

Callan



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Alaska Mental Health Trust Authority

Asset Management Policy
Statement

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Fund Sponsor Consulting

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Introduction

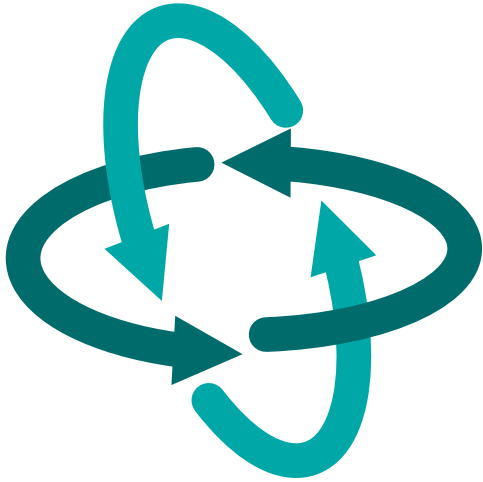
Presenters



Steve Center, CFA

- 16th 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
- BA, University of California, Irvine

Today's Agenda



Asset Management Policy Statement

- Recommended “Best Practices”
- UPIA and UPMIFA
- Who is a Fiduciary?
- Central Duties of a Fiduciary
- Recommendations for Fiduciary Conduct

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Asset Management Policy Statement

Asset Management Policy Statement

Recommended “Best Practices” for Structure

- An investment policy statement (“IPS”) 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
 - Legislature
 - 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, committees, staff, asset 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/revisions
- **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 unique 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, with acronyms in quotation marks upon first reference
- Unifying references to “AMHTA” and “the Board” where appropriate
- Updating some benchmark naming conventions
- Correcting footnote formatting to simplify future revisions
- Page breaks used to differentiate sections – a table of contents should be inserted into the final version
- Alphabetizing the “Definitions” section

Revisions to the Asset Management Policy Statement

Some Changes to the AMPS are Necessary

Due to changes to the Trust, the following revisions to the AMPS are necessary:

- Specify that the Commercial Real Estate (“CRE”) portfolio is now explicitly managed by the Trust’s Chief Executive Officer, rather than the TLO. This results in numerous revisions throughout the AMPS.
- Clarify areas where third-party experts may be engaged, including:
 - Asset allocation and spending analysis
 - Management of CRE properties
 - Assistance with evaluating potential TLODA-funded projects
- New Mission Statement has been inserted

Additions to the Asset Management Policy Statement

High-Level Additions to the AMPS

The following revisions and additions have been proposed to the AMPS:

- “Roles and Responsibilities” have been updated and clarified
- “Liquid” and “non-liquid” investment categories have been renamed “financial” and “land/natural resource/real estate” assets, and a third asset category named “short-term cash” has been added for the SIA/TADA/TLODA balances
- Performance and investment guideline review procedures for underlying Trust investments have been improved
- Cash management procedures have been augmented and clarified
- Add Addition of a “Flow of Funds Diagram” to the AMPS appendix

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 from a risk, return, and correlation standpoint with 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 Revisions to the Asset Management Policy Statement

Budget Reserve Account Changes

Callan recommends revising the Budget Reserve account structure to have a higher allocation to the Department of Revenue versus the Alaska Permanent Fund Corporation. Currently, the Budget Reserve account is evenly split between DOR and APFC. Callan proposes altering that allocation to be 75% DOR and 25% APFC.

The Budget Reserve account is designed to provide a “cushion” for the Trust to support the Integrated Comprehensive Mental Health Program during difficult market environments. The Budget Reserve account has a targeted balance of 400% of the calculated annual withdrawal.

Increasing the percentage of the Budget Reserve account invested with DOR increases the overall liquidity of the Budget Reserve account during times of stress without substantially impacting the overall long-term projected return of the Trust. In fact, moving to a 75%/25% split in the Budget Reserve account results in a slight increase in the simulated Sharpe Ratio of the Total Trust due to a drop in projected volatility.

	APFC	DOR Budget Reserves	Total Trust w/ 50%/50% BR	Total Trust w/ 75%/25% BR
10-Year Geometric Mean Return	7.30%	6.52%	7.25%	7.22%
Projected Standard Deviation	12.65%	9.60%	12.43%	12.29%
10-Year Simulated Sharpe Ratio	0.33%	0.36%	0.33%	0.34%

Proposed Revisions to the Asset Management Policy Statement

Removal of the Central Facilities Fund

The Central Facilities Fund (“CFF”) was created to assist with the administration of overall expenses related to the management of the Commercial Real Estate (“CRE”) portfolio. The CFF maintained a balance to assist with cash needs of the CRE portfolio, including improvements, which were not easily funded from revenue generated by the properties themselves.

Historically, the CFF was held as a component of the Trust Land Office Development Account (“TLODA”) and invested in the General Fund and Other Non-Segregated Investment (“GeFONSI”) pool, which is managed by DoR.

With the wind-down of the CRE program, the CFF is no longer necessary. Any future expenditures related to the remaining properties in the CRE portfolio should be able to be met from Trust assets, with the approval of the Board.

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