



MEMORANDUM

To: Board Members
Alaska Industrial Development and Export Authority

From: Alan Weitzner
Executive Director

Date: December 1, 2021

Subject: AIDEA Investment Portfolio and Economic Exposure Analysis to Financial Entities with Anti-Arctic Development Policies

With the Board's approval of Resolution No. G21-25 (AIDEA Investment Policy for Outside Advisor-Managed Investment Assets), the Board requested AIDEA staff to review and provide an analysis of the impacts on AIDEA's portfolio should it be determined as a counter-measure to divest from exposures to financial entities who have adopted policies against financing Arctic region development projects.

A large number of global and US financial institutions have announced moratoriums or an amplified review process on Arctic development - specifically on oil and gas development in the Arctic region - which has the potential to significantly impair Alaska's economic development. Every industry encounters its own relevant and particular sustainability related issues but none has felt this pressure more than the fossil fuel industry. The industry has experienced a unique level of investor retracement as the global transition to renewable energy remains ever present. To date, over 1,200 institutional investors representing over \$14 trillion in assets have committed to completely divesting from their fossil fuel investments.

IMPACT TO AIDEA INVESTMENT PORTFOLIO

Callan and Associates, AIDEA's contractually retained institutional consultant, provided a comprehensive, but not exhaustive, list of companies with adopted anti-arctic oil and gas development policies to AIDEA's two external institution fixed income managers, Barrow Hanley ("BH") and Alaska Permanent Capital Management ("APCM"). Each manager then performed a portfolio holding and attribution analysis for a three-year period ending June 30, 2021, to assess the effect of the portfolios performance based on these companies being historically excluded as a permitted investment within AIDEA's investment portfolios. **For the avoidance of doubt, this restriction was done on a hypothetical basis and the portfolios are currently managed and positioned under AIDEA's Investment Policy Statement, which does not include any restriction or prohibition on companies that have adopted anti-arctic oil and gas development policies.**

Barrow Hanley Holdings:

As of June 30, 2021, Barrow Hanley identified 21 issues (12 distinct companies) held in the investment portfolio that were contained on the list. All of the issues are banks, and cumulatively represent 7% of the portfolio or a market value of \$13.4 million.

For the 1-year period ending June 30, 2021 the return differential between the existing portfolio and the hypothetical portfolio that excludes the companies on the list is a positive 12 basis points (0.12%) and a positive 8 basis points (0.08%) over the 3-year period. The analysis assumes an increase in the remaining holdings within the portfolio, as banks were reduced, in order to keep the portfolio equally allocated to credit as the composite strategy.

Conclusion:

As of June 30, 2021 the Banks subsector represented 5.5% of the Bloomberg Barclays Aggregate Index and nearly 18% of the Bloomberg Barclays U.S. Investment Grade Index. The manager believes that having little or no exposure to the subsector can certainly impact performance over time. Even though the 1 and 3-year period that was analyzed showed that excluding banks would have had a positive performance impact, the manager feels that there will likely be a point in time when this subsector's contribution to excess returns is meaningful, especially as a more normalized interest rate environment emerges.

APCM Holdings:

As of June 30, 2021 APCM identified 7 issues (7 distinct companies) held in the investment portfolio that were contained on the list. All of the issues are banks, and cumulatively represent 5.7% of the portfolio or a market value of \$10.5 million with this exposure remaining roughly stable over the past three years.

For the 3-year period ending June 30, 2021, the combined annualized return for the seven issuers was a positive 16 basis points (0.16%) to the portfolio. The holdings on the list drove approximately 6 basis points (0.06%) of outperformance cumulatively versus treasuries since the time of purchase.

Conclusion:

The manager believes very little outperformance will be gained from making or retaining investments in companies contained on the list when compared to other investment options. The manager feels that any impact to the portfolio would be created from rotating out of the companies on the list and into more regional bank names and/or pushing up exposure to other financial names and/or sectors already in the portfolio.

Updated Investment Policy Approved through Resolution No. G21-25

Staff independently compared the list of companies against the changes made to AIDEA's investment policy statement that were approved through board Resolution No. G21-25 on September 30, 2021. We believe the exposure to these specific companies is limited to the investment grade portion of the investment policy with an aggregate value of approximately \$24 million, which is approximately 6% of the externally managed portfolios as of June 30, 2021.

Investment Portfolio Conclusion:

For the time period analyzed, AIDEA’s Investment Portfolio exposure to companies that have adopted anti-arctic oil and gas development policies provided a net absolute and relative performance benefit. Due to the diversified nature of the portfolio, the hypothetical restriction would have negligible impact to the portfolio’s composition, diversification and performance on a go forward basis. The larger risk to the portfolio’s performance remains with an external manager’s ability to optimize a diversified portfolio with superior relative and absolute returns.

IMPACT TO AIDEA PROGRAMS

Subject to defining other alternatives for funding sources, it is important to examine the historical and future impact this potential restriction would have on AIDEA’s program and operations if the Authority was prohibited from engaging in any business related activity with these institutions.

Conduit Revenue Bond Program (CRB)

Over the last 5-years, AIDEA facilitated approximately \$423 million in total CRB issuances with \$386 million (91%) of that funding containing counterparty exposure to one or more of the listed companies that have adopted anti-arctic oil and gas development policies. During this historical look back period, the funding from the CRB program primarily benefitted Alaska Native and rural community access to healthcare. This includes supporting over \$586 million in annual Alaska based revenue, \$291 million in annual Alaska based personnel expense associated with over 1,700 Alaska based annual jobs.

Development and Operational Initiatives

AIDEA’s investment pipeline is comprised of various development opportunities all predicated on producing tangible economic benefits for the state of Alaska. However, the total projected capital commitment required to advance this pipeline far exceeds AIDEA’s ability to fully self-fund. Implementing this restriction without committed or identified alternatives would limit the Authority’s ability to mobilize essential private sector capital needed.

The table below outlines the handful of banks that make-up the majority underwriting market share for asset classes that coincide with AIDEA development and operational initiatives. These initiatives include, but are not limited to, the following:

- Securitization to optimize AIDEA’s capital and balance sheet efficiency to enhance liquidity for reinvestment back into economic development opportunities
- Long-term and multi-generational project/infrastructure development with private-sector collaboration through public-private partnerships benefits
- Municipal bond issuance for:
 - AIDEA’s balance sheet
 - Conduit revenue bond program

Underwriting Market Share

Institution	CLO's¹	Municipal³	Corporate ⁴
CITI	14%	11%	9%
Morgan Stanley	13%	8%	8%
JP Morgan	11%	10%	13%
Bank of America	10%	14%	13%

Wells Fargo	9%	6%	8%
Credit Suisse	8%		3%
Goldman Sachs	7%	4%	8%
Barclays	6%	4%	4%
BNP Paribas	4%		2%
Deutsche Bank	3%		3%
RBC	1%	6%	3%
Total	86%	63%	74%

1. Collateralized Loan Obligations <https://www.loanconnector.com/NewsDisplay/NewsDocumentContent?PublicdocId=5082900>
2. Commercial Mortgage-Backed Securities
https://www.trepp.com/hubfs/Trepp_CRE%20Direct%20CMBS%20Award%20Winners%202020-1.pdf
3. Municipal Bond Debt Refinitiv United States Municipals Review: Full Year 2020
4. Corporate Bond Debt <https://www.bbhub.io/marketing/sites/6/Bloomberg-Global-Fixed-Income-League-Tables-Q1-2020.pdf>