there were three primary issues to consider. 1) the addition of a statement of fiduciary standards, 2) elimination of the Central Facilities Funds (CFF), 3) removal of land management provisions currently in the AMPS but keep investments in land and resource projects in AMPS. Chair Morris concurred and noted that AMPS is an investment document and not a resource management document, and that the Finance Committee discussion was introductory for proposed AMPS changes with more detail discussion at future meetings.

Mr. Center reported that there will be additions to the redline AMPS document included in the Finance Committee packet that will be recommended. Specifically, this will include a paragraph that notes the management of Trust assets will be conducted in accordance with the Uniform Prudent Investor Act and the Uniform Prudent Management of Institutional Funds Act, both of which were adopted by the State of Alaska.

Mr. Center also expects Callan to recommend the elimination of the CFF and to clarify that AMPS relates to Trust investments and not land assets, and to evaluate land development projects on a case-by-case basis in terms of risk. Mr. Hickey added that both the Finance Committee and Resource Development Committee may recommend land investment projects to the Board for approval per their charters, with the Finance Committee having review of all financial investments, and that AMPS could clarify this process.

Mr. Center will incorporate these proposed changes into the AMPS and provide an updated Draft AMPS to Finance Committee members for discussion at the next Finance Committee meeting.

Surplus Determination

Julee Farley, CFO, presented the annual review of the Trust's available investments and obligations to determine where there are surplus funds. In summary, the Trust has sufficient funds to meet commitments but does not have a surplus. The Trust's investment allocation and annual payout percentage is designed to ensure stable funding available for Trust commitments. There were Trustee questions related to the outstanding inflation proofing commitment of \$70 million. Mr. Center noted that as of June 30, 2025, the Corpus was under inflation-proofed by \$161 million, but that when looking at the total investments managed by APFC and DOR, the total fund is slightly on an inflation adjusted basis. Staff agreed to present additional information related to this commitment and inflation proofing of the Trust principal at a future meeting.

Financial Update

Julee Farley, CFO, presented the FY25 financial dashboard through June 2025 following completion of the BDO audit. There were minor changes to the Trust Authority expenditures. Compared to the dashboard presented in October 2025, TLO expenditures increased by \$460,00 and revenues were \$770,000 lower than reported as the adjustment for FY26 revenues was corrected.

For the November 2025 Dashboard, Kat Roch reported that Trust Authority and Program Activity expenditures were in line with where we expect to be at this point. There has been \$2.4M spent on MHTAAR and \$5.7M on Authority Grants for FY26. CFO Julee Farley reported that TLO expenditures of \$1.6 million, \$2.4 million of income (which includes \$1.3 million of income collected in FY25), and \$2.2 million of principal. Year to date capital project spending is at \$293,000 with most of that relating to Icy Cape.

Continuing, CFO Farley reported that investments managed by APFC and DOR continue to do well with fiscal year to date returns of 5.4% and 6.8%, respectively. Commercial Real Estate distributions total \$1.3 million through November, with an extra \$300k in December. Trust investments total \$897 million at the end of November. Available reserves as a percentage of the annual payout is at 409%, although market fluctuations will impact this number.

The next Finance Committee meeting is ***April 22, 2026***.