

AIDEA and AEA BOARD
Budget and Audit Subcommittee
Tuesday, April 27, 2021

1. CALL TO ORDER

Chair Albert Fogle called the AIDEA and AEA Budget and Audit Subcommittee to order on April 27, 2021, at 10:05 am. A quorum was established.

2. ROLL CALL OF BOARD MEMBERS, STAFF AND PUBLIC

Members present: Chair Albert Fogle (Public Member) (phone); Julie Sande (Public Member) (arrived late) (phone) and Anna MacKinnon (SOA-DOR) (phone).

Staff present: Amy Adler; Tiffany Janssen; David Kennedy; Dona Keppers; Morgan Neff; Khae Pasao; Bill Phelan; Amy Robinson (phone); Alan Weitzner; Alyssa Wilson (AIDEA); and Stefan Saldanha (Department of Law) (phone).

Public present: Ladonna Lindley (Accu-Type Depositions) (phone).

3. AGENDA APPROVAL

MOTION: A motion was made by Ms. MacKinnon to approve the agenda. Motion seconded by Chair Fogle.

The motion to approve the agenda passed without objection.

4. PRIOR MINUTES - March 30, 2021

MOTION: A motion was made by Ms. MacKinnon to approve the March 30, 2021 Meeting Minutes, as presented. Motion seconded by Chair Fogle.

The motion to approve the March 30, 2021 Minutes passed without objection.

MOTION: A motion was made by Ms. MacKinnon to enter into executive session to discuss confidential matters related to Alyeska Realty Advisors. This is supported by the Open Meetings Act, AS 44.62.310, which allows a board to consider confidential matters in executive session. In this case, the Board believes that these are subjects which would have an adverse effect upon the finances of AIDEA or protected by law due to rules protecting personal privacy and certain business information. Motion seconded by Chair Fogle.

The motion to enter into executive session passed without objection.

5. EXECUTIVE SESSION: 10:09 am

Discuss confidential matters related to Alyeska Realty Advisors

The Subcommittee reconvened its regular meeting at 10:28 am. Chair Fogle advised that no formal action was taken on the matters discussed while in executive session. Chair Fogle reported that there were technical difficulties. He advised that Ms. Sande joined the meeting at the end of the executive session.

6. PUBLIC SESSION
a. Audit RFP Update

Alan Weitzner, Executive Director AIDEA, requested that Amy Adler, Interim Chief Financial Officer (CFO) for AIDEA and AEA, address the memorandum that she sent to the Budget and Audit Subcommittee (BAS) regarding the update on AIDEA and AEA's Audit Request for Proposal (RFP). Mr. Weitzner introduced Dona Keppers as the new CFO for AIDEA and AEA. Ms. Adler discussed that the competitive RFP process began in January. The proposals were evaluated earlier in April and the new auditor Eide Bailly was selected. Ms. Adler informed that Eide Bailly are the auditors for HFC.

Mr. Weitzner highlighted that the RFP process was competitive and included five proposals that were reviewed and scored. He informed that Eide Bailly was selected based upon that full competitive process. Ms. Adler reported that Procurement is finalizing a contract with Eide Bailly this week.

Chair Fogle asked if the new contract is expected to yield annual savings. Ms. Adler believes that there could be savings, but an advanced audit schedule is outlined and the auditor is required to issue the financial statements by September 30, 2021. Ms. Adler informed that decisions will be made regarding additional requests of the auditor that are not typical due to the advanced schedule. Eide Bailly scored competitively on audit costs, which was 40% of the evaluation criteria. Mr. Weitzner explained that the September 30th deadline was previously identified to the Committee. The intent was to build in time so that the parallel transitions of Ms. Adler's retirement and Ms. Keppers' introduction, as well as the selection of the new auditor Eide Bailly, would allow everyone to be together to walk through the process to meet the deadline.

Chair Fogle asked if there was a preference for an Alaskan hire firm. Ms. Adler reported that there was not an Alaskan preference. Chair Fogle requested the schedule date for the beginning of the audit. Ms. Adler advised that interim work will begin the end of May and the auditors will begin work again in August. The auditors will primarily work remotely and will send in-person representatives for preliminary work.

b. AIDEA Investment Policy Update

Mr. Weitzner highlighted previous discussions within the Committee regarding AIDEA's fixed income investment policy established in Resolution G01-14B. Mr. Weitzner informed that he tasked Morgan Neff, Chief Investment Officer, to review the policy and provide recommendations for areas of improvement on the returns achieved in the fixed investments, as well as the approach to external money managers for those fixed investments. Mr. Weitzner requested Mr. Neff to provide additional information on this topic. Mr. Neff discussed his review of the Investment Policy Statement for the fixed income portion of AIDEA's externally managed

capital included the contract language associated with the engagement with external money managers. Mr. Neff believes that the Authority should move forward with an investment management agreement that provides beneficial flexibility for the Authority as it looks to retain either existing or new external managers to invest the capital for the fixed income portion.

Mr. Neff explained that the contract is a product of procurement, whereas the investment management agreement is an industry standard and best practices structure that allows beneficial flexibility for the Authority to retain and modify agreements in the interest of the Authority to maximize that value of the investments within the externally engaged asset manager. Mr. Neff requested Stefan Saldanha, Department of Law, to comment on the additional review conducted with other managed programs of the State and how their investment management agreements are designed versus the contract. Mr. Saldanha agreed that other more specific documents and templates have been reviewed and are being used to craft a new contract with the future money manager for the portfolio.

Mr. Weitzner asked Mr. Saldanha if the intent was ultimately to give AIDEA more flexibility regarding the money managers versus the previous form of procurement. Mr. Saldanha believes there will be additional flexibility, while aligning the asset management contract with other State of Alaska funds that are externally managed, including the Alaska Retirement Management Board, the Permanent Fund, and the Department of Revenue. He discussed that the new contract will be specific to the statutory obligations of AIDEA.

Mr. Weitzner identified for the record that the way the investment of the externally managed funds are being directed has changed. Previously, the responsibility was held solely by the Chief Financial Officer of AIDEA and this has been transferred to the Chief Investment Officer of AIDEA. The focus is on expanding and augmenting the return that is received on the funds.

Chair Fogle asked for the timeframe of when the RFP is expected to be released. Mr. Neff informed that staff is currently working with Procurement and the external consultant Callan on the RFP. Staff is awaiting the final report and proposal from Callan. Mr. Neff discussed that staff has concluded the initial review as to the current allocations and staff will implement its recommendations of additional value opportunities based on the investment policy statement.

Chair Fogle commented that the Committee is favorable toward the manager Alaska Permanent Capital Management. He noted that Callan provided a presentation several months ago, but has not provided the requested follow-up. Chair Fogle informed Mr. Neff that the Committee would like to see all options on the table for full replacement and does not want to use Callan so much to assist with the RFP. Mr. Neff explained that a parallel process is being conducted that utilizes Callan's dataset, as well as staff's RFP guidelines. Chair Fogle commented that Barrow Hanley did not pay much attention to Alaska.

Mr. Weitzner explained that staff has been very focused on releasing an RFP as soon as possible. He discussed that staff identified that the previous way the parties have engaged has been very restrictive on AIDEA. This is the process that Department of Law is reviewing for approval.

Ms. MacKinnon expressed appreciation to Mr. Weitzner and Mr. Neff for their hard work during this process. She agreed that the past management style has been so conservative that AIDEA has lost out on the upswing in the market. Ms. MacKinnon gave the example of placing money under the mattress compared to the market value increases in other strategies. Ms. MacKinnon asked Mr. Weitzner for a date that the Board will consider a formal recommendation on the risk tolerance for the portfolio moving forward. She believes the portfolio assets continue to lose out on opportunities to gain inside of a surging market. Mr. Neff explained that based on the policy that exists today, the portfolio has performed exactly as it is designed, especially within a lowering interest rate environment. Mr. Neff discussed that while the enticement of the increasing equity market continues to be very attractive, he understands that this account is not constructed to participate in the equity market upswings, but rather it is designed to provide principal protection, as well as an income stream for the Authority to utilize as additional capital rollout through the 172 Programs.

Mr. Weitzner explained that the investment program is not set up for equities, but there have been discussions regarding augmenting the return with fixed income securities. Mr. Weitzner agreed that internal management could have managed the investments a little better, which is the basis of this follow-up. Mr. Weitzner stated that the next Board meeting is May 19th, and he believes that is too early to have a cogent proposal on the investment policy and ways to augment the returns, while maintaining a consistent capital based approach. He requested to schedule the date to present to the full Board at the June 23rd Board meeting. Mr. Weitzner noted that a pre-discussion of the proposal will occur with the BAS.

Ms. MacKinnon expressed appreciation and respect for the investment experience of Mr. Weitzner and Mr. Neff. She informed that there has been a dialog at the Board level that some Board members are not comfortable with the current strategy that is being implemented to protect capital. Ms. MacKinnon discussed that if a side-by-side comparison was made with the current portfolio and investments in the equities market containing protections of capital that the portfolio would have seen and experienced gains during this downturn of the pandemic.

Ms. MacKinnon asked Mr. Weitzner if State law prohibits AIDEA from participating in the equities market. Mr. Weitzner does not believe that there are any specific prohibitions within the statutes, other than the prudent investor rule and the regulatory policy limiting the use of the funds. Ms. MacKinnon informed that the Permanent Fund Corporation has grown by billions and the Retirement Fund has grown by millions, and investments all over the state have grown all in significant ways because they participated in the equity market, while upholding the prudent investor rule. AIDEA has been very protective of its capital. Ms. MacKinnon continues to be concerned that AIDEA is losing opportunities every day. She noted that this discussion has been ongoing for over 15 months at the BAS, and over a year at the Board level, waiting for due diligence. Ms. MacKinnon agrees to the importance of protecting assets, but is concerned about missed investment opportunities and the continued payment of the current money manager's high rates.

Chair Fogle concurred with Ms. MacKinnon's comments. He noted that an acknowledgment has occurred within the BAS and the strategic planning session to become a little more risky in the

investments. Chair Fogle requested Mr. Neff devise a strategy to become more risky in the portfolio.

Mr. Weitzner asked if the proposal can be given at the June meeting. Chair Fogle agreed. Ms. MacKinnon agreed and stated that she believes that staff does need direction from the full Board, as there is at least one Board member who is very conservative in the protection of the assets. Ms. MacKinnon expressed support for protecting the assets, while participating in the upside. She asked Mr. Neff to present a side-by-side comparison that shows the current portfolio returns and value of the assets and the possible returns and value of the assets over the last 10 years based on an equity allocation of 50%, 30%, or 25%.

Ms. Sande requested clarification that Mr. Weitzner will present clear staff recommendations at the June meeting. She echoed Ms. MacKinnon's comments and supports the request to have a side-by-side comparison presented. Mr. Weitzner noted that staff will prepare the modeling and he believes it is a good recommendation.

c. Alyeska Realty Advisors Loan Participation Modification Request

Chair Fogle requested Mr. Weitzner present on the loan participation modification request by Alyeska Realty Advisors. Mr. Weitzner explained this request is underlying three separate loan participations with AIDEA and Alyeska Realty Advisors. The request is for interest only payments from May 1, 2021 to June 1, 2022, with regular monthly principal and interest payments that would resume on July 1, 2022. Additionally, the modification requests a corresponding 14-month maturity extension for the principal payments that have been deferred during that period of time.

Mr. Weitzner requested Mr. Neff provide a background description related to the request. Mr. Neff informed that the request is from the borrower. The borrower is a real estate company whose primary exposure is to the tourism industry, which has been severely impacted by the Covid-19 pandemic, as well as by the current cruise ship moratorium. Due to these economic impacts, the borrower and the tenants are now approaching two years' of negligible revenue stream. AIDEA originally provided a modification in May of 2020 to defer principal and interest. The request today is to defer principal payments until the cruise ship season reemerges in 2022.

Mr. Neff explained that the impact to this borrower is now being personally subsidized by the borrower's own liquidity in the form of subsidized rents at the tenant level, as well as permanent impairment of losses from one of the tenants that is no longer able to financially support its obligation under its lease arrangement. The borrower now has to replace the tenant to reinstate the revenue stream. Staff believes it is within the best interest of the loan participation program and within AIDEA's mission to grant the loan modification request of interest only payments through June 2022, with an equal duration of maturity extension.

Chair Fogle requested a roll call be taken to decide whether or not the BAS advances this loan modification request to the full Board at the May 19th meeting. The roll call does not approve or deny the loan modification.

A roll call was taken, and the decision to advance this loan modification request to the full Board at the May 19th meeting was unanimous.

7. BOARD COMMENTS

Ms. Sande echoed previous comments regarding appreciation for staff's diligent work.

Ms. MacKinnon expressed appreciation to the team and specifically to Ms. Adler for her assistance during a difficult transition period and completing the audit process. Ms. MacKinnon welcomed new members of the team. She noted that any of her comments are meant to convey frustration with the process and not frustration with the people involved. Ms. MacKinnon expressed appreciation to Mr. Weitzner and Mr. Neff for their expertise. She understands that there are differences of opinions regarding investment strategies and that is a decision for the Board. Ms. MacKinnon believes that staff has been compliant and responsive to the Board's needs, and feels a healthy discussion is beneficial. She highlighted appreciation for the staff team and the new members.

Chair Fogle reiterated his appreciation to staff. He discussed that Mr. Weitzner was brought onboard as the Executive Director to take this organization to the next level. Chair Fogle expressed appreciation that Ms. Adler has been an excellent addition as the CFO in taking action and changing the course of the way business is conducted. Chair Fogle explained that bringing Mr. Neff onboard has elevated his position and injected new life into the role. He recognized the professionalism of Ms. Wilson in completing all that is asked of her. Chair Fogle welcomed the new staff. He stated that the bar is high and he is looking forward to seeing the new talents work together with the existing staff.

8. ADJOURNMENT

There being no further business of the Subcommittee, the AIDEA and AEA Board Budget and Audit Subcommittee meeting adjourned at 11:01 am.



Alan Weitzner, AIDEA Executive Director
Secretary